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**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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

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)**

**(1) DISCLOSEABLE AND CONNECTED TRANSACTION  
IN RELATION TO  
THE ACQUISITION OF THE N20 ENGINE ASSEMBLY LINE  
(2) BBA COMPLIANCE AGREEMENT – RENEWAL OF ANNUAL CAPS  
AND  
(3) RE-ELECTION OF DIRECTOR**

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

 金融有限公司  
OCTAL Capital Limited

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A letter from the Board is set out on pages 5 to 21 of this circular. A letter from the Independent Board Committee is set out on page 22 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 23 to 53 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 Tuesday, 1 November 2016 at 9:00 a.m. is set out on pages 61 to 64 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.

12 October 2016

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## CONTENTS

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|  | <i>Page</i> |
|--|-------------|
| <b>Definitions</b> .....                                   | 1           |
| <b>Letter from the Board</b> .....                         | 5           |
| <b>Letter from the Independent Board Committee</b> .....   | 22          |
| <b>Letter from the Independent Financial Adviser</b> ..... | 23          |
| <b>Appendix – General Information</b> .....                | 54          |
| <b>Notice of Extraordinary General Meeting</b> .....       | 61          |

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## DEFINITIONS

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

|                             |   |
|-----------------------------|---|
| “Acquired Assets”           | the N20 Engine Assembly Line, the Affiliated Facilities and the Spare Parts;  |
| “Acquisition”               | the acquisition of the Acquired Assets by Mianyang Xinchun as contemplated under the Assets Transfer Agreement;   |
| “Affiliated Facilities”     | the equipment and facilities in connection with the operation of the N20 Engine Assembly Line;  |
| “Assets Transfer Agreement” | an assets transfer agreement entered into between BBA and Mianyang Xinchun on 13 September 2016, pursuant to which BBA would transfer to Mianyang Xinchun the Acquired Assets;  |
| “associates”                | has the meaning ascribed thereto in the Listing Rules;  |
| “BBA”                       | BMW Brilliance Automotive Ltd. (華晨寶馬汽車有限公司*), a sino-foreign equity joint venture company incorporated in the PRC which is owned as to 50% by Shenyang Jinbei (an indirect wholly-owned subsidiary of Brilliance China) and 50% by BMW Holdings B.V.;   |
| “BBA Compliance Agreement”  | the compliance agreement dated 23 May 2014 entered into between BBA, the Company and Mianyang Xinchun in relation to the sale and purchase of engines, engine parts and components and raw materials for manufacturing engines and engine parts and components and the provision of related services; |
| “BMW AG”                    | Bayerische Motoren Werke Aktiengesellschaft;  |
| “Board”                     | the board of Directors;   |

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## DEFINITIONS

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|                                 |   |
|---------------------------------|---|
| “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; |
| “Closing”                       | the closing for the Assets Transfer Agreement;  |
| “Company”                       | Xinchen China Power Holdings Limited (新晨中國動力控股有限公司), an exempted company incorporated in the Cayman Islands with limited liability;   |
| “connected person”              | has the meaning ascribed thereto in the Listing Rules;  |
| “Consideration”                 | the consideration for the Acquired Assets under the Assets Transfer Agreement;  |
| “controlling shareholder”       | has the meaning ascribed thereto in the Listing Rules;  |
| “Directors”                     | director(s) of the Company;   |
| “Extraordinary General Meeting” | the extraordinary general meeting of the Company to be convened and held on Tuesday, 1 November 2016, including any adjournment thereof;  |
| “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;   |
| “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;   |

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## DEFINITIONS

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|                                 |  |
|---------------------------------|--|
| “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 Assets Transfer Agreement, the second term of the BBA Compliance Agreement and the Proposed Annual 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 the Assets Transfer Agreement, the second term of the BBA Compliance Agreement and the Proposed Annual Caps; |
| “Independent Shareholder(s)”    | Shareholder(s) other than Brilliance China and its associates;   |
| “Latest Practicable Date”       | 6 October 2016, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein;  |
| “Listing Rules”                 | the Rules Governing the Listing of Securities on the Stock Exchange;   |
| “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 an indirect wholly-owned subsidiary of the Company;   |
| “N20 Engine Assembly Line”      | the production line for assembling the components and parts of N20 engines;  |
| “Original Annual Caps”          | the original annual caps in respect of the transactions contemplated under the BBA Compliance Agreement for the three years ending 31 December 2014, 2015 and 2016;  |

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## DEFINITIONS

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|                        |  |
|------------------------|--|
| “PRC”                  | The People’s Republic of China;  |
| “Proposed Annual Caps” | the estimated annual monetary value of the transactions contemplated under the BBA Compliance Agreement for the three financial years ending 31 December 2019;           |
| “Revised Annual Caps”  | the revised annual caps in respect of the transactions contemplated under the BBA Compliance Agreement for the two years ending 31 December 2015 and 2016;               |
| “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) of HK\$0.01 each in the share capital of the Company;  |
| “Shareholder(s)”       | holder(s) of the Share(s);   |
| “Shenyang Automotive”  | 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 an indirect non wholly-owned subsidiary of Brilliance China;      |
| “Shenyang Jinbei”      | Shenyang Jinbei Automotive Industry Holdings Co., Ltd.* (瀋陽金杯汽車工業控股有限公司), a company established in the PRC, and an indirect wholly-owned subsidiary of Brilliance China; |
| “Spare Parts”          | the spare parts in connection with the operation of the N20 Engine Assembly Line;  |
| “Stock Exchange”       | The Stock Exchange of Hong Kong Limited; and   |
| “%”                    | per cent.  |

*For the purposes of illustration only, any amount denominated in RMB in this circular was translated into HK\$ at the rate of RMB1 = HK\$1.16266. 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.*

\* for identification purposes only

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LETTER FROM THE BOARD

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**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. Liu Tongfu

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

12 October 2016

*To all Shareholders*

Dear Sir/Madam,

**(1) DISCLOSEABLE AND CONNECTED TRANSACTION  
IN RELATION TO  
THE ACQUISITION OF THE N20 ENGINE ASSEMBLY LINE  
(2) BBA COMPLIANCE AGREEMENT – RENEWAL OF ANNUAL CAPS  
AND  
(3) RE-ELECTION OF DIRECTOR**

**I. INTRODUCTION**

On 13 September 2016 (after trading hours), the Board announced that:

- (1) Mianyang Xincheng, an indirect wholly-owned subsidiary of the Company, and BBA entered into the Assets Transfer Agreement pursuant to which BBA will transfer to Mianyang Xincheng the Acquired Assets at a Consideration of approximately RMB94.77 million (equivalent to approximately HK\$110.19 million); and

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## LETTER FROM THE BOARD

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- (2) it wished to seek Independent Shareholders' approval on (i) the second term of the BBA Compliance Agreement for another three-year period upon expiry of the first term of the BBA Compliance Agreement on 17 June 2017 and (ii) the Proposed Annual Caps in respect of the transactions contemplated under the BBA Compliance Agreement for each of the three years ending 31 December 2019.

On 12 September 2016, Mr. Liu Tongfu was appointed as a Non-executive Director.

The purpose of this circular is to provide Shareholders with, among other things, (1) details of the Assets Transfer Agreement and the BBA Compliance Agreement; (2) the letter from the Independent Board Committee to the Independent Shareholders, setting out its recommendations in connection with the Assets Transfer Agreement, the second term of the BBA Compliance Agreement and the Proposed Annual Caps; (3) the letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders in connection with the Assets Transfer Agreement, the second term of the BBA Compliance Agreement and the Proposed Annual Caps; (4) brief biographical and other details of Mr. Liu Tongfu; and (5) a notice to Shareholders convening the Extraordinary General Meeting to approve the transactions contemplated under the Assets Transfer Agreement, the second term of the BBA Compliance Agreement, the Proposed Annual Caps and the re-election of Director in accordance with the requirements of the Listing Rules.

### II. THE ASSETS TRANSFER AGREEMENT

On 13 September 2016 (after trading hours), Mianyang Xincheng entered into the Assets Transfer Agreement with BBA in connection with the Acquisition by Mianyang Xincheng of the Acquired Assets from BBA. Principal terms of the Assets Transfer Agreement are set out below:

**Date:** 13 September 2016 (after trading hours)

**Transferor:** BBA

**Transferee:** Mianyang Xincheng



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## LETTER FROM THE BOARD

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### **Consideration:**

The Consideration for the Acquired Assets is approximately RMB94.77 million (equivalent to approximately HK\$110.19 million), was agreed upon between BBA and Mianyang Xinchun through arm's length negotiations after taking account of: (a) the book value of the Acquired Assets of approximately RMB75.57 million (equivalent to approximately HK\$87.86 million) as at 31 August 2016; (b) 5% margin on the book value of the Acquired Assets of approximately RMB3.78 million (equivalent to approximately HK\$4.39 million); (c) surcharge (comprising urban maintenance and construction tax, educational surtax and local educational surtax chargeable by the relevant authorities in the PRC) of approximately RMB1.65 million (equivalent to approximately HK\$1.92 million); and (d) value added tax of approximately RMB13.77 million (equivalent to approximately HK\$16.01 million). The margin was determined with reference to the internal target profit margin reasonably agreed upon by the Group and BBA. The Consideration will be settled by internal resources and bank borrowing.

BBA started to acquire the Acquired Assets in stages since 2011. The original purchase costs of the Acquired Assets were approximately RMB114.48 million (equivalent to approximately HK\$133.10 million). The estimated useful life of plant and machinery of similar nature is 14 years. As the Acquired Assets (excluding spare parts) have been used for 4.5 years and they still function properly, it is estimated that the remaining lifespan of the Acquired Assets (excluding spare parts) is approximately 9.5 years.

### **Conditions Precedent:**

Closing of the Assets Transfer Agreement will occur after the satisfaction of the following conditions precedent:

- (i) the Consideration being fully paid by or on behalf of Mianyang Xinchun to BBA;
- (ii) BBA having obtained the approval from the competent customs authority and, if required by such customs authority, paid the relevant duty and tax in respect of the transfer of imported Acquired Assets under customs custody (if any) pursuant to the applicable laws;
- (iii) the Assets Transfer Agreement and the transactions contemplated thereunder having been approved by the Independent Shareholders;

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## LETTER FROM THE BOARD

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- (iv) all necessary approvals, permits, licenses, registrations and filings from the competent development and reform commission and other related governmental authorities regarding environment protection and urban planning for the transactions contemplated under the Assets Transfer Agreement being obtained by Mianyang Xinchun (if any);
- (v) each party having obtained all necessary approvals from its shareholders or board of directors as required for the transactions contemplated under the Assets Transfer Agreement in accordance with its articles of association; and
- (vi) each related transaction document has been duly executed by the relevant parties, and there is no reasonable suspicion that any of such transaction documents may not come into effect in accordance with its terms and conditions.

The parties shall use all commercially reasonable efforts to fulfill or procure the fulfillment of the conditions precedent abovementioned as soon as possible and in any event within 5 days after the Assets Transfer Agreement and the transactions contemplated thereunder have been approved at the Extraordinary General Meeting. As at the Latest Practicable Date, conditions (ii), (iv) and (vi) have been fulfilled.

### **Closing:**

Subject to the satisfaction of the conditions, the parties agree that Closing is expected to take place within five days after the Assets Transfer Agreement and the transactions contemplated thereunder having been approved by the Independent Shareholders or any other date as agreed between the parties in writing.

### **III. BBA COMPLIANCE AGREEMENT**

Reference is made to the announcements of the Company dated 23 May 2014 and 21 January 2015 and the circulars of the Company dated 28 May 2014 and 18 February 2015, all in relation to, inter alia, transactions contemplated under the BBA Compliance Agreement which constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

The first term of the BBA Compliance Agreement and the Original Annual Caps were approved at the extraordinary general meeting of the Company held on 17 June 2014. The Revised Annual Caps were approved at the extraordinary general meeting of the Company held on 25 March 2015 which will expire on 31 December 2016.

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## LETTER FROM THE BOARD

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The Board wishes to seek Independent Shareholders' approval on (i) the second term of the BBA Compliance Agreement for another three-year period upon expiry of the first term of the BBA Compliance Agreement on 17 June 2017 and (ii) the Proposed Annual Caps in respect of the transactions contemplated under the BBA Compliance Agreement for each of the three years ending 31 December 2019.

Principal terms of the BBA Compliance Agreement are set out below:

**Date:** 23 May 2014 (after trading hours)

**Parties:** BBA, the Company and Mianyang Xincheng

**Nature of the Continuing Connected Transactions:**

Pursuant to the BBA Compliance Agreement, the parties have agreed on certain principles for the following transactions:

1. the Group will sell to BBA or its subsidiaries and BBA or its subsidiaries will purchase from the Group engines, engine parts and components and raw materials for manufacturing engines and engine parts and components from time to time;
2. BBA or its subsidiaries will sell to the Group and the Group will purchase from BBA or its subsidiaries engine parts and components and raw materials for manufacturing engines and engine parts and components from time to time; and
3. BBA or its subsidiaries will provide to the Group consulting and advisory services relating to engines or engine parts and components from time to time.

Major types of engine, engine parts, engine components and raw materials that will be supplied or purchased by the Group to or from BBA are set out in the section headed "III. BBA Compliance Agreement – Pricing Policies" in the Letter from the Board of this circular.

**Conditions Precedent:**

The BBA Compliance Agreement will become effective upon the satisfaction of the following conditions:

- (1) the BBA Compliance Agreement having been duly executed by the parties and affixed with the company chop or the company seal of each party; and

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## LETTER FROM THE BOARD

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- (2) the BBA Compliance Agreement and the transactions contemplated thereunder having been approved by the Independent Shareholders.

The parties cannot waive any of the above conditions.

**Term:**

Upon the satisfaction of the above conditions, the first term of the BBA Compliance Agreement has been in effect for three (3) years from the effective date of the BBA Compliance Agreement (inclusive of the first day and the last day of the term). Subject to compliance with the requirements of the Listing Rules (including the independent shareholders' approval requirement), upon the expiration of the initial three-year term, the BBA Compliance Agreement will be automatically renewed for successive periods of three (3) years.

**Operational Agreements and Purchase Orders:**

The parties may enter into separate operational agreements and purchase orders from time to time which contain particulars pertaining to the sale and purchase of engines, engine parts and components and raw materials for manufacturing engines and engine parts and components and the provision of related consulting and advisory services (including provisions relating to the price, quantity, quality and payment method). The terms of these operational agreements and purchase orders must be consistent with and subject to the terms of the BBA Compliance Agreement, on normal commercial terms and on an arm's length basis.

**Payment Terms:**

BBA shall issue an invoice within the first 10 days of each month for the engine parts and components delivered during the previous month, and then payment shall be made by Mianyang Xinchun within 45 days after receiving the invoice. With respect to the provision of technical consulting and advisory services, BBA shall issue a quarterly invoice to Mianyang Xinchun based on a list specifying the working time and the related costs, and then payment shall be made by Mianyang Xinchun within 45 days after receiving the invoice.

Mianyang Xinchun shall issue an invoice within the first 10 days of each month for the engines, engine parts and components delivered during the previous month. BBA shall make the payment within 45 days calculated from the 25th day of the month when it receives the invoice from Mianyang Xinchun.

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## LETTER FROM THE BOARD

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### Proposed Annual Caps

A summary of the Proposed Annual Caps for the continuing connected transactions contemplated under the BBA Compliance Agreement for the three years ending 31 December 2019 is set out below:

| <b>Details of<br/>the relevant continuing<br/>connected transactions</b>  | <b>Proposed annual caps</b>                                   |   |   |
|---|---|---|---|
|   | <b>For the</b>  | <b>For the</b>  | <b>For the</b>  |
|   | <b>year ending</b>  | <b>year ending</b>  | <b>year ending</b>  |
|   | <b>31 December</b>  | <b>31 December</b>  | <b>31 December</b>  |
|   | <b>2017</b>   | <b>2018</b>   | <b>2019</b>   |
|   | <i>(‘000)</i>   | <i>(‘000)</i>   | <i>(‘000)</i>   |
| (1) Sale of engine parts and components and raw materials for manufacturing engines and engine parts and components and the provision of the related consulting and advisory services by BBA or its subsidiaries to the Group | RMB662,998<br>(equivalent to<br>approximately<br>HK\$770,841) | RMB588,051<br>(equivalent to<br>approximately<br>HK\$683,703) | RMB556,362<br>(equivalent to<br>approximately<br>HK\$646,860) |
| (2) Sale of engine parts and components and raw materials for manufacturing engines and engine parts and components by the Group to BBA or its subsidiaries   | RMB575,200<br>(equivalent to<br>approximately<br>HK\$668,762) | RMB578,975<br>(equivalent to<br>approximately<br>HK\$673,151) | RMB602,244<br>(equivalent to<br>approximately<br>HK\$700,205) |

### Basis of the Proposed Annual Caps

The above Proposed Annual Caps are primarily based on the following:

1. the estimated volume of engines, engine parts and components and raw materials for manufacturing the engines and engine parts and components required by the Group, by BBA and its subsidiaries and by Shenyang Automotive with reference to the expected market demand for products of BBA and Shenyang Automotive;
2. the estimated volume of engine parts and components to be exported to BMW AG;

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## LETTER FROM THE BOARD

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3. the designed annual production capacity of the Group and the planned upgrade of and expansion in the production capacity of the Group to produce crankshafts;
4. the expected unit prices for the engines, engine parts and components and raw materials for manufacturing the engines and engine parts and components;
5. estimated total consultancy fee and shared service fee payable to BBA; and
6. a buffer of 10% of the expected transaction amounts has been included in determining the amount of the Proposed Annual Caps to cater for the fluctuation in foreign exchange rate and uncertainty of change in transaction volume, transaction price and type of products to be transacted.

Following BBA launched Bx8 engine in the PRC in 2016, it is expected that demand for the Bx8 engine parts and components will increase while demand for N20 engine parts and components will decrease in coming years. The Proposed Annual Caps for procuring engine parts and components and raw materials for manufacturing engines and engine parts and components and consulting and advisory services from BBA or its subsidiaries is expected to decrease gradually for the three years ending 31 December 2019, which is mainly due to (i) there is a change in the supply arrangement of raw materials for producing Bx8 connection rods and Bx8 crankshafts. For instance, the Group purchases the forged parts of connection rods and crankshafts directly from a local suppliers designated by BBA while remain purchasing related parts, such as gear roughcast, bush and screw, from BBA; and (ii) the Group has been taking over the operation of crankshaft production line from BBA gradually, the Group will subsequently procure less services from BBA in stages. There is a substantial drop in the Proposed Annual Caps for selling engine parts and components and raw materials for manufacturing engines and engine parts and components to BBA or its subsidiaries for the three years ending 31 December 2019 when comparing with the historical transaction amounts under that category for the three years ending 31 December 2016 because the Group is still in discussion with BBA in relation to the potential supply arrangement for other BBA's engines, and thus, the Group does not include potential contribution from the engine business in the Proposed Annual Caps for the three years ending 31 December 2019. Notwithstanding this, the Proposed Annual Caps for the sales of engine parts and components to BBA are expected to increase gradually throughout the three years ending 31 December 2019, which is mainly due to an increase in demand for the Group's parts and components from BBA. It is expected that the purchase price of raw materials will remain relatively stable, while the selling price is expected to decrease. The Directors consider that the inclusion of the 10% buffer to the Proposed Annual Caps is fair and reasonable and in the interest of the Company.

## LETTER FROM THE BOARD

### Existing Caps and Historical Transaction Amounts

| Details of the relevant continuing connected transactions  | For the year ended 31 December 2014                     |   | For the year ended 31 December 2015                         |   | For the year ending 31 December 2016                        | For the six months ended 30 June 2016                   |
|--|---|---|---|---|---|---|
|  | Existing Cap  | Actual amount   | Existing Cap  | Actual amount   | Existing Cap  | Actual amount   |
|  | ('000)  | ('000)  | ('000)  | ('000)  | ('000)  | ('000)  |
| 1. Sale of engine parts and components and raw materials for manufacturing engines and engine parts and components and the provision of the related consulting and advisory services by BBA or its subsidiaries to the Group | RMB447,976<br>(equivalent to approximately HK\$520,844) | RMB275,269<br>(equivalent to approximately HK\$320,044) | RMB1,646,970<br>(equivalent to approximately HK\$1,914,866) | RMB1,165,122<br>(equivalent to approximately HK\$1,354,641) | RMB1,525,467<br>(equivalent to approximately HK\$1,773,599) | RMB408,724<br>(equivalent to approximately HK\$475,207) |
| 2. Sale of engines, engine parts and components and raw materials for manufacturing engines and engine parts and components by the Group to BBA or its subsidiaries  | RMB518,327<br>(equivalent to approximately HK\$602,638) | RMB405,774<br>(equivalent to approximately HK\$471,777) | RMB1,646,872<br>(equivalent to approximately HK\$1,914,752) | RMB1,339,717<br>(equivalent to approximately HK\$1,557,635) | RMB1,743,151<br>(equivalent to approximately HK\$2,026,692) | RMB633,120<br>(equivalent to approximately HK\$736,103) |

### Pricing Policies

The pricing policies for the continuing connected transactions contemplated under the BBA Compliance Agreement are set out below:

**A. *Purchase of engine parts and components and raw materials and the related consulting and advisory services by the Group from BBA or its subsidiaries:***

| Major types of engine parts and components involved | Pricing policy     | Procedures for determining major terms of the continuing connected transactions   |
|---|--------------------|---|
| Parts and components for N20 engines assembly       | Cost plus approach | Regarding the purchase prices of the engine parts and components required for assembling N20 engines, the project director, who is in charge of N20 engine business, and BBA will communicate regularly to discuss, among others, the raw materials and procurement costs of BBA from its suppliers and its production costs in processing any components before on-sale to the Group (if any). The project director will propose the purchase prices of the engine parts and components required for assembling N20 engines to the Group's Chief Financial Officer, who will then assess the reasonableness of the purchase prices with reference to the historical production costs structure of engines produced by the Group. The purchase prices are expected to be comparable to the historical production costs structure of engines sold by the Group (including engines sold to independent third parties) in the latest financial year. The purchase prices will then be acknowledged by the Group's Chief Executive Officer. |

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## LETTER FROM THE BOARD

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| <b>Major types of engine parts and components involved</b>  | <b>Pricing policy</b>        | <b>Procedures for determining major terms of the continuing connected transactions</b>   |
|---|------------------------------|--|
| <p>Connection rods roughcast and related parts and crankshaft (gear) roughcast for the supply of finished N20 and Bx8 connection rods and crankshafts</p> | <p>Cost plus approach</p>    | <p>In respect of the purchase prices of the connection rods roughcast and related parts and crankshaft (gear) roughcast, the project director, who is in charge of component business, and BBA will communicate regularly to discuss, among others, the raw materials and procurement costs of BBA from its suppliers. The project director will propose the purchase prices of connection rods roughcast and related parts and crankshaft (gear) roughcast to Chief Financial Officer. The Group's Chief Financial Officer will make reference to, among others, the market prices of similar products produced in the PRC based on quotations obtained from independent suppliers, the difference in the production costs incurred by PRC and overseas suppliers (if applicable), the quality and specification of relevant engine parts and components to be procured from BBA, the transportation costs and other related transaction costs, to assess the reasonableness of the purchase prices of the connection rods roughcast and related parts and crankshaft (gear) roughcast. The purchase prices will then be approved by the Group's Chief Executive Officer.</p>   |
| <p><b>The related consulting and advisory services involved</b></p>   | <p><b>Pricing policy</b></p> | <p><b>Procedures for determining major terms of the continuing connected transactions</b></p>  |
| <p>Consultation and advisory services and shared services</p>   | <p>Cost plus approach</p>    | <p>The Group will negotiate with BBA and determine the consultancy fee based on the estimated number of production associates and consultants required, the estimated working hours and the relevant applicable charging rates. During the meeting, the Group will also discuss the profile of production associates and consultants to be assigned by BBA in order to assess the qualification of the production associates and consultants. The project director will obtain a list of personnel to be assigned by BBA together with the prices list from BBA, which will then be reviewed by the Group's Chief Financial Officer. When assessing the reasonableness of the applicable charging rate of BBA's production associates and consultants, the Group's Chief Financial Officer will make reference to, among others, the internal remuneration guidance for the Group's employees, the academic background and technical knowledge of BBA's production associates and consultants and the market remuneration package for PRC-based company and international company of the relevant industry. After that, the list of personnel and prices list will be approved by the Group's Chief Executive Officer.</p> |



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## LETTER FROM THE BOARD

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The related consulting and advisory services involved

Pricing policy

Procedures for determining major terms of the continuing connected transactions

The estimated amount payable to BBA by sharing BBA's certain function, facilities and services, such as general administrative costs, will be based on the actual costs to be incurred by BBA and shall be primarily apportioned based on routing time for producing one unit of crankshaft and number of production associates and consultants of BBA working on the crankshaft production line. The project director will discuss the scope of shared services and the methods for apportioning the costs for the shared services with BBA. The Group's Chief Financial Officer will review the prices list and assess the prices with reference to the Group's internal costs incurred for relevant services. After that, the prices list will be approved by the Group's Chief Executive Officer.

***B. Sale of engine parts and components and raw materials by the Group to BBA or its subsidiaries:***

Major types of engine parts and components and raw materials involved

Pricing policy

Procedures for determining major terms of the continuing connected transactions

Finished N20 and Bx8 connection rods and finished crankshafts

Cost plus approach

The project director will propose the sale prices of the engine parts and components to the Group's Chief Financial Officer. The Group's Chief Financial Officer will review the sale prices and calculation proposed by the project director. The project director will then negotiate the sale prices with BBA. After that, the Group's Chief Financial Officer will further review the proposed sale prices. The proposed sale prices will then be approved by the Group's Chief Executive Officer.

The Directors consider the above pricing mechanism to be in line with the general market practice and the proposed transactions with BBA to be on normal commercial terms and in the interests of the Company and its Shareholders as a whole.

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## LETTER FROM THE BOARD

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### IV. REASONS FOR AND BENEFITS OF ENTERING INTO THE ASSETS TRANSFER AGREEMENT AND THE BBA COMPLIANCE AGREEMENT

#### **Assets Transfer Agreement**

As mentioned in the announcement of the Company dated 6 July 2016, 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 establish and develop its own production facilities for prince engines in Mianyang after considering, among others, the location of existing production facilities of the Group and its management team, the location of the Group's existing and potential customers and strong support from local government of Mianyang. Rather than acquiring a brand-new production line, the Group decided to acquire the Acquired Assets from BBA, which will then be modified and upgraded in order to enable it to produce prince engines which meet the specifications required by BMW AG, after considering, among others, (i) the Acquired Assets are in a good condition, (ii) the N20 Engine Assembly Line has been in operation for a few years, the production processes of which have been optimised and proved to be stable and reliable, whereas the performance of a new production line may be relatively unstable, which may delay the prince engines production commencement date (which is expected to be second half of 2017), and (iii) the Group will be able to achieve certain degree of costs saving as the consideration for the N20 Engine Assembly Line and the costs that may be involved for its enhancement and upgrade are cheaper than the costs such for a new production line.

The Directors (excluding directors who had abstained from voting on the resolutions) consider that the transactions contemplated under the Assets Transfer Agreement 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 Assets Transfer Agreement to be fair and reasonable.

#### **BBA Compliance Agreement**

As the market demand for BMW vehicles remains relatively strong and stable, a stable collaboration between Mianyang Xinchun and BBA would help the Company to diversify its revenue stream and improve its management capabilities and levels. In addition, the Company will be able to leverage on its stable and close business relationship with BBA to explore further business opportunities with BMW AG, which will help the Group to expand its business to overseas markets.

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## LETTER FROM THE BOARD

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The Directors (excluding directors who had abstained from voting on the resolutions) consider the transactions contemplated under the second term of the BBA Compliance Agreement 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 second term of the BBA Compliance Agreement and the Proposed Annual Caps 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.

#### **BBA**

BBA is a sino-foreign equity joint venture company incorporated in the PRC and is owned as to 50% by Shenyang Jinbei, an indirect wholly-owned subsidiary of Brilliance China, and 50% by BMW Holding B.V. The principal activities of BBA include but are not limited to manufacture and sale of BMW vehicles.

### VI. LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, Brilliance China, a controlling shareholder of the Company, is indirectly interested in 50% of the issued share capital of BBA. As BBA is an associate of Brilliance China, it is a connected person of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios under the Listing Rules in respect of the Acquisition exceed(s) 5% but is/are less than 25%, the Acquisition constitutes a discloseable and connected transaction of the Company and is therefore subject to the reporting, announcement and Independent Shareholder's approval under Chapter 14 and Chapter 14A of the Listing Rules.

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## LETTER FROM THE BOARD

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The transactions contemplated under the second term of the BBA Compliance Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As the percentage ratios in respect of the Proposed Annual Caps of the transactions contemplated under the BBA Compliance Agreement are higher than 5% on an annual basis and each Proposed Annual Cap exceeds HK\$10 million, the second term of the BBA Compliance Agreement and the Proposed Annual Caps are subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under 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 deemed connected person of the Company by the Stock Exchange). Mr. Liu Tongfu, a non-executive Director, is also a director of Huachen (which is a controlling shareholder of Brilliance China and deemed connected person of the Company by the Stock Exchange). Accordingly, Mr. Wu Xiao An and Mr. Liu Tongfu are deemed to have a material interest in the transactions contemplated under the Assets Transfer Agreement, the second term of the BBA Compliance Agreement and the Proposed Annual Caps and had abstained from voting on the Board resolutions in respect of the Assets Transfer Agreement, the second term of the BBA Compliance Agreement and the Proposed Annual Caps. Apart from Mr. Wu Xiao An and Mr. Liu Tongfu, no Directors are required to abstain from voting on the Board resolutions approving transactions contemplated under the Assets Transfer Agreement, the second term of the BBA Compliance Agreement and the Proposed Annual Caps. As at the Latest Practicable Date, Mr. Wu Xiao An is interested or deemed to be interested in an aggregate of approximately 3.30% of the issued share capital of the Company. Please refer to the general information appendix to this circular for further details of Mr. Wu Xiao An's shareholding interests in the Company. Mr. Wu Xiao An will abstain from voting on the resolutions in relation to the Assets Transfer Agreement, the second term of the BBA Compliance Agreement and the Proposed Annual Caps.

### VII. GENERAL

As at the Latest Practicable Date, Brilliance China is interested in 400,000,000 Shares, representing approximately 31.20% of the issued share capital of the Company. 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 Assets Transfer Agreement, the second term of the BBA Compliance Agreement and the Proposed Annual Caps.

The Independent Board Committee, comprising Mr. Chi Guohua, Mr. Wang Jun, Mr. Huang Haibo and Mr. Wang Songlin, being the independent non-executive Directors, has been established to advise the Independent Shareholders in respect of the terms of the Assets Transfer Agreement, the second term of the BBA Compliance Agreement and the Proposed Annual Caps, after taking into account the recommendations of the Independent Financial Adviser.

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## LETTER FROM THE BOARD

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The Company has appointed the Independent Financial Adviser to make recommendations to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Assets Transfer Agreement, the second term of the BBA Compliance Agreement and the Proposed Annual Caps.

### VIII. RE-ELECTION OF RETIRING DIRECTOR

Mr. Liu Tongfu (“**Mr. Liu**”) was appointed as a Non-executive Director on 12 September 2016. Pursuant to the articles of association of the Company and the Listing Rules, Mr. Liu shall hold office until the next general meeting of the Company and, being eligible, offer himself for re-election and thereafter subject to retirement by rotation and re-election at annual general meetings of the Company.

Brief biographical and other details of Mr. Liu which are required to be disclosed under the Listing Rules, are set out below:

**Mr. Liu Tongfu** (劉同富), aged 51, has been serving as director, executive vice president, member of the standing committee of the Communist Party of China and vice general manager of auto business unit of Huachen since March 2016. From February to March 2016, he was the director, executive vice president and member of the standing committee of the Communist Party of China of Huachen. From December 2015 to February 2016, he was the vice president and member of the standing committee of the Communist Party of China of Huachen. From June 2011 to December 2015, he served as the vice president and member of the leading party group of Huachen. From February 2008 to June 2011, he acted as president assistant of Huachen. From December 2006 to February 2008, he acted as the vice general manager of Dahua Group Co., Ltd (大化集團有限責任公司). From August 1990 to December 2006, he held various positions in Dalian Heavy Industries Co., Ltd (大連重工集團有限公司), including assistant to general manager, head of development and planning department, and director of party office. Mr. Liu graduated from Department of Materials Engineering in Jilin College of Engineering (吉林工學院) with a major in metallic material in July 1986 and obtained a master’s degree in Metal Material and Heat Treatment from Department of Materials in Dalian University of Technology (大連理工大學) in August 1990. In July 1998, he was qualified as a senior engineer by the Personnel Department of Liaoning Province (遼寧省人事廳). Save as disclosed above, Mr. Liu did not hold any major appointment or professional qualification or directorship in other public companies, the securities of which are listed on any securities market in Hong Kong or overseas in the last three years, nor does he hold any other positions with the Company and other members of the Group.

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## LETTER FROM THE BOARD

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### Terms of Office

Mr. Liu was appointed as a Non-executive Director for an initial term of three years commencing from his appointment date subject to termination by either party with written notice. Mr. Liu will be entitled to receive a Directors' fee of US\$300,000 per annum which was determined by the Board with reference to the market conditions, the Group's performance, his qualifications, experience, duties and responsibilities in the Group.

Save as disclosed above and as at the Latest Practicable Date, Mr. Liu does not have any relationship with any Director, senior management of the Company or substantial or controlling shareholder (as defined in the Listing Rules), nor does he have any interest in the securities of the Company within the meaning of Part XV of the SFO.

Save as disclosed above, Mr. Liu confirmed that there is no other information that is required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules nor any other matters that need to be brought to the attention of the Shareholders in relation to his appointment.

### IX. 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 Tuesday, 1 November 2016 at 9:00 a.m. for the purpose of considering, and if thought fit, the passing of the ordinary resolutions set out on pages 61 to 64 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.

In accordance with the requirements of the Listing Rules, the resolutions to be put forward at the Extraordinary General Meeting to approve the transactions contemplated under the Assets Transfer Agreement, the second term of the BBA Compliance Agreement and the Proposed Annual Caps will be voted on by the Independent Shareholders and the resolution to be put forward at the Extraordinary General Meeting to approve the re-elect of Director will be voted on by the Shareholders by way of poll.

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## LETTER FROM THE BOARD

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### X. RECOMMENDATIONS

The text of a letter to the Independent Shareholders from the Independent Board Committee containing its recommendation in relation to the Assets Transfer Agreement, the second term of the BBA Compliance Agreement and the Proposed Annual Caps is set out on page 22 of this circular.

Having considered the advice from the Independent Financial Adviser in relation to the Assets Transfer Agreement, the second term of the BBA Compliance Agreement and the Proposed Annual Caps, which is set out on pages 23 to 53 of this circular, the Independent Board Committee is of the opinion that the Assets Transfer Agreement, the second term of the BBA Compliance Agreement and the Proposed Annual 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 in relation to the Assets Transfer Agreement, the second term of the BBA Compliance Agreement and the Proposed Annual Caps 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 Assets Transfer Agreement, the second term of the BBA Compliance Agreement and the Proposed Annual 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 in relation to the Assets Transfer Agreement, the second term of the BBA Compliance Agreement and the Proposed Annual Caps to be proposed at the Extraordinary General Meeting.

The Board considers that the re-election of the Director is in the interests of the Company and the Shareholders as a whole, and therefore recommends the Shareholders to vote in favour of the ordinary resolution in relation to the re-election of Director to be proposed at the Extraordinary General Meeting.

### XI. 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*

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**LETTER FROM THE INDEPENDENT BOARD COMMITTEE**

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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)**

12 October 2016

*To the Independent Shareholders*

Dear Sir or Madam,

**(1) DISCLOSEABLE AND CONNECTED TRANSACTION  
IN RELATION TO  
THE ACQUISITION OF THE N20 ENGINE ASSEMBLY LINE  
AND  
(2) BBA COMPLIANCE AGREEMENT – RENEWAL OF ANNUAL CAPS**

We have been appointed as the Independent Board Committee to advise you in connection with the Assets Transfer Agreement, the second term of the BBA Compliance Agreement and the Proposed Annual Caps, details of which are set out in the Letter from the Board in the circular to Shareholders dated 12 October 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 Assets Transfer Agreement, the second term of the BBA Compliance Agreement and the Proposed Annual Caps, the principal factors and reasons considered by the Independent Financial Adviser and its advice in relation thereto as set out on pages 23 to 53 of the Circular, we are of the opinion that the Assets Transfer Agreement, the second term of the BBA Compliance Agreement and the Proposed Annual Caps are on normal commercial terms or better and in the ordinary and usual course of business of the Group, in the interests of the Company and the Shareholders as a whole and that the Assets Transfer Agreement, the second term of the BBA Compliance Agreement and the Proposed Annual 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 Assets Transfer Agreement, the second term of the BBA Compliance Agreement and the Proposed Annual Caps.

Yours faithfully,

**Chi Guohua**

*Independent non-executive Director*

**Huang Haibo**

*Independent non-executive Director*

**Wang Jun**

*Independent non-executive Director*

**Wang Songlin**

*Independent non-executive Director*



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*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 Assets Transfer Agreement, the second term of the BBA Compliance Agreement and the Proposed Annual Caps for inclusion in this circular.*



802-805, 8/F, Nan Fung Tower,  
88 Connaught Road Central,  
Hong Kong

12 October 2016

*To the Independent Board Committee and the Independent Shareholders*

Dear Sirs,

**(1) DISCLOSEABLE AND CONNECTED TRANSACTION  
IN RELATION TO  
THE ACQUISITION OF THE N20 ENGINE ASSEMBLY LINE  
AND  
(2) BBA COMPLIANCE AGREEMENT – RENEWAL OF ANNUAL CAPS**

### INTRODUCTION

We refer to our engagement to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Assets Transfer Agreement, the second term of the BBA Compliance Agreement and the Proposed Annual Caps in respect of: i) the sale of engine parts and components and raw materials for manufacturing engines and engine parts and components and the provision of the related consulting and advisory services by BBA or its subsidiaries to the Group for each of the three years ending 31 December 2019 (the “**Purchase Caps**”); and ii) the sale of engine parts and components and raw materials for manufacturing engines and engine parts and components by the Group to BBA or its subsidiaries for each of the three years ending 31 December 2019 (the “**Supply Caps**”), particulars of which are set out in the letter from the Board (the “**Letter from the Board**”) of this circular to the shareholders (the “**Shareholders**”) of the Company dated 12 October 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.

On 13 September 2016, it was announced by the Company that Mianyang Xincheng and BBA entered into the Assets Transfer Agreement, pursuant to which BBA will transfer to Mianyang Xincheng the N20 Engine Assembly Line, the Affiliated Facilities and the Spare Parts (the “**Acquired Assets**”). References are made to the announcements of the Company dated 23 May 2014 and 21 January 2015 and the circulars of the Company dated 28 May 2014 and 18 February 2015, all in relation to, inter alia, transactions contemplated under first term of the the BBA Compliance Agreement which constitute continuing connected transactions of the Company

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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under Chapter 14A of the Listing Rules. The first term of the BBA Compliance Agreement and the Original Annual Caps were approved at the extraordinary general meeting of the Company held on 17 June 2014, which were revised and approved at the extraordinary general meeting of the Company held on 25 March 2015. The first term of the BBA Compliance Agreement will expire on 17 June 2017, while the Revised Annual Caps in respect of the continuing connected transactions contemplated under the first term of the BBA Compliance Agreement will expire on 31 December 2016. The Board wishes to seek Independent Shareholders' approval on (i) the second term of the BBA Compliance Agreement for another three-year period upon expiry of the first term of the BBA Compliance Agreement on 17 June 2017, pursuant to which the Group will supply engine parts and components and raw materials for manufacturing engines and engine parts and components to BBA or its subsidiaries. On the other hand, the Group will procure engine parts and components and raw materials for manufacturing engines and engine parts and components from BBA and the related consulting and advisory services from BBA in relation to the operation of the Group's crankshaft production line.

As at the Latest Practicable Date, Brilliance China, the controlling shareholder of the Company, is indirectly interested in 50% of the issued share capital of BBA. As BBA is an associate of Brilliance China, it is a connected person of the Company. As one or more of the applicable percentage ratios under the Listing Rules in respect of the Acquisition exceed(s) 5% but is/are less than 25%, the Acquisition constitutes a discloseable and connected transaction of the Company and is therefore subject to the reporting, announcement and Independent Shareholder's approval under Chapter 14 and Chapter 14A of the Listing Rules. In addition, the percentage ratios in respect of the Proposed Annual Caps of the transactions contemplated under the BBA Compliance Agreement are higher than 5% on an annual basis and each of the Purchase Caps and the Supply Caps exceeds HK\$10 million, accordingly the second term of the BBA Compliance Agreement and the Proposed Annual Caps are subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

In view of the foregoing, the Company will seek to obtain the approval of the Independent Shareholders on the Acquisition, the second term of the BBA Compliance Agreement and the Proposed Annual Caps at the Extraordinary General Meeting. On the other hand, Mr. Wu Xiao An, an executive Director, who 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 deemed connected person of the Company by the Stock Exchange), and Mr. Liu Tongfu, a non-executive Director, who is also a director of Huachen (which is a controlling shareholder of Brilliance China and deemed connected person of the Company by the Stock Exchange), are deemed to have a material interest in the transactions contemplated under the Assets Transfer Agreement, the second term of the BBA Compliance Agreement and the Proposed Annual Caps and had abstained from voting on the Board resolutions in respect of the Assets Transfer Agreement, the second term of the BBA Compliance Agreement and the Proposed Annual Caps. As at the Latest Practicable Date, Brilliance China is interested in 400,000,000 Shares, representing approximately 31.20% of the issued share capital of the Company. On the other hand, Mr. Wu Xiao An is interested or deemed to be interested in an aggregate of approximately 3.30% of the issued share capital of the Company. Accordingly, Mr. Wu Xiao An, Brilliance China and its associates are required to abstain from voting on the ordinary

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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resolutions in relation to the Assets Transfer Agreement, the second term of the BBA Compliance Agreement, and the Proposed Annual Caps at the Extraordinary General Meeting. In addition, the Independent Board Committee comprising all the independent non-executive Directors, being Mr. Chi Guohua, Mr. Wang Jun, Mr. Huang Haibo and Mr. Wang Songlin, has been established to advise the Independent Shareholders on whether the terms of the Assets Transfer Agreement, the second term of the BBA Compliance Agreement, and the Proposed Annual Caps are on normal commercial terms and fair and reasonable and whether the Assets Transfer Agreement, the second term of the BBA Compliance Agreement, and the Proposed Annual Caps are in the interests of the Company and the Shareholders as a whole. In this regard, Octal Capital Limited has been appointed as the independent financial adviser to the Independent Board Committee and the Independent Shareholders.

As at the Latest Practicable Date, we, Octal Capital Limited, are not connected with the Directors, chief executive and substantial shareholders of the Company, Mianyang Xinchun, Brilliance China, BBA 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 certain connected transactions (details can be referred to the circulars of the Company dated 18 February 2015, 16 November 2015 and 27 July 2016). 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, Brilliance China and BBA or any of their respective subsidiaries or associates.

In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Circular and have assumed that all information and representations made or referred to in the Circular were true at the time they were made and continue to be true as at the date of the Circular. We have also relied on our discussion with the management of the Company regarding the Group, the Assets Transfer Agreement, the second term of the BBA Compliance Agreement and the Proposed Annual Caps 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 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 the management of the Company and the management of the Company. We have not, however, conducted an independent in-depth investigation into the business and affairs of the Group, Mianyang Xinchun, Brilliance China, BBA and their respective associates nor have we carried out any independent verification of the information supplied.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### DISCLOSEABLE AND CONNECTED TRANSACTION: ACQUISITION OF N20 ENGINE ASSEMBLY LINE

#### Principle factors and reasons considered

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

#### 1. *Background of and reasons for the Assets Transfer Agreement*

##### *Background*

The Group is principally engaged in the development, manufacture and sale of automotive engine for passenger vehicles and light duty commercial vehicles and manufacture of engine parts and components of passenger vehicles in the PRC. On the other hand, BBA is a sino-foreign equity joint venture company incorporated in the PRC and is owned as to 50% by Shenyang Jinbei, an indirect wholly-owned subsidiary of Brilliance China, and 50% by BMW Holding B.V. The principal activities of BBA include but are not limited to manufacture and sale of BMW vehicles. Set out below is the extract from the annual reports for the year ended 31 December 2014 and 31 December 2015 (the “**2015 Annual Report**”) of the Company. During the two years ended 31 December 2014 and 31 December 2015, gasoline engines and diesel engines have been the principal source of revenue of the Company and contributed approximately 90% of the total revenue.

|  | <b>For the year ended 31 December</b> |                |
|--|---------------------------------------|----------------|
|  | <b>2014</b>                           | <b>2015</b>    |
|  | <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        |

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As advised by the Company, the Company has been focusing and allocating more resources on the manufacturing and development of prince engines under its own brand for its existing and potential customers. Pursuant to the announcement of the Company dated 14 September 2016, Mianyang Xincheng has won in an open tender to acquire the production properties from Mianyang Xinhua Internal Combustion Engine Joint Stock Company Limited, which may allow the Company to further expand and modify the manufacturing facilities of the production properties for the production of prince engines and other new engine products.

BBA currently owns and operates the N20 Engine Assembly Line that produces the finished N20 Engines to be used by BBA in Tiexi District of Shenyang City. On 13 September 2016, Mianyang Xincheng and BBA entered into the Assets Transfer Agreement that BBA would transfer to Mianyang Xincheng and Mianyang Xincheng would purchase from BBA the Acquired Assets. Upon the completion of such transfer, Mianyang Xincheng would carry out modification and upgrade on the N20 Engine Assembly Line on its premises in order to enable it to produce prince engines at the end. The acquisition of the Acquired Assets would coincide with the Company's aim to establish and develop its own production facilities for prince engines in Mianyang.

Based on the above table, the Group recorded an increase in the total revenue for the financial year ended 31 December 2015 as compared to such in the previous year. The increase was mainly due to increase in sale of products to BBA which offset the impact brought by the decrease in demand for the Group's traditional engines and decrease in selling price of engine components. On the other hand, the group recorded cash and cash equivalents of approximately RMB288.2 million as at 31 December 2015. In view of i) the level of cash and the solid business performance of the Group; ii) the maximum consideration under the aforementioned tender in acquiring the production properties would be settled by installments with internal resources of the Group; and iii) the Group intended to seek bank borrowings for settlement of the Consideration for the Acquired Assets along with the use of internal resources of the Group, we are of the view that the Group has sufficient financial resources to satisfy the Consideration.

### *Information on the Acquired Assets*

The Acquired Assets comprise (i) the N20 Engine Assembly Line, the equipment and facilities in connection with the operation of the N20 Engine Assembly Line; (ii) the spare parts which BBA has purchased for maintaining or repairing the N20 Engine Assembly Line and/or the supporting equipment and facilities to be transferred together with the N20 Engine Assembly Line.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The Acquired Assets are currently located at Shenyang Economic and Technology Development Zone, Tiexi District, the PRC. The N20 Engine Assembly Line is used to produce N20 Engines for BBA. The N20 Engine Assembly Line has been in operation for few years and as explained in the Letter from the Board, the Acquired Assets are in good working conditions.

### *Reasons for entering into the Assets Transfer Agreement*

As mentioned in the 2015 Annual Report, the prince engine will be one of the Group's core engine products in the future. The Group will leverage on this new, advanced and high quality engine to maintain and expand its market share, in particular, by way of building and strengthening its relationship with the market leaders in the indigenous Chinese branded automobile segment. Further, the Group is in the process of formulating the industrialization plan of prince engine production facilities and working with its existing and potential suppliers to localize the sourcing and processing of raw materials for the production of prince engines in the PRC.

As advised by the Company, the Group was licensed by BMW to assemble N20 engine in 2012, Mianyang Xincheng has been purchasing N20 engine parts and components from BBA for further processing and assembly of N20 engines to be sold back to BBA thereafter. In order to enrich the product portfolio and to improve the quality of the Group's products, the Group has entered into the Prince Engine License Agreement with BMW AG in 10 June 2015 to manufacture prince engines under its own brand for its existing and potential customers, which the Group believes that the Prince Engine to be one of the most competitive engines in the PRC. As a step forward, the Group decided to establish and develop its own production facilities for prince engines in Mianyang after considering, among others, the location of existing production facilities of the Group and its management team, the location of the Group's existing and potential customers and strong support from local government of Mianyang. Rather than acquiring a brand-new production line, the Group decided to acquire the Acquired Assets from BBA, which will then be modified and upgraded in order to enable it to produce prince engines which meet the specifications required by BMW AG, after considering, among others, (i) the Acquired Assets are in a good condition with the estimated remaining lifespan of the Acquired Assets (excluding spare parts) of approximately 9.5 years; (ii) the N20 Engine Assembly Line has been in operation for few years, the production of which has been optimised and proved to be stable and reliable, whereas the performance of a new production line may be relatively unstable, which may delay the prince engines production commencement date (which is expected to be second half of 2017); and (iii) the Group will be able to achieve certain degree of costs saving as the consideration for the N20 Engine Assembly Line and the costs that may be involved for its enhancement and upgrade are cheaper than such for a new production line. We are of the view that the acquisition of the Acquired Assets is in line with the Group's business strategy and is therefore in the ordinary and usual course of the Group's business.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As part of our due diligence, we have obtained from the Company and reviewed the purchasing analysis in relation to the investment comparison on building a new production line and modifying and upgrading the Acquired Assets for the production of prince engines. We have further discussed with the management of the Company and we noted that i) the Acquired Assets are of similar composition as required in the assembly of production line for prince engines, subsequently the estimated cost to be incurred for acquiring, modifying and upgrading the Acquired Assets will only be a fraction of the total Consideration of the Acquired Assets. Upon comparison, approximately RMB42.0 million will be saved from building a new production line; ii) it is expected that approximately two years' time is required for building up a new production line and additional resources will be required (i.e. production consultants, technicians, and management supervisors, etc.) for calibrating such production line and equipment into workable condition accredited by BBA before commencement of prince engine production. Whereas to completely knocking-down of the Acquired Assets for re-assembly and re-tooling in the designated site, where all the equipment and process under the Acquired Assets are qualified for the stringent requirement and specifications provided by BBA at its existing operation, which may facilitate and lower the costs for the calibration process as mentioned above after the modification and upgrade, the commencement of prince engine production is expected to be around second half of 2017, representing approximately one year earlier as compared to that of building up a new production line; and iii) despite a relatively longer production life for a new production line can be expected as compared to the Acquired Assets, the Directors consider that certain machinery and equipment of the Acquired Assets which will be modified and upgraded for the production of prince engines, to have operational lives longer than the expected lifespan as estimated under internal accounting policies, and the shorter time incurred for modifying and upgrading the Acquired Assets may allow the Group to better capture the potential market demand for prince engines in the foreseeable future. Based on the aforesaid, we concur with the Directors' view that modifying and upgrading the Acquired Assets is a more cost saving and efficient approach for building up production capacity for prince engines and therefore is in the interest of the Company.

Based on the above, we consider that there is a strong commercial rationale for the Company to enter into the Assets Transfer Agreement and the acquisition of the Acquired Assets for the purpose of building up production facilities for prince engines, will enable the Group to broaden its revenue stream, enrich its product portfolio in the future, and expand its business exposure in the engine manufacturing industry with a high-end product.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 2. *Terms of the Assets Transfer Agreement*

#### *Consideration*

As set out in the Letter from the Board, the Consideration under the Assets Transfer Agreement was agreed upon between BBA and Mianyang Xinchun through arm's length negotiations which shall consist of (i) the book value of the Acquired Assets plus a reasonable margin; (ii) value added tax; and (iii) surcharges. The consideration for the N20 Engine Assembly Line, supporting equipment and facilities and related spare parts is estimated to be approximately RMB94.77 million (equivalent to approximately HK\$110.19 million), after taking account of (a) the book value of the Acquired Assets of approximately RMB75.57 million (equivalent to approximately HK\$87.86 million) as at 31 August 2016; (b) 5% margin on the book value of the Acquired Assets of approximately RMB3.78 million (equivalent to approximately HK\$4.39 million); (c) value added tax of approximately RMB13.77 million (equivalent to approximately HK\$16.01 million); and (d) surcharge (comprising urban maintenance and construction tax, education surtax and local educational surtax chargeable by the relevant authorities in the PRC) of approximately RMB1.65 million (equivalent to approximately HK\$1.92 million). The margin was determined with reference to the internal target profit margin reasonably agreed upon by the Group and BBA. The Consideration under the Assets Transfer Agreement will be settled by the Company's internal resources and bank borrowing.

BBA started to acquire the Acquired Assets in stages since 2011. The original purchase costs of the Acquired Assets were approximately RMB114.48 million (equivalent to approximately HK\$133.10 million). The parties will sign a confirmation letter whereby the final Consideration to be paid by Mianyang Xinchun to BBA will be stated. The estimated useful life of plant and machinery of similar nature is 14 years. As the Acquired Assets (excluding spare parts) have been used for 4.5 years and they still function properly, it is estimated that the remaining lifespan of the Acquired Assets to be approximately 9.5 years.

#### *Conditions Precedent:*

Closing of the Assets Transfer Agreement will occur after the satisfaction of the following conditions precedent:

- (i) the Consideration being fully paid by or on behalf of Mianyang Xinchun to BBA;



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- (ii) BBA having obtained the approval from the competent customs authority and, if required by such customs authority, paid the relevant duty and tax in respect of the transfer of imported Acquired Assets under customs custody (if any) pursuant to the applicable laws;
- (iii) the Assets Transfer Agreement and the transactions contemplated thereunder having been approved by the Independent Shareholders;
- (iv) all necessary approvals, permits, licenses, registrations and filings from the competent development and reform commission and other related governmental authorities regarding environment protection and urban planning for the transactions contemplated under the Assets Transfer Agreement being obtained by Mianyang Xincheng (if any);
- (v) each party having obtained all necessary approvals from its shareholders or board of directors as required for the transactions contemplated under the Assets Transfer Agreement in accordance with its articles of association; and
- (vi) each related transaction document has been duly executed by the relevant parties, and there is no reasonable suspicion that any of such transaction documents may not come into effect in accordance with its terms and conditions.

The parties shall use all commercially reasonable efforts to fulfill or procure the fulfillment of the conditions precedent abovementioned as soon as possible and in any event within 5 days after the Assets Transfer Agreement and the transactions contemplated thereunder have been approved at the Extraordinary General Meeting. As at the Latest Practicable Date, conditions (ii), (iv) and (vi) have been fulfilled.

Subject to the satisfaction of the conditions precedent, the parties agree that Closing is expected to take place within 5 days after the Assets Transfer Agreement and the transactions contemplated thereunder having been approved by the Independent Shareholders or any other date as agreed between the parties in writing.

We noted that the total Consideration of the Acquired Assets was determined based on its net book value, which is the total capital invested in building the Acquired Assets after deducting depreciation, plus a margin. Given the nature of the Acquired Assets are machineries and equipment, we consider that the determination of the Consideration by making reference to its net book value is reasonable and in line with market practice. In addition to the inevitable tax surcharges such as value added tax, urban maintenance and construction tax and educational surtax that must be complied according to relevant rules and

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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regulation when acquiring assets in the PRC, the 5% reasonable margin is determined based on an arm's length negotiation with the counterparty and with reference to the profit margins of other similar connected transactions between the Group and BBA which we consider to be in line with market practice and we consider the adoption of book value as primary basis for determining the Consideration is fair and reasonable.

To assess the fairness and reasonableness of the Consideration, we performed a comparable analysis through identifying companies principally engaged in the automobile industry and listed on the Main Board of the Stock Exchange which announced acquisition of production lines/facilities of automobiles, automotive components and/or parts in the past two years from connected parties. In view of the terms of the Assets Transfer Agreement being a direct acquisition of the Acquired Assets by the Group, we have disregarded those transactions which involved acquisition of equity interest in companies as we noted such acquisitions involve, in most cases, the sale and purchase of the target company's business operations, liabilities, human resources and intangible assets in addition to the production lines/facilities themselves. We consider that the inclusion of which in our comparable analysis would render the comparison less fair and meaningful based on the fact that the Group would solely acquire the Acquired Assets.

Based on the above criteria, we have endeavored to find but were unable to identify any close comparable transactions, save for the discloseable and connected transaction of the Company conducted in February 2015. We note that in the transaction where the Company acquired production lines manufacturing crankshaft from BBA, the consideration of the production facilities represented a premium margin of 5% to the net book value of the production facilities acquired which is the same as the consideration structure under the Assets Transfer Agreement. Given the limited search result, we broadened our search to cover other industries and identified one case of connected transaction in relation to acquisition of production facilities by a Main Board listed company. Such transaction involves acquisition of a thermal power plant and the consideration equaled the net book value of the acquired asset. Moreover, we further expanded our search coverage to all major transactions and/or very substantial acquisitions conducted by any Main Board listed companies with independent third parties in the past two years that involved acquisition of production lines/facilities, which however still yielded no comparable transactions for our analysis. In light of the foregoing, we are of the view that there are limited comparable transactions available in the market for any meaningful comparison and assessment of the Consideration.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Having considered (i) the strategic benefits of the Assets Transfer Agreement to the Group as discussed in the paragraph headed “Reasons for entering into the Assets Transfer Agreement” above, particularly the cost and time savings in acquiring an existing production facility against constructing the facilities by the Group itself; (ii) the result of our comparables analysis; and (iii) the counterparty of the transaction being BBA who is a reputable business partner and the N20 Engine Assembly Line has been built in accordance with BMW’s world class quality standard, we are of the view that the 5% margin over the net book value of the Acquired Assets is acceptable and reasonable and we consider the adoption of book value as primary basis for determining the Consideration is fair and reasonable.

### **3. *Financial effects of the acquisition of the Acquired Assets***

#### *(i) Earnings*

As set out in the Letter from the Board, the Group acquires the Acquired Assets for the sole purpose of modifying and upgrading it to enable it to produce prince engines at the end.

Upon completion of the transfer, the Acquired Assets will become assets of the Group. As advised by the Company, it is expected that most of the costs to be incurred for the aforementioned modification and upgrade of the Acquired Assets will be capitalized. The Acquired Assets, upon commencement of production after the aforementioned modification and upgrade, will facilitate the Group to enter into the high-end engine product business and generate future income. Hence the acquisition of the Acquired Assets would not only broaden the Company’s product portfolio, but also increase its revenue stream.

As such, the Company expects that the acquisition of the Acquired Assets will bring positive effect to the earnings of the Group.

#### *(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 bank borrowing and internal resources. Thus, it is expected that there will be a cash outflow of the Group arising from the Assets Transfer Agreement 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.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*(iii) Net asset value*

According to the 2015 Annual Report, as at 31 December 2015, the audited 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 Closing, the Acquired Assets will become assets of the Group which will be offset by the Company's settlement of the Consideration by internal resources and bank borrowing. Accordingly, there will be a neutral effect on the net asset value upon Closing of the acquisition of the Acquired Assets.

*(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 bank borrowing and internal resources, the gearing ratio of the Group may increase.

On such basis, we are of the view that the transactions under the Assets Transfer Agreement will have a positive impact on the Group's earnings, a negative short-term impact on the Group's cashflow and gearing, a neutral effect on the Group's net assets positions. However, taking into account the potential benefit derived from the prince engine production line as modified and upgraded from the Acquired Assets, we are of the view that the Assets Transfer Agreement is, on balance, in the interests of the Company and the Shareholders as a whole.

### **RECOMMENDATION**

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

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### BBA COMPLIANCE AGREEMENT – RENEWAL OF ANNUAL CAPS

#### Principal factors and reasons considered

In arriving at our opinion regarding the terms of the second term of the BBA Compliance Agreement, the Purchase Caps and the Supply Caps, we have considered the following principal factors and reasons:

***1. Background to and the reasons for the renewal of the continuing connected transactions contemplated under the second term of the BBA Compliance Agreement***

The Group is principally engaged in the development, manufacture and sale of automotive engines for passenger vehicles and light duty commercial vehicles and the manufacture and sale of engine parts and components of the passenger vehicles in the PRC. As stated in the Letter from the Board, BBA is a sino-foreign equity joint venture company incorporated in the PRC and is owned as to 50% by Shenyang Jinbei, an indirect wholly-owned subsidiary of Brilliance China, and 50% by BMW Holding B.V. The principal activities of BBA include but are not limited to manufacture and sale of BMW vehicles.

As disclosed in the Letter from the Board, under the second term of the BBA Compliance Agreement, in the ordinary course of business of the Group, the Group purchases various engine parts and components and raw materials from BBA or its subsidiaries for production of the Group's engines and engine parts and components. As advised by the Company, such engine parts are developed and produced according to the specification required by BBA or its subsidiaries. At the same time, BBA or its subsidiaries will provide to the Group consulting and advisory services relating to engine parts and components from time to time. Meanwhile, the Group sells goods including, among other things, engine parts and components and raw materials to BBA or its subsidiaries for their own production of various engines and engine parts and components. As compared with the first term of the BBA Compliance Agreement, due to the Group still in discussion with BBA in relation to potential supply arrangement for BBA's other engines, the Group does not include potential contribution from the engine business in the Proposed Annual Caps for the three years ending 31 December 2019.

We understand from the management of the Company that the purpose of entering into the second term of the BBA Compliance Agreement is principally to renew the terms of the transactions under the first term of the BBA Compliance Agreement, including the Revised Annual Caps, which are expected to expire on 31 December 2016, for further three years from 1 January 2017 to 31 December 2019, in order to continue the relevant transactions of similar nature to those under the first term of the BBA Compliance Agreement. We consider the purchase and sale transactions with BBA are carried out as part of the principal business of the Group.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As part of our due diligence, we have obtained from the Company a list of breakdown for the Purchase Caps and the Supply Caps and compared with the historical transaction records of connection rod roughcasts, crankshaft roughcasts and N20 engines parts and components for the two financial years ended 31 December 2015 and for the six months ended 30 June 2016 (“**Historical Transactions**”). We noted that the product mix in the Historical Transactions is largely different from that of the Purchase Caps and the Supply Caps. In particular, we noted that the purchases/supply of goods by the Group from BBA and subsequently from the Group to BBA in the Historical Transactions largely comprised of N20 engines, N20 engine parts and components (including N20 connection rods (roughcasts) and crankshaft (roughcasts)), whereas the purchases/supply of goods under the Purchase Caps and the Supply Caps mainly comprise of Bx8 engine parts and components (including Bx8 connection rod (roughcasts) and Bx8 crankshaft (gear roughcasts)). Further, we also noted that a substantial portion of the actual purchase under the Historical Transactions comprised of N20 engine parts and components which were used for further processing and assembly of N20 engines to be used in F18 sedan model of BBA, and with a small portion of such being used in J11 MPV model of Shenyang Automotive. For the three years ending 31 December 2019, the purchase of the aforementioned goods under the Purchase Caps will mainly be for use in J11 MPV model of Shenyang Automotive, with the remaining portion of the Purchase Caps mainly comprised of roughcasts and related parts sourced via BBA from suppliers for the producing finished Bx8 connection rods and crankshafts, which then be sold to BBA for assembling Bx8 engines for BMW vehicles. As advised by the Company, such shift in product mix for the Purchase Caps and Supply Caps is mainly due to i) the launch of vehicles with Bx8 engines installed by BBA in the PRC in 2016 which leads to a change in the supply arrangement of raw materials from BBA for producing Bx8 connection rods and Bx8 crankshafts to be used in BMW vehicles of BBA (with Bx8 engines installed) as well as N20 engine parts and components for producing N20 engines to be used in J11 MPV model of Shenyang Automotive; and ii) the Group has been taking over the operation of crankshaft production line from BBA gradually which results in less services to be procured from BBA by the Group in stages. Accordingly, we are of the view that the continuing connected transactions contemplated under the second term of the BBA Compliance Agreement shall be presumed as new continuing connected transactions to assess the fairness and reasonableness of the proposed Purchase Caps and Supply Caps.

As advised by the Company, in view that the specification of engines and engine components is usually tailor-made for specific brands of vehicles of particular automotive manufacturers due to their control on confidentiality of their core production technologies and assurance, and the fact that the same model of engine or engine component of an automotive manufacturer would usually be used in various models of vehicles, engines and engine components suppliers are usually required to source parts and components and raw materials exclusively from their respective clients for onward processing and assembly in order to comply with the required standard and specification. Further, due to the fact that

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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safety is of utmost importance of a vehicle, automotive manufacturers 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 repeatedly tested in various ways by the automotive manufacturer to ensure it meets the required quality and specification. Therefore, it is common for an automotive manufacturer to rely on limited suppliers for its productions whereas frequent or sudden replacement of supplier is rare and difficult within the industry. As such, it is common for an engine and engine component supplier to build long term business relationship with particular automotive manufacturer which is mutual reliant in nature.

In addition to the above, in particular, we also noted that BBA has been the major manufacturing and sales arm of Brilliance China for its BMW vehicles in the PRC. The entering into of the second term of the BBA Compliance Agreement will continue to secure a long-term supply of tailor-made engine parts and components and raw materials which are essential to the production of N20 engines, other engine products and other engine parts and components which then be sold back to BBA and/or to other customers by the Group.

On the other hand, BBA has been an important customer of the Group with the actual transacted amount relating to the supply of connection rods, crankshafts and N20 engines (which were made of the parts and components sourced from BBA pursuant to the first term of the BBA Compliance Agreement) to BBA, for the financial year ended 31 December 2015 amounted to approximately 41% of the revenue of the Group for the financial year ended 31 December 2015 as set out in the 2015 Annual Report, the entering into of the second term of the BBA Compliance Agreement will allow the Group to continue to benefit from the significant demand for the Group's products from BBA to diversify the Group's revenue stream, and continue to secure the stable and close relationship with BBA to explore business opportunities with BMW AG, which will help the Group expand its business to overseas markets.

As part of our due diligence, we have visited the website of BMW and we noted that sales of BMW vehicles reached 120,810 units in the first quarter of 2016, representing an increase of approximately 11.2% as compared to the same period from 2015. According to the annual report of the BMW Group for the financial year ended 31 December 2015, the sales volume of vehicles under the brand BMW in the PRC reached 464,086 units, which was slightly up on one year earlier (456,732 units in 2014) but remained to be the largest market for BMW vehicles, in terms of unit sold, in 2015.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As advised by the Company, the finished connection rods and finished crankshafts will be mainly applied to the BMW vehicles of BBA. As such, we have reviewed the annual report of Brilliance China for the financial year ended 31 December 2015 and noted that BBA has achieved sales of 287,073 BMW vehicles during the year, representing an increase of 3.1% as compared to that for the year ended 31 December 2014. Based on the above, we consider that the market demand for BMW vehicles in the PRC remains strong and it may drive the demand of finished connection rods and finished crankshafts to be supplied by the Group.

Having considered (i) the principal business activities of the Group and the mutual reliance on the business relationship between the Group and BBA; (ii) the market demand for BMW vehicles remains strong which may drive the demand for products to be supplied by the Group to BBA under the continuing connected transactions; and (iii) our discussions with the management on the reasons for and benefits of entering into the second term of the BBA Compliance Agreement as set out above, we concur with the Directors' view that such agreement (a) will continue to secure the long-term business relationship with BBA; (b) are in the ordinary and usual course of business of the Group; and (c) will continue to facilitate the Group's business growth; and therefore is fair and reasonable and in the interests of the Company and Shareholders as a whole.

### ***2. The Purchase Caps and the Supply Caps***

Pursuant to the second term of the BBA Compliance Agreement, engine parts and components, raw materials for manufacturing engines and engine parts and components will be transacted and consulting and advisory services relating to engines or engine parts and components will be provided between the Group and BBA or its subsidiaries from time to time. The BBA Compliance Agreement was entered for a term of three years commencing from the date on which all conditions precedent have been satisfied (including the first day and the last day of the term) unless terminated earlier by at least three months' prior written notice by either party.

The parties may enter into separate operational agreements and purchase orders from time to time which contain particulars pertaining to the sale and purchase of engine parts and components and raw materials for manufacturing engines and engine parts and components and the provision of related consulting and advisory services (including provisions relating to the price, quantity, quality and payment method). The terms of these operational agreements and purchase orders must be consistent with and subject to the terms of the BBA Compliance Agreement, on normal commercial terms and on an arm's length basis.



## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

BBA shall issue an invoice within the first 10 days of each month for the engine parts and components delivered during the previous month, and then payment shall be made by Mianyang Xincheng within 45 days after receiving the invoice. Mianyang Xincheng shall issue an invoice within the first 10 days of each month for the engine parts and components delivered during the previous month. BBA shall make the payment within 45 days calculated from the 25th day of the month when it receives the invoice from Mianyang Xincheng. With respect of the provision of technical consulting and advisory services, BBA shall issue a quarterly invoice to Mianyang Xincheng based on a list specifying the working time and the related costs, and then payment shall be made by Mianyang Xincheng within 45 days after receiving the invoice. We note that the credit period of 45 days to be granted to BBA in general is within the range of credit period of 30 days to 60 days granted by the Group to its external customers.

Based on the information provided by the Company, we summarise in the following table i) the existing caps and historical transaction amounts for each of the two financial years ended 31 December 2015 and for the six months ended 30 June 2016; and ii) the expected transaction amount for each of the three financial years ending 31 December 2019, in respect of sale and purchase of engine parts and components and raw materials for manufacturing engines and engine parts and components and provision of consulting and advisory services.

|  | For the year ended<br>31 December 2014                  |   | For the year ended<br>31 December 2015                      |   | For the<br>year ending<br>31 December<br>2016               | For the<br>six months<br>ended<br>30 June<br>2016       |
|--|---|---|---|---|---|---|
|  | Existing Cap<br>(RMB'000)                               | Actual amount<br>(RMB'000)                              | Existing Cap<br>(RMB'000)                                   | Actual amount<br>(RMB'000)                                  | Existing Cap<br>(RMB'000)                                   | Actual amount<br>(RMB'000)                              |
| 1. Sale of engine parts and components and raw materials for manufacturing engines and engine parts and components and the provision of the related consulting and advisory services by BBA or its subsidiaries to the Group | 447,976<br>(equivalent to approximately HK\$520,844)    | 275,269<br>(equivalent to approximately HK\$320,044)    | 1,646,970<br>(equivalent to approximately HK\$1,914,866)    | 1,165,122<br>(equivalent to approximately HK\$1,354,641)    | 1,525,467<br>(equivalent to approximately HK\$1,773,599)    | 408,724<br>(equivalent to approximately HK\$475,207)    |
| 2. Sale of engine parts and components and raw materials for manufacturing engines and engine parts and components by the Group to BBA or its subsidiaries   | RMB518,327<br>(equivalent to approximately HK\$602,638) | RMB405,774<br>(equivalent to approximately HK\$471,777) | RMB1,646,872<br>(equivalent to approximately HK\$1,914,752) | RMB1,339,717<br>(equivalent to approximately HK\$1,557,635) | RMB1,743,151<br>(equivalent to approximately HK\$2,026,692) | RMB633,120<br>(equivalent to approximately HK\$736,103) |

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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| Continuing Connected Transactions   | For the financial year ending 31 December        |  |  |
|---|--|--|--|
|   | 2017<br><i>(RMB'000)</i>                         | 2018<br><i>(RMB'000)</i>                         | 2019<br><i>(RMB'000)</i>                         |
| <b>I. Purchases by the Group</b>  |  |  |  |
| Sale of engine parts and components and raw materials for manufacturing engines and engine parts and components and the provision of the related consulting and advisory services by BBA or its subsidiaries to the Group | 602,725  | 534,592  | 505,784  |
| <b>Purchase Caps <i>(after taking into a buffer)</i></b>  | <b>662,998</b>                                   | <b>588,051</b>                                   | <b>556,362</b>                                   |
|   | <i>(equivalent to approximately HK\$770,841)</i> | <i>(equivalent to approximately HK\$683,703)</i> | <i>(equivalent to approximately HK\$646,860)</i> |
| <b>II. Supply by the Group</b>  |  |  |  |
| Sale of engine parts and components and raw materials for manufacturing engines and engine parts and components by the Group to BBA or its subsidiaries   | 522,909  | 526,341  | 547,495  |
| <b>Supply Caps <i>(after taking into a buffer)</i></b>  | <b>575,200</b>                                   | <b>578,975</b>                                   | <b>602,244</b>                                   |
|   | <i>(equivalent to approximately HK\$668,762)</i> | <i>(equivalent to approximately HK\$673,151)</i> | <i>(equivalent to approximately HK\$700,205)</i> |

The proposed Purchase Caps and the Supply Caps for each of the three years ending 31 December 2019 were determined by the Directors by reference to the followings:–

- (i) the estimated volume of engines, engine parts and components and raw materials for manufacturing the engines and engine parts and components required by the Group, by BBA and its subsidiaries and by Shenyang Automotive with reference to the expected market demand for products of BBA and Shenyang Automotive;
- (ii) the estimated volume of engine parts and components to be exported to BMW AG;
- (iii) the designed annual production capacity of the Group and the planned upgrade of expansion in the production capacity of the Group to produce crankshafts;
- (iv) the expected unit prices for the engines, engine parts and components and raw materials for manufacturing the engines and engine parts and components; and
- (v) estimated total consultancy fee and shared service fee payable to BBA.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As regards the Purchase Caps to be sought for the three years ending 31 December 2019 of approximately RMB663.0 million, RMB588.1 million and RMB556.4 million respectively, we have obtained from the Company a list of estimated purchase of connection rod roughcasts and related parts, crankshaft (gear) roughcasts and N20 engine parts and components which sum up to the Purchase Caps. We understand from the management of the Company that such list of estimate was prepared on the basis of multiplying (i) the expected quantity of connection rod roughcasts and related parts, crankshaft (gear) roughcasts and N20 engine parts and components to be purchased from BBA for the three financial years ending 31 December 2019; (ii) the estimated unit price of connection rod roughcasts and related parts, crankshaft (gear) roughcasts and N20 engine parts and components; and (iii) the buffer taking into account the potential fluctuation in foreign exchange rate and uncertainty of change in transaction volume, unit purchase cost and type of products to be transacted. Regarding the Supply Caps to be sought for the three years ending 31 December 2019 of approximately RMB575.2 million, RMB579.0 million and RMB602.2 million respectively, we have obtained from the Company a list of estimated supply of connection rods and crankshafts which sum up to the Supply Caps. We understand from the management of the Company that such list of estimate was prepared on the basis of multiplying (i) the expected quantity of connection rods and crankshafts to be required by BBA and Shenyang Automotive for the three financial years ending 31 December 2019; (ii) the estimated unit price of connection rods and crankshafts; and (iii) the buffer taking into account the potential fluctuation in foreign exchange rate and uncertainty of change in transaction volume, unit selling price and type of products to be transacted.

We noted from the above that there is a substantial decrease in the Purchase Caps and Supply Caps to be sought for the three years ending 31 December 2019 as compared to the historical transaction amounts for procuring/selling of engines, engine parts and components and raw materials for the year ended 31 December 2015 and for the six months ended 30 June 2016. Such decrease is mainly due to the Group is still in discussion with BBA in relation to the potential supply arrangement for other BBA's engines, and thus, the Group does not include potential contribution from the engine business in the Proposed Annual Caps for the three years ending 31 December 2019. Notwithstanding this, as mentioned above, due to the different product mix in the Historical Transactions as compared to that of the Purchase Caps and the Supply Caps, we are of the view that the Purchase Caps and Supply Caps shall be presumed as new continuing connected transactions when assessing their fairness and reasonableness. As set out in the table above, the Supply Caps are expected to increase gradually throughout the three years ending 31 December 2019, which is mainly due to an increase in demand for the Group's parts and components from BBA. It is expected that the purchase price of raw materials will remain relatively stable, while the selling price is expected to decrease.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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In order to assess the fairness and reasonableness of the estimated quantity and estimated price of the continuing connected transactions, we have performed the following analysis.

*I. Regarding the estimated quantity of the transactions*

Connection rod roughcasts and related parts and connection rods

As advised by the Company, connection rods are one of the key components for engines and will be exclusively assembled to the N20 and Bx8 engines that will be installed in the vehicles of BBA and/or MPV of Shenyang Automotive. We have enquired the Company and were advised by the Company the demand of connection rods for the three years ending 31 December 2019 will be mainly derived from the expected demand for the relevant vehicles of BBA with Bx8 engines installed, and the Group will purchase connection rod roughcasts and related parts for its further processing according to the projected sales of the relevant vehicles provided by BBA. Further, we understand from the Group that each unit of connection rod roughcast will go through various processing stages such as piercing, trimming, polishing and assembly into one finished connection rod respectively. We noted that the demand of connection rods by BBA is the same as the total quantities of connection rod roughcasts and related parts to be purchased from BBA by the Company, except that the Group will require additional connection rod roughcasts and related parts from BBA for its own processing to be used in J11 MPV model of Shenyang Automotive and spare roughcasts for the replacement of the worn roughcasts during processing stages for each of the three years ending 31 December 2019. We understand from the Company that the extra quantity of connection rod roughcasts and related parts (for scrap parts replacement) for each of the three years ending 31 December 2019 are determined with reference to historical processing record.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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We noted that there will be a significant increase in supply of connection rods for Bx8 engines to BBA throughout the three financial years ending 31 December 2019. As advised by the Company, this is primarily due to Bx8 engines gradually replaced N20 engines for some of the BMW models of BBA since 2016. Accordingly, the demand for Bx8 connection rod roughcasts from the Group under the Purchase Caps is expected to increase in the same pace with the estimated supply of finished connection rods to BBA for the three years ending 31 December 2019. Based on the above, we consider that the expected purchase quantity of connection rod roughcasts and sale quantity of finished connection rods under the continuing connected transactions is acceptable.

### Parts and components of N20 engines

As advised by the Company, the expected quantity of the N20 engine parts and components to be purchased from BBA by the Group is mainly determined based on the number of N20 engines that Shenyang Automotive will demand from the Group to be used in its J11 MPV model for the three years ending 31 December 2019. As such, the estimated demand of the N20 engine parts and components under the Purchase Caps is less than that in the Historical Transactions but will remain relatively stable throughout the three years ending 31 December 2019.

We understand from the Group that one unit of N20 engine parts and components will be processed to be assembled in each unit of J11 MPV model. We noted from the list of estimate that the demand for N20 engine parts and components by Shenyang Automotive will remain relatively stable for the three years ending 31 December 2019. As part of our due diligence, we have reviewed the annual report of Brilliance China for the year ended 31 December 2015. We noted that Shenyang Automotive launched the J11 MPV model in March 2015, which has recorded sales of 6,898 units during the year. Taking into account that i) Brilliance China would continue to produce facelift versions of its existing MPV models in order to make them more competitive as stated in the aforementioned annual report; and ii) as advised by the Company that the annual capacity in respect of its assembly of N20 engines being around 50,000 units would be sufficient to meet the demand of BBA and Shenyang Automotive for each of the three financial years ending 31 December 2019, we consider that the expected transaction quantity of N20 engine parts and components, representing roughly the equivalent annual sales amount of J11 MPV models for the financial year ended 31 December 2015 and demand from potential new versions of MPV models developed by Brilliance China, are fair and reasonable.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### Crankshaft (gear) roughcasts and crankshafts

As advised by the Company, the expected quantity of the crankshaft (gear) roughcasts for the Group to process into finished crankshafts that goes into the N20 and Bx8 engines, to be purchased by the Group from BBA is determined by the expected demand of N20 engines and Bx8 engines to be installed in the vehicles corresponding to the target production volume of BBA and/or Shenyang Automotive and estimated orders to be received from BMW AG for each of the three years ending 31 December 2019. Further, we understand from the Group that each unit of crankshaft (gear) roughcast will go through various processing stages such as piercing, heat treatment, trimming and polishing into one finished crankshaft respectively. We noted that the estimated demand of BBA for finished crankshafts is the same as the total quantities of crankshaft (gear) roughcasts to be purchased from BBA by the Group, except that the Group will require additional spare crankshaft (gear) roughcasts from BBA. We have enquired and were advised by the Company that such additional purchase will be mainly for (i) its further processing to be used by the J11 MPV model of Shenyang Automotive; (ii) maintaining inventory of the finished crankshafts to cater for the expected demand from BMW AG for the three years ending 31 December 2019; and (iii) replacement of the worn roughcasts during processing for each of the three years ending 31 December 2019. We understand from the Company that the extra quantity of roughcasts (for worn parts replacement) for each of the three years ending 31 December 2019 is determined based on historical operational record.

Further, we noted that the estimated demand of finished crankshafts for N20 engines by BBA will last until the year ending 31 December 2017. As advised by the Company, this coincides with the estimated demand of finished N20 connection rods to be assembled in N20 engines by BBA as N20 engines will be gradually replaced by the Bx8 engines for various models of the BMW vehicles. On the other hand, we noted that the estimated demand of finished crankshafts for Bx8 engines by BBA for the two financial years ending 31 December 2019 will increase by approximately 30.3% as compared with that for the financial year ending 31 December 2017. As advised by the Company, such increase in estimated demand of finished crankshafts is primarily due to the expectation of BBA that the target sale of vehicles (with Bx8 engines installed) will increase in 2018 and remain strong in 2019. Accordingly, the demand for Bx8 crankshaft (gear) roughcasts under the Purchase Caps is expected to increase in the same pace with the estimated demand of finished crankshafts for the three years ending 31 December 2019. We consider that the expected transaction quantities of crankshaft (gear) roughcasts to be purchased from BBA and the finished crankshafts for N20 and Bx8 engines, which corresponds to the projected sale quantity of vehicles with N20 and Bx8 engines installed respectively, are reasonable.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Consulting service, technical support and shared services

As advised by the Company, in order to ensure a smooth transition after acquiring the crankshaft production line from BBA, it is necessary for BBA to provide trainings, consulting services, and technical support to the Group. We have noted that the quantity or the amount of technical consulting and advisory services to be paid by the Group is determined by production output level of the Group and it is calculated based on the number of production associates and consultants provided by BBA to the Group and the number of working days such staff are expected to provide consultancy service during a year.

Following completion of acquisition of the crankshaft production line in April 2015, the Group has been taking over the operation of crankshaft production line from BBA gradually. As advised by the Company, the Group will subsequently procure fewer services from BBA in stages in relation to the hours of trainings, supervising, technical support, maintenance, operational consultancy in order to achieve the expected production volume and required specifications for the three years ending 31 December 2019. We noted from the Group's estimated procurement of the aforementioned services that the number of staff (i.e. production associates and consultants) required by the Group is expected to decrease by approximately 69.1% for the year ending 31 December 2018 as compared to such for the year ending 31 December 2017 and remain stable for the year ending 31 December 2019, while the number of working days for the required staff are expected to decrease gradually for the two years ending 31 December 2018 and 2019 by approximately 57.4% and a further 50% respectively. Given the above, we consider that the quantity in determining the fees payable by the Group for the consulting service and technical support is reasonable.

### *II. Regarding the estimated price of the transactions*

As set out in the Letter from the Board, the Group adopts a cost plus pricing model in relation to the sales and purchase of engines parts and components and raw materials (i.e. connection rods and crankshafts) for manufacturing engines and engine parts and components between the Group and BBA. The prices for the mutual supplies and purchases between the Group and BBA are negotiated after taking into account each party's overall costs of production and anticipated reasonable returns.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### Parts and components of N20 engines

In respect of the purchase prices of N20 engine parts and components for assembling N20 engines, the Group will assess the reasonableness of the purchase prices of engine parts and components for assembling N20 engines as a proportion of the total production costs, which is expected to be comparable to the historical production costs structure of engines sold by the Group (including engines sold to independent third parties) in the latest financial year.

After the Group's project director, who is in charge of N20 engine business, obtain the purchase price quotations from BBA, based on the price assessment mechanism discussed above and regular communication with BBA on the raw materials and procurement costs of BBA from its suppliers and its production costs in processing any components before on-sale to the Group (if any), they will work out the proposed purchase prices of the engine parts and components required for assembling N20 engines to be reviewed and assessed by the Group's Chief Financial Officer and acknowledged by the Group's Chief Executive Officer. Mianyang Xinchun will then negotiate and determine the final purchase prices with BBA on an arm's length basis. The Group generally sets the purchase prices of N20 engine parts and components at the beginning of the year. Should there be any changes in the costs of production for BBA, Mianyang Xinchun will renegotiate the purchase prices with BBA on an arm's length basis.

Regarding the unit purchase price of N20 engine parts and components for assembling the N20 engines, we have enquired the Company as to the expected production costs for assembly and processing the N20 engine parts and components to a N20 engine to be used in J11 MPV model of Shenyang Automotive and obtained the breakdown of total production cost incurred for producing all engines by the Group during the year ended 31 December 2015. Moreover, we have obtained the expected purchase price of N20 engine parts and components, the expected selling price of N20 engine and the relevant estimated processing and assembly cost for the three year ending 31 December 2019. Upon comparison of material costs for engines produced in the past with the N20 engines, we note that the proportion of the purchase prices of engine parts and components for assembling N20 engines corresponding to its respective total production costs are comparable to the historical production costs structure of engines sold by the Group during the year ended 31 December 2015. As we note from the Group's list of estimated purchase that the unit purchase prices of connection rod roughcast and crankshaft (gear) roughcast are expected to remain at the same level during the three financial



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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years ending 31 December 2019, we consider the aforementioned to be an appropriate proxy to assess the fairness and reasonableness of the relevant purchase cost and we consider the purchase price of N20 engine parts and components for each of the three financial years ending 31 December 2019 are fair and reasonable.

Connection rod roughcasts and related parts, finished connection rods, crankshaft (gear) roughcasts and finished crankshafts

In connection with the supply of connection rod roughcasts for N20 and/or Bx8 engines, the Group will purchase the N20 and/or Bx8 connection rod roughcasts and related parts from overseas suppliers via BBA, for manufacturing the finished products to be sold to BBA. With regard to the supply of crankshafts for N20 and Bx8 engines, the Group will purchase the N20 crankshaft roughcasts and Bx8 crankshaft gear roughcasts from overseas suppliers via BBA, for manufacturing the finished products with the crankshaft production line to be sold to BBA.

As set out in the Letter from the Board, project director who is in charge of component business and BBA will communicate regularly to discuss, among others, the raw materials and procurement costs of BBA from its suppliers. The project director will propose the purchase prices of connection rods roughcast and related parts and crankshaft (gear) roughcast to the Group's Chief Financial Officer. In respect of the assessment of the reasonableness of the purchase prices of connection rod roughcasts and crankshaft (gear) roughcasts, the Group's Chief Financial Officer will make reference to, among others, the market prices of similar products produced in the PRC based on quotations obtained from independent suppliers, the difference in production costs incurred by PRC and overseas suppliers (if applicable), the quality and specification of connection rod roughcasts and crankshaft (gear) roughcasts to be procured from BBA, the transportation costs and other related transaction costs. The purchase prices will then be approved by the Group's Chief Executive Officer.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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We note from the Group's list of estimated purchase that the unit purchase prices of connection rod roughcast and related parts and crankshaft (gear) roughcast are expected to remain at the same level during the three financial years ending 31 December 2019. Further, we have obtained and reviewed two price quotations in relation to the purchase of connection rod roughcasts and crankshaft (gear) roughcasts provided by independent suppliers. We noted that the unit prices of connection rod roughcast and related parts and crankshaft (gear) roughcast set out in the quotations (after taking into account the labour cost, transportation cost and other relevant production cost as estimated by the Company) are comparable to expected unit purchase price of connection rod roughcast and crankshaft (gear) roughcast to be supplied by BBA. Given the above, we consider the transaction prices of the connection rod roughcasts and crankshaft (gear) roughcasts for N20 and Bx8 engines are reasonable.

With respect to the selling prices of finished connection rods and finished crankshafts to BBA, similar to the supply of N20 engine parts and components, the Group adopts a cost plus pricing model in relation to the sales of finished connection rods and finished crankshafts. The proposed selling prices will first be determined by the project director of the Group after taking into account required specification and quantity of the engines, the purchase costs of relevant roughcasts, the processing cost and anticipated reasonable profit margin. Subject to the review by the Group's Chief Financial Officer, the project director of the Group will negotiate such proposed selling prices with BBA. 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, engine parts and components and/or raw materials to independent third parties in the latest financial year but it may vary depending on factors such as the expected quantity, quality and specifications of the products to be sold, market competition from other supplier(s) of BBA and strategic collaboration with BBA. After the negotiation with BBA, the Group's Chief Financial Officer will further review the proposed selling prices before such selling prices be approved by the Group's Chief Executive Officer. We have calculated the average gross profit margin of gasoline engines sold by the Group to independent third parties and noted that it is comparable to the anticipated gross profit margin of finished connection rods and finished crankshafts.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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In light of the above, we consider that the estimated level of unit selling prices of finished connection rods and finished crankshafts for each of the three financial years ending 31 December 2019 are reasonable.

Consulting service, technical support and shared services

The consultancy fee to be charged by BBA for supporting the operation of the crankshaft production line will be primarily determined with reference to the daily chargeable rates of the production associates and consultants involved and the time spent on the provision of the technical consulting and advisory services. With reference to the Letter from the Board, the daily chargeable rates of production associates and consultants are determined with reference to, among others, internal remuneration guidance for the Group's employees, academic background and technical knowledge of BBA's production associates and consultants and difference in remuneration package for PRC-based company and international company. The Group will also discuss the profile of production associates and consultants to be assigned by BBA in order to assess the qualification of the production associates and consultants. The project director will obtain a list of personnel to be assigned by BBA together with the prices lists for relevant services to be procured from BBA, which will then be reviewed by the Group's Chief Financial Officer and approved by the Group's Chief Executive Officer. We have obtained from the Company a list of internal remuneration guidance of the Group and compared that with the estimated list of daily chargeable rates for BBA's production associates and consultants. We note that the daily chargeable rates for these production associates and consultants are comparable to the employees of the Group of similar title.

We understand that the total service fees payable to BBA further comprise estimated amount to be charged by BBA by sharing BBA's certain function, facilities and services, such as general administrative costs, and is based on actual costs to be incurred by BBA and shall be primarily apportioned based on routing time for producing one unit of crankshaft and number of production associates and consultants of BBA working on the crankshaft production line. We also note that the production related third party services, such as maintenance of spare parts, shuttle bus services, consumable and other services are shared with the Group primarily according to the engine plant routing time or the actual time costs incurred. Other administration relating services, where most of which are provided by BBA itself, such as training facilities, information technology system support and insurance costs, are shared with the Group primarily according to the indirect headcount. The total service fees payable to BBA will further take into account a reasonable profit

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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margin to be received by BBA for providing the services to the Group. As set out in the Letter from the Board, the project director will discuss the scope of shared services and the methods for apportioning the costs for the shared services with BBA. The Group's Chief Financial Officer will review the prices list and assess the prices with reference to the Group's internal costs incurred for relevant services. After that, the prices list will be approved by the Group's Chief Executive Officer. After reviewing the computation of the shared services cost to be paid by the Group, we consider that the pricing mechanism is reasonable.

### *III. Regarding the buffer of 10% of the transactions*

We noted that the Company has also taken into account a buffer of 10% of the expected transaction amounts under the continuing connected transactions in determining the amount of the Purchase Caps and the Supply Caps. As advised by the Company, the purposes for including the buffer are to cater for the fluctuation in foreign exchange rate and uncertainty of change in transaction volume, transaction price and type of products to be transacted. We were also advised by the Company that certain core raw materials of automotive parts and components are imported from Europe therefore their price are subject to the fluctuation in the exchange rate between Reminbi and Euro Dollar. As such, we have reviewed the currency exchange rate published by the People's Bank of China and noted that Reminbi has been depreciating against Euro Dollars by approximately 3.9% for the first 6 months in 2016. On the other hand, as labour cost is one of the key factors affecting both purchase cost of N20 engine parts and components, connection rod roughcast and related parts and crankshaft (gear) roughcasts and the selling price of connection rods and crankshafts, we have reviewed the latest available statistics on the website of National Bureau of Statistics of China and noted that the average salary per person in manufacturing industry has been increasing over the past few years. Therefore, we consider that the 10% buffer is acceptable.

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

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### **3. The conditions**

As the respective Purchase Caps and the Supply Caps will exceed HK\$10 million and the relevant applicable ratios under Rule 14.07 of the Listing Rules exceed 5%, the Purchase Caps and the Supply Caps of the continuing connected transactions are subject to reporting, announcement, and the requirement of seeking approval from the Independent Shareholders under the Listing Rules.

The Company will therefore seek the approval by the Independent Shareholders of the continuing connected transactions and the Purchase Caps and the Supply 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 BBA Compliance Agreement governing the continuing connected transactions that are fair and reasonable and in the interests of the Shareholders and the Company as a whole;
2. The transacted amount of the transactions under the BBA Compliance Agreement shall not exceed the Purchase Caps or the Supply Caps (as the case may be); and
3. The Company will comply with all other relevant requirements under the Listing Rules.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Taking into account the conditions attached to the continuing connected transactions, in particular (i) the restriction by way of setting the Purchase Caps and the Supply 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.

### RECOMMENDATION

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

- (i) the continuing connected transactions will help the Company diversify its revenue stream;
- (ii) the production technology as well as the management capabilities and levels of the Group can be improved through the cooperation with BMW;
- (iii) the stable and close business relationship with BBA can facilitate the exploration of business opportunities with BMW AG, which may help the Group expand its business to overseas markets;
- (iv) the mechanism and measures taken/to be taken by the Group in ensuring the continuing connected transactions are on normal commercial terms; and
- (v) the restriction by way of setting of the Purchase Caps and the Supply Caps,

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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we are of the opinion that (i) the continuing connected transactions contemplated under the BBA Compliance Agreement are in the ordinary and usual course of business of the Company; and (ii) the terms of the second term of the BBA Compliance Agreement, the Purchase Caps and the Supply 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 resolution to be proposed at the Extraordinary General Meeting for approving the terms of the continuing connected transactions, the second term of the BBA Compliance Agreement, the Purchase Caps and the Supply 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 23 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 15 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 <sup>(3)</sup> |
|---|---|----------------------------|---|
| Mr. Wu Xiao An<br>(also known as<br>Mr. Ng Siu On) <sup>(1)</sup> | Beneficial owner                                    | 8,320,041<br>ordinary      | 0.65%   |
|   | Trustee and interest in<br>a controlled corporation | 33,993,385<br>ordinary     | 2.65%   |
| Mr. Wang Yunxian <sup>(2)</sup>                                   | Beneficial owner                                    | 6,471,143<br>ordinary      | 0.50%   |
|   | Trustee and interest in<br>a controlled corporation | 33,993,385<br>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 of the Company 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 <sup>(6)</sup> |
|--|--------------------------------------|------------------|---|
| Brilliance Investment Holdings Limited | Beneficial owner                     | 400,000,000      | 31.20%  |
| Brilliance China <sup>(1)</sup>        | Interest in a controlled Corporation | 400,000,000      | 31.20%  |

| Name of Shareholder   | Capacity                             | Number of Shares | Approximate percentage of shareholding <sup>(6)</sup> |
|---|--------------------------------------|------------------|---|
| Huachen <sup>(2)</sup>  | Interest in a controlled Corporation | 400,000,000      | 31.20%  |
| Xinhua Investment Holdings Limited  | Beneficial owner                     | 400,000,000      | 31.20%  |
| Mianyang Xinhua Internal Combustion Engine Joint-stock Company Limited <sup>(3)</sup> | Interest in a controlled Corporation | 400,000,000      | 31.20%  |
| Sichuan Yibin Pushi Group Co., Ltd. <sup>(4)</sup>                                    | Interest in a controlled Corporation | 400,000,000      | 31.20%  |
| Sichuan Province Yibin Wuliangye Group Co., Ltd. <sup>(5)</sup>                       | 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 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 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 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 31.20% 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 Sichuan Yibin Pushi Group Co., Ltd. ("**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 Sichuan Province Yibin Wuliangye Group Co., Ltd. ("**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 and save for the possible acquisition as disclosed in announcements of the Company dated 14 September 2016 and 6 July 2016 and the circular of the Company dated 27 July 2016, 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:

| <b>Name</b>           | <b>Qualification</b>   |
|-----------------------|--|
| 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 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:

| <b>Name of Director</b>                            | <b>Name of company which had such discloseable interest or short position</b> | <b>Position within such company</b>   |
|--|---|---|
| Mr. Wu Xiao An<br>(also known as<br>Mr. Ng Siu On) | Brilliance China  | chairman and executive director   |
|  | Huachen   | director  |
|  | Brilliance Investment   | director  |
| Mr. Wang Yunxian                                   | Xinhua Investment   | director  |
| Mr. Liu Tongfu                                     | Huachen   | director, executive vice president, member of the standing committee of the Communist Party of China and vice general manager of auto business unit |
| 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) Assets Transfer Agreement;
- (b) BBA Compliance Agreement;
- (c) the letter of recommendation from the Independent Board Committee, the text of which is set out on page 22 of this circular;
- (d) the letter from the Independent Financial Adviser, the text of which is set out on pages 23 to 53 of this circular; and
- (e) the written consent from the Independent Financial Adviser 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.

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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# 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 Xinchen 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 Tuesday, 1 November 2016 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 assets transfer agreement (the “**Assets Transfer Agreement**”) (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) dated 13 September 2016 entered into between Mianyang Xinchen Engine Co., Ltd.\* (綿陽新晨動力機械有限公司) (an indirect wholly-owned subsidiary of the Company) (“**Mianyang Xinchen**”) and BMW Brilliance Automotive Ltd. (華晨寶馬汽車有限公司\*) (an associate of Brilliance China Automotive Holdings Limited (華晨中國汽車控股有限公司\*)) which is a controlling shareholder of the Company) (“**BBA**”) pursuant to which BBA would transfer to Mianyang Xinchen certain assets and all transactions contemplated thereunder be and are hereby approved, ratified and confirmed; and
- (b) any director of the Company (the “**Director**”) and any director of Mianyang Xinchen be and are hereby authorized, for and on behalf of the Company and Mianyang Xinchen respectively, to do all such things and exercise all powers which he considers necessary or desirable or expedient in connection with the Assets Transfer Agreement and otherwise in connection with the implementation of the transactions contemplated thereunder, including without limitation the execution, amendment, supplement, delivery, waiver, submission and implementation of any further documents or agreements, and any Director and the company secretary of the Company or two Directors be authorized to affix the common seal of the Company (if required) on any document or deed as they consider appropriate.”

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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2. “**THAT**

- (a) The BBA compliance agreement (the “**BBA Compliance Agreement**”) (a copy of which has been produced to this meeting marked “B” and initialled by the chairman of this meeting for the purpose of identification) dated 23 May 2014 entered into between the Company, Mianyang Xincheng Engine Co., Ltd.\* (綿陽新晨動力機械有限公司) (an indirect wholly-owned subsidiary of the Company) (“**Mianyang Xincheng**”) and BMW Brilliance Automotive Ltd. (華晨寶馬汽車有限公司\*) (an associate of Brilliance China Automotive Holdings Limited (華晨中國汽車控股有限公司\*)) which is a controlling shareholder of the Company) in relation to the sale and purchase of engines, engine parts and components and raw materials for manufacturing engines and engine parts and components and the provision of related services and all transactions contemplated thereunder for the second term of the BBA Compliance Agreement for another three-year period upon expiry of the first term of the BBA Compliance Agreement on 17 June 2017 be and are hereby approved, ratified and confirmed;
- (b) any director of the Company (the “**Director**”) and any director of Mianyang Xincheng be and are hereby authorized, for and on behalf of the Company and Mianyang Xincheng respectively, to do all such things and exercise all powers which he considers necessary or desirable or expedient in connection with the second term of the BBA Compliance Agreement and otherwise in connection with the implementation of the transactions contemplated thereunder, including without limitation the execution, amendment, supplement, delivery, waiver, submission and implementation of any further documents or agreements, and any Director and the company secretary of the Company or two Directors be authorized to affix the common seal of the Company (if required) on any document or deed as they consider appropriate; and
- (c) the proposed annual caps in respect of the transactions contemplated under the BBA Compliance Agreement for each of the three years ending 31 December 2019 as set out in the paragraph headed “Proposed Annual Caps” in the Letter from the Board contained in the circular of the Company dated 12 October 2016 be and are hereby approved.”



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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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3. “**THAT**

Mr. Liu Tongfu be and is hereby re-elected as a Non-executive Director of the Company and the board of directors of the Company be authorised to fix the remuneration of Mr. Liu Tongfu.”

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

Hong Kong, 12 October 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

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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*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 (1) and (2) set out in this notice of extraordinary general meeting will be put forward to independent shareholders to vote by way of a poll. The ordinary resolution (3) set out in this notice of extraordinary general meeting will be put forward to shareholders to vote by way of a poll.

\* *for identification purposes only*