THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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 Brilliance China Automotive 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.

Brilliance Auto
华 晨 汽 车

BRILLIANCE CHINA AUTOMOTIVE HOLDINGS LIMITED
(華晨中國汽車控股有限公司)*

(Incorporated in Bermuda with limited liability)

(Stock Code: 1114)

CONTINUING CONNECTED TRANSACTIONS

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

八方 金融有限公司
OCTAL Capital Limited

A letter from the Board is set out on pages 5 to 24 of this circular. A letter from the independent board committee of Brilliance China Automotive Holdings Limited is set out on page 25 of this circular.

A letter from Octal Capital Limited, the independent financial adviser, containing its advice to the independent board committee and the independent shareholders of Brilliance China Automotive Holdings Limited is set out on pages 26 to 61 of this circular.

A notice convening a special general meeting to be held at Tian & Di Function Room, 7th Floor, The Landmark Mandarin Oriental, 15 Queen's Road Central, The Landmark, Central, Hong Kong on Monday, 29 December 2014 at 9:00 a.m. is set out on pages 67 to 68 of this circular. Whether or not you are able to attend the special 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 Brilliance China Automotive 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 special 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 special general meeting or any adjourned meeting (as the case may be) should you so wish.

* *for identification purposes only*

10 December 2014

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

"30%-controlled company(ies)"	has the meaning ascribed thereto in the Listing Rules;
"Approved Caps"	the estimated annual monetary values of the Continuing Connected Transactions for the three financial years ending 31 December 2014 which have been approved by Shareholders or Independent Shareholders (as the case may be) in general meetings;
"associates"	has the meaning ascribed thereto in the Listing Rules;
"Board"	the board of Directors;
"Companies Ordinance"	Companies Ordinance (Chapter 622 of the Laws of Hong Kong);
"Company"	Brilliance China Automotive Holdings Limited (華晨中國汽車控股有限公司*), an exempted company incorporated in Bermuda with limited liability on 9 June 1992, whose securities are listed on the Stock Exchange;
"connected persons"	has the meaning ascribed thereto in the Listing Rules;
"Continuing Connected Transactions"	the transactions between members of the Group and the connected persons as set out in the paragraph headed "The Continuing Connected Transactions" in this circular;
"Directors"	the directors of the Company;
"Dongxing Automotive"	瀋陽華晨東興汽車零部件有限公司 (Shenyang Brilliance Dongxing Automotive Component Co., Ltd.*), a wholly foreign owned enterprise established in the PRC on 17 March 1999 and a wholly-owned subsidiary of the Company. The principal activities of Dongxing Automotive are the manufacture and trading of automotive components;
"Group"	the Company and its subsidiaries;
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC;

"Huachen"	華晨汽車集團控股有限公司 (Huachen Automotive Group Holdings Company Limited*), the controlling shareholder of the Company which as at the Latest Practicable Date was interested in approximately 42.48% of the issued share capital of the Company;
"Huachen Group"	Huachen, its subsidiaries and, for the purpose of this circular, shall include its 30%-controlled companies;
"Independent Board Committee"	the independent committee of Board, comprising Mr. Xu Bingjin, Mr. Song Jian and Mr. Jiang Bo, all of whom are independent non-executive Directors, formed to advise the Independent Shareholders as to (i) the Continuing Connected Transactions; and (ii) the Proposed Caps;
"Independent Financial Adviser"	Octal Capital Limited, the independent financial adviser appointed for the purpose of advising the Independent Board Committee and the Independent Shareholders as to (i) the Continuing Connected Transactions; and (ii) the Proposed Caps;
"Independent Shareholders"	Shareholders other than Huachen and its associates;
"JinBei"	金杯汽車股份有限公司 (Shenyang JinBei Automotive Company Limited*), a company incorporated in the PRC on 14 May 1984 whose shares are listed on the Shanghai Stock Exchange and holder of 39.1% equity interests in Shenyang Automotive;
"Latest Practicable Date"	5 December 2014, 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 Ruian"	綿陽華晨瑞安汽車零部件有限公司 (Mianyang Brilliance Ruian Automotive Components Co., Ltd.*), a wholly foreign owned enterprise established in the PRC on 3 July 2000 and a wholly-owned subsidiary of the Company. The principal activities of Mianyang Ruian are the manufacture and trading of automotive components;

"Ningbo Ruixing"	寧波華晨瑞興汽車零部件有限公司 (Ningbo Brilliance Ruixing Auto Components Co., Ltd.*), a wholly foreign owned enterprise established in the PRC on 9 June 2000 and a wholly-owned subsidiary of the Company. The principal activities of Ningbo Ruixing are the manufacture and trading of automotive components;
"Ningbo Yuming"	寧波裕民機械工業有限公司 (Ningbo Yuming Machinery Industrial Co., Ltd.*), a wholly foreign owned joint venture established in the PRC on 14 August 1993. Ningbo Yuming is currently a wholly foreign owned enterprise in the PRC and a wholly-owned subsidiary of the Company. The principal activities of Ningbo Yuming are the manufacture and sale of automotive components in the PRC;
"PRC"	The People's Republic of China and, for the sole purpose of this circular, shall exclude Hong Kong, Macau Special Administrative Region of the PRC and Taiwan;
"Proposed Caps"	the estimated annual monetary values of the Continuing Connected Transactions for the three financial years ending 31 December 2017;
"RMB"	renminbi, the lawful currency of the PRC;
"Shanghai Hidea"	上海漢風汽車設計有限公司 (Shanghai Hidea Auto Design Co., Ltd.*), a sino-foreign equity joint venture established in the PRC on 16 April 2004 and a subsidiary of the Company whose equity interests are owned as to 70.68% by the Company. The principal activity of Shanghai Hidea is the design of automobiles;
"Shareholder(s)"	holder(s) of Shares;
"Shares"	shares at par value of US$0.01 each in the share capital of the Company;
"Shenyang Automotive"	瀋陽華晨金杯汽車有限公司 (Shenyang Brilliance JinBei Automobile Co., Ltd.*), a sino-foreign equity joint venture established in the PRC on 19 July 1991 and a subsidiary of the Company whose effective equity interests are owned as to 60.9% by the Company and as to 39.1% by JinBei. The principal activities of Shenyang Automotive are the manufacture, assembly and sale of minibuses and automotive components in the PRC;

"Shenyang Jindong"	瀋陽華晨金東實業發展有限公司 (Shenyang Jindong Development Co., Ltd.*), an equity joint venture established in the PRC on 18 April 2002 in which the Company has an effective equity interest of 80.45%. The principal activity of Shenyang Jindong is the trading of automotive components;
"Special General Meeting"	the special general meeting of the Company to be convened for the purpose of considering, and if thought fit, approving (i) the Continuing Connected Transactions; and (ii) the Proposed Caps;
"Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"subsidiary"	has the meaning ascribed thereto under the Companies Ordinance;
"US$"	United States dollars, the lawful currency of the United States of America;
"Xing Yuan Dong"	瀋陽興遠東汽車零部件有限公司 (Shenyang XingYuanDong Automobile Component Co., Ltd.*), a wholly foreign owned enterprise established in the PRC on 12 October 1998 and a wholly-owned subsidiary of the Company. The principal activities of Xing Yuan Dong are the manufacture and trading of automotive components in the PRC; and
"Zhonghua Business"	the business of the manufacture and sale of Zhonghua sedans operated by the Huachen Group.

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Brilliance Auto
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BRILLIANCE CHINA AUTOMOTIVE HOLDINGS LIMITED
(華晨中國汽車控股有限公司)*
(Incorporated in Bermuda with limited liability)
(Stock Code: 1114)

Executive Directors:
Mr. Wu Xiao An (also known as Mr. Ng Siu On) *(chairman)*
Mr. Qi Yumin *(chief executive officer)*
Mr. Wang Shiping
Mr. Tan Chengxu

Non-executive Director:
Mr. Lei Xiaoyang

Independent non-executive Directors:
Mr. Xu Bingjin
Mr. Song Jian
Mr. Jiang Bo

Registered office:
Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

Head office and principal place of business:
Suites 1602–05
Chater House
8 Connaught Road Central
Hong Kong

10 December 2014

To all Shareholders

Dear Sir/Madam,

CONTINUING CONNECTED TRANSACTIONS

I. INTRODUCTION

On 12 November 2014, the Board announced that the Group entered into agreements relating to, inter alia, the purchases/sale of automobiles, materials and/or automotive components from/to the Huachen Group.

Huachen is a connected person of the Company within the meaning of the Listing Rules. Accordingly, the purchases/sale of automobiles, materials and/or automotive components from/to the Huachen Group constitute continuing connected transactions under Chapter 14A of the Listing Rules. The Continuing Connected Transactions falling within the paragraphs II.A (sale of automobiles, materials and automotive components to the Huachen Group) and II.B (purchases of materials and automotive components from the Huachen Group) as set out in the paragraph headed "The Continuing Connected Transactions" in this circular should be subject to reporting, announcement and independent shareholders' approval requirements as set out in Chapter 14A of the Listing Rules.

* *for identification purposes only*

An Independent Board Committee, comprising Mr. Xu Bingjin, Mr. Song Jian and Mr. Jiang Bo, all of whom are independent non-executive Directors, has been formed to advise the Independent Shareholders as to the Continuing Connected Transactions and the Proposed Caps. The letter from the Independent Board Committee setting out its advice and recommendations to the Independent Shareholders on the Continuing Connected Transactions and the Proposed Caps is set out on page 25 of this circular.

Octal Capital Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Continuing Connected Transactions and the Proposed Caps. The letter from the Independent Financial Adviser setting out its advice and recommendations to the Independent Board Committee and the Independent Shareholders on the Continuing Connected Transactions and the Proposed Caps is set out on pages 26 to 61 of this circular.

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

II. THE CONTINUING CONNECTED TRANSACTIONS

Background of the Continuing Connected Transactions

The Group is engaged in the manufacture and sale of minibuses and automotive components through its major operating subsidiaries. During the course of its business, the Group acquires materials and automotive components from the Huachen Group and sells automobiles, materials and automotive components to the Huachen Group, on an ongoing basis.

Details of the Continuing Connected Transactions

Set out below are the details of the Continuing Connected Transactions:

A. Sale of automobiles, materials and/or automotive components by members of the Group to members of the Huachen Group

Vendors	:	The Group
Purchaser	:	Huachen Group
Agreement	:	On 12 November 2014, the Company and Huachen entered into a framework agreement in relation to the sale of automobiles, materials and/or automotive components by members of the Group including Xing Yuan Dong, Dongxing Automotive, Shenyang Jindong, Mianyang Ruian, Ningbo Yuming, Ningbo Ruixing, Shenyang Automotive and Shanghai Hidea to members of the Huachen Group for a period of three financial years commencing from 1 January 2015 to 31 December 2017.

Pricing policy : The pricing for each sale of automobiles, materials or automotive components to the Huachen Group is determined by the relevant members of the Group based on the following terms:

(i) by reference to the prevailing market price; or

(ii) where (i) above is not appropriate or applicable, at a price to be agreed between the Group and the Huachen Group upon the basis of the principle of "cost plus".

Under pricing term (i), market price means the price at which the same type of products is provided to independent third parties in the same area on normal commercial terms in the ordinary course of business. Market price may be determined by reference to (a) the price that the Group offered to independent customers for the same products in response to the invitations to tender made by customers; or (b) if there is no tendering process, the price agreed between the Group and independent customers after arm's length negotiations and on normal commercial terms for the sale of the same automobiles, materials or automotive components. In any event, terms of each sale to the Huachen Group shall be no less favourable than the terms offered to independent customers for sale of the same automobiles, materials or automotive components.

Under pricing term (ii), cost plus is determined based on the cost for manufacturing the required specification and quantity of the automobiles, materials or automotive components to be sold to the Huachen Group plus a margin as agreed between the Group and the Huachen Group and the cost is estimated with reference to, where applicable, raw materials, production cost, processing cost, transportation fee, procurement cost, labour, taxation, management fee and the amortization to the production plant and equipment, etc. In determining the margin to be used, the Group will make reference to (a) the margin for comparable automobiles, materials or automotive components in the market by way of such as referring to margins for the sales of comparable automobiles, materials or automotive components by the Group to independent customers; and/or (b) the internal target profit margin of the relevant products to be sold to the Huachen Group.

The cost plus pricing method applies to cases where the relevant product of the Group is tailor made for use by the Huachen Group for further processing or for manufacturing automobiles and thus no prevailing market price of the same product is available. Save for the sale of automobiles by Shenyang Automotive where the pricing will be based on prevailing market price, the pricings of all other transactions under this category of the Continuing Connected Transactions will be determined on the cost plus basis.

As the automobiles manufactured by Shenyang Automotive are also for sale to independent third parties, the pricing for the sale of automobiles by Shenyang Automotive to the Huachen Group will be based on the prevailing market price of the automobile concerned.

As the materials and automotive components sold to the Huachen Group by the Group are either specially designed for fit-in the specifications requested by the Huachen Group in its car manufacturing/component processing businesses or for the Huachen Group to further process into automotive components to be used by the Group, which would not be compatible entirely with the specifications of other car manufacturers, no prevailing market price of the same materials and automotive components with the same specification is available and could be used as the basis for determining pricing.

Methods and procedures that the relevant members of the Group have adopted to determine the sale price and other terms of the Continuing Connected Transactions under this category are summarized below:

Continuing Connected Transactions	**Major type of products**	**Pricing method**	**Procedures for determining major terms of the Continuing Connected Transactions**
A1 Sale of materials and automotive components by Xing Yuan Dong	Interior trim parts and anti-freezing fluid	Cost plus	The Product Development Department (in respect of new products) or the Sales Department (in respect of existing products) of Xing Yuan Dong collects from the Planning Department the analysis on the cost data of each product, including costs for raw materials, production cost, labour, transportation fee, packaging cost, management fee, and compiles price quotations by topping up the cost data with a target margin. The final pricing of each order and other major terms of each transaction shall be considered and approved in accordance with Xing Yuan Dong's internal approval guidelines which involve approval from each of the sales manager, the finance manager and the general manager of Xing Yuan Dong.

Continuing Connected Transactions	Major type of products	Pricing method	Procedures for determining major terms of the Continuing Connected Transactions
A2 Sale of materials and automotive components by Dongxing Automotive	Press parts, welding parts and complete outsourced parts	Cost plus	The Planning and Management Department of Dongxing Automotive compiles price quotations based on the cost data of each product received from the Finance Department, including costs for raw materials, production cost, labour, transportation fee, packaging cost, management fee, plus a target margin for internal consideration and approval. The final pricing of each order and other major terms of each transaction shall be considered and approved by each of the head of the Finance Department, the chief financial officer and the general manager of Dongxing Automotive.
A3 Sale of materials and automotive components by Shenyang Jindong	A0 assemblies and matching components	Cost plus	The Product Manufacturing Division of Shenyang Jindong analyses the cost data, including costs for raw materials, labour, production cost and the amortization to the equipment, and passes the final cost of each product to the Commerce Department for determining the pricing of each product and other major terms of each transaction. The final pricing and other major terms shall be approved by the chief financial officer and be considered and approved at a meeting of the operation and management committee.
A4 Sale of materials and automotive components by Mianyang Ruian	Camshafts	Cost plus	The Finance Department of Mianyang Ruian collects from the Purchase Department the cost data in respect of raw materials that need to be sourced outside the Group and work out the final cost of each product in an order by assessing the costs for other relevant items including labour, production, processing, packaging, warehousing, transportation and management. The Finance Department will then add in the target margin to come up with a suggested sale price of the product. The estimated total costs and the suggested selling price will be passed to the Sales Department for consideration which will be responsible for discussing and negotiating the terms of the transactions with the customer. The final pricing of each order and other major terms of each transaction shall be considered and approved by each of the responsible head of sales, the head of the Finance Department, the chief financial officer and the general manager of Mianyang Ruian.

Continuing Connected Transactions	Major type of products	Pricing method	Procedures for determining major terms of the Continuing Connected Transactions
A5 Sale of materials and automotive components by Ningbo Yuming	Side triangle window assemblies, sun roof assemblies, triangular windows and sealing bars	Cost plus	The Product Development Department of Ningbo Yuming assesses the final cost of each product in an order based on the product specification received which will then be passed on to the Business Department for consideration and working on a suggested selling price by adding in a target margin. After reaching a consensus on the pricing with the customer in accordance with the internal guideline for pricing management of Ningbo Yuming, the Business Department will then pass the final pricing and other major terms of the transaction to the Finance Department for endorsement and to the general manager of Ningbo Yuming for approval.
A6 Sale of materials and automotive components by Ningbo Ruixing	Rear view mirrors	Cost plus	The Product Development Department of Ningbo Ruixing assesses the final cost of each product in an order based on the product specification received which will then be passed on to the Business Department for consideration and working on a suggested selling price by adding in a target margin. After reaching a consensus on the pricing with the customer in accordance with the internal guideline for pricing management of Ningbo Ruixing, the Business Department will then pass the final pricing and other major terms of the transaction to the Finance Department for endorsement and to the general manager of Ningbo Ruixing for approval.
A7 Sale of automobiles, materials and automotive components by Shenyang Automotive	Automobiles	Prevailing market price	The Sales Department of Shenyang Automotive obtains the market price of the automobile by reference to (a) the price that Shenyang Automotive offers to independent customers for the same model of automobile in response to the invitations to tender made by customers; or (b) if there is no tendering process, the price agreed between Shenyang Automotive and independent customers after arm's length negotiations and on normal commercial terms for the sale of the same model of automobile.

Continuing Connected Transactions	Major type of products	Pricing method	Procedures for determining major terms of the Continuing Connected Transactions
	Chassis, engines and transmissions	Cost plus	The Operational Planning and Control Department of Shenyang Automotive obtains the cost data in respect of the required components and raw materials from the Component Pricing Department. After cross checking the data with the centralized data system to confirm its accuracy, the Operational Planning and Control Department will then work out a final cost estimate by adding in estimated costs for labour, warehousing and reasonable tear and wear, etc. and a suggested selling price by further topping up with a target margin in accordance with the internal pricing guidelines. The final pricing and major terms of each transaction shall be endorsed by the head of the Operational Planning and Control Department and approved by the chief financial officer of Shenyang Automotive.
A8 Sale of materials and automotive components by Shanghai Hidea	Matching components	Cost plus	The Market Department of Shanghai Hidea assesses the costs for production, amortization of equipment, raw materials and labour, etc. that will be incurred for supplying the matching components to come up with the estimated final costs and then work on the suggested selling price by adding on the target margin. It will then forward the pricing and other major terms of the transactions agreeable by the Huachen Group to each of the Sales Department, the chief financial officer and the general manager of Shanghai Hidea for approval in accordance with its internal sales guidelines.

B. Purchases of materials and automotive components by members of the Group from members of the Huachen Group

Vendor : Huachen Group

Purchasers : The Group

Agreement : On 12 November 2014, the Company and Huachen entered into a framework agreement in relation to the purchases of materials and automotive components by members of the Group including Dongxing Automotive, Shenyang Automotive, Shanghai Hidea and Shenyang Jindong from members of the Huachen Group for a period of three financial years commencing from 1 January 2015 to 31 December 2017.

Pricing policy : The pricing for each purchase of the materials or automotive components from the Huachen Group for use in the Group's automobile manufacturing is determined by the relevant members of the Group based on the following terms:

(i) by reference to the prevailing market price; or

(ii) where (i) above is not appropriate or applicable, at a price to be agreed between the Group and the Huachen Group upon the basis of the principle of "cost plus".

Under pricing term (i), market price means the price at which the same type of products is obtained from independent third parties in the same area on normal commercial terms in the ordinary course of business. For the purpose of obtaining market prices, the Group will make reference to the price quotations obtained from other independent suppliers for the same products in determining the market price under pricing term (i). In any event, terms of each purchase from the Huachen Group shall be no less favourable than the terms which can be obtained from independent suppliers for purchase of the same materials or automotive components.

Under pricing term (ii), cost plus is determined based on the cost for manufacturing the required specification and quantity of the materials or automotive components to be purchased from the Huachen Group plus a margin as agreed between the Group and the Huachen Group and the cost is estimated with reference to, where applicable, raw materials, labour, taxation, management fee and storage fee, etc. In determining the margin to be used, the Group will make reference to (a) the margin for comparable materials or automotive components in the market by way of such as referring to margins for the sales of comparable materials or automotive components by the Huachen Group to independent customers; and/or (b) the internal target profit margin of different vehicle models of the Group that is expected to be achieved by the Group.

The cost plus pricing method applies to cases where the relevant product of the Huachen Group is tailor made for use by the Group for further processing or for manufacturing minibuses and thus no prevailing market price of the same product is available. Save for the purchases of (i) steels by Dongxing Automotive and (ii) scrap materials and window materials by Shenyang Jindong where the pricing will be based on prevailing market price, the pricings of all other transactions under this category of the Continuing Connected Transactions will be determined on the cost plus basis.

As the steels supplied to Dongxing Automotive and the scrap materials and window materials supplied to Shenyang Jindong can also be sourced from independent suppliers, the relevant pricings will be based on the prevailing market price of the materials and automotive components concerned.

As the other materials and automotive components sold by the Huachen Group to the Group are specially designed for fit-in the specifications requested by the Group in its minibus manufacturing or component processing businesses which would not be compatible entirely with the specifications of other car manufacturers, no prevailing market price of the same materials and automotive components with the same specification is available and could be used as the basis for determining pricing.

Methods and procedures that the relevant members of the Group have adopted to determine the purchase price and other terms of the Continuing Connected Transactions under this category are summarized below:

Continuing Connected Transactions	**Major type of products**	**Pricing method**	**Procedures for determining major terms of the Continuing Connected Transactions**
B1 Purchase of materials and automotive components by Dongxing Automotive	Steels	Prevailing market price	The Planning and Management Department of Dongxing Automotive obtains the prevailing market price of the required steels by reference to the price quotations obtained from other independent suppliers and compares it with the price quoted by the Huachen Group. If the pricing and other major terms offered by the Huachen Group are no less favourable than the terms which can be obtained from independent suppliers, the Planning and Management Department will arrange for the approval of the proposed terms and pricing by each of the head of the Finance Department, the chief financial officer and the general manager of Dongxing Automotive.

Continuing Connected Transactions	Major type of products	Pricing method	Procedures for determining major terms of the Continuing Connected Transactions
B2 Purchase of materials and automotive components by Shenyang Automotive	Press parts and power trains	Cost plus	The Research and Development Department of Shenyang Automotive analyses the cost data of new projects and will assess the costs for production, amortization of equipment, raw materials and labour, etc. that will be incurred by the supplier. After reaching a cost estimate to be borne by the supplier, the Research and Development Department will work out the acceptable purchase price of the required press parts and power trains for approval by the heads of the various departments involved. The Pricing Department is responsible for reviewing the agreed purchase price from time to time in respect of existing projects. The revised pricing shall be considered and approved by the vice manager of the Purchase Department. If there is an upward adjustment in the pricing, discussion and approval at a meeting of the operational and management committee of Shenyang Automotive is required.
B3 Purchase of materials and automotive components by Shanghai Hidea	Matching components	Cost plus	The Purchase Department of Shanghai Hidea obtains the price quotation from the Huachen Group and will assess the costs for production, amortization of equipment, raw materials and labour, etc. that will be incurred by the Huachen Group for supplying the matching components. If the Purchase Department considers the price to be acceptable, it will then forward the pricing and other major terms offered by the Huachen Group to each of the Commerce Department, chief financial officer and the general manager of Shanghai Hidea for approval in accordance with its internal purchasing guidelines.
B4 Purchase of materials and automotive components by Shenyang Jindong	Scrap materials and window materials	Prevailing market price	The Commerce Department of Shenyang Jindong obtains the prevailing market price of the scrap materials and window materials by reference to the price quotations obtained from other independent suppliers and compares it with the price quoted by the Huachen Group. If the pricing and other major terms offered by the Huachen Group are no less favourable than the terms which can be obtained from independent suppliers, the Commerce Department will arrange for the approval of the proposed terms and pricing by each of the head of the Commerce Department, the chief financial officer, the general manager as well as the operational and management committee of Shenyang Jindong.

The Directors consider that the methods and actual procedures adopted by the Group in determining the pricing and other major terms of the Continuing Connected Transactions as described above can ensure that the transactions will be conducted on normal commercial terms and not prejudicial to the interests of the Company and its minority Shareholders because:

(a) In respect of the prevailing market price method for determining pricing adopted by the Group, the Group will make reference to the price offered by the Group and agreed by independent customers (in the case of sale) or the price available in the market from independent suppliers (in the case of purchase) to ensure the final pricing will not be less favourable to the Group than the pricing offered or available in the market. This is a safeguarding measure to prevent any possibility that the final pricing offered to the connected person will turn out to be less favourable to the Group than the market price which will inevitably prejudice the interests of the Company and its minority Shareholders;

(b) In respect of the cost-plus method for determining pricing adopted by the Group, the Group will first identify the various cost elements for manufacturing the products concerned and will then assess the cost amount that would likely be incurred for each cost item in order to work out an estimate of the final costs. The target margin to be added on the cost estimate is to be determined on a case-by-case basis in line with the business strategy and the performance target of the relevant subsidiaries and will not be less favourable to the margin for similar products in the market. This cost-plus method is to be applied consistently across the Group for products specially designed for use by the Huachen Group to fit-in its unique specifications in accordance with internal pricing guidelines approved by the managements of the subsidiaries. These measures aim to ensure that the pricing of the tailor-made products will be set at a standard that will help achieving the performance targets of the relevant subsidiaries and thus be beneficial to the Company and its Shareholders as a whole; and

(c) In respect of the procedures adopted by the subsidiaries for determining the pricing and other major terms of the Continuing Connected Transactions, there are established internal guidelines for staff of the subsidiaries to follow. This is to ensure that all transactions, whether or not contracted with independent third parties, will follow the same set of procedures and will be handled by the same well-trained personnel who are equipped with relevant experience so as to reach consensus on normal commercial terms. Besides, there is clear delineation of responsibilities of the various departments involved which are coherent with their own functions. This helps maintaining the efficiency of each step of the procedures for determining the pricing and other major terms of the Continuing Connected Transactions and preventing any single department from the possibility of abusing its powers. The final pricing and other major terms of the Continuing Connected Transactions are required to be approved by the senior management of the various departments involved as the final check and balance measures to ensure the transactions will be conducted on normal commercial terms and not prejudicial to the interests of the Company and its minority Shareholders.

The framework agreements only set out the overriding and major terms of the transactions to be carried out by relevant parties. Details of the terms and conditions (including payment mode and payment terms) for the transactions contemplated under the framework agreements will be dealt with in the purchase orders to be placed by the relevant purchaser, which will be in line with the company policies adopted by the relevant vendor from time to time and may be varied in accordance with the prevailing market situation. All the payments under the framework agreements shall be settled in cash or note payable with credit terms ranging from 30 to 90 days, which is the usual credit term policy adopted by the Group.

Information on Huachen

Huachen is a state-owned limited liability company which was established under the laws of the PRC on 16 September 2002 and is wholly and beneficially owned by the Liaoning Provincial Government of the PRC. The principal activities of Huachen include but are not limited to investment holding, manufacture and sale of Zhonghua sedans, and refitting and sale of automobiles.

Requirements of the Listing Rules

The Continuing Connected Transactions should be subject to reporting, announcement and independent shareholders' approval requirements as set out in Chapter 14A of the Listing Rules.

As at the Latest Practicable Date, Huachen was interested in 2,135,074,988 Shares (representing approximately 42.48% of the entire issued share capital of the Company). Huachen is considered to be interested in the Continuing Connected Transactions between the Group and the Huachen Group. Huachen and its associates will abstain from voting on the ordinary resolution to be proposed at the Special General Meeting in respect of the Continuing Connected Transactions between the Group and the Huachen Group and the Proposed Caps. As at the Latest Practicable Date, none of the associates of Huachen was interested in any Shares.

III. PROPOSED CAPS AND HISTORICAL FIGURES

Approved Caps and historical figures

Resolution in respect of the Continuing Connected Transactions and the Proposed Caps shall be put forward to the Independent Shareholders at the Special General Meeting seeking their approval for the Proposed Caps set out opposite to each of the relevant 12 Continuing Connected Transactions contained in the following table headed "Proposed Caps". The Company shall comply with the requirements under the Listing Rules in the event that each of the said 12 Proposed Caps exceeds the monetary value set out in the said table below.

The following table sets out the Approved Caps and the actual sales/purchases of the Continuing Connected Transactions during the three financial years ending 31 December 2014:

		For the financial year ended/ending 31 December					
		2012		2013		2014	
Continuing Connected Transactions	**Major type of products**	**Approved Cap** *(RMB'000)*	**Actual sales/ purchases** *(RMB'000)*	**Approved Cap** *(RMB'000)*	**Actual sales/ purchases** *(RMB'000)*	**Approved Cap** *(RMB'000)*	**Actual sales/ purchases** *(RMB'000) (For the six months ended 30 June 2014)*
A. Sale of automobiles, materials and/or automotive components by members of the Group to members of the Huachen Group							
A1 Sale of materials and automotive components by Xing Yuan Dong	Carpets, headliners, anti-freezing fluid and door panels	140,500	40,961	161,600	77,039	185,800	33,367

Continuing Connected Transactions	Major type of products	2012 Approved Cap *(RMB'000)*	2012 Actual sales/ purchases *(RMB'000)*	2013 Approved Cap *(RMB'000)*	2013 Actual sales/ purchases *(RMB'000)*	2014 Approved Cap *(RMB'000)*	2014 Actual sales/ purchases *(RMB'000)* *(For the six months ended 30 June 2014)*
		For the financial year ended/ending 31 December					
A2 Sale of materials and automotive components by Dongxing Automotive	Press parts, welding parts and complete outsourced parts	546,000	140,946	600,600	186,719	660,700	73,772
A3 Sale of materials and automotive components by Shenyang Jindong	Matching components	45,200	24,384	45,200	22,448	45,200	10,772
A4 Sale of materials and automotive components by Mianyang Ruian	Camshafts and caps	8,100	7,142	12,600	2,015	12,600	–
A5 Sale of materials and automotive components by Ningbo Yuming	Sealing bars, decorating bars, side triangle window assemblies and sun roof assemblies	105,300	27,659	115,800	38,001	127,400	17,641
A6 Sale of materials and automotive components by Ningbo Ruixing	Rear view mirrors	1,300	66	1,400	124	1,600	5
A7 Sale of materials, automotive components and automobiles by Shenyang Automotive	Engines, engine components, interior trim parts and automobiles	338,400	112,551	804,980	621,885	1,027,980	135,560
A8 Sale of materials and automotive components by Shanghai Hidea	DVD mainframe assemblies, wheel hubs and genuine leather seats	4,300	47	5,300	10	6,300	3
B. Purchases of materials and automotive components by members of the Group from members of the Huachen Group							
B1 Purchase of materials and automotive components by Dongxing Automotive	Steels and assemblies	249,900	96,038	275,100	98,512	302,400	29,509
B2 Purchase of materials and automotive components by Shenyang Automotive	Power trains and press parts	1,118,700	533,369	1,200,700	587,045	1,282,700	189,975
B3 Purchase of materials and automotive components by Shanghai Hidea	Components	450	–	500	–	550	–

Continuing Connected Transactions	Major type of products	For the financial year ended/ending 31 December 2012 Approved Cap *(RMB'000)*	2012 Actual sales/ purchases *(RMB'000)*	2013 Approved Cap *(RMB'000)*	2013 Actual sales/ purchases *(RMB'000)*	2014 Approved Cap *(RMB'000)*	2014 Actual sales/ purchases *(RMB'000)* *(For the six months ended 30 June 2014)*
B4 Purchase of materials and automotive components by Shenyang Jindong	Scrap materials	315,000	96,452	420,000	91,723	420,000	50,849

Due to various factors such as change in product mix of the Group or the counterparties and change in momentum of the automobile industry which trigger a decrease in demand of automotive components, the actual sales/purchases in respect of the continuing connected transactions for the three financial years ending 31 December 2014 were less than the Approval Caps for the three financial years ending 31 December 2014.

Proposed Caps

The following table sets out the Proposed Caps of the Continuing Connected Transactions for the three financial years ending 31 December 2017:

Continuing Connected Transactions	Major type of products	For the financial year ending 31 December 2015 Proposed Cap *(RMB'000)*	2016 Proposed Cap *(RMB'000)*	2017 Proposed Cap *(RMB'000)*
A. Sale of automobiles, materials and/or automotive components by members of the Group to members of the Huachen Group *(Note)*				
A1 Sale of materials and automotive components by Xing Yuan Dong	Interior trim parts and anti-freezing fluid	155,300	186,400	223,700
A2 Sale of materials and automotive components by Dongxing Automotive	Press parts, welding parts and complete outsourced parts	724,500	732,900	747,600
A3 Sale of materials and automotive components by Shenyang Jindong	A0 assemblies and matching components	115,400	126,900	136,600
A4 Sale of materials and automotive components by Mianyang Ruian	Camshafts	1,250	1,250	1,250

Continuing Connected Transactions	Major type of products	For the financial year ending 31 December 2015 Proposed Cap (RMB'000)	2016 Proposed Cap (RMB'000)	2017 Proposed Cap (RMB'000)
A5 Sale of materials and automotive components by Ningbo Yuming	Side triangle window assemblies, sun roof assemblies, triangular windows and sealing bars	49,800	52,300	54,900
A6 Sale of materials and automotive components by Ningbo Ruixing	Rear view mirrors	170	170	170
A7 Sale of automobiles, materials and automotive components by Shenyang Automotive	Automobiles, chassis, engines and transmissions	2,332,600	2,983,900	3,958,500
A8 Sale of materials and automotive components by Shanghai Hidea	Matching components	2,100	2,200	2,300
B. Purchases of materials and automotive components by members of the Group from members of the Huachen Group *(Note)*				
B1 Purchase of materials and automotive components by Dongxing Automotive	Steels	330,700	378,000	427,300
B2 Purchase of materials and automotive components by Shenyang Automotive	Press parts and power trains	1,277,600	1,405,400	1,546,000
B3 Purchase of materials and automotive components by Shanghai Hidea	Matching components	520	520	520
B4 Purchase of materials and automotive components by Shenyang Jindong	Scrap materials and window materials	390,700	390,700	468,700

Note: Pursuant to the framework agreements, the Company is entitled to procure any other member of the Group in replacement of the subsidiaries mentioned above to perform the Group's obligation to purchase or sell (as the case may be) the materials, automotive components or automobiles (as the case may be) from or to the Huachen Group in any circumstances including change in the structure of the Group or change in the product mix of any member of the Group.

Basis in determining the Proposed Caps

In determining the Proposed Caps for the Continuing Connected Transactions for the three financial years ending 31 December 2017, the Board has based their estimates on the sales forecast of the relevant financial years. Important and objective assumptions and factors, though not exhaustive but were arrived at after due and careful consideration of data currently in hand, are set out as below:

- the anticipation that the market condition of the automobile industry in the PRC will restore its previous growth momentum in the coming three financial years ending 31 December 2017;

- the planned production volume of the Group's minibuses of around 100,000 units by 2015 while growing at a rate of over 10% in 2016 and 2017;

- the scheduled launch of the new premium MPV model of the Group's minibus co-developed with the Group's strategic partners and external consultants and the upgrading of the Group's existing minibus and MPV models in order to provide better and improved products to the market in the coming three financial years ending 31 December 2017;

- changes in product mix in response to the PRC government's policy to encourage the use of low emission economical vehicles and the reduction in government spending which will result in changes in the types of materials and automotive components used and the monetary value of the purchases of such materials and automotive components from the connected parties;

- expected increase in demand for materials and automotive components from the Huachen Group in anticipation of new series of Zhonghua sedans (such as A0 model) to be launched by the Huachen Group and the increase in the sale of Zhonghua sedans in the PRC and overseas in the coming three financial years ending 31 December 2017;

- the anticipated growth in the sale of automobiles to the Huachen Group for the three financial years ending 31 December 2017 for refitting and processing into special vehicles such as ambulances, wheelchair equipped vehicles (welfare cars) and police cars which will be sold by the Huachen Group to its relevant customers, such as the governmental departments and overseas customers due to (i) certain models of the minibuses of the Group are being enlisted in the recognised purchasing lists of these government departments; (ii) the PRC government policies to encourage the replacement of old products; and (iii) the market demand for new technological products;

- the significant increase anticipated for the sale of materials and automotive components by Shenyang Jindong to members of the Huachen Group for the three financial years ending 31 December 2017, mainly due to the launch of new products, namely A0 assemblies, by Shenyang Jindong in 2014. A0 assemblies are specifically developed by Shenyang Jindong for processing into welding parts of A0 model of Zhonghua sedans manufactured by the Huachen Group;

- as the historical actual sales of materials and automotive components by Ningbo Yuming, Ningbo Ruixing and Shanghai Hidea to members of the Huachen Group are far less than the Approved Caps for the corresponding years, downward adjustments have been made to the Proposed Caps to align with the anticipated sale amounts for the three financial years ending 31 December 2017; and

- since Mianyang Ruian no longer supply E3 model of camshafts to the Huachen Group since May 2013, there has been a significant decrease in the total sale of camshafts to the Huachen Group as E3 model contributed a major portion to Mianyang Ruian's total sale of camshafts. There has also been a decrease in demand and sale of E2 model of camshafts to the Huachen Group since 2012. Accordingly, it is anticipated that there will be a significant decrease in the sale of camshafts by Mianyang Ruian to the Huachen Group for the three financial years ending 31 December 2017.

IV. REASONS FOR THE CONTINUING CONNECTED TRANSACTIONS

Reasons for the Continuing Connected Transactions

The Group is engaged in the manufacture and sale of minibuses and automotive components through its major operating subsidiaries. The manufacture and sale of minibuses by the Group is carried out by Shenyang Automotive, a 60.9% owned subsidiary of the Company. The other subsidiaries of the Company are mainly engaged in the manufacture and sale of automotive components in the PRC, and some of such automotive components are sold to Shenyang Automotive for use in its assembly process as an automobile manufacturer. All the Continuing Connected Transactions are carried out in the ordinary course of business of the Group and will continue to be carried out in the three financial years ending 31 December 2017. Accordingly, the Board considers it appropriate to seek Independent Shareholders' approval for the Continuing Connected Transactions and the Proposed Caps for each of the three financial years ending 31 December 2017.

The Group purchases raw materials and basic automotive components in its ordinary course of business to be used in the manufacturing of automotive components and for processing into core automotive components for use in automobile manufacturing. The Group will continue to purchase raw materials and automotive components from the Huachen Group where the prices offered by such companies are more favourable than other suppliers in order to control the costs of production of automobiles produced by the Group.

After processing the raw materials and the basic automotive components, the Group sells the processed automotive components to the Huachen Group which, as automobile manufacturers, will use the processed automotive components in their assembly process.

In addition, the Group also purchases core automotive components from the Huachen Group so as to ensure the quality of the core automotive components and also to ensure the technology used in the production of such core automotive components remained within the control of the Group. It is believed that control over such core automotive components will enable the Group to exercise more effective control over the quality of the automobiles produced by the Group.

In light of the manufacturing flow of the Group described above, the Continuing Connected Transactions are entered into for the following reasons:

Proximity – The manufacturing facilities of the Huachen Group and the Group are both located in Shenyang, the PRC. With close proximity of the manufacturing facilities of the Group and the Huachen Group, it is more cost-effective for the Group to purchase materials and automotive components from the Huachen Group in terms of procurement lead time and transportation costs when compared with other suppliers. Based on the experience of the Directors in the industry, the purchases of materials and automotive components from manufacturers close to the production facilities is a key means of maintaining low cost in the PRC automotive industry.

Centralization of purchases – Instead of having each member of the Group purchasing the materials and automotive components required for their own use, the Group centralized the purchases of materials and automotive components which are purchased in batches. This is because the need of an automotive component manufacturer and automobile manufacturer to purchase materials and automotive components depends on the expected demand for automobiles in the market and also fluctuation in prices for such materials and automotive components. Since it is difficult to predict with any degree of accuracy over a long horizon, in order to achieve efficient inventory planning and to avoid incurring unnecessary costs by ordering excess materials and automotive components, the best practice of the automobile industry advocates shorter, rather than longer supply cycles. In line with industry practice, the Group usually orders materials and automotive components in batches. Centralization of purchases of materials and automotive parts enables the Group to enjoy better price for volume purchases.

Continuous co-operation – Certain subsidiaries of the Group are established for the manufacture of automotive components only for the use of the Group's minibuses and Zhonghua sedans. Most of the automotive components required by the Huachen Group are especially designed and processed by the Group for use in the manufacture of Zhonghua sedans. The Group purchases certain materials and automotive components from the Huachen Group, processes them into core automotive components and then sells them back to the Huachen Group for the latter's use in automobile manufacturing. Subsequent to the completion of the disposal of the Zhonghua Business to the Huachen Group in 2009, these transactions have been continuing and will be entered into between the Group and the Huachen Group. It will also provide additional source of income for the Group.

Further, the Group outsources the processing and refitting of special vehicles to the Huachen Group and sells ordinary automobiles to the Huachen Group for processing into special vehicles. This enables the Group (i) to reduce costs and enhance efficiency and competitiveness as the Group could not enjoy the benefit of economies of scale by undertaking the tasks of processing and refitting due to limited demand of special vehicles; (ii) to have quality and technology control over the special vehicles processed by the Huachen Group which possesses the necessary qualification or authorizations to manufacture or refit special vehicles such as ambulances and recreational vehicles; (iii) to enhance the sales network of the Group due to the established client base of the Huachen Group for sale of special vehicles; and (iv) to meet the demand of the Huachen Group for the Group's minibuses as the Huachen Group has continuing demand for the Group's minibuses for its business of refitting and sale of special vehicles. In the premises, the Directors (including the independent non-executive Directors) consider the Continuing Connected Transactions to be in the interests of the Company and the Shareholders as a whole; on normal commercial terms or better and in the ordinary course of business of the Group; and that the terms of the framework agreements governing the Continuing Connected Transactions to be fair and reasonable.

V. GENERAL

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

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

As at the Latest Practicable Date, Huachen was interested in 2,135,074,988 Shares, representing approximately 42.48% of the entire issued share capital of the Company, and was entitled to exercise control over the voting rights of 2,135,074,988 Shares. Huachen is considered to be interested in the Continuing Connected Transactions between the Group and the Huachen Group. Huachen and its associates will abstain from voting on the ordinary resolution to be proposed at the Special General Meeting in respect of the Continuing Connected Transactions between the Group and the Huachen Group and the Proposed Caps. As at the Latest Practicable Date, none of the associates of Huachen was interested in any Shares.

Mr. Wu Xiao An (also known as Mr. Ng Siu On), Mr. Qi Yumin and Mr. Tan Chengxu are directors of Huachen. Due to common directorship, the said Directors abstained from voting on the board resolutions approving the relevant Continuing Connected Transactions as appropriate. Save as aforesaid, no Director has a material interest in the Continuing Connected Transactions.

VI. SPECIAL GENERAL MEETING

A notice convening the Special General Meeting of the Company to be held at Tian & Di Function Room, 7th Floor, The Landmark Mandarin Oriental, 15 Queen's Road Central, The Landmark, Central, Hong Kong on Monday, 29 December 2014 at 9:00 a.m. for the purpose of considering, and if thought fit, the passing of the ordinary resolution set out on pages 67 to 68 of this circular. Any shareholder with a material interest in the transactions will not vote.

There is enclosed a form of proxy for use at the Special General Meeting. Whether or not the Shareholders intend to be present at the Special 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 Special 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 Special General Meeting or adjourned meeting (as the case may be) if they so wish.

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

VII. RECOMMENDATIONS

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

Having considered the advice from the Independent Financial Adviser in relation to each of the Continuing Connected Transactions and the Proposed Caps, which is set out on pages 26 to 61 of this circular, the Independent Board Committee is of the opinion that the terms of each of the Continuing Connected Transactions and the Proposed Caps are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the Special General Meeting.

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

VIII. 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
Brilliance China Automotive Holdings Limited
Wu Xiao An
(also known as Ng Siu On)
Chairman

Brilliance Auto
华 晨 汽 车

BRILLIANCE CHINA AUTOMOTIVE HOLDINGS LIMITED
(華晨中國汽車控股有限公司)*
(Incorporated in Bermuda with limited liability)
(Stock Code: 1114)

10 December 2014

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

We have been appointed as the Independent Board Committee to advise you in connection with the Continuing Connected Transactions and the Proposed Caps, details of which are set out in the Letter from the Board in the circular to Shareholders dated 10 December 2014 (the "**Circular**"), of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

Having taken into account the terms of the Continuing Connected Transactions and the Proposed Caps, the principal factors and reasons considered by the Independent Financial Adviser and its advice in relation thereto as set out on pages 26 to 61 of the Circular, we are of the opinion that the Continuing Connected Transactions and the Proposed Caps are in the interests of the Company and the Shareholders as a whole and that the Continuing Connected Transactions and the Proposed Caps are fair and reasonable so far as the Shareholders are concerned. We therefore recommend that you vote in favour of the ordinary resolution to be proposed at the Special General Meeting to approve the Continuing Connected Transactions and the Proposed Caps.

Yours faithfully,
Xu Bingjin
Independent non-executive Director

Song Jian
Independent non-executive Director

Jiang Bo
Independent non-executive Director

* *for identification purposes only*

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

八方金融有限公司
OCTAL Capital Limited

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

10 December 2014

To the Independent Board Committee
and Independent Shareholders

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our engagement to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Continuing Connected Transactions and the Proposed Caps for the Continuing Connected Transactions (the "**Proposed Caps**"), particulars of which are set out in the circular (the "**Circular**") dated 10 December 2014 in relation to the Continuing Connected Transactions and the Proposed Caps, in which this letter is reproduced, which has been despatched by the Company to the Shareholders. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as ascribed to them under the section headed "Definitions" in the Circular.

As set out in the letter from the Board (the "**Letter from the Board**"), on 12 November 2014, the Company has entered into, among other things, certain framework agreements with Huachen so as to continue to conduct the Continuing Connected Transactions for a period of three financial years commencing from 1 January 2015 to 31 December 2017. As at the Latest Practicable Date, Huachen was interested in 2,135,074,988 Shares (representing approximately 42.48% of the entire issued share capital of the Company). Accordingly, Huachen is a connected person of the Company under Chapter 14A of the Listing Rules and the purchases/sale of automobiles, materials and/or automotive components from/to the Huachen Group constitute continuing connected transactions under Chapter 14A of the Listing Rules.

The Continuing Connected Transactions are subject to approval by Independent Shareholders at the Special General Meeting to be taken by way of a poll under Chapter 14A of the Listing Rules. Huachen and its associates will abstain from voting on all resolutions with respect to the Continuing Connected Transactions between the Group and the Huachen Group and the Proposed Caps at the Special General Meeting.

In this regard, Octal Capital Limited ("**Octal Capital**") has been appointed as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the terms of the Continuing Connected Transactions and the Proposed Caps.

Octal Capital is not connected with the Directors, chief executive and substantial shareholders of the Company or Huachen or any of their respective subsidiaries or their respective associates and therefore is considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders. During the last two years, we were engaged as the independent financial adviser to the Company (the "**Previous Engagement**") in respect of continuing connected transactions (details can be referred to the circular of the Company dated 29 November 2012). Under the Previous Engagement, we were required to express our opinion on and give recommendation to the independent committee of the Board comprising all the independent non-executive Directors and independent Shareholders in respect of the relevant transactions. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby Octal Capital will receive any fees or benefits from the Company or the directors, chief executive and substantial shareholders of the Company, the Huachen Group or their respective 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 as provided by the executive Directors 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 executive Directors regarding the Group, the Continuing Connected Transactions, including the information and representations contained in the Circular. We have also assumed that all statements of belief, opinion and intention made by the executive Directors 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 executive Directors. We have not, however, conducted an independent in-depth investigation into the business and affairs of the Group, Huachen, the Huachen Group and their respective associates, nor have we carried out any independent verification of the information supplied to us.

THE TERMS OF THE CONTINUING CONNECTED TRANSACTIONS AND THE PROPOSED CAPS

Principal factors and reasons considered

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

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

   - *Overview*

   The Group is engaged in the manufacture and sale of minibuses and automotive components through its major operating subsidiaries. The manufacture and sale of minibuses by the Group is carried out by Shenyang Automotive, a 60.9% owned subsidiary of the Company. The manufacturing facilities of Shenyang Automotive are located in Shenyang, the PRC. The other subsidiaries of the Company are mainly engaged in the manufacture and sale of automotive components in the PRC, and some of such automotive components are sold to Shenyang Automotive for use in its assembly process as an automobile manufacturer. During the course of its business, the Group acquires materials and automotive components from the Huachen Group and sells automobiles, materials and automotive components to the Huachen Group, on an ongoing basis.

   Huachen is a state-owned limited liability company which was established under the laws of the PRC on 16 September 2002 and is wholly beneficially owned by the Liaoning Provincial Government of the PRC. The principal activities of Huachen include but are not limited to investment holding, manufacture and sale of Zhonghua sedans (the "**Zhonghua Business**"), and refitting and sale of automobiles. As advised by the Company, the Zhonghua Business was originally part of the business of the Group before it was acquired by Huachen in late 2009. The manufacturing facilities of Huachen are also located in Shenyang, the PRC.

   Reference is made to the announcements of the Company dated 11 November 2011 and 8 November 2012 and the circulars of the Company dated 2 December 2011 and 29 November 2012 in relation to, among other things, the Continuing Connected Transactions between the Group and the Huachen Group for a period of three years commencing from 1 January 2012 to 31 December 2014. These continuing connected transactions and the relevant annual caps (the "**Approved Caps**") had been announced and approved (as the case may be) at special general meetings of the Company held on 20 December 2011 or 21 December 2012 by way of poll.

   As advised by the Company, although a large number of production processes of Zhonghua sedans have been detached from the Zhonghua Business after the disposal of the Zhonghua Business by the Company (the "**Disposal**"), in view that it is more cost efficient for both the Group and the Huachen Group to carry out the Continuing Connected Transactions due to, among other things, the close proximity of the manufacturing facilities of the Group and the Huachen Group and certain production facilities retained by the Group after the disposal of the Zhonghua Business, the Group has been carrying out the Continuing Connected Transactions with the Huachen Group for the purchase and supply of materials, automotive components and services between the Group and the Huachen Group on an ongoing basis since the date of completion of the Disposal in December 2009.

The relevant framework agreements for the Continuing Connected Transactions will expire by 31 December 2014. Hence, on 12 November 2014, the Company has entered into relevant framework agreements with Huachen so as to continue to conduct the Continuing Connected Transactions for a period of three financial years commencing from 1 January 2015 to 31 December 2017.

- *Reasons for the transactions (A1) to (A8)*

As advised by the Company, the manufacturing facilities of Huachen and those of the Group are both located in Shenyang, the PRC. With the close proximity of the manufacture facilities of the Group and the Huachen Group, and the fact that most of the automotive components required by the Huachen Group will be specifically designed by the Group for use in the manufacture of Zhonghua sedans by the Huachen Group, it is more cost effective for the Huachen Group to purchase materials and automotive components from the Group in terms of procurement lead time and transportation cost when compared with other suppliers. Further, in centralising the purchases of materials and automotive parts, the Group and the Huachen Group may enjoy better pricing of the materials and components of bulk purchases from each other. On the other hand, as certain production processes of the Zhonghua sedans could not be detached from the Zhonghua Business immediately after the completion of the Disposal, these transactions have been continuing and will be entered into between the Group and the Huachen Group. It will also provide additional source of income for the Group. In addition, we were advised by the Company that there are only limited independent suppliers who possess the specific production lines for supplying the specific automotive components for the production of the Huachen Group in respect of Zhonghua sedans and it is not feasible or cost effective for the Huachen Group to set up its own plants or production lines for manufacturing all the required automotive components on its own.

As advised by the Company, Xing Yuan Dong plans to provide interior trim parts and anti-freezing fluid to the Huachen Group for its production of Zhonghua sedans whilst Dongxing Automotive will produce press parts, welding parts and complete outsourced parts for the Huachen Group for the production of Zhonghua sedans. In addition, it is expected that Shenyang Automotive will first import the relevant engines and transmissions from overseas which will then be passed to the Huachen Group at cost plus an insignificant margin who will undergo further processing and sell the processed automotive components (i.e. the power trains) back to Shenyang Automotive for the latter's onward production of minibuses. The monetary value of the transactions to be carried out between these three companies and the Huachen Group will account for more than 90% of the aggregate Proposed Caps for transactions (A1) to (A8) on the basis of the aggregate monetary value of the proposed caps of transactions (A1), (A2) and (A7) as a percentage of the total aggregate monetary value of the Proposed Caps for transactions (A1) to (A8). Moreover, Shenyang Jindong, Mianyang Ruian, Ningbo Yuming, Ningbo Ruixing and Shanghai Hidea will each provide the relevant materials and automotive components such as A0 assemblies, camshafts, side triangle window assemblies, sun roof assemblies, triangular windows, sealing bars, rear view mirrors and matching components to the Huachen Group for its future production.

Based on the above, we consider that it is fair and reasonable and in the interests of the Company and the Shareholders as a whole for the Group to enter into the relevant agreements with the Huachen Group to secure a stable customer for the Group and facilitate stable operation and cost-saving for both the Group and the Huachen Group for their respective operations.

- *Reasons for the transactions (B1) to (B4)*

As advised by the Company, Shenyang Automotive used to import various materials (such as steel) and automotive components from independent third parties from overseas for self-use and with some of the imported steel sold to other members of the Group (including Dongxing Automotive) for further processing. However, since the completion of the Disposal, the Company and the Huachen Group have reassessed their respective production flows and they have collaborated to centralise the purchasing function of raw materials, such as steel, to enjoy bulk purchase discount. Consequently, the Huachen Group imports various materials (such as steels) and automotive components and sells the steels to Dongxing Automotive at market price for their further processing. Dongxing Automotive will sell part of the processed automotive components back to the Huachen Group (which is included as part of the transaction (A2) cited above). As mentioned above, Shenyang Automotive will sell engines and transmission to the Huachen Group and then purchase from the Huachen Group the processed automotive components (i.e. power trains) for its onward production of minibuses. In addition, after processing the steels into press parts, the Huachen Group will sell some of the press parts to Shenyang Automotive for the latter's production of minibuses. Moreover, Shenyang Jindong will purchase scrap materials from the Huachen Group for external sales.

Based on the above, we consider that it is fair and reasonable and in the interests of the Company and the Shareholders as a whole for the Group to enter into the relevant agreement with the Huachen Group to secure a stable supplier for the Group and to facilitate its operation.

For the sake of stable operation of the minibus business of the Group, we consider that it is commercially sound for the Group and the Huachen Group to carry out the Continuing Connected Transactions as they would provide additional source of income for the Group, serve to provide an opportunity to enjoy the potential upside from the business of the Huachen Group and allow the Company to consolidate its resources towards its minibus business and BMW joint venture business. Based on the above, we consider it is fair and reasonable and in the interests of the Company and the Shareholders as a whole for the Group and the Huachen Group to carry out the Continuing Connected Transactions to secure a stable customer, as well as a stable supplier, for the Group and the Huachen Group.

2. The Proposed Caps

Based on information provided by the Company, we summarise in the following table the Proposed Caps for the three financial years ending 31 December 2017:

Continuing Connected Transactions	For the financial years ended 31 December 2012 Historical figures *(RMB'000)*	2013 Historical figures *(RMB'000)*	For the six months ended 30 June 2014 Historical figures *(RMB'000)*	For the financial year ending 31 December 2015 Proposed Cap *(RMB'000)*	2016 Proposed Cap *(RMB'000)*	2017 Proposed Cap *(RMB'000)*
A. Sale of automobiles, materials and/or automotive components by members of the Group to members of the Huachen Group						
A1. Sale of materials and automotive components by Xing Yuan Dong	40,961 (140,500)	77,039 (161,600)	33,367 (185,800)	155,300	186,400	223,700
A2. Sale of materials and automotive components by Dongxing Automotive	140,946 (546,000)	186,719 (600,600)	73,772 (660,700)	724,500	732,900	747,600
A3. Sale of materials and automotive components by Shenyang Jindong	24,384 (45,200)	22,448 (45,200)	10,772 (45,200)	115,400	126,900	136,600
A4. Sale of materials and automotive components by Mianyang Ruian	7,142 (8,100)	2,015 (12,600)	– (12,600)	1,250	1,250	1,250
A5. Sale of materials and automotive components by Ningbo Yuming	27,659 (105,300)	38,001 (115,800)	17,641 (127,400)	49,800	52,300	54,900
A6. Sale of materials and automotive components by Ningbo Ruixing	66 (1,300)	124 (1,400)	5 (1,600)	170	170	170

Continuing Connected Transactions	For the financial years ended 31 December 2012 Historical figures (RMB'000)	2013 Historical figures (RMB'000)	For the six months ended 30 June 2014 Historical figures (RMB'000)	For the financial year ending 31 December 2015 Proposed Cap (RMB'000)	2016 Proposed Cap (RMB'000)	2017 Proposed Cap (RMB'000)
A7. Sale of materials, automotive components and automobiles by Shenyang Automotive	112,551 (338,400)	621,885 (804,980)	135,560 (1,027,980)	2,332,600	2,983,900	3,958,500
A8. Sale of materials and automotive components by Shanghai Hidea	47 (4,300)	10 (5,300)	3 (6,300)	2,100	2,200	2,300
B. Purchases of materials and automotive components by members of the Group from members of the Huachen Group						
B1. Purchase of materials and automotive components by Dongxing Automotive	96,038 (249,900)	98,512 (275,100)	29,509 (302,400)	330,700	378,000	427,300
B2. Purchase of materials and automotive components by Shenyang Automotive	533,369 (1,118,700)	587,045 (1,200,700)	189,975 (1,282,700)	1,277,600	1,405,400	1,546,000
B3. Purchase of materials and automotive components by Shanghai Hidea	– (450)	– (500)	– (550)	520	520	520
B4. Purchase of materials and automotive components by Shenyang Jindong	96,452 (315,000)	91,723 (420,000)	50,849 (420,000)	390,700	390,700	468,700

Note: the figures in bracket set out in the above table are the Approved Caps.

In determining the Proposed Caps for the three financial years ending 31 December 2017, the Board has based their estimates on the sales forecast of the relevant years. Important and objective assumptions and factors, though not exhaustive but were arrived at after due and careful consideration of data currently in hand, are set out below:

- the anticipation that the market condition of the automobile industry in the PRC will restore its previous growth momentum in the coming three financial years ending 31 December 2017;

- the planned production volume of the Group's minibuses of around 100,000 units by 2015 while growing at a rate of over 10% in 2016 and 2017;

- the scheduled launch of the new premium MPV model of the Group's minibus co-developed with the Group's strategic partners and external consultants and the upgrading of the Group's existing minibus and MPV models in order to provide better and improved products to the market in the coming three financial years ending 31 December 2017;

- changes in product mix in response to the PRC government's policy to encourage the use of low emission economical vehicles and the reduction in government spending which will result in changes in the types of materials and automotive components used and the monetary value of the purchases of such materials and automotive components from the connected parties;

- expected increase in demand for materials and automotive components from the Huachen Group in anticipation of new series of Zhonghua sedans (such as A0 model) to be launched by the Huachen Group and the increase in the sale of Zhonghua sedans in the PRC and overseas in the coming three financial years ending 31 December 2017;

- the anticipated growth in the sale of automobiles to the Huachen Group for the three financial years ending 31 December 2017 for refitting and processing into special vehicles such as ambulances, wheelchair equipped vehicles (welfare cars) and police cars which will be sold by the Huachen Group to its relevant customers, such as the governmental departments and overseas customers due to (i) certain models of the minibuses of the Group are being enlisted in the recognised purchasing lists of these government departments; (ii) the PRC government policies to encourage the replacement of old products; and (iii) the market demand for new technological products;

- the significant increase anticipated for the sale of materials and automotive components by Shenyang Jindong to members of the Huachen Group for the three financial years ending 31 December 2017, mainly due to the launch of new products, namely A0 assemblies, by Shenyang Jindong in 2014. A0 assemblies are specifically developed by Shenyang Jindong for processing into welding parts of A0 model of Zhonghua sedans manufactured by the Huachen Group;

- as the historical actual sales of materials and automotive components by Ningbo Yuming, Ningbo Ruixing and Shanghai Hidea to members of the Huachen Group are far less than the Approved Caps for the corresponding years, downward adjustments have been made to the Proposed Caps to align with the anticipated sale amounts for the three financial years ending 31 December 2017; and

- since Mianyang Ruian no longer supply E3 model of camshafts to the Huachen Group since May 2013, there has been a significant decrease in the total sale of camshafts to the Huachen Group as E3 model contributed a major portion to Mianyang Ruian's total sale of camshafts. There has also been a decrease in demand and sale of E2 model of camshafts to the Huachen Group since 2012. Accordingly, it is anticipated that there will be a significant decrease in the sale of camshafts by Mianyang Ruian to the Huachen Group for the three financial years ending 31 December 2017.

As set out in the Letter from the Board, due to various factors such as the change in product mix of the Group or the counterparties and the change in momentum of the automobile industry, the actual sales/purchases in respect of the continuing connected transactions for the three financial years ending 31 December 2014 were less than the Approval Caps for the three financial years ending 31 December 2014. On the other hand, it is expected that the launch of the new models of existing products and new range of products and the anticipated increase in sales of minibuses in the coming three financial years will lead to an increase in production of minibuses and accordingly, an increase in demand for materials and automotive components which is the subject of the Continuing Connected Transactions. Materials purchased will be used to produce automotive components and automotive components purchased will be used for further processing into core automotive components. The automotive components will be used in the production of automobiles by Shenyang Automotive. It is also expected that materials and automotive components will be supplied to the Huachen Group to enable Huachen to continue to carry on the Zhonghua Business and anticipated increase in the sales of Zhonghua sedans and special vehicles produced by the Huachen Group in the coming three financial years will lead to an increase in the demand for automobiles, materials and automotive components from the Group. In addition, as advised by the Company, the Company is uncertain on the future inflation on the material costs, a 5% buffer has been applied in determining the Proposed Caps in respect of the transactions contemplated under Continuing Connected Transactions.

After taking into account the above factors, we further analyse the bases for the Proposed Caps as follows:

- *Transaction (A1)*

Pursuant to the relevant framework agreement for transaction (A1), the materials and automotive components are to be purchased by the Huachen Group from Xing Yuan Dong on terms which are to be agreed between the Group and the

Huachen Group on a cost plus basis. The cost plus basis will be determined based on the cost for manufacturing the required specification and quantity of the materials and automotive components to be purchased by the Huachen Group plus a margin as agreed between the Group and the Huachen Group and the cost will be estimated with reference to raw materials, production cost, processing cost, transportation fee, procurement cost, labour, taxation, management fee and the amortization to the production plant and equipment, etc. As the materials and automotive components are tailor made for the Huachen Group, in determining the margin to be used, the Group will make reference to the internal target profit margin of the relevant products sold to the Huachen Group under this transaction.

We have reviewed the breakdown of comparable past transactions between the Group and the Huachen Group and reviewed certain transactions on a sampling basis during the two years ended 31 December 2012 and 2013 and the six months ended 30 June 2014 (the "**Historical Period**") and compared it against the transaction (A1) during each of the three financial years ending 31 December 2017 (the "**Review Period**"). We noted that the gross profit margin fluctuated significantly during the Historical Period. A profit margin of 13% was recorded for the year ended 31 December 2012 and it dropped to 2% for the year ended 31 December 2013. The gross profit margin then rebounded to 20% for the six months ended 30 June 2014. As advised by the Company, the fluctuation in the profit margin during the Historical Period was due to the changes in product mix which resulted in different individual profit margins and transaction volume within transaction (A1). Upon comparison, we note that the gross profit margin for each type of materials and components under transaction (A1) during the Review Period is assumed to earn a margin of around the mid-point of the range of gross profit margins during the Historical Period. As advised by the Company, it was expected to increase the proportion of the automotive components for two models of Zhonghua sedan which had a higher profit margin when the Approved Caps were determined in 2011. However, expected sales of such automotive components were not successful during the Historical Period while the automotive components with lower profit margin represented the majority of the actual transaction amount. As a result of the change in the product mix in the Historical Period, the gross profit margin fluctuated during the Historical Period.

In addition, we were confirmed by the Company that all of the materials and automotive components (namely, interior trim parts and anti-freezing fluid) supplied by Xing Yuan Dong to the Huachen Group were tailor-made for the automobiles of the Huachen Group for the production of the Zhonghua sedans. Therefore, Xing Yuan Dong did not have any sales made to independent third parties during the Historical Period and thus the pricing under transaction (A1) was only determined based on internal target profit margin with reference to past transactions.

In respect of the Proposed Caps of RMB155,300,000, RMB186,400,000 and RMB223,700,000 to be sought for the sale of materials and automotive components by Xing Yuan Dong to the Huachen Group for each of the three financial years during the Review Period, we have obtained from the Company a list of estimated annual sales of automotive components summing approximately up to each of the Proposed Caps. We understand from the Company that the estimate of annual sales of materials and components was prepared on the basis of multiplying the estimated unit price (calculated on a cost plus basis) of the individual materials and automotive components by the estimated quantity of the corresponding materials and automotive components. We consider such basis of preparation to be in line with market practice. As advised by the Company, the level of the Proposed Caps for the Review Period was determined after taking into consideration the expected demand of the materials and automotive components based on a production plan provided by the Huachen Group which laid out the expected purchasing amount in the Review Period. We have also reviewed the list of estimated sales of automotive components and noted that the expected transaction amounts of certain components such as the interior trim parts and anti-freezing fluid would account for the majority of the total transaction amount. We also noted that the estimated quantity of the corresponding components was arrived at after taking into account the anticipated growth in the planned procurement volume of the automotive components for the relevant Zhonghua sedans during the Review Period. We were advised by the Company that the Huachen Group will review its procurement volume on a regular basis and it may modify the procurement volume according to the market conditions during the Review Period. On the other hand, we noted that the estimated price per unit will be determined based on the costs of the respective automotive components plus an internal target profit margin in the range of 9% to 16% for the respective automotive components during the Review Period.

Meanwhile, we have also obtained the breakdown of the actual sales of materials and automotive components during the Historical Period and compared them against the Approved Caps during the Historical Period. Upon comparison, we note that the actual transacted amount during the Historical Period was substantially lower than the Approved Caps of transaction (A1). As advised by the Company, during the Historical Period, the actual transacted amount was lower than the Approved Caps because the actual demand for the automotive components of certain models of Zhonghua sedans dropped below the transaction amount estimated by Xing Yuan Dong at the time of compiling the Approved Caps in 2011 due to the PRC government's policy (i) to promote the awareness of environmental friendliness and to encourage the use of low emission economical vehicles and (ii) to tighten the PRC government's spending which resulted in decrease in sales of automobiles in the industry (which included Zhonghua sedans produced by the Huachen Group) in the Historical Period. In addition, Xing Yuan Dong planned to offer certain matching components to certain models of the Zhonghua sedans but the results were not successful during the Historical Period. As advised by the Company, it is expected that the effect of the PRC government policy on the promotion of environmental friendliness and the reduction of the PRC government's spending still persist during the Review Period. The Group has taken into account the abovementioned PRC government policy in determining the Proposed Caps.

According to the statistics of China Association of Automobile Manufacturers (中國汽車工業協會), the unit sales of sedans in the PRC from 2009 to 2013 and the first ten months of 2014 are summarised below:

	Year ended 31 December					Ten months ended 31 October	
	2009	2010	2011	2012	2013	2013	2014
Sales volume ('000)	7,470	9,490	10,120	10,740	12,010	9,700	10,040
Growth (%)	48.2%	27.0%	6.6%	6.1%	11.8%	–	3.5%

From the above table, we note that the year-on-year growth in sales of sedans in the PRC was in the range of 6.1% to 48.2% from 2009 to 2013 and the year-on-year growth was 3.5% for the first ten months of 2014. Although it appears that the growth momentum of sedan in the PRC was not strong in 2014, having regard to the past trend of the growth in sales of sedans in the PRC, we are of the view that such growth may restore to its previous levels. We note the Company has taken a prudent approach on setting the Proposed Caps which are at a slightly higher level than the Approved Caps. We consider that the adoption of a prudent approach is appropriate amid the changes in the growth momentum in the previous years.

As advised by the Company, in view of the recovery of the momentum of sedans in the PRC and the launch of new series of Zhonghua sedans, the Huachen Group anticipated that there will be an increase in the demand for the automotive components of certain models of Zhonghua sedans during the Review Period. In addition, Xing Yuan Dong will also increase its effort on the sales of matching components to the new models of the Zhonghua sedans during the Review Period. As a result, although the Group expected the abovementioned PRC government policy will persist in the Review Period, it is expected that the effect on the demand for the automotive components from the anticipated growth in sales of the Zhonghua sedans will outweigh the impact of the abovementioned PRC government policies.

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

- *Transaction (A2)*

Pursuant to the relevant framework agreement for transaction (A2), the materials and automotive components are to be purchased by the Huachen Group from Dongxing Automotive on terms which are to be agreed between the Group and the Huachen Group on a cost plus basis. The cost plus basis will be determined based on the cost for manufacturing the required specification and quantity of the materials and automotive components to be purchased by the Huachen Group plus a margin as agreed between the Group and the Huachen Group and the cost will be estimated with reference to raw materials, production cost, processing cost, transportation fee, procurement cost, labour, taxation, management fee and the amortization to the production plant and equipment, etc. As the materials and automotive components are tailor made for the Huachen Group, in determining the margin to be used, the Group will make reference to the internal target profit margin of the relevant products sold to the Huachen Group under this transaction.

We have reviewed the breakdown of comparable past transactions between Dongxing Automotive and the Huachen Group. We have also reviewed certain transactions on a sampling basis during the Historical Period and compared it against the transaction (A2) during the Review Period. We noted that the gross profit margin fluctuated during the Historical Period. We also noted that the unit price of press parts during the Review Period is comparable to that during the Historical Period while the estimated unit price of welding parts in the Review Period is comparable to the actual average unit price during the Historical Period.

We have also reviewed the comparable past transactions for the sale of products by Dongxing Automotive to independent customers and noted that the unit price of the past transactions with independent customers was below the then average of the unit price of the past transactions between Dongxing Automotive and the Huachen Group during the Historical Period.

We were advised by the Company that the independent third party customers of Dongxing Automotive are unable to order those automotive components with quantity comparable to those of the Huachen Group due to their relatively small production scale. In addition, we were confirmed by the Company that most of the main materials and automotive components (namely, press parts, welding parts and complete outsourced parts) supplied by Dongxing Automotive to the Huachen Group are tailor made for the automobiles of the Huachen Group and only limited independent third party customers can make use of these products without further processing. Thus, the unit prices for similar components sold to independent customers are lower.

In respect of the Proposed Caps of RMB724,500,000, RMB732,900,000 and RMB747,600,000 to be sought for the sale of materials and automotive components by Dongxing Automotive to the Huachen Group for each of the three financial years ending 31 December 2017, we have obtained from the Company a list of the estimated annual sales of automotive components summing approximately up to each of the Proposed Caps. We understand from the Company that such list of estimate was prepared on the basis of multiplying the estimated unit price of the individual components by the estimated quantity of the corresponding components. The estimated quantity of the corresponding components was arrived at after taking into consideration the anticipated growth in the planned procurement volume of the automotive components for the relevant Zhonghua sedans during the Review Period. We were advised by the Company that the Huachen Group will review its procurement volume on a regular basis and it may modify the procurement volume according to the market conditions during the Review Period. In addition, a new factory of Dongxing Automotive equipped with upgraded facilities is expected to commence operation in 2015, which will enhance the production capacity of Dongxing Automotive by 10% each year from 2015 to 2017 and the efficiency of the production will also be enhanced with the upgraded facilities. On the other hand, the

Huachen Group plans to produce several new models of Zhonghua sedans in 2015 and Dongxing Automotive will supply additional automotive components in terms of type and quantity to the Huachen Group for the production of these new models.

According to the statistics of China Association of Automobile Manufacturers (中國汽車工業協會), the unit sales of sedans in the PRC from 2009 to 2013 and the first ten months of 2014 are summarised below:

	Year ended 31 December					Ten months ended 31 October	
	2009	2010	2011	2012	2013	2013	2014
Sales volume ('000)	7,470	9,490	10,120	10,740	12,010	9,700	10,040
Growth (%)	48.2%	27.0%	6.6%	6.1%	11.8%	–	3.5%

From the above table, we note that the year-on-year growth in sales of sedans in the PRC was in the range of 6.1% to 48.2% from 2009 to 2013 and the year-on-year growth was 3.5% for the first ten months of 2014. Although it appears that the growth momentum of sedan in the PRC was not strong in 2014, having regard to the past trend of the growth in sales of sedans in the PRC, we are of the view that such growth may restore to its previous levels. We note the Company has taken a prudent approach on setting the Proposed Caps which are at a slightly higher level than the Approved Caps. We consider that the adoption of a prudent approach is appropriate amid the changes in the growth momentum in the previous years.

As advised by the Company, in view of the recovery of the momentum in the sales of sedans in the PRC and the launch of new series of Zhonghua sedans, the Huachen Group anticipated that there will be an increase in the demand for the automotive components of the relevant models of Zhonghua sedans during the Review Period and thus leading to the increase in the estimated sales of materials and components by Dongxing Automotive. On the other hand, we noted that the estimated price per unit will be determined based on the costs of the respective automotive components plus an internal target profit margin in the range of 6% to 10% during the Review Period.

Further, we have also obtained the breakdown of the actual sales of materials and automotive components during the Historical Period and compared them against the Approved Caps during the Historical Period. Upon comparison, we note that the actual sales of the automotive components were lower than the relevant Approved Caps during the Historical Period. As advised by the Company, during the Historical Period, the actual transacted amount was lower than the Approved Caps because the actual demand for the automotive components of certain models of the Zhonghua sedans dropped below the transaction amount estimated by Dongxing Automotive at the time of compiling the Approved Caps in 2011, in particular, there was a shortfall in the production of the M series of the Zhonghua sedans during the Historical Period. Thus, the actual sales of the corresponding automotive components for the M series dropped below the estimated level. The reasons for the lower than expected actual production was attributable to the PRC government's policy (i) to promote the awareness of environmental friendliness and to encourage the use of low emission economical vehicles and (ii) to tighten the PRC government's spending which resulted in a decrease in sales of automobiles in the industry (which included Zhonghua sedans produced by the Huachen Group) in the Historical Period. This in turn reduced the demand of the Huachen Group for the automotive components supplied by Dongxing Automotive. Accordingly, we consider that the historical trend cannot be used as a direct proxy for making future projection in respect of the Proposed Caps and we consider that the Proposed Caps should be regarded as a new set of caps for transaction (A2). Furthermore, in determining the Proposed Caps, the Company expected that the effect of the PRC government policy on the promotion of environmental friendliness and the reduction of the PRC government's spending will persist during the Review Period. The Group has taken into account the abovementioned PRC government policy in determining the Proposed Caps. However, the Company expected that the effect on the demand for the automotive components from the anticipated growth in sales of the Zhonghua sedans amid the recovery of the momentum in the automobile industry and the launch of new series of Zhonghua sedans will outweigh the impact of the abovementioned PRC government policies.

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

- *Transaction (A3)*

Pursuant to the relevant framework agreement for transaction (A3), the materials and automotive components are to be purchased by the Huachen Group from Shenyang Jindong on terms which are to be agreed between the Group and the Huachen Group on a cost plus basis. The cost plus basis will be determined based on the cost for manufacturing the required specification and quantity of the materials and automotive components to be purchased by the Huachen Group plus a margin as agreed between the Group and the Huachen Group and the cost will be estimated with reference to raw materials, production cost, processing cost, transportation fee, procurement cost, labour, taxation, management fee and the amortization to the production plant and equipment, etc. As the materials and automotive components are tailor made for the Huachen Group, in determining the margin to be used, the Group will make reference to the internal target profit margin of the relevant products sold to the Huachen Group under this transaction.

We have reviewed the breakdown of comparable past transactions between the Group and the Huachen Group and reviewed certain transactions on a sampling basis during the Historical Period and compared it against the transaction (A3) during the Review Period. We noted that the unit price of the materials and automotive components in the Review Period is comparable to that recorded in the Historical Period.

Further, we were confirmed by the Directors that the materials and automotive components (namely, the A0 assemblies and the matching components) to be purchased by the Huachen Group are tailor made by Shenyang Jindong and such purchase continues after the completion of the Disposal. Therefore, there were no comparable purchases transactions with independent third parties for the above automotive components available for our comparison. We were confirmed by the Company that these matching components are specifically designed and produced to be compatible with the configuration of certain models of sedans produced by the Huachen Group. Therefore, it is difficult to identify other suppliers which can produce the same products in comparable quality and quantity. Furthermore, it would be time-consuming for other suppliers to modify their products for compatibility and safety testing which could disrupt the production and marketing plan of the Huachen Group.

In respect of the Proposed Caps of RMB115,400,000, RMB126,900,000 and RMB136,600,000 to be sought for the sale of materials and automotive components by Shenyang Jindong to the Huachen Group for each of the three financial years ending 31 December 2017, we have obtained from the Company a list of estimated sales of automotive components summing approximately up to the Proposed Caps. We have reviewed the breakdown of actual sales of the Group during the Historical Period. We understand from the Company that such list of estimate was prepared on the basis of multiplying the estimated price per unit of the individual components by the estimated quantity of the corresponding components. The estimated quantity of the corresponding components was arrived at after taking into account the planned procurement volume of the automotive components for the relevant Zhonghua sedans during the Review Period. We were advised by the Company that the Huachen Group will review its procurement volume on a regular basis and it may modify the procurement volume according to the market conditions during the Review Period. In addition, the Group also anticipated that a new product, namely A0 assemblies, will be launched by Shenyang Jindong in the Review Period. A0 assemblies are specifically developed by Shenyang Jindong for processing into welding parts of A0 model of Zhonghua sedans manufactured by the Huachen Group. On the other hand, we noted that the estimated price per unit will be determined based on the costs of the respective automotive components plus an internal target profit margin in the range of 8% to 18%.

Moreover, we have obtained the breakdown of the actual sales of materials and automotive components during the Historical Period and compared them against the Approved Caps during the Historical Period. We have also reviewed the breakdown of actual sales of the automotive components of the Group during the Historical Period. Upon comparison, we note that the actual transacted amount during the Historical Period was substantially lower than the Approved Caps of transaction (A3). We were advised by the Company that, during the Historical Period, the actual transacted amount was lower than the Approved Caps because the actual demand for the corresponding automotive components of certain Zhonghua sedans dropped below the transaction amount estimated by Shenyang Jindong at the time of compiling the Approved Caps in 2011 due to the introduction of the PRC government's policy (i) to promote the awareness of environmental friendliness and encourage the use of low emission economical vehicles and (ii) to tighten the PRC government's spending which resulted in a decrease in sales of automobiles in the industry (which included Zhonghua sedans produced by the Huachen Group) in the Historical Period. This in turn reduced the demand of the Huachen Group for the automotive components supplied by Shenyang Jindong. Accordingly, we consider that the historical trend cannot be used as a direct proxy for making future projection in respect of the Proposed Caps and we consider that the Proposed Caps should be regarded as a new set of caps for transaction (A3). Furthermore, in determining the Proposed Caps, the Company expected that the effect of the PRC government policy on the promotion of environmental friendliness and the reduction of the PRC government's spending will persist during the Review Period. The Group has taken into account the abovementioned PRC government policy in determining the Proposed Caps. However, as advised by the Company, the Huachen Group anticipated that there will be an increase in the demand for the Zhonghua sedans coupled with the launching of the new A0 model of the Zhonghua sedans during the Review Period and thus leading to the increase in the estimated sales of materials and automotive components by Shenyang Jindong, in particular the welding parts of A0 model of the Zhonghua sedans. The Company expected that the effect from the anticipated growth in sales of the Zhonghua sedans from the recovery of the momentum in the automobile industry and the launch of the new series of Zhonghua sedans will outweigh the impact of the abovementioned PRC government policies.

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

- *Transaction (A4)*

Pursuant to the relevant framework agreement for transaction (A4), the materials and automotive components are to be purchased by the Huachen Group from Mianyang Ruian on terms which are to be agreed between the Group and the Huachen Group on a cost plus basis. The cost plus basis will be determined based on the cost for manufacturing the required specification and quantity of the materials and automotive components to be purchased by the Huachen Group plus a margin as agreed between the Group and the Huachen Group and the cost will be estimated with reference to raw materials, production cost, processing cost, transportation fee, procurement cost, labour, taxation, management fee and the amortization to the production plant and equipment, etc. As the materials and automotive components are tailor made for the Huachen Group, in determining the margin to be used, the Group will make reference to the internal target profit margin of the relevant products sold to the Huachen Group under this transaction.

In respect of the Proposed Caps of approximately RMB1,250,000, RMB1,250,000 and RMB1,250,000 to be sought for the sale of materials and automotive components by Mianyang Ruian to the Huachen Group for each of the three financial years ending 31 December 2017, we have obtained from the Company a list of estimated sales of automotive components approximately summing up to the Proposed Caps. We understand from the Company that such list of estimate was prepared on the basis of multiplying the estimated unit price of the individual automotive components by the estimated quantity of the corresponding components. The estimated quantity of the corresponding components was arrived at after taking into account the planned procurement volume of the automotive components for the relevant Zhonghua sedans during the Review Period. We were advised by the Company that the Huachen Group will review its procurement volume on a regular basis and it may modify the procurement volume according to the market conditions during the Review Period. On the other hand, we noted that the estimated price per unit will be determined based on the costs of the respective automotive components plus an internal target profit margin in the range of 25% to 30%.

On the other hand, we have compared the breakdown of the materials and automotive components under the Approved Caps during the Historical Period and the breakdown of materials and automotive components of the Proposed Caps in the Review Period. We note that the actual transaction amount exhibited a decreasing trend and did not have any transactions during the six months ended 30 June 2014. We noted that each of the Proposed Caps for the Review Period is significantly lower than the Approved Caps for the Historical Period. There has also been a decrease in demand and sale of E2 model of camshafts to the Huachen Group since 2012. Moreover, as set out in the Letter from the Board, Mianyang Ruian no longer supply E3 model of camshafts to the Huachen Group since May 2013, as such there has been a significant decrease in the total sale of camshafts to the Huachen Group as E3 model contributed a major portion to Mianyang Ruian's total sale of camshafts during the Review Period. Accordingly, it is anticipated that there will be a significant decrease in the sale of camshafts by Mianyang Ruian to the Huachen Group for the three financial years ending 31 December 2017 and the Proposed Caps for transaction (A4) is significantly lower than the Approved Caps under the Historical Period which follows the trend of the actual transaction amounts during the Historical Period. As advised by the Company, the remaining portion of the materials and automotive components included in the Proposed Caps are similar to those in the Approved Caps under the Review Period (e.g. camshafts for E2 model).

We noted that the unit price of those materials and automotive components under the Proposed Caps is comparable to the unit price of the corresponding materials and components under the Approved Caps under the Review Period. We have reviewed the breakdown of comparable past transactions between Mianyang Ruian and the Huachen Group. We have also reviewed certain transactions on a sampling basis during the Historical Period and compared it against the transaction (A4) during the Review Period. We noted that the unit price of materials and automotive components during the Review Period is comparable to that during the Historical Period.

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

- *Transaction (A5)*

Pursuant to the relevant framework agreement for transaction (A5), the materials and automotive components are to be purchased by the Huachen Group from Ningbo Yuming on terms which are to be agreed between the Group and the Huachen Group on a cost plus basis. The cost plus basis will be determined based on the cost for manufacturing the required specification and quantity of the materials and automotive components to be purchased by the Huachen Group plus a margin as agreed between the Group and the Huachen Group and the cost will be estimated with reference to raw materials, production cost, processing cost, transportation fee, procurement cost, labour, taxation, management fee and the amortization to the production plant and equipment, etc. As the materials and automotive components are tailor made for the Huachen Group, in determining the margin to be used, the Group will make reference to the internal target profit margin of the relevant products sold to the Huachen Group under this transaction.

We have reviewed the breakdown of comparable past transactions between the Group and the Huachen Group and reviewed certain transactions on a sampling basis during the Historical Period and compared it against the Proposed Caps for the transaction (A5) during the Review Period. We noted that the unit price of the materials and components in the Review Period is comparable to that applied in the Historical Period.

For particular automotive components which amounted to a significant sum of the previous transaction value, we were confirmed by the Company that they were specifically designed and produced for sedans of the Huachen Group and therefore had never been supplied to customers other than the Huachen Group.

In respect of the Proposed Caps of RMB49,800,000, RMB52,300,000 and RMB54,900,000 to be sought for the sale of materials and automotive components by Ningbo Yuming to the Huachen Group for each of the three financial years ending 31 December 2017, we have obtained from the Company a list of estimated sales of automotive components summing approximately up to the Proposed Caps. We understand from the Company that such list of estimate was prepared on the basis of multiplying the estimated price per unit of the individual automotive components by the estimated quantity of the corresponding components. The estimated quantity of the corresponding components was arrived at after taking into account the planned procurement volume of the automotive components for the relevant Zhonghua sedans during the Review Period. We were advised by the Company that the Huachen Group will review its procurement volume on a regular basis and it may modify the procurement volume according to the market conditions during the Review Period. On the other hand, we noted that the estimated price per unit will be determined based on the costs of the respective automotive components plus an internal target profit margin in the range of 6% to 26%.

In addition, as set out in the Letter from the Board, as the historical actual sales of materials and automotive components by Ningbo Yuming to members of the Huachen Group are far less than the Approved Caps for the corresponding years during the Historical Period, in particular the drop in the actual sales of the sun roof assemblies and sealing bars for the Zhonghua sedans, downward adjustments have been made to the Proposed Caps to align with the anticipated sale amounts for the three financial years ending 31 December 2017.

According to the statistics of China Association of Automobile Manufacturers (中國汽車工業協會), we note that the year-on-year growth in sales of sedans in the PRC was in the range of 6.1% to 48.2% from 2009 to 2013 and the year-on-year growth was 3.5% for the first ten months of 2014. It appears that the growth momentum of the sales of sedan in the PRC was not strong in the PRC. We note the Company has taken a prudent approach on setting the Proposed Caps and we consider it appropriate amid the changes in the growth momentum in the previous years.

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

- *Transaction (A6)*

Pursuant to the relevant framework agreement for transaction (A6), the materials and automotive components are to be purchased by the Huachen Group from Ningbo Ruixing on terms which are to be agreed between the Group and the Huachen Group on a cost plus basis. The cost plus basis will be determined based on the cost for manufacturing the required specification and quantity of the materials and automotive components to be purchased by the Huachen Group plus a margin as agreed between the Group and the Huachen Group and the cost will be estimated with reference to raw materials, production cost, processing cost, transportation fee, procurement cost, labour, taxation, management fee and the amortization to the production plant and equipment, etc. As the materials and automotive components are tailor made for the Huachen Group, in determining the margin to be used, the Group will make reference to the internal target profit margin of the relevant products sold to the Huachen Group under this transaction.

In respect of the Proposed Caps of RMB170,000, RMB170,000 and RMB170,000 to be sought for the sale of materials and automotive components by Ningbo Ruixing to the Huachen Group for each of the three years ending 31 December 2017, we have obtained from the Company a list of estimated sales of automotive components summing approximately up to the Proposed Caps. Upon comparison, we note that the Proposed Cap for each year of the Review Period is significantly lower than the Approved Cap for each year of the Historical Period. We understand from the Company that such list of estimate was prepared on the basis of multiplying the estimated price per unit of the individual automotive components by the estimated quantity of the corresponding components. The estimated quantity of the corresponding components was arrived at after taking into account the planned procurement volume of the automotive components for the relevant Zhonghua sedans during the Review Period. We were advised by the Company that the Huachen Group will review its procurement volume on a regular basis and it may modify the procurement volume according to the market conditions during the Review Period. On the other hand, we noted that the estimated price per unit will be determined based on the costs of the respective automotive components plus an internal target profit margin in the range of 13% to 18%.

Further, we have also compared the breakdown of the materials and automotive components under the Approved Caps during the Historical Period and the breakdown of materials and automotive components of the Proposed Caps in the Review Period. We noted that each of the Proposed Caps for the Review Period is significantly lower than the Approved Cap for the Historical Period. As set out in the Letter from the Board, as the historical actual sales of materials and automotive components by Ningbo Yuming to members of the Huachen Group are far less than the Approved Caps for the corresponding years, downward adjustments have been made to the Proposed Caps to align with the anticipated sale amounts for the three financial years ending 31 December 2017.

According to the statistics of China Association of Automobile Manufacturers (中國汽車工業協會), we note that the year-on-year growth in sales of sedans in the PRC was in the range of 6.1% to 48.2% from 2009 to 2013 and the year-on-year growth was 3.5% for the first ten months of 2014. It appears that the growth momentum of the sales of sedan in the PRC was not strong in the PRC. We note the Company has taken a prudent approach on setting the Proposed Caps and we consider it appropriate amid the changes in the growth momentum in the previous years.

We have reviewed the breakdown of comparable past transactions between the Group and the Huachen Group. We have also reviewed certain transactions on a sampling basis during the Historical Period and compared it against the transaction (A6) during the Review Period. We noted that the unit price of the materials and components in the Review Period is comparable to the unit price applied in the Historical Period.

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

- *Transaction (A7)*

Pursuant to the relevant framework agreement for transaction (A7), in respect of the automobiles, they are to be purchased by the Huachen Group from Shenyang Automotive based on the prevailing market price of the automobiles. Market price means the price at which the same type of products is provided to independent third parties in the same area on normal commercial terms in the ordinary course of business. Market price may be determined by reference to (a) the price that the Group offered to independent customers for the same products in response to the invitations to tender made by customers; or (b) if there is no tendering process, the price agreed between the Group and independent customers after arm's length negotiations and on normal commercial terms for the sale of the same automobiles, materials or automotive components. In any event, terms of each sale to the Huachen Group shall be no less favourable than the terms offered to independent customers for sale of the same automobiles, materials or automotive components.

In respect of the materials and automotive components, they are to be purchased by the Huachen Group from Shenyang Automotive on terms which are to be agreed between the Group and the Huachen Group on a cost plus basis. The cost plus basis will be determined based on the cost for manufacturing the required specification and quantity of the products to be purchased by the Huachen Group plus a margin as agreed between the Group and the Huachen Group and the cost will be estimated with reference to raw materials, production cost, processing cost, transportation fee, procurement cost, labour, taxation, management fee and the amortization to the production plant and equipment, etc. As the materials and automotive components are tailor made for the Huachen Group (save for the engines and transmissions which are sold to the Huachen Group for its further processing into power trains to be bought back by the Group for production of minibuses (i.e. transaction B2)), in determining the margin to be used, the Group will make reference to the internal target profit margin of the relevant products sold to the Huachen Group under this transaction.

We have obtained the breakdown of the actual sales of automobiles, materials and automotive components during the Historical Period and compared them against the Approved Caps during the Historical Period. Upon comparison, we note that the actual transacted amount during the Historical Period was substantially lower than the Approved Caps of transaction (A7). As advised by the Company, the actual transacted amount was lower than the Approved Caps because certain models of minibuses of the Group equipped with power trains produced from imported engines and transmissions (the "**High Emission Models**") dropped below the planned production volume during the Historical Period leading to a decrease in sales of imported engines and engine transmissions from Shenyang Automotive to the Huachen Group who will process such engines into power trains for Shenyang Automotive. The actual sales of the special vehicles and the High Emission Models minibus were lower than those as planned because of (i) the intense competition from the international branded automobiles; (ii) the introduction of the PRC government's policy to promote the awareness of environmental friendliness and encourage the use of low emission economical vehicles; (iii) the tightening of the PRC government's spending; and (iv) the budgetary constraints of the PRC government which deferred its spending on the special vehicles to 2015, thus it resulted in a decrease in sales in automobiles in the industry in the Historical Period. In addition, as a result of the encouragement of the use of low emission economical vehicles under the PRC government's policy, the product mix of the Huachen Group focused on the production of certain economy automobile model during the Historical Period and their cost components are relatively lower than other models. Therefore, the unit price of the product mix of the materials and automotive components sold by Shenyang Automotive to the Huachen Group was lower than the expected unit price during the Historical Period and thus reducing the total transacted amount as compared with the Approved Caps.

However, we note that the Proposed Caps in the Review Period are substantially higher than the Approved Caps and the actual transacted amounts in the Historical Period As advised by the Company, it is expected that the effect of the intense competition from international branded automobiles and the PRC government policy on the promotion of environmental friendliness and the reduction of the PRC government's spending will persist during the Review Period. The Group has taken into account the abovementioned PRC government policy in determining the Proposed Caps by putting more emphasis on low emission economical models of the minibus.

In addition, the Group has also taken into account (i) the anticipated growth in the sale of automobiles to the Huachen Group for the three financial years ending 31 December 2017 for refitting and processing into special vehicles as a result of government policies, the market demand for new technological products and the need for replacement of old products; and (ii) the anticipated sales of minibuses by the Group to other customers (including the export market) in the coming three financial years ending 31 December 2017 in view of the market demand for replacement old products which may outweigh the impact from the PRC government's policy on environmental friendliness and reduction of government's spending.

In particular, we note that the major component included in the Proposed Caps is the sale of automobiles to the Huachen Group which represented more than 70% of the Proposed Caps in each of the three years ending 31 December 2017 and we note that the sale of automobiles was commenced in 2013. As advised by the Company, the Huachen Group has a group of customers which have been sourcing special vehicles from the Huachen Group and the special vehicle operations turned out to be very successful since 2013. Besides, certain members of the Huachen Group possess the relevant qualification and expertise, production facilities and the authorization and channels to source the relevant specific components to manufacture the relevant automotive components required for transforming automobiles into special vehicles, such as ambulances and new energy cars. As further advised by the Company, in view of the fact that certain models of the minibuses of the Group were enlisted in the recognised purchasing lists of these government departments, the Huachen Group and the Company consider that they can cooperate and capture such business opportunity by selling those models of minibuses of the Group to the Huachen Group for further transformation into special vehicles in a wider area of usage which will then be sold to the relevant customers of the Huachen Group, including but not limited to governmental departments and overseas customers. By doing so, (i) it would be more cost efficient for the Huachen Group to purchase these models of minibus in large scale from the Group and then further process them into special vehicles on its own; (ii) the selling of minibuses to the Huachen Group can broaden the revenue stream of the Company; (iii) the minibuses to be sold to the Huachen Group comprise of existing models and do not require the Group to establish new production lines; (iv) the Group can enjoy further bulk purchase discount on automotive components after taking into account the minibuses to be sold to the Huachen Group; and (v) the Group's sales network as well as product image can be enhanced as the Group's minibuses are to be used by government departments on a larger scale. As advised by the Company, specific approvals from the PRC government are required to produce each type of special vehicles. We were advised by the Company that certain members of the Huachen Group had not yet obtained the relevant licences for certain types of special vehicles from the relevant PRC regulatory department during the Historical Period and this led to the lower than expected actual transacted volume as compared with the Approved Caps. As further advised by the Company, members of the Huachen Group are currently in the process of obtaining approval from the relevant PRC regulatory department for the production of different types of special vehicles and it is expected that the approval will be obtained by 2015. Thus, the Company anticipates the growth in the sale of automobiles to the Huachen Group will be substantial.

Meanwhile, regarding the remaining component included in the Proposed Caps for transaction (A7), which included the sale of materials and automotive components (namely engines and transmissions) representing around 10% of the Proposed Caps, we note that the actual transaction volume during the Historical Period was below the relevant Approved Caps because the actual production volume of the Group's minibuses dropped below the planned production volume due to the aforementioned PRC government's policy that tightened government's spending and encouraged the use of low emission economical vehicles. On the other hand, as advised by the Company, the Huachen Group anticipated that there will be an increase in the demand for the Group's minibuses with the launching of the new series of the Group's minibuses during the Review Period which will lead to an increase in the estimated sales of materials and automotive components. Against such background, we are of the view that the historical trend cannot be used as a direct proxy for making future projection in respect of the Proposed Caps and we consider that the Proposed Caps should be regarded as a new set of caps for transaction (A7).

Further, we were confirmed by the Directors that in respect of the sale of the engine and transmission, they are imported by Shenyang Automotive from overseas and are sold to the Huachen Group for further processing. The Huachen Group then sells back the processed automotive component (namely the power trains) to Shenyang Automotive (i.e. transaction (B2)) as part of the components for its production of minibuses. As advised by the Company, in view of the back-to-back sale and purchase arrangement between Shenyang Automotive and the Huachen Group which follows the original production process before the Disposal, Shenyang Automotive did not supply the same materials and automotive components to independent third party suppliers, thus there were no comparable sales transactions for the above automotive components available for our comparison.

In respect of the Proposed Caps of RMB2,332,600,000, RMB2,983,900,000 and RMB3,958,500,000 to be sought for the sale of materials and automotive components by Shenyang Automotive to the Huachen Group for each of the three financial years ending 31 December 2017, we have obtained from the Company a list of estimated sales of products summing approximately up to the Proposed Caps. We understand from the Company that such list of estimate was prepared on the basis of multiplying the estimated price per unit of the individual products by the estimated quantity of the corresponding products. The estimated quantity of the corresponding products was arrived at after taking into account the sales of the Group's minibuses of over 100,000 units in 2015 with an anticipated growth rate in the range of 10% to 18% in 2016 to 2017. On the other hand, we noted that the estimated price per unit of the automotive components will be determined based on the costs of the respective automotive components plus an internal target profit margin in the range of 0% to 1%, while the estimated price per unit of the automobiles will be determined based on the market price.

We have reviewed the breakdown of comparable past transactions between Shenyang Automotive and the Huachen Group and reviewed certain transactions on a sampling basis during the Historical Period and compared them against the transaction (A7) during the Review Period. We noted that the unit price and the gross profit margin of the actual transactions of the automobiles, materials and automotive components in the Historical Period are comparable to that in the Review Period. As mentioned above, those automotive components are specifically designed and produced to be compatible with the configuration of sedans produced by the Huachen Group, there are no comparable transactions with independent customers in respect of automotive components. With regard to the sale of automobiles to the Huachen Group, we have compared the unit price of the automobiles to the past comparable transactions of Shenyang Automotive with independent customers and noted that the unit price of the automobiles sold to independent customers are within the same price range to that sold to the Huachen Group.

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

- *Transaction (A8)*

Pursuant to the relevant framework agreement for transaction (A8), the materials and automotive components are to be purchased by the Huachen Group from Shanghai Hidea on terms which are to be agreed between the Group and the Huachen Group on a cost plus basis. The cost plus basis will be determined based on the cost for manufacturing the required specification and quantity of the materials and automotive components to be purchased by the Huachen Group plus a margin as agreed between the Group and the Huachen Group and the cost will be estimated with reference to raw materials, production cost, processing cost, transportation fee, procurement cost, labour, taxation, management fee and the amortization to the production plant and equipment, etc. As the materials and automotive components are tailor made for the Huachen Group, in determining the margin to be used, the Group will make reference to the internal target profit margin of the relevant products sold to the Huachen Group under this transaction.

Meanwhile, we were confirmed by the Directors that the materials and automotive components (namely, DVD mainframe assemblies, wheel hubs and genuine leather seats) to be purchased by the Huachen Group are tailor-made by Shanghai Hidea and hence Shanghai Hidea represents the sole designer and supplier of such automotive components to the Huachen Group.

As such, there were no comparable purchases transactions for the above automotive components available for our comparison. However, as advised by the Company that the selling prices of automotive components produced by Shanghai Hidea are expected to be primarily determined on a cost plus basis after arm's length negotiation with the counterparty and with reference to the profit margins of other similar transactions between the Group and the Huachen Group which we consider to be in line with market practice and we consider this approach and terms of the transaction to be fair and reasonable. We were also confirmed by the Company that these automotive components are to be manufactured with components supplied by the Huachen Group and other independent suppliers to Shanghai Hidea according to the specifications provided by the Huachen Group. We understand from the Company that the components to be purchased from Shanghai Hidea are basically designed and produced for certain models of Zhonghua sedans as an option for customers to personalise their sedans. The principal business of Shanghai Hidea is in the design of automobiles, and Shanghai Hidea has been providing design services to the Huachen Group since 2009. Moreover, Shanghai Hidea has been involved in the project for personalisation of certain models of Zhonghua sedans since inception. The Company and the Huachen Group consider that it would be more cost-effective and efficient to have Shanghai Hidea as the sole supplier as compared to other suppliers who may be less familiar with the specification and style of Zhonghua sedans.

In respect of the Proposed Caps of RMB2,100,000, RMB2,200,000 and RMB2,300,000 to be sought for the sale of materials and automotive components by Shanghai Hidea to the Huachen Group for each of the three financial years ending 31 December 2017, we have obtained from the Company a list of estimated sales of automotive components summing approximately up to the Proposed Caps. We understand from the Company that such list of estimate was prepared on the basis of multiplying the estimated price per unit of the individual automotive components by the estimated quantity of the corresponding automotive components. The estimated quantity of the corresponding automotive components was arrived at after taking into account the planned procurement volume of the automotive components for the relevant Zhonghua sedans during the Review Period. We were advised by the Company that the Huachen Group will review its procurement volume on a regular basis and it may modify the procurement volume according to the market conditions during the Review Period. As stated in the Letter from the Board, as the historical actual sales of materials and automotive components by Shanghai Hidea to members of the Huachen Group are far less than the Approved Caps for the corresponding years as a result of the delay in the launch of the personalization program of the Zhonghua sedans which offers additional features to the vehicles, downward adjustments have been made to the Proposed Caps to align with the anticipated sale amounts for the Review Period. Such customized Zhonghua sedans are expected to be in production from 2015 onwards. On the other hand, we noted that the estimated price per unit will be determined based on the costs of the respective automotive components plus an internal target profit margin in the range of 5% to 10%.

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

- *Transaction (B1)*

Pursuant to the relevant framework agreement for transaction (B1), the materials and automotive components are to be purchased by Dongxing Automotive from the Huachen Group based on the prevailing market price of the materials and automotive components. Market price means the price at which the same type of products is obtained from independent third parties in the same area on normal commercial terms in the ordinary course of business. For the purpose of obtaining market prices, the Group will make reference to the price quotations obtained from other independent suppliers for the same products in determining the market price. In any event, terms of each purchase from the Huachen Group shall be no less favourable than the terms which can be obtained from independent suppliers for purchase of the same materials or automotive components.

Upon review of the comparable past transactions of the Group on a sampling basis, we note that pricing for the past transactions (B1) were comparable to the pricing the Group could obtain from independent third party suppliers for similar materials and automotive components. On the other hand, we note that the price per unit of purchases of the automotive components underlying the list is expected to remain relatively stable at the actual level recorded in the first half of 2014. We were advised by the Company that the prices of raw materials are expected to remain fairly stable for the coming three financial years but it will be difficult for the Company to obtain a large volume of the relevant raw materials from independent suppliers with the same quality. Moreover, as the Huachen Group has centralized the sourcing of steel, by conducting transaction (B1), Dongxing Automotive can enjoy lower purchase price due to the Huachen Group's bulk purchase discount. Thereafter, these steel purchased from the Huachen Group will be further processed by Dongxing Automotive and turn into the appropriate press parts, welding parts and complete outsourced parts, part of which will be sold to the Huachen Group for production under transactions (A2).

In respect of the Proposed Caps of RMB330,700,000, RMB378,000,000 and RMB427,300,000 to be sought for the purchases by Dongxing Automotive from the Huachen Group each of for the three financial years ending 31 December 2017, we have obtained from the Company a list of estimated purchases of automotive components summing approximately up to the Proposed Caps. We understand from the Company that such list of estimate was prepared on the basis of multiplying the estimated price per unit of the individual components by the estimated quantity of the corresponding components. The estimated quantity of the corresponding components was arrived at after taking into account the historical transaction amounts during the Historical Period and the planned procurement volume of the processed automotive components from the steels (i.e. the press parts) for the relevant Zhonghua sedans during the Review Period. We were advised by the Company that the Huachen Group will review its procurement volume on a regular basis and it may modify the procurement volume according to the market conditions during the Review Period. Due to the unique business model and the relationship between the transaction (A2) and the transaction (B1), the purchase of steel by Dongxing Automotive from the Huachen Group in order to produce the relevant automotive components required under transaction (A2) are inter-related. As advised by the Company, the actual transacted amount was lower than the Approved Caps because the production volume of the Zhonghua sedans of the Huachen Group was lower than the estimated volume and the steel price was lower than the estimated level thus the actual sales of the relevant materials and automotive components to the Huachen Group by Dongxing Automotive were lower than expected in the Historical Period. During the Historical Period, the actual demand for the corresponding automotive components of certain Zhonghua sedans dropped below the transaction amount as estimated by Dongxing Automotive at the time of compiling the Approved Caps in 2011, in particular, there was a shortfall in the production of the M series of the Zhonghua sedans in the Historical Period and thus the purchase of the corresponding steels for the M series dropped below the estimated level. The reasons for the lower than expected actual production was attributable to the introduction of the PRC government's policy (i) to promote the awareness of environmental friendliness and encourage the use of low emission economical vehicles and (ii) to tighten the PRC government's spending which resulted in a decrease in sales of automobiles in the industry (which included Zhonghua sedans produced by the Huachen Group and High Emission Models minibus models produced by the Group) in the Historical Period. This in turn reduced the demand of Dongxing Automotive for the steels supplied by the Huachen Group. Furthermore, in determining the Proposed Caps, the Company expected that the effect of the PRC government policy on the promotion of environmental friendliness and the reduction of the PRC government's spending will persist during the Review Period. The Group has taken into account the abovementioned PRC government policy in determining the Proposed Caps.

According to the statistics of China Association of Automobile Manufacturers (中國汽車工業協會), the unit sales of sedans in the PRC from 2009 to 2013 and the first ten months of 2014 are summarised below:

	Year ended 31 December					Ten months ended 31 October	
	2009	2010	2011	2012	2013	2013	2014
Sales volume ('000)	7,470	9,490	10,120	10,740	12,010	9,700	10,040
Growth (%)	48.2%	27.0%	6.6%	6.1%	11.8%	–	3.5%

From the above table, we note that the year-on-year growth in sales of sedans in the PRC was in the range of 6.1% to 48.2% from 2009 to 2013 and the year-on-year growth was 3.5% for the first ten months of 2014. Although it appears that the growth momentum of sedan in the PRC was not strong in 2014, having regard to the past trend of the growth in sales of sedans in the PRC, we are of the view that the growth in sales of sedans in the PRC may restore to its previous levels. We note the Company has taken a prudent approach on setting the Proposed Caps which are at a slightly higher level than the Approved Caps. We consider that the adoption of a prudent approach is appropriate amid the changes in the growth momentum in the previous years.

In addition, as advised by the Company, in view of the recovery of the momentum in the automobile industry and the launch of new series of Zhonghua sedans, the Huachen Group anticipated that there will be an increase in the demand for Zhonghua sedans during the Review Period and thus leading to the increase in the estimated purchases of materials and automotive components. The Company expected that the effect on the demand for the materials and automotive components from the anticipated growth in sales of the Zhonghua sedans amid the recovery of the momentum in the sales of sedans in the PRC and the launch of the new series of Zhonghua sedans will outweigh the impact of the abovementioned PRC government policies. Besides, as we mentioned in transaction (A2) above, a new factory of Dongxing Automotive will commence operation in 2015 which offer new production capacity to Dongxing Automotive for the production of small press parts. In this regard, the production volume of Dongxing Automotive in respect of press parts will increase while the estimated purchase of steels for the production of press parts will also increase accordingly from 2015 onwards.

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

- *Transaction (B2)*

Pursuant to the relevant framework agreement for transaction (B2), the materials and automotive components are to be purchased by Shenyang Automotive from the Huachen Group on terms which are to be agreed between the Group and the Huachen Group on a cost plus basis. The cost plus basis will be determined based on the cost for manufacturing the required specification and quantity of the materials and automotive components to be purchased from the Huachen Group plus a margin as agreed between the Group and the Huachen Group and the cost will be estimated with reference to raw materials, labor, taxation, management fee and storage fee, etc. In determining the margin to be used, the Group will make reference to the internal target profit margin of different vehicle models of the Group that is expected to be achieved by the Group. As advised by the Company, the cost plus pricing will be applied in transaction (B2) because the relevant material and automotive components are tailor made by the Huachen Group.

Upon review of the comparable past transactions of the Group on a sampling basis, we note that pricing for the past transaction (B2) were comparable to the pricing of the materials and automotive components in the Review Periods. On the other hand, we note that the price per unit of the component purchases underlying the list is expected to remain relatively stable at the actual level recorded in the Historical Period. We were advised by the Company that the prices of raw materials are expected to remain fairly stable for the coming three financial years but it will be difficult for the Company to obtain a large volume of the relevant raw materials from independent suppliers with the same quality.

In respect of the Proposed Caps of RMB1,277,600,000, RMB1,405,400,000 and RMB1,546,000,000 to be sought for the purchases by Shenyang Automotive from the Huachen Group for each of the three financial years ending 31 December 2017, we have obtained from the Company a list of estimated purchases of automotive components summing approximately up to the Proposed Caps. We understand from the Company that such list of estimate was prepared on the basis of multiplying the estimated price per unit of the individual components by the estimated quantity of the corresponding automotive components. The estimated quantity of the corresponding automotive components was arrived at after taking into account the actual sales up to 30 June 2014 and the anticipated growth in the production volume of the Group's minibuses to over 100,000 units in 2015 with an anticipated growth rate in the range of 10% to 18% in 2016 and 2017. We consider such basis of preparation to be in line with market practice. On the other hand, we noted that the estimated price per unit will be determined based on the target costs in order to achieve an internal target profit margin. Such internal profit margin would be sufficient to cover the costs of the automotive components.

As advised by the Company, the actual transacted amount was lower than the Approved Caps because the actual sales of the Group's minibuses dropped below the planned production volume during the Historical Period due to the introduction of the PRC government's policy to (i) to promote the awareness of environmental friendliness and encourage the use of low emission economical vehicles and (ii) to tighten its spending which resulted in a decrease in sales of automobiles in the industry (which included the High Emission Model minibus produced by the Group) in the Historical Period. This in turn reduced the demand of Shenyang Automotive for the automotive components (namely, the power trains) supplied by the Huachen Group for its production of the High Emission Model minibuses. Furthermore, in determining the Proposed Caps, the Company expected that the effect of the PRC government policy on the promotion of environmental friendliness and the reduction of the PRC government's spending will persist during the Review Period. The Group has taken into account the abovementioned PRC government policy in determining the Proposed Caps by putting more emphasis on the low emission economical models of the minibuses. On the other hand, it is the Company's strategy to capture the market demand for the High Emission Model of minibuses which were designed for business use. Several new models under the High Emission Model category are scheduled to be launched in 2015 in order to catch up the delay in production in 2014 as a result of the transition of the production line of the Group's minibus in January to April 2014.

In view of the launch of new series of minibuses (such as the new premium MPV model), the Shenyang Automotive anticipated that there will be an increase in the demand for automotive components (e.g. press parts) provided by the Huachen Group during the Review Period and thus leading to the increase in the estimated purchases of materials and automotive components.

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

- *Transaction (B3)*

Pursuant to the relevant framework agreement for transaction (B3), the materials and automotive components are to be purchased by Shanghai Hidea from the Huachen Group on terms which are to be agreed between the Group and the Huachen Group on a cost plus basis. The cost plus basis will be determined based on the cost for manufacturing the required specification and quantity of the materials and automotive components to be purchased from the Huachen Group plus a margin as agreed between the Group and the Huachen Group and the cost will be estimated with reference to raw materials, labor, taxation, management fee and storage fee, etc. In determining the margin to be used, the Group will make reference to the internal target profit margin of different vehicle models of the Group that is expected to be achieved by the Group. As advised by the Company, the cost plus pricing will be applied in transaction (B3) because the relevant material and automotive components are tailor made by the Huachen Group.

We were confirmed by the Directors that the automotive components to be purchased by Shanghai Hidea will be further processed with other materials and components from other suppliers to produce DVD mainframe assemblies, wheel hubs and genuine leather seats and other components which are tailor-made for the use in some series of Zhonghua sedans, and hence Shanghai Hidea represents the sole supplier of those finished automotive components to the Huachen Group. As such, there were no comparable purchases transactions for the above automotive components available for our comparison. However, as advised by the Company, the purchase prices of materials and automotive components are expected to be determined with reference to the then prevailing market prices of similar materials and automotive components and we were provided the current market prices of similar materials and automotive components by the Company which were used to determine and estimate the Proposed Caps. We consider this approach and the terms of the transaction to be fair and reasonable.

We were advised by the Company that the prices of components are expected to remain fairly stable for the coming three financial years but it will be difficult for the Huachen Group to obtain the relevant components from independent suppliers with the required specifications and comparable quality. Meanwhile, Shanghai Hidea is specialised in the personalisation of certain models of Zhonghua sedans and it can make use of its knowledge and customise the required components for personalization based on the base unit supplied by the Huachen Group under the transaction (B3).

In respect of the Proposed Caps of RMB520,000, RMB520,000 and RMB520,000 to be sought for the purchase of automotive components by Shanghai Hidea from the Huachen Group for each of the three financial years ending 31 December 2017, we have obtained from the Company a list of estimated purchases of automotive components summing approximately up to the Proposed Caps. We understand from the Company that such list of estimate was prepared on the basis of multiplying the estimated price per unit of the individual components by the estimated quantity of the corresponding components. We consider such basis of preparation to be in line with market practice. On the other hand, we noted that the estimated price per unit will be determined based on the target costs in order to achieve an internal target profit margin. Such internal profit margin would be sufficient to cover the costs of the automotive components. Meanwhile, we note that the Group did not conduct any transaction under transaction (B3) during the Historical Period because there was a delay in the launch of the personalization program of Zhonghua sedans which offers additional features to the vehicles and we note that the Proposed Caps are set at a level similar to the Approved Caps which is virtually minimal as compared to other Proposed Caps. We were advised by the Company that the Group wishes to maintain flexibility to conduct such transaction in future and we consider this approach is acceptable.

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

- *Transaction (B4)*

Pursuant to the relevant framework agreement for transaction (B4), the materials and automotive components are to be purchased by Shenyang Jindong from the Huachen Group based on the prevailing market price of the materials and automotive components. Market price means the price at which the same type of products is obtained from independent third parties in the same area on normal commercial terms in the ordinary course of business. For the purpose of obtaining market prices, the Group will make reference to the price quotations obtained from other independent suppliers for the same products in determining the market price. In any event, terms of each purchase from the Huachen Group shall be no less favourable than the terms which can be obtained from independent suppliers for purchase of the same materials or automotive components.

As advised by the Company, certain press parts of the Huachen Group's Zhonghua sedans and part of the press parts of the Group's minibuses are produced in the Huachen Group's pressing workshop, while Shenyang Jindong will act as the collector of all scrap materials such as steel plates, defective components and non-metal packaging materials arising from the production process. Such scrap materials will be sold directly to other waste collectors for extracting useful materials. As a result, the production volume of the Zhonghua sedans and the Group's minibuses will affect the purchase volume of the scrap materials. We were also advised by the Company that Shenyang Jindong is a company specialised in collecting, recycling and trading scrap materials from automotives manufacturing processes and therefore it is more experienced than other common waste recycling companies in the industry. Shenyang Jindong also has the necessary business network to deal with such substantial amount of scrap materials.

As advised by the Company, Shenyang Jindong is the sole agent for the collection and recycling of the scrap materials for the Group and the Huachen Group since 2012. We were informed by the Company that Shenyang Jindong did not purchase scrap materials from independent third parties. Thus, there were no comparable transactions with independent third parties for the sale and purchase of scrap materials available for our comparison. As advised by the Company, due to the substantial amount and nature of scrap materials produced by the Huachen Group and the need of aligning the collection of scrap materials with the manufacturing processes to maintain the production efficiency of the Huachen Group, it is difficult to identify other competent companies. Furthermore, as Shenyang Jindong has been engaged in the trading of scrap materials from automotive manufacturing processes, the Company believes that scrap materials can be sold at more competitive prices and more efficiently. On the other hand, we note that the price of the scrap materials will be determined mainly according to its type and with reference to the market price of relevant scrap materials as quoted by an independent third parties in the recycling industry which is expected to remain relatively stable at those levels currently transacted amongst other independent waste collectors as quoted by the Company. As such, we have obtained and reviewed the quotation of similar scrap materials provided by an independent third party in the recycling industry. We have also reviewed the past transactions on a sampling basis. Upon comparison, we noted that the pricings for the scrap materials amongst other independent third parties are similar to the pricing of the scrap materials offered by the Huachen Group to Shenyang Jindong in the past transactions which is in line with the pricing policy. We were advised by the Company that the workflow under the transaction (B4) will enable Shenyang Jindong to reuse and recycle the scrap materials from production which is in line with the global trend of pursuing a more environmental-friendly production process with a view to save cost and preserve resources. In addition, due to the close proximity of the production plants of the Huachen Group and the Group in general, time and transportation cost can be saved in collecting the scrap materials.

In respect of the Proposed Caps of RMB390,700,000, RMB390,700,000 and RMB468,700,000 respectively to be sought for the purchase of automotive components by Shenyang Jindong from the Huachen Group for each of the three financial years ending 31 December 2017, we were advised by the Company that the Proposed Caps are determined with reference to (i) the expected amount of scrap materials to be produced by the Huachen Group; (ii) the type of scrap materials to be produced by the Huachen Group; (iii) demand of matching components by Huachen (transaction (A3)); and (iv) the prevailing market price of scrap materials. We were confirmed by the Company that based on their experience, those scrap materials comprise substantially steel and other metals which could be further processed into matching components or resold for a profit rather than being disposed. We were further advised by the Company that it is difficult to predict the prices of scrap materials between 2015 and 2017 precisely as the scrap materials are not yet produced and the Company has prudently assumed that the price will remain roughly stable at the current price level of the relevant waste metals as quoted by the Company from other independent waste collectors. As advised by the Company, the amount of scrap materials is generally proportional to the amount of raw materials and components purchased and therefore the expected transaction amounts for the scrap materials are determined after taking into account the production volume of sedans by the Huachen Group and the Group's minibuses for the coming three years. As advised by the Company, the actual transacted amount was lower than the Approved Caps because the actual production volume of Zhonghua sedans and the Group's minibuses dropped below the planned production volume during the Historical Period due to the introduction of the PRC government's policy (i) to promote the awareness of environmental friendliness and encourage the use of low emission economical vehicles and (ii) to tighten the PRC government's spending which resulted in a decrease in sales of automobiles in the industry (which included Zhonghua sedans produced by the Huachen Group and High Emission Model minibus produced by the Group) in the Historical Period. This in turn reduced the supply of scrap materials by the Huachen Group and the demand of Shenyang Jindong for the scrap materials supplied by the Huachen Group. Furthermore, in determining the Proposed Caps, the Company expected that the effect of the PRC government policy on the promotion of environmental friendliness and the reduction of the PRC government's spending will persist during the Review Period. The Group has taken into account the abovementioned PRC government policy in determining the Proposed Caps.

According to the statistics of China Association of Automobile Manufacturers (中國汽車工業協會), the unit sales of sedans in the PRC from 2009 to 2013 and the first ten months of 2014 are summarised below:

	Year ended 31 December					Ten months ended 31 October	
	2009	**2010**	**2011**	**2012**	**2013**	**2013**	**2014**
Sales volume ('000)	7,470	9,490	10,120	10,740	12,010	9,700	10,040
Growth (%)	48.2%	27.0%	6.6%	6.1%	11.8%	–	3.5%

From the above table, we note that the year-on-year growth in sales of sedans in the PRC was in the range of 6.1% to 48.2% from 2009 to 2013 and the year-on-year growth was 3.5% for the first ten months of 2014. Although it appears that the growth momentum of sedan in the PRC was not strong in 2014, having regard to the past trend of the growth in sales of sedans in the PRC, we are of the view that such growth may restore to its previous levels.

As advised by the Company, in view of the recovery of the momentum in the sales of sedans in the PRC and the launch of new series of Zhonghua sedans and the Group's minibus models, the demand for the press parts of the relevant Zhonghua sedans and the Group's minibuses will increase. On the other hand, the Group also anticipated that the production volume of the minibuses will reach more than 100,000 units in 2015 with an anticipated growth rate in the range of 10% to 18% in 2016 and 2017. As the scrap materials are resulted from the production of press parts for the use of the Zhonghua sedans and the Group's minibuses during the Review Period, this will lead to the increase in the estimated purchases of scrap materials by Shenyang Jindong. The Company expected that the effect on the demand for the scrap materials resulting from the anticipated growth in sales of the Zhonghua sedans amid the recovery of the momentum in the sales of sedans in the PRC and the launch of the new series of Zhonghua sedans and the Group's minibuses will outweigh the impact of the abovementioned PRC government policies. We also note the Proposed Caps for 2015 to 2016 are set at a level lower than the Approved Caps while the Proposed Cap for 2017 is set at a slightly higher level than the Approved Caps which we believe the Company has taken a prudent approach.

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

In summary, given that the relevant terms of individual agreement will be determined upon execution with reference to the then prevailing market conditions and the above pricing principles, we consider that the Continuing Connected Transactions are to be carried out on normal commercial terms and in the ordinary and usual course of business and the bases on which the Proposed Caps were determined are fair and reasonable and in the interests of the Shareholders and the Company as a whole.

3. The conditions

As the respective Proposed Caps will exceed HK$10 million and the relevant applicable ratios under Rule 14.07 of the Listing Rules exceed 5%, the Proposed Caps of the Continuing Connected Transactions are subject to reporting, announcement and independent shareholders approval requirements under Chapter 14A of the Listing Rules.

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

1. The Continuing Connected Transactions will be:

   (i) entered into by the Group in the ordinary and usual course of its business;

   (ii) conducted on normal commercial terms or better; and

   (iii) entered into in accordance with the terms of the relevant framework agreements governing the Continuing Connected Transactions that are fair and reasonable and in the interests of the Shareholders of the Company as a whole;

2. The transacted amount of the transactions under the Continuing Connected Transactions shall not exceed the Proposed Caps;

3. The Company will comply with all other relevant requirements under the Listing Rules.

Taking into account the conditions attached to the Continuing Connected Transactions, in particular (i) the restriction by way of setting the Proposed Caps; and (ii) the compliance with all other relevant requirements under the Listing Rules (which include the annual review and/or confirmation by the independent non-executive Directors and auditors of the Company on the actual execution of the Continuing Connected Transactions), we consider that the Company has taken appropriate 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, we are of the opinion that the terms of the Continuing Connected Transactions and the Proposed Caps are on normal commercial terms, in the ordinary and usual course of business of the Group, fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders, and we advise the Independent Shareholders, to vote in favour of the ordinary resolutions to be proposed at the Special General Meeting for approving the terms of the Continuing Connected Transactions and the Proposed Caps.

Yours faithfully,
For and on behalf of
Octal Capital Limited
Alan Fung — *Managing Director*
Louis Chan — *Director*

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

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	Type of interests	Number and class of Shares held		Approximate shareholding percentage *(Note 1)*	Number of share options granted (Percentage of the Company's issued share capital) *(Note 2)*
		Long Position	Short Position		
Mr. Wu Xiao An (also known as Mr. Ng Siu On)	Personal	6,750,000 ordinary	–	0.13%	–
Mr. Qi Yumin	Personal	–	–	–	4,500,000 (0.08%) *(Note 3)*
Mr. Wang Shiping	Personal	–	–	–	1,500,000 (0.02%) *(Note 3)*
Mr. Lei Xiaoyang	Personal	300,000 ordinary	–	0.005%	1,500,000 (0.02%) *(Note 3)*

Notes:

1. The percentage of shareholding is calculated on the basis of 5,025,769,388 Shares in issue as at the Latest Practicable Date.

2. The percentage represents the number of Shares which may fall to be allotted and issued upon exercise of any subscription rights attaching to the share options granted by the Company based on the 5,025,769,388 Shares in issue as at the Latest Practicable Date.

3. These share options are exercisable at any time during the 10-year period from 22 December 2008 at the subscription price of HK$0.438 per Share.

Associated Corporation of the Company

Name of Director	Name of associated corporation	Type of interests	Number and class of shares held Long Position	Number and class of shares held Short Position	Approximate shareholding percentage *(Note 1)*
Mr. Wu Xiao An	Xinchen China Power Holdings Limited ("**Power Xinchen**")	Trustee and interest in a controlled corporation *(Note 2)*	48,382,386 ordinary	–	3.75%
		Beneficial interest (in the fixed trust) *(Note 3)*	1,664,009 ordinary	–	0.12%
		Beneficial interest (in shares) *(Note 4)*	6,656,032 ordinary	–	0.51%

Notes:

1. The percentage of shareholding is calculated on the basis of 1,287,407,794 shares in issue of Power Xinchen as at the Latest Practicable Date.

2. As at the Latest Practicable Date, Power Xinchen was indirectly held as to 31.07% by the Company. The 48,382,386 shares in long position are interests of a fixed trust and a discretionary trust under an incentive scheme of Power Xinchen. These two trusts altogether held 48,382,386 shares of Power Xinchen. Mr. Wu Xiao An is one of the trustees of the aforementioned trusts. Mr. Wu also held 50% interests in Lead In Management Limited which is also a trustee of the two trusts. Accordingly, Mr. Wu was deemed or taken to be interested in the 48,382,386 shares of Power Xinchen, representing approximately 3.75% of its issued share capital as at the Latest Practicable Date.

3. Mr. Wu Xiao An was a beneficial owner of 1,664,009 shares of Power Xinchen, representing approximately 0.12% of its issued share capital as at the Latest Practicable Date, held under the fixed trust referred to in note (2) above.

4. Mr. Wu Xiao An held 6,656,032 shares of Power Xinchen in the capacity of beneficial owner, representing approximately 0.51% of its issued share capital as at the Latest Practicable Date.

Save as disclosed, as at the Latest Practicable Date, none of the Directors, chief executives and their respective associates had any interest or short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO); or were required, pursuant to Section 352 of the SFO to be entered into the register referred to therein; or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange.

3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as known to the Directors and chief executives of the Company, the following persons, other than a Director or chief executive of the Company had an interest or a short position in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was, directly or indirectly, interested in ten per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

	Number and class of Shares held/ Approximate shareholding percentage *(Note 1)*					
Name of Shareholders	**Long Position**	**%**	**Short Position**	**%**	**Lending Pool**	**%**
Huachen *(Note 2)*	2,135,074,988 ordinary	42.48	–	–	–	–
Templeton Asset Management Ltd. *(Note 3)*	895,901,031 ordinary	17.82	–	–	–	–

Notes:

1. The percentage of shareholding is calculated on the basis of 5,025,769,388 Shares in issue as at the Latest Practicable Date.

2. The 2,135,074,988 Shares in long position were held in the capacity as beneficial owner.

3. The 895,901,031 Shares in long position were held in the capacity as investment manager.

Save as disclosed herein, as at the Latest Practicable Date, there was no other person so far as is known to the Directors and chief executives of the Company, other than a Director or chief executive of the Company had an interest or a short position in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was, directly or indirectly, interested in ten per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

4. DIRECTORS' INTEREST IN ASSETS AND/OR ARRANGEMENT

As at the Latest Practicable Date:

(a) save as disclosed in this circular, there was no contract or arrangement entered into by any member of the Group subsisting in which any Director was materially interested and which was significant in relation to the business of the Group.

(b) save as disclosed in this circular, none of the Directors had any direct or indirect interest in any assets which had been acquired, disposed of by or leased to, or which were proposed to be acquired, disposed of by or leased to, the Company or any of its subsidiaries since 31 December 2013, the date to which the latest published audited consolidated financial statements of the Group were made up.

5. DIRECTORS' SERVICE CONTRACTS

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

6. EXPERT'S CONSENT AND QUALIFICATION

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

Name	Qualification
Octal Capital Limited	A corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO

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

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

7. COMPETING INTERESTS

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

8. 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 2013, being the date to which the latest audited consolidated financial statements of the Group were made up.

9. 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 Special General Meeting:

(a) the letter from the Independent Financial Adviser, the text of which is set out on pages 26 to 61 of this circular;

(b) the written consent from the Independent Financial Adviser referred to in paragraph 6 of this appendix;

(c) the letter of recommendation from the Independent Board Committee, the text of which is set out on page 25 of this circular; and

(d) the framework agreements setting out the terms of the Continuing Connected Transactions.

10. MISCELLANEOUS

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

Brilliance Auto
华 晨 汽 车

BRILLIANCE CHINA AUTOMOTIVE HOLDINGS LIMITED
(華晨中國汽車控股有限公司)*

(Incorporated in Bermuda with limited liability)

(Stock Code: 1114)

NOTICE IS HEREBY GIVEN that a special general meeting of Brilliance China Automotive Holdings Limited (the "**Company**") will be held at Tian & Di Function Room, 7th Floor, The Landmark Mandarin Oriental, 15 Queen's Road Central, The Landmark, Central, Hong Kong on Monday, 29 December 2014 at 9:00 a.m., for the purposes of considering and, if thought fit, passing, with or without modification, the following resolution as ordinary resolution of the Company:

ORDINARY RESOLUTION

"**THAT**

(a) the entering into of the framework agreements dated 12 November 2014 (the "**Huachen Framework Agreements**") (copies of which are marked "A" and produced to the meeting and signed by the Chairman for identification purposes) in respect of the continuing connected transactions to be entered into between the Company on the one part and 華晨汽車集團控股有限公司 (Huachen Automotive Group Holdings Company Limited*) ("**Huachen**") on the other part for the three financial years ending 31 December 2017 falling within paragraphs II.A (sale of automobiles, materials and/or automotive components to Huachen, its subsidiaries and 30%-controlled companies (the "**Huachen Group**")) and II.B (purchases of materials and automotive components from the Huachen Group) as set out in the paragraph headed "The Continuing Connected Transactions" in the Letter from the Board contained in the circular of the Company dated 10 December 2014 (the "**Circular**") be and are hereby approved, confirmed and ratified and the entering into of the relevant continuing connected transactions falling within the said paragraphs II.A and II.B pursuant to the Huachen Framework Agreements be and are hereby approved; and that the directors of the Company be and are hereby authorised to take such actions and to enter into such documents as are necessary to give effect to the abovementioned continuing connected transactions contemplated under the Huachen Framework Agreements; and

* *for identification purposes only*

(b) the proposed maximum annual monetary value of the continuing connected transactions contemplated under the Huachen Framework Agreements approved pursuant to paragraph (a) of this Resolution for each of the three financial years ending 31 December 2017 as set out in the paragraph headed "Proposed Caps" in the Letter from the Board contained in the Circular be and are hereby approved."

By order of the Board
Brilliance China Automotive Holdings Limited
Lam Yee Wah Eva
Company Secretary

Hong Kong, 10 December 2014

Registered office:
Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

Head office and principal place of business:
Suites 1602–05
Chater House
8 Connaught Road Central
Hong Kong

Notes:

1. A shareholder entitled to attend and vote at the above meeting may appoint one or more than one proxies to attend and to vote on a poll in his stead. On a poll, votes may be given either personally (or in the case of a shareholder being a corporation, by its duly authorised representative) or by proxy. A proxy need not be a shareholder of the Company.

2. Where there are joint registered holders of any share, any one of such persons may vote at the meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders are present at the meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.

3. In order to be valid, the form of proxy duly completed and signed in accordance with the instructions printed thereon together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy thereof must be delivered to the office of the Company's branch registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.

4. Completion and return of the form of proxy will not preclude shareholders from attending and voting in person at the meeting if shareholders so wish.

5. The ordinary resolution set out in this notice of special general meeting will be put to shareholders to vote taken by way of a poll.