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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)**

**CONTINUING CONNECTED TRANSACTIONS  
IN RESPECT OF LEASE OF PREMISES**

Reference is made to the announcement of the Company dated 23 June 2014 in respect of the proposed acquisition of the entire equity interest in CMT Shenyang.

The Board is pleased to announce that on 15 August 2014, the registration with the relevant industry and commerce authority in the PRC in respect of the Proposed Transaction was completed and a new business license of CMT Shenyang has been issued. Completion of the Proposed Transaction took place on the same date.

Upon completion of the Proposed Transaction, CMT Shenyang has become an indirectly wholly-owned subsidiary of the Company. As BBA is an associate of Brilliance China, a controlling shareholder of the Company, BBA is a connected person of the Company. Accordingly, the transaction under the BBA Leases has become a continuing connected transaction of the Company under the Listing Rules since the Completion Date.

As one or more of the applicable percentage ratios in respect of the proposed annual caps of the transaction contemplated under the BBA Leases exceed 0.1% but are less than 5%, the transaction is subject to the reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules but is exempt from independent shareholders' approval requirement.

As the remaining term of the Lease Agreement exceeds three years, pursuant to Rule 14A.52 of the Listing Rules, the Company has engaged Octal Capital as the independent financial adviser to explain the reasons for requiring a duration longer than three years and to confirm whether this is normal business practice for similar types of agreement.

Reference is made to the announcement of the Company dated 23 June 2014 in respect of the proposed acquisition of the entire equity interest in CMT Shenyang. Unless otherwise indicated, capitalised terms used in this announcement shall have the same meanings as those defined in the announcement of the Company dated 23 June 2014.

The Board is pleased to announce that on 15 August 2014 (the “**Completion Date**”), the registration with the relevant industry and commerce authority in the PRC in respect of the Proposed Transaction was completed and a new business license of CMT Shenyang has been issued. Completion of the Proposed Transaction took place on the same date. Upon completion of the Proposed Transaction, CMT Shenyang has become an indirectly wholly-owned subsidiary of the Company.

## **BBA LEASES**

On 28 August 2012, CMT Shenyang (as lessor) and BBA (as lessee) entered into a lease agreement, amended by the supplemental agreement dated 22 July 2013 (the “**Lease Agreement**”), pursuant to which, CMT Shenyang agreed to lease to BBA certain portions of the Land and Properties, including buildings with a total gross floor area of approximately 42,951.75 square metres, canopies and service corners with a total area of 6,499.08 square metres and the land with a site area of approximately 40,930.22 square metres (the “**Premises**”) for a term commencing from 28 August 2012 and expiring on 27 February 2018 for production and ancillary purposes.

Upon completion of the Proposed Transaction, CMT Shenyang has become an indirectly wholly-owned subsidiary of the Company. As BBA is an associate of Brilliance China, a controlling shareholder of the Company, BBA is a connected person of the Company. Accordingly, the transactions under the BBA Leases constitute continuing connected transactions of the Company under the Listing Rules since the Completion Date.

## **PRINCIPAL TERMS OF THE BBA LEASES**

### **Parties**

- (1) CMT Shenyang, as lessor; and
- (2) BBA, as lessee.

### **Term**

The term under the BBA Leases commenced on 28 August 2012 and shall end on 27 February 2018 (both days inclusive).

## Premises

Certain portions of the Land and Properties located at No. 19, Road 13, Shenyang Econ-Tech Development Zone, Tiexi New District, Shenyang City, Liaoning Province, the PRC, including buildings with a total gross floor area of approximately 42,951.75 square metres, canopies and service corners with a total area of 6,499.08 square metres and the land with a site area of approximately 40,930.22 square metres.

## Rental

The monthly rental of the Premises is RMB2,761,919.14 (equivalent to approximately HK\$3,464,827.56), payable on a quarterly basis. The monthly rental was determined based on the gross floor area of the Premises and rental per square metre applicable to different portions of the Premises, the details of which are as follows:

Portion of Premises	Rental per square metre per month (RMB)	Gross floor area (square metres)	Total rental per month (RMB)
Building No. 1 (excluding the service corner and canopy)	45.20630971	18,443.00	833,739.97
Canopy of Building No. 1	26.57132712	2,640.00	70,148.30
Service corner of Building No. 1	66.89927039	675.00	45,157.01
Building No. 2 (excluding the service corner, canopy and southern area inside Building No. 2)	45.20630971	21,498.57	971,871.01
Canopy of Building No. 2	26.57132712	2,620.50	69,630.16
Service corner of Building No. 2	66.89927039	563.58	37,703.09
Office Building	66.74757136	2,973.68	198,485.92
Part of the Yard and open area	13.03848843	40,930.22	533,668.20
Security room	41.51997644	36.50	1,515.48

The rental was determined after arm's length negotiations between CMT Shenyang and BBA with reference to the prevailing market rates of similar premises of comparable size in the same district of Shenyang at the time when the BBA Leases were entered into.

The total fees received by CMT Shenyang under the BBA Leases for each of the financial years ended 31 December 2012 and 31 December 2013 was approximately RMB11,323,869 (equivalent to approximately HK\$14,205,793.66) and RMB33,143,030 (equivalent to approximately HK\$41,577,931.14), respectively.

## **Annual caps and basis of determination**

The proposed annual caps of the continuing connected transactions contemplated under the BBA Leases for the financial years ending 31 December 2014, 31 December 2015, 31 December 2016, 31 December 2017 and 31 December 2018 shall be approximately RMB14,361,980 (equivalent to approximately HK\$18,017,103.91), RMB33,143,030 (equivalent to approximately HK\$41,577,931.14), RMB33,143,030 (equivalent to approximately HK\$41,577,931.14), RMB33,143,030 (equivalent to approximately HK\$41,577,931.14) and RMB5,523,838 (equivalent to approximately HK\$6,929,654.77), respectively. The abovementioned annual caps were determined based on the expected annual rental to be received for each of the financial years ending 31 December 2018 under the BBA Leases. The total fees contemplated under the BBA Leases are to be paid by BBA to CMT Shenyang in cash on a quarterly basis.

## **REASONS FOR AND BENEFITS OF ENTERING INTO THE BBA LEASES**

As disclosed in the announcement of the Company dated 23 June 2014, the Directors consider that the Proposed Transaction would represent a good opportunity for the Group to secure a parcel of land to strengthen its presence in Shenyang, where its major customers are located. In long run, the Land and Properties acquired would be an ideal parcel of land to be used as one of the Group's manufacture and/or logistic bases to complement its business in Shenyang and neighboring area. As the Group is still formulating the long-term development plan of the Land and Properties, the Group will be benefited from leasing the Premises to BBA under the BBA Leases, which will generate additional rental income to the Group in near to medium terms. In addition, as disclosed in the Company's announcement dated 23 June 2014, as the Premises are the bases of manufacturing facilities of BBA's engines and key components, the Directors believe that the BBA Leases would enhance the business relationship between the Group and BBA.

Mr. Wu Xiao An, an executive Director, is also the chairman and an executive director of Brilliance China. Mr. Qi Yumin, a non-executive Director, is also a director of Brilliance China and the chairman and president of Huachen (which is a controlling shareholder of Brilliance China and a deemed connected person of the Company by the Stock Exchange). Accordingly, Mr. Wu Xiao An and Mr. Qi Yumin had abstained from voting on the Board resolutions in respect of the transactions contemplated under the BBA Leases. The Board confirms that except for Mr. Wu Xiao An and Mr. Qi Yumin, none of the other Directors has any material interest in the transactions contemplated under the BBA Leases. Accordingly, none of the other Directors, except for Mr. Wu Xiao An and Mr. Qi Yumin, was required to abstain from voting on the Board resolutions in relation to the transactions contemplated under the BBA Leases.

Having (i) considered the basis as to how the rental and the annual caps under the BBA Leases were determined as disclosed in the section headed “Principal Terms of the BBA Leases” in this announcement and the section headed “Reasons for and Benefits of Entering into the BBA Leases” in this announcement, (ii) considered that the current prevailing market rates of similar premises of comparable size in the same district of Shenyang are in line with the relevant prevailing market rates at the time when the BBA Leases were entered into and (iii) partially referred to the view of Octal Capital Limited (“**Octal Capital**”), the independent financial adviser to the Company, as set out in the section headed “Opinion from the Independent Financial Adviser” below, the Board (including the independent non-executive Directors except for Mr. Wu Xiao An and Mr. Qi Yumin who had abstained from voting on the Board resolutions) considers that the terms of the BBA Leases are (i) fair and reasonable; (ii) on normal commercial terms or better and in the ordinary and usual course of business of the Group; and (iii) in the interests of the Company and the Shareholders as a whole.

## **INFORMATION OF THE PARTIES INVOLVED**

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

BBA is a sino-foreign equity joint venture company incorporated in the PRC and is owned as to 50% by Shenyang Jinbei Automotive Industry Holdings Co., Ltd.\* (瀋陽金杯汽車工業控股有限公司), 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.

## **LISTING RULES IMPLICATIONS**

As at the date of this announcement, BBA is an associate of Brilliance China, a controlling shareholder of the Company, and therefore BBA is a connected person of the Company. Accordingly, the transactions contemplated under the BBA Leases constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios in respect of the proposed annual caps of the transactions contemplated under the BBA Leases exceed 0.1% but are less than 5%, the transactions are subject to the reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules but is exempt from independent shareholders’ approval requirement.

## OPINION FROM THE INDEPENDENT FINANCIAL ADVISER

Rule 14A.52 of the Listing Rules requires that the term of an agreement governing continuing connected transactions of an issuer must not exceed three years except in special circumstances where the nature of the transaction requires a longer period. As the remaining term of the Lease Agreement since the Completion Date exceeds three years (the “**Remaining Term**”), the Company has appointed Octal Capital to explain why a longer period is required and to confirm that it is normal business practice for lease arrangement of similar business to be of such duration.

In arriving at its opinion of why the Lease Agreement has to be continued, Octal Capital has discussed with the management of the Company regarding the Lease Agreement and has taken into account the reasons as follows:

1. the Premises has been leased by BBA since 28 August 2012 for production and ancillary purposes;
2. the Directors consider that the close proximity among the Land and Properties (including the Premises utilised by BBA for its N20 engine operation), the existing production lines of the Group and other production bases of BBA would enhance the business relationship between the Group and BBA on one hand, and save the costs on transportation and time on another hand;
3. the recurrent rental income from BBA to be received by the Group; and
4. the recent growth of the PRC automobile industry.

In considering whether it is normal business practice for the lease arrangement of similar business to be of such duration, Octal Capital has taken the following steps:

1. reviewed the latest published annual reports of 18 companies listed on the Stock Exchange of which are principally engaged in the sale and manufacture of automobiles, and related products in the PRC and Octal Capital noted that it is common for the relevant listed companies to lease properties for their operations. Among these 18 listed companies, only five companies (the “**Comparable Companies**”) disclose the term of leases of factories, warehouses and/or offices in their respective latest published annual reports. Octal Capital noted from the relevant disclosures of the Comparable Companies that (i) three companies lease properties for the term of up to five years; (ii) one company leases properties for the term within one to two years; and (iii) the remaining company leases properties for the term of 50 years;

2. assessed the fairness of the level of rent under the Lease Agreement by comparing (i) the annual rental yield of the Lease Agreement (being the annual rental income from BBA over the Consideration) with the dividend yield of five trusts/companies that are listed on the Stock Exchange (the “**Comparable Trusts**”) of which the major property investment comprises commercial buildings (e.g. office, retails and hotel) located in the PRC; (ii) the annual rental yield of the Lease Agreement with the rental yield of similar properties in the PRC as set out in the valuation report prepared by an independent valuer (the “**Independent Valuer**”) in respect of the Land and Properties (the “**Valuation Report**”); and (iii) the rents under the Lease Agreement with the market rents of similar properties in the PRC adopted by the Independent Valuer (the “**Market Rents**”). Octal Capital noted that the rent under the Lease Agreement is comparable to the Market Rents, and the annual rental yield of the Lease Agreement is comparable to the level of market rental yield of similar properties in the PRC as stated in the Valuation Report and the dividend yield of the Comparable Trusts; and
3. conducted interviews with the Independent Valuer to assess the bases for adopting the Market Rents and the range of market rental yield.

Having considered the abovementioned, Octal Capital is of the view that (i) it is a normal business practice for the lease arrangement of similar business to be of such duration; and (ii) it is commercially justifiable for the Company to honour a pre-existing lease arrangement with the Remaining Term slightly longer than three years in order to secure the recurrent rental income and enhance the business relationship between the Group and BBA especially in light of the recent growth of the PRC automobile industry.

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

Hong Kong, 15 August 2014

*For the purposes of illustration only, any amount denominated in RMB in this announcement was translated into HK\$ at the rate of RMB1 = HK\$1.2545. 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.*

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

\* for identification purposes only