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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)**

**BBA COMPLIANCE AGREEMENT –  
RENEWAL OF TERM AND ANNUAL CAPS**

**BBA COMPLIANCE AGREEMENT – RENEWAL OF TERM AND ANNUAL CAPS**

Reference is made to the announcements of the Company dated 23 May 2014, 21 January 2015 and 13 September 2016 and the circulars of the Company dated 28 May 2014, 18 February 2015 and 12 October 2016 in relation to, among others, the transactions contemplated under the BBA Compliance Agreement which constitute continuing connected transactions for the Company under the Listing Rules.

The second term of the BBA Compliance Agreement commenced on 17 June 2017 and, upon its expiry on 16 June 2020, will be automatically renewed for a further term of three years up to and including 16 June 2023 subject to the compliance with the relevant requirements of the Listing Rules. The existing annual caps in respect of the second term of the BBA Compliance Agreement will expire on 31 December 2019.

The Board wishes to seek the Independent Shareholders' approval for (i) the third term of the BBA Compliance Agreement; 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 2022.

**LISTING RULES IMPLICATIONS**

As at the date of this announcement, 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. Therefore, the transactions contemplated under the third term of the BBA Compliance Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

As the applicable 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 third 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.

## **GENERAL**

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 as to (i) the third term of the BBA Compliance Agreement; and (ii) the Proposed Annual Caps.

The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in respect of (i) the third term of the BBA Compliance Agreement; and (ii) the Proposed Annual Caps.

A circular containing, amongst other things: (i) details of the BBA Compliance Agreement; (ii) the letter from the Independent Board Committee, setting out its recommendations in connection with the third term of the BBA Compliance Agreement and the Proposed Annual Caps; (iii) the letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders in connection with the third term of the BBA Compliance Agreement and the Proposed Annual Caps; and (iv) a notice to the Shareholders convening the Extraordinary General Meeting for the Independent Shareholders to consider and, if thought fit, approve the third term of the BBA Compliance Agreement and the Proposed Annual Caps, will be despatched to Shareholders on or before 11 October 2019.

## **BBA COMPLIANCE AGREEMENT – RENEWAL OF TERM AND ANNUAL CAPS**

Reference is made to the announcements of the Company dated 23 May 2014, 21 January 2015 and 13 September 2016 and the circulars of the Company dated 28 May 2014, 18 February 2015 and 12 October 2016 in relation to, among others, the transactions contemplated under the BBA Compliance Agreement which constitute continuing connected transactions for the Company under the Listing Rules.

The second term of the BBA Compliance Agreement commenced on 17 June 2017 and, upon its expiry on 16 June 2020, will be automatically renewed for a further term of three years up to and including 16 June 2023 subject to the compliance with the relevant requirements of the Listing Rules. The existing annual caps in respect of the second term of the BBA Compliance Agreement will expire on 31 December 2019.

The Board wishes to seek the Independent Shareholders' approval for (i) the third term of the BBA Compliance Agreement; 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 2022.

The principal terms of the BBA Compliance Agreement are set out below:

**Date:** 23 May 2014

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

### **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 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 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.

### **Term**

The initial term of the BBA Compliance Agreement was 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). Upon the expiry of the initial term, the BBA Compliance Agreement will be automatically renewed for successive periods of three (3) years subject to compliance with the requirements of the Listing Rules (including the independent shareholders' approval requirement).

### **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, among others, engine parts and components and raw materials for manufacturing engines and engine parts and components (as the case may be) 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 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.

## Proposed Annual Caps

A summary of the Proposed Annual Caps is set out below:

Details of the relevant continuing connected transactions	Proposed annual caps		
	For the	For the	For the
	year ending	year ending	year ending
	31 December	31 December	31 December
	2020	2021	2022
	(RMB'000)	(RMB'000)	(RMB'000)
(1) Sale of engine parts and components and raw materials for manufacturing engine parts and components and the provision of the related consulting and advisory services by BBA or its subsidiaries to the Group	117,000	123,000	127,000
(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	917,000	963,000	992,000

## Basis of the Proposed Annual Caps

The above Proposed Annual Caps have been determined primarily based on the following:

1. the estimated volume of engine parts and components and raw materials for manufacturing engine parts and components required by the Group, the estimated volume of engine parts and components and raw materials for manufacturing engines and engine parts and components by BBA and its subsidiaries, with reference to the expected market demand for products of BBA;
2. the estimated volume of engine parts and components to be exported to BMW AG;
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 engine parts and components and raw materials for manufacturing engines and engine parts and components (as the case may be); and
5. a buffer 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 and the procurement of related consulting and advisory services from BBA or its subsidiaries in relation to the production of the engine parts and components to be supplied to BBA when necessary.

## Existing caps and historical transaction amounts

Details of the relevant continuing connected transactions	For the year ended		For the year ended		For the	For the eight
	31 December 2017		31 December 2018		year ending	months ended
	Existing Cap	Actual amount	Existing Cap	Actual amount	31 December	31 August
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	2019	2019
(1) Sale of engine parts and components and raw materials for manufacturing engine parts and components and the provision of the related consulting and advisory services by BBA or its subsidiaries to the Group	662,998	164,457	588,051	179,722	556,362	36,103
(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	575,200	463,300	578,975	577,930	602,244	406,013

## 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 the major terms of the continuing connected transactions
Crankshafts related parts for manufacturing of finished Bx8 crankshafts	Cost plus approach	Regarding the purchase prices of the crankshaft related parts, the project director, who is in charge of crankshaft 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 crankshaft related parts 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 finished crankshafts manufactured by the Group. The purchase prices are expected to be comparable to the historical production costs structure of crankshafts sold by the Group in the latest financial year. The purchase prices will then be acknowledged by the Group's Chief Executive Officer.
Connecting rods related parts for manufacturing of finished Bx8 connecting rods	Cost plus approach	In respect of the purchase prices of the connecting rods related parts, 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 connecting rods related parts 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 connecting rods related parts. The purchase prices will then be approved by the Group's Chief Executive Officer.

**The related consulting and advisory services involved****Pricing policy****Procedures for determining the major terms of the continuing connected transactions**

Consultation and advisory services and shared services

Cost plus approach

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.

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 the major terms of the continuing connected transactions**

Finished Bx8 connecting 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 the Shareholders as a whole.



## **REASONS FOR AND BENEFITS OF RENEWING THE TERM OF THE BBA COMPLIANCE AGREEMENT**

As the market demand for BMW vehicles remains relatively strong and stable, a stable collaboration between Mianyang Xincheng 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.

The Directors (excluding the Directors who abstained from voting on the Directors resolutions and the independent non-executive Directors whose view will be given after considering the opinion from the Independent Financial Adviser) consider that the transactions contemplated under the third term of the BBA Compliance Agreement are in the interests of the Company and the Shareholders as a whole and are on normal commercial terms or better and in the ordinary and usual course of business of the Group; and that the terms of the third term of the BBA Compliance Agreement and the Proposed Annual Caps are fair and reasonable.

## **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 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.

## **LISTING RULES IMPLICATIONS**

As at the date of this announcement, 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. Therefore, the transactions contemplated under the third term of the BBA Compliance Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

As the applicable 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 third 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 and chairman of the Company, is also the chairman and an executive director of Brilliance China and a director of Huachen (which is a controlling shareholder of Brilliance China and a deemed connected person of the Company by the Stock Exchange). Mr. Liu Tongfu, a non-executive Director, is also a director of Huachen. Accordingly, Mr. Wu Xiao An and Mr. Liu Tongfu are deemed to have a material interest in the transactions contemplated under the third term of the BBA Compliance Agreement and have abstained from voting on the Board resolutions in respect of the third 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 the third term of the BBA Compliance Agreement and the Proposed Annual Caps.

## **GENERAL**

As at the date of this announcement, Brilliance China is interested in 400,000,000 Shares, representing approximately 31.20% of the issued share capital of the Company. Huachen, being interested in approximately 42.32% of the issued share capital of Brilliance China, is a controlling shareholder of Brilliance China. As at the date of this announcement, Mr. Wu Xiao An, an executive Director and chairman of the Company, was interested and deemed to be interested in an aggregate of 42,313,426 Shares, representing approximately 3.30% of the issued share capital of the Company. Brilliance China, Mr. Wu Xiao An and their respective associates will abstain from voting on the ordinary resolutions to be proposed at the Extraordinary General Meeting in respect of the third 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 as to (i) the third term of the BBA Compliance Agreement; and (ii) the Proposed Annual Caps.

The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in respect of (i) the third term of the BBA Compliance Agreement; and (ii) the Proposed Annual Caps.

A circular containing, amongst other things: (i) details of the BBA Compliance Agreement; (ii) the letter from the Independent Board Committee, setting out its recommendations in connection with the third term of the BBA Compliance Agreement and the Proposed Annual Caps; (iii) the letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders in connection with the third term of the BBA Compliance Agreement and the Proposed Annual Caps; and (iv) a notice to the Shareholders convening the Extraordinary General Meeting for the Independent Shareholders to consider and, if thought fit, approve the third term of the BBA Compliance Agreement and the Proposed Annual Caps, will be despatched to Shareholders on or before 11 October 2019.

## DEFINITIONS

In this announcement, unless otherwise defined, terms used herein shall have the following meanings:

“associate(s)”	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 Xincheng in relation to the sale and purchase of, among others, engine parts and components and raw materials for manufacturing engines and engine parts and components (as the case may be) and the provision of related services;
“BMW AG”	Bayerische Motoren Werke Aktiengesellschaft;
“Board”	the board of Directors;
“Brilliance China”	Brilliance China Automotive Holdings Limited (華晨中國汽車控股有限公司*), a company incorporated in Bermuda, whose shares are listed on the Main Board of the Stock Exchange, and a controlling shareholder of the Company;
“Company”	Xincheng 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, whose shares are listed on the Main Board of the Stock Exchange;
“connected person(s)”	has the meaning ascribed thereto in the Listing Rules;
“controlling shareholder(s)”	has the meaning ascribed thereto in the Listing Rules;
“Director(s)”	director(s) of the Company;
“Extraordinary General Meeting”	the extraordinary general meeting of the Company to be convened for the purpose of considering and, if thought fit, approving (i) the third term of the BBA Compliance Agreement; and (ii) the Proposed Annual Caps;
“Group”	the Company and its subsidiaries;

“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“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;
“Independent Board Committee”	the independent committee of the Board, comprising Mr. Chi Guohua, Mr. Wang Jun, Mr. Huang Haibo and Mr. Wang Songlin, all of whom are independent non-executive Directors, formed to advise the Independent Shareholders as to (i) the third term of the BBA Compliance Agreement and (ii) 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 (Cap. 571 of the Laws of Hong Kong), being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of (i) the third term of the BBA Compliance Agreement; and (ii) the Proposed Annual Caps;
“Independent Shareholders”	Shareholder(s) other than Brilliance China, Mr. Wu Xiao An and their respective associates;
“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 a wholly-owned subsidiary of the Company;
“PRC”	The People’s Republic of China, which for the purpose of this announcement only, excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan;
“Proposed Annual Caps”	the estimated annual monetary value of the transactions contemplated under the BBA Compliance Agreement for the three years ending 31 December 2022;
“Share(s)”	ordinary share(s) in the Company with a nominal value of HK\$0.01 each;

“Shareholder(s)”	holder(s) of Share(s);
“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;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong;
“RMB”	Renminbi, the lawful currency of the PRC; and
“%”	per cent.

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

Hong Kong, 18 September 2019

*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. Liu Tongfu and Mr. Yang Ming; and four independent non-executive Directors, Mr. Chi Guohua, Mr. Wang Jun, Mr. Huang Haibo and Mr. Wang Songlin.*

\* for identification purposes only