THIS CIRCULAR 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 together with the accompanying form of proxy 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 64 of this circular.

A notice convening the Special General Meeting to be held at Pheasant – Jasmine Room, 1/F, Mandarin Oriental Hong Kong, 5 Connaught Road Central, Central, Hong Kong on Friday, 22 January 2021 at 9:00 am is set out on pages 71 to 73 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 (i.e. at or before 9:00 a.m. on Wednesday, 20 January 2021 (Hong Kong time)) 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.

PRECAUTIONARY MEASURES FOR THE SPECIAL GENERAL MEETING

To safeguard the health and safety of Shareholders and to prevent the spread of the novel coronavirus (COVID-19), the Company will implement the following precautionary measures at the Special General Meeting:

- compulsory body temperature check and submission of health declaration
- compulsory wearing of surgical face mask
- no provision of refreshments or drinks and no distribution of gifts

Any person who does not comply with the aforementioned precautionary measures or is subject to any health quarantine prescribed by the HKSAR Government may be denied entry into the meeting venue, at the absolute discretion of the Company to the extent as permitted by law. For the health and safety of Shareholders, the Company would like to remind Shareholders that they may appoint the chairman of the meeting as their proxy to vote on the resolution by returning the forms of proxy by the time specified above, instead of attending the meeting in person. Due to the constantly evolving COVID-19 pandemic situation, the Company may be required to change the special general meeting arrangements when appropriate. Shareholders should check the Company's website and/or the Stock Exchange's website for future announcements and updates on the special general meeting arrangements.

5 January 2021

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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;
"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;
"Director(s)"	the director(s) 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 and remodelling minibuses and sedans;
"Group"	the Company and its subsidiaries;
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong;
"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 is, through Liaoning Xinrui, interested in approximately 30.43% of the issued share capital of the Company;

"Huachen Approved Caps"	the estimated annual monetary values of the Huachen Non-Exempted CCTs for the three financial years ending 31 December 2020 which have been approved by independent Shareholders at the special general meeting held on 21 December 2017;
"Huachen Group"	Huachen, its subsidiaries and, for the purpose of this circular, shall include its 30%-controlled companies;
"Huachen Non-Exempted CCTs"	for the purpose of this circular, the transactions between members of the Group and the Huachen Group falling under the Huachen Purchase Framework Agreement and the Huachen Sale Framework Agreement;
"Huachen Non-Exempted Proposed Caps"	for the purpose of this circular, the estimated annual monetary values of the Huachen Non-Exempted CCTs for the three financial years ending 31 December 2023;
"Huachen Purchase Framework Agreement"	the agreement dated 18 November 2020 entered into by and between the Company and Huachen in relation to the purchases of materials and automotive components by members of the Group from members of the Huachen Group;
"Huachen Sale Framework Agreement"	the agreement dated 18 November 2020 entered into by and between the Company and Huachen in relation to the sale of automobiles, materials and automotive components by members of the Group to members of the Huachen Group;
"Independent Board Committee"	the independent committee of the 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 Huachen Non-Exempted CCTs; and (ii) the Huachen Non-Exempted Proposed Caps;

"Independent Financial Adviser"	Octal Capital Limited, a corporation licensed to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed by the Company for the purpose of advising the Independent Board Committee and the Independent Shareholders as to (i) the Huachen Non-Exempted CCTs; and (ii) the Huachen Non-Exempted Proposed Caps;
"Independent Shareholders"	Shareholders other than Huachen, Liaoning Xinrui and their respective associates;
"Latest Practicable Date"	29 December 2020, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein;
"Liaoning Xinrui"	遼寧鑫瑞汽車產業發展有限公司 (Liaoning Xinrui Automotive Industry Development Co., Ltd.*), a wholly-owned subsidiary of Huachen and the controlling shareholder of the Company which as at the Latest Practicable Date is interested in approximately 30.43% of the issued share capital of the Company;
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange;
"MPV"	multi-purpose vehicle;
"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;
"RBJAC"	Renault Brilliance Jinbei Automotive Company Limited (華晨雷諾金杯汽車有限公司), a sino-foreign equity joint venture established in the PRC where the effective equity interest is owned as to 51% by the Company and as to 49% by Renault SAS;
"RMB"	renminbi, the lawful currency of the PRC;

"SFO"	the Securities and Futures Ordinance (Chapter 571 Laws of Hong Kong), as amended from time to time;
"Shareholder(s)"	holder(s) of Shares;
"Shares"	shares at par value of US$0.01 each in the share capital of the Company;
"Shenyang Jindong"	瀋陽華晨金東實業發展有限公司 (Shenyang Brilliance Jindong Development Co., Ltd.*), an equity joint venture established in the PRC on 18 April 2002 and a wholly-owned subsidiary of the Company since 1 November 2017. The principal activity of Shenyang Jindong is the trading of automotive components;
"Special General Meeting"	the special general meeting of the Company to be convened for the purpose of considering, and if thought fit, approving (i) the Huachen Non-Exempted CCTs; and (ii) the Huachen Non-Exempted Proposed Caps;
"Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"subsidiary"	has the meaning ascribed thereto under the Companies Ordinance;
"US$"	United States dollars, the lawful currency of the United States of America;
"Zhonghua Business"	the business of the manufacture and sale of Zhonghua sedans operated by the Huachen Group; and
"%"	per cent.

* *for identification purposes only*

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)

Executive Directors:
Mr. Wu Xiao An
(also known as Mr. Ng Siu On) *(Chairman)*
Mr. Yan Bingzhe *(Chief Executive Officer)*
Mr. Zhang Wei
Mr. Sun Baowei
Ms. Ma Nina

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

Registered Office:
Victoria Place
5th Floor
31 Victoria Street
Hamilton HM10
Bermuda

Head Office and Principal Place of Business in Hong Kong:
Suites 1602-05
Chater House
8 Connaught Road Central
Hong Kong

5 January 2021

To the Shareholders

Dear Sir or Madam

CONTINUING CONNECTED TRANSACTIONS

I. INTRODUCTION

The Board refers to the announcement of the Company dated 18 November 2020 in relation to, among other things, the entering into of the Huachen Purchase Framework Agreement and the Huachen Sale Framework Agreement, the Huachen Non-Exempted CCTs and the Huachen Non-Exempted Proposed Caps.

Huachen is a connected person of the Company within the meaning of the Listing Rules. Accordingly, the sale of automobiles, materials and/or automotive components to the Huachen Group and the purchase of materials and/or automotive components from the Huachen Group constitute continuing connected transactions under Chapter 14A of the Listing Rules. The Huachen

Non-Exempted CCTs as set out in the paragraph headed "The Continuing Connected Transactions with Huachen" in this circular should be subject to reporting, announcement and Independent Shareholders' approval requirements as set out in Chapter 14A of the Listing Rules.

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 Huachen Non-Exempted CCTs and the Huachen Non-Exempted Proposed Caps. The letter from the Independent Board Committee setting out its advice and recommendations to the Independent Shareholders on the Huachen Non-Exempted CCTs and the Huachen Non-Exempted 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 Huachen Non-Exempted CCTs and the Huachen Non-Exempted 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 Huachen Non-Exempted CCTs and the Huachen Non-Exempted Proposed Caps is set out on pages 26 to 64 of this circular.

The purposes of this circular are, among other things: (i) to provide Shareholders with further details on the Huachen Purchase Framework Agreement and the Huachen Sale Framework Agreement, the Huachen Non-Exempted CCTs and the Huachen Non-Exempted Proposed Caps; (ii) to set out the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the matters set out in (i); (iii) to set out the recommendation and opinion of the Independent Board Committee to the Independent Shareholders after taking into consideration the advice of the Independent Financial Adviser in relation to the matters set out in (i); and (iv) to give Shareholders the notice of the Special General Meeting at which the ordinary resolution will be proposed to approve the matters set out in (i).

II. THE CONTINUING CONNECTED TRANSACTIONS WITH HUACHEN

Background of the Huachen Non-Exempted CCTs

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

Details of the Huachen Non-Exempted CCTs

Set out below are the details of the Huachen Non-Exempted CCTs:

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

Vendor	:	The Group
Purchaser	:	Huachen Group
Agreement	:	On 18 November 2020, the Company and Huachen entered into the Huachen Sale Framework Agreement in relation to the sale of automobiles, materials and/or automotive components by members of the Group to members of the Huachen Group for a period of three financial years commencing from 1 January 2021 to 31 December 2023.
Pricing policy	:	The pricing for each sale of the 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".

With regard to pricing term (i), this applies to the sale of automobiles by RBJAC to the Huachen Group and sale of certain materials such as decorative strips, side corner window assemblies and sealing strips by members of the Group to the Huachen Group. As the automobiles manufactured by RBJAC and materials such as decorative strips, side corner window assemblies and sealing strips produced by members of the Group are also for sale to independent third parties, the pricing for each sale of automobiles by RBJAC and materials such as decorative strips, side corner window assemblies and sealing strips by members of the Group to the Huachen Group will be determined by reference to the prevailing market price of the automobiles and materials concerned.

Market price means the price at which the same or comparable type of products is offered 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 comparable 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 comparable products. In any event, terms of each sale to the Huachen Group shall be no more favourable than the terms offered to independent customers for sale of comparable products.

With regard to pricing term (ii), this applies to the sale of materials or automotive components by members of the Group to the Huachen Group. The materials and automotive components to be 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 entirely compatible 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.

Cost plus is determined based on the cost for manufacturing the required specification and quantity of the materials or automotive components to be sold to the Huachen Group plus a margin, mostly within a range of 1% to 10% depending on the particular products and size of the sales order etc, 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 cost, procurement cost, labour, taxation, management fee and the amortisation to the production plant and equipment, etc. In determining the margin to be used, the Group will mainly make reference to 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 RBJAC and sale of certain materials such as decorative strips, side corner window assemblies and sealing strips by members of the Group where the pricing will be based on prevailing market price, the pricings of all other transactions under this category of the Huachen Non-Exempted CCTs will be determined on the cost plus basis.

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

Vendor	:	Huachen Group
Purchaser	:	The Group
Agreement	:	On 18 November 2020, the Company and Huachen entered into the Huachen Purchase Framework Agreement in relation to the purchases of materials and/or automotive components by members of the Group from members of the Huachen Group for a period of three financial years commencing from 1 January 2021 to 31 December 2023.
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 at a price to be agreed between the Group and the Huachen Group upon the basis of the principle of "cost plus".

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, material cost, labour cost, 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.

In the course of production, certain members of the Group will purchase materials and automotive components from the Huachen Group for further processing and will sell back the press parts and welding parts to the Huachen Group for the latter's production of Zhonghua sedans. In addition, a member of the Group will collect scrap materials such as scrap steel, defective components and non-metal packaging materials from Huachen and sell directly to other waste collectors for extracting useful materials. The pricing for each purchase of materials and automotive components by members of the Group from the Huachen Group will be determined by reference to the cost plus basis.

The Huachen Purchase Framework Agreement and the Huachen Sale Framework Agreement only set out the overriding and major terms of the transactions to be carried out by the relevant parties. Details of the terms and conditions (including payment mode and payment terms) for the transactions contemplated under the Huachen Purchase Framework Agreement and the Huachen Sale Framework Agreement 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 Huachen Purchase Framework Agreement and the Huachen Sale Framework Agreement shall, subject to assessments based on the payment policies of the relevant vendor at the material time, 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 the Group

The Group is engaged in the manufacture and sale of automobiles and automotive components through its major operating subsidiaries including RBJAC, and the provision of auto financing service to customers and dealers through its subsidiary. In addition, the Group also owns a 50% equity interest in its major joint venture BMW Brilliance Automotive Ltd. which is engaged in the manufacture and sale of BMW vehicles in the PRC.

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 Huachen Non-Exempted CCTs are 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 is, through its wholly-owned subsidiary, Liaoning Xinrui, interested in 1,535,074,988 Shares (representing approximately 30.43% of the entire issued share capital of the Company). Being a substantial Shareholder, Huachen is considered as a connected person of the Company under the Listing Rules. Hence, the Huachen Non-Exempted CCTs constitute continuing connected transactions under Chapter 14A of the Listing Rules.

As some of the applicable percentage ratios (other than the profits ratio) for the Huachen Non-Exempted Proposed Caps in respect of the Huachen Non-Exempted CCTs are more than 5% and the Huachen Non-Exempted Proposed Caps are more than HK$10 million, the Huachen Non-Exempted CCTs are subject to reporting, announcement and shareholders' approval requirements as set out in Chapter 14A of the Listing Rules. Huachen is considered to be interested in the Huachen Non-Exempted CCTs between the Group and the Huachen Group, hence Huachen, Liaoning Xinrui and their respective associates will abstain from voting on the ordinary resolutions to be proposed at the Special General Meeting in respect of the Huachen Non-Exempted CCTs and the Huachen Non-Exempted Proposed Caps. As at the Latest Practicable Date, save for Liaoning Xinrui, none of the associates of Huachen is interested in any Shares.

Mr. Yan Bingzhe is a director of Huachen. Due to common directorship, Mr. Yan Bingzhe abstained from voting on the board resolutions approving the Huachen Non-Exempted CCTs. Save as aforesaid, no Director has a material interest in the said Huachen Non-Exempted CCTs.

III. HUACHEN NON-EXEMPTED PROPOSED CAPS AND HISTORICAL FIGURES

Resolution(s) in respect of the Huachen Non-Exempted CCTs and the Huachen Non-Exempted Proposed Caps shall be put forward to the Independent Shareholders at the Special General Meeting seeking their approval for the Huachen Non-Exempted Proposed Caps set out opposite to categories A and B in the following table. The Company shall comply with the applicable requirements under the Listing Rules in the event that any of the Huachen Non-Exempted Proposed Caps exceeds the monetary value set out in the said table below.

Huachen Approved Caps and historical figures

The following table sets out the Huachen Approved Caps and the actual sales/purchases of the Huachen Non-Exempted CCTs during the three financial years ended/ending 31 December 2020:

	For the financial year ended/ ending 31 December					
	2018		2019		2020	
Huachen Non-Exempted CCTs	Huachen Approved Cap *(RMB'000)*	Actual sales/ purchases *(RMB'000)*	Huachen Approved Cap *(RMB'000)*	Actual sales/ purchases *(RMB'000)*	Huachen Approved Cap *(RMB'000)*	Actual sales/ purchases *(RMB'000)* *(For the six months ended 30 June 2020)*
A Sale of automobiles, materials and/ or automotive components by members of the Group to members of the Huachen Group	3,698,890	575,853	4,931,890	472,629	6,138,590	109,632
B Purchases of materials and/ or automotive components by members of the Group from members of the Huachen Group	1,638,200	383,025	2,406,400	310,457	3,836,700	83,355

Due to various factors such as slow down in the global economy, change in product mix of the Group or the counterparties, change in momentum of the automobile industry, and change in production flow of the Group or the counterparties which triggers a decrease in the demand for automotive components, the actual sales/purchases in respect of the continuing connected transactions for the three financial years ending 31 December 2020 were less than the Huachen Approved Caps for the three financial years ending 31 December 2020.

Huachen Non-Exempted Proposed Caps

The following table sets out the Huachen Non-Exempted Proposed Caps of the Huachen Non-Exempted CCTs for the three financial years ending 31 December 2023:

		For the financial year ending 31 December		
		2021	**2022**	**2023**
Huachen Non-Exempted CCTs		**Huachen Non-Exempted Proposed Cap** *(RMB'000)*	**Huachen Non-Exempted Proposed Cap** *(RMB'000)*	**Huachen Non-Exempted 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)*	1,000,361	1,384,934	2,112,856
B	Purchases of materials and/or automotive components by members of the Group from members of the Huachen Group *(Note)*	295,438	369,438	499,438

Note: Pursuant to the Huachen Purchase Framework Agreement and the Huachen Sale Framework Agreement, the Company is entitled to procure any member of the Group to perform the Group's obligation to purchase or sell (as the case may be) the automobiles, materials and/or automotive components (as the case may be) from or to the Huachen Group (as the case may be) 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 Huachen Non-Exempted Proposed Caps

During the two financial years ended 31 December 2019 and the six months ended 30 June 2020, the unit sales of sedan sold by the Huachen Group recorded a constant decrease as a result of (i) the imposition of government policies and subsidies in exemption on vehicle purchase tax for the period from 2014 to 2020 and recently extended to 2022, which provided extra incentives for change in consumers' habits from traditional internal combustion engine vehicles into new energy vehicles; and (ii) rising popularity and availability of car-sharing and ride-hailing services which may hinder the need for individuals to buy vehicles. As a result of the fall in production of the sedan, the amount of materials and automotive components purchased by/from the Huachen Group from/by the Group correspondingly decreased during the two financial years ended 31 December 2019 and the six months ended 30 June 2020. Furthermore, due to the implementation of the policy in respect of strict control on the production and registration of minibuses and other motor vehicles released by the PRC government on 1 July 2016 as set out in the "Circular on Strengthening the Production and Registration Management of Minibuses and Motorcycles"《關於加強小微型面包車、摩托車生產和登記管理工作的通知》and the new environmental standard under the "Limits and Measurement Methods for Emissions from Light-Duty Vehicles"《輕型汽車污染物排放限值及測量方法(中國第六階段)》(the "**China VI Emission Standards**"), the Group's certain models of light-duty vehicles powered primarily by gasoline will have to be redesigned and undergo relevant tests to ensure compliance with the new emission standards. Hence the actual amount of minibuses sold to the Huachen Group by RBJAC as well as the materials and automotive components purchased from the Huachen Group by the Group decreased during the two financial years ended 31 December 2019 and the six months ended 30 June 2020. These factors inevitably led to a decrease in the total amount of sale/purchase of automobiles, materials and/or automotive components by members of the Group to/from members of the Huachen Group during the two financial years ended 31 December 2019 and the six months ended 30 June 2020. In response to the said policies, the Group has redesigned and released several uplifted models of minibus to the market in 2020 and launched a new JinBei model in late November 2020. Subject to market conditions, RBJAC also proposes to launch new models of Renault "Master" and "Trafic", which proportionately use less materials and automotive components purchased from the Huachen Group, during the three financial years ending 31 December 2023 and intends to sell the JinBei and Renault models automobiles to the Huachen Group to make use of the distribution network of Huachen. All the aforesaid models fulfilled the China VI Emission Standards. Furthermore, potential EV products might also be launched to the market during the three financial years ending 31 December 2023. In view of the launch and scheduled launch of these uplifted model and new models, the amount of sale/purchase of automobiles, materials and/or automotive components by members of the Group to/from members of the Huachen Group during the financial years ending 31 December 2023 is anticipated to have a large increment from that of the two financial years ended 31 December 2019 and the six months ended 30 June 2020.

In determining the Huachen Non-Exempted Proposed Caps for the Huachen Non-Exempted CCTs for the three financial years ending 31 December 2023, 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 anticipated market condition of the automobile industry in the PRC in the three financial years ending 31 December 2023;

– the anticipated sales of automobiles by the Group in the coming three financial years ending 31 December 2023;

– the anticipated growth in the planned procurement volume of the automotive components such as the interior trim parts and mould components for the relevant Zhonghua sedans for the three financial years ending 31 December 2023 as compared to those for the financial year ended 31 December 2019 and financial year ending 31 December 2020;

– the estimated sales of the Group's automobiles in 2021 with an anticipated growth rate of approximately 35.0% and 54.1% in 2022 and 2023 respectively;

– the launch of a new JinBei model in late November 2020; and the change of production schedule for proposed launch of new models of Renault "Master" and "Trafic" by RBJAC from the financial year ended 31 December 2019 and financial year ending 31 December 2020 to the three financial years ending 31 December 2023, subject to market conditions;

– changes in product mix in response to market demand 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;

– the lower level in demand for materials and automotive components from the Huachen Group as compared to the approved cap for the two financial years ended 31 December 2019 and financial year ending 31 December 2020 and the anticipated sale of Zhonghua sedans in the PRC and overseas in the coming three financial years ending 31 December 2023;

– the expected rate of usage and demand for the goods during the term of the Huachen Non-Exempted CCTs estimated based on the historical transaction volume and amount where available;

– the expected prices for the relevant goods by reference to the historical prices and applicable rates;

– the historical figures of the Huachen Non-Exempted CCTs (where applicable); and

– a certain percentage of buffer for potential increment in the transaction volume.

To ensure that the actual prices for the transactions under each of the Huachen Purchase Framework Agreement and the Huachen Sale Framework Agreement will be no less favourable to the Group than that available from independent third parties (where available), members of the Group will conduct regular checks to review and assess whether the Huachen Non-Exempted CCTs have been entered into in accordance with the terms of the Huachen Purchase Framework Agreement and the Huachen Sale Framework Agreement. In addition, the auditors of the Company will be engaged to review the Huachen Non-Exempted CCTs to assess whether the Huachen Non-Exempted CCTs have been carried out in accordance with the pricing policies of the Group.

IV. REASONS FOR THE HUACHEN NON-EXEMPTED CCTS

The Group is engaged in the manufacture and sale of minibuses, MPVs and automotive components through its major operating subsidiaries. The manufacture and sale of minibuses by the Group is carried out by RBJAC, which is effectively owned as to 51% by the Company and 49% by Renault SAS. 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 RBJAC or the Huachen Group for use in its assembly process as an automobile manufacturer. All the Huachen Non-Exempted CCTs are carried out in the ordinary course of business of the Group and are expected to continue to be carried out in the three financial years ending 31 December 2023. Accordingly, the Board considers it appropriate to seek Independent Shareholders' approval for the Huachen Non-Exempted CCTs and the Huachen Non-Exempted Proposed Caps for each of the three financial years ending 31 December 2023.

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 certain processed automotive components to members of the Huachen Group which, as manufacturers of automobiles or automotive components, will use the processed automotive components in their assembly process.

In addition, the Group has been purchasing from the Huachen Group certain core automotive components which are specially tailor-made for the use of RBJAC's minibuses. Such purchase facilitates the Group to have core automotive components with stable quality, and ensures the technology used in the production of such core automotive components will remain 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 Huachen Non-Exempted CCTs 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.

Centralisation of purchases – Instead of having each member of the Group purchasing the materials and automotive components required for its own use, the Group centralised the purchases of materials and automotive components which are purchased in batches. This is because the need of an automotive component manufacturer to purchase materials and automotive components depends on the expected demand for automobiles in the market and also the 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. Centralisation of purchases of materials and automotive parts enables the Group to enjoy better pricing for volume purchases. The Huachen Group has centralised the sourcing of steel. By purchasing steel plates from the Huachen Group in batches, Dongxing Automotive can enjoy a lower purchase price as the Huachen Group offers Dongxing Automotive a bulk purchase discount such that the price offered by Huachen is more favourable than other suppliers.

Continuous co-operation – The Group has been purchasing certain raw materials and automotive components from the Huachen Group over the years and has established a close relationship with the Huachen Group. This strong relationship not only secures a stable supply of raw materials, automotive components and services to the Group, but also ensures the quality and consistencies in the raw materials and automotive components purchased are maintained. As certain materials and automotive components purchased from the Huachen Group will be processed into core automotive components for selling back to the Huachen Group for use in their automobile manufacturing, purchasing raw materials and automotive components from the Huachen Group would also assures that the standard of the processed core automotive components will meet the requirements set by the Huachen Group.

Taking into account that RBJAC does not have its own stamping workshop, and the quality and delivery of press parts from the Huachen Group is stable and guaranteed, RBJAC will continue to purchase press parts from the Huachen Group.

On the other hand, certain subsidiaries of the Group are established for the manufacture of automotive components only for the use of the Group's minibuses and the Huachen Group's 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.

For instance, as mentioned above, Dongxing Automotive purchases steel plates from the Huachen Group at a bulk purchase discount and then processes the steel plates into appropriate press parts and welding parts, some of which will be sold to the Huachen Group for the latter's production of Zhonghua sedans.

Certain welding assemblies are specifically processed by Shenyang Jindong for use of certain models of Zhonghua sedans manufactured by the Huachen Group. The welding assemblies and the related 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 of the Zhonghua Business.

The Group has been selling certain models of vehicles to the Huachen Group for sales distribution and also for Huachen's further processing into special vehicles over the years. A new JinBei model was introduced to the market in late November 2020 and it is expected that new models of Renault Master, Trafic and also the potential EV products might also be introduced to the market in the forthcoming three years. Accordingly, the Company plans to sell certain automobiles to the Huachen Group to make use of the distribution network of Huachen for sale of JinBei and Renault models automobiles.

The transactions contemplated under each of the Huachen Purchase Framework Agreement and the Huachen Sale Framework Agreement are expected to be of a recurrent nature and will occur on a regular and continuing basis in the ordinary and usual course of business of the Group according to its needs and are carried out on normal commercial terms and reasonably priced. The Board believes that the goods to be provided by the Huachen Group, which are tailored to the unique requirements and circumstances of the Group, would enable the Group to benefit from the expertise and experience of the Huachen Group in the automobile industry. They will have no adverse effect on the Company and will not impair the interests of the Shareholders. The pricing policy and pricing of the connected transactions are based on open, fair and impartial rates and are agreed upon the negotiation of the parties.

In the premises, all the Directors (including the independent non-executive Directors) consider that the Huachen Non-Exempted CCTs are in the interests of the Company and the Shareholders as a whole; on normal commercial terms and in the ordinary and usual course of business of the Group; and that the terms of the Huachen Purchase Framework Agreement and the Huachen Sale Framework Agreement (including the Huachen Non-exempted Proposed Caps) to be fair and reasonable.

V. INTERNAL CONTROL MEASURES

The Company has established the following internal control measures to ensure that the transactions entered into under the Huachen Purchase Framework Agreement and the Huachen Sale Framework Agreement will be conducted in accordance with the pricing policies of the Group and the respective terms of such agreements are on normal commercial terms and in the ordinary and usual course of business of the Group and that the terms shall not be less favourable than the terms which can be obtained from an independent third party for the provision/purchase of similar goods so far as the Company is concerned. Such internal control measures mainly include the following:

a) the final pricing and other major terms of the Huachen Non-Exempted CCTs are required to be approved by the senior management of the various departments involved such as the department head, chief financial officer and/or the general manager of the relevant members of the Group 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;

b) the managers of the relevant members of the Group will review the terms of the transactions undertaken pursuant to the Huachen Purchase Framework Agreement and the Huachen Sale Framework Agreement on a regular basis to ensure the prices for the goods to be purchased thereunder will reflect the pricing policies of the Group and will be on arm's length basis under normal commercial terms;

c) the finance department of the Company will review, on a monthly basis, the transaction amount under each of the Huachen Purchase Framework Agreement and the Huachen Sale Framework Agreement and submit such information for the management's review, including but not limited to the historical transaction amount, to ensure that the relevant transactions are carried out in accordance with the terms of the Huachen Purchase Framework Agreement and the Huachen Sale Framework Agreement and will not exceed the respective annual caps; and

d) the auditors of the Company and the independent non-executive Directors will conduct annual review on the transactions entered into under the Huachen Purchase Framework Agreement and the Huachen Sale Framework Agreement in accordance with the Listing Rules.

Reference is made to the announcement of the Company dated 20 November 2020 whereby it was announced that the Company was informed by Huachen that Huachen had received the civil ruling issued by Shenyang Intermediate People's Court, which has accepted the application made by Gezhi Automobile Technology Co., Ltd.* (格致汽車科技股份有限公司) for the restructuring of Huachen. Up to the Latest Practicable Date, the Company is not aware of any suspension in operation of the Huachen Group. In spite of the possible restructuring of Huachen, as a new JinBei model has been introduced to the market in late November 2020 and it is also expected that new models of Renault Master, Trafic and the potential EV products might also be introduced to the market in the forthcoming three years, the Group intends to, subject to compliance with applicable internal control measures adopted by the Group at the material time, sell certain automobiles to the Huachen Group to make use of the distribution network of Huachen for sale of JinBei and Renault models automobiles. The Group also intends to sell certain spare parts to the Huachen Group for the latter's after sales services. In view of the uncertainties attached to the possible restructuring of Huachen, the management of the Company will adopt a prudent approach and impose stringent interim internal control measures in relation to all transactions with Huachen to safeguard the interest of the Company and the Shareholders. The management of the Company will communicate with the management team of the relevant subsidiaries if there is any update on the status of the possible restructuring of Huachen, and will regularly review the terms and status of recent transactions with the Huachen Group and formulate strategic measures where appropriate. The Group is also encouraged to only accept purchase orders of automobiles and certain components from the Huachen Group upon receipt of full upfront payment during the interim period until the proposed restructuring of Huachen has been settled. Similar to previous years and as part of its ordinary and usual course of business, the Group intends to sell certain materials and automotive components to the Huachen Group for its production of automobiles in the forthcoming three years. The Group plans to produce and keep stock of materials and automotive components at minimum level to avoid stockpiling.

In relation to purchases to be made by the Group from the Huachen Group under the Huachen Purchase Framework Agreement, the Group is encouraged to, where possible, place smaller but more frequent purchase orders to reduce possible interruption in delivery.

The management of the Company will continue to closely monitor the development of the restructuring of Huachen and will implement additional measures and internal control policies to safeguard the interest of the Company and the Shareholders when necessary.

By implementing the above procedures and measures, the Directors consider that the Company has established an adequate internal control system to ensure the relevant continuing connected transactions under the Huachen Purchase Framework Agreement and the Huachen Sale Framework Agreement will be conducted in accordance with the terms of such agreements, on normal commercial terms (or terms no less favourable than the terms which can be obtained from an independent third party for the provision/purchase of similar goods) and in accordance with the pricing policies of the Group, which are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

VI. GENERAL

The Independent Board Committee has been established to advise the Independent Shareholders as to (i) the Huachen Non-Exempted CCTs; and (ii) the Huachen Non-Exempted Proposed Caps.

The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in respect of (i) the Huachen Non-Exempted CCTs; and (ii) the Huachen Non-Exempted Proposed Caps.

VII. SPECIAL GENERAL MEETING

A notice convening the Special General Meeting of the Company to be held at Pheasant – Jasmine Room, 1/F, Mandarin Oriental Hong Kong, 5 Connaught Road Central, Central, Hong Kong on Friday, 22 January 2021 at 9:00 a.m. for the purpose of considering, and if thought fit, the passing of the ordinary resolution set out on pages 71 to 73 of this circular. Any shareholder with a material interest in the transactions will not vote.

Enclosed is 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 (i.e. at or before 9:00 a.m. on Wednesday, 20 January 2021 (Hong Kong time)) 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.

VIII. RECOMMENDATIONS

The text of a letter to the Independent Shareholders from the Independent Board Committee containing its recommendation in relation to each of the Huachen Non-Exempted CCTs and the Huachen Non-Exempted 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 Huachen Non-Exempted CCTs and the Huachen Non-Exempted Proposed Caps, which is set out on pages 26 to 64 of this circular, the Independent Board Committee is of the opinion that the terms of each of the Huachen Non-Exempted CCTs and the Huachen Non-Exempted 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 Huachen Non-Exempted CCTs and the Huachen Non-Exempted 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.

IX. ADDITIONAL INFORMATION

Your attention is drawn to the additional information contained in the appendices to this circular.

Yours faithfully
By Order of the Board
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)

5 January 2021

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 Huachen Non-Exempted CCTs and the Huachen Non-Exempted Proposed Caps, details of which are set out in the Letter from the Board in the circular to Shareholders dated 5 January 2021 (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 Huachen Non-Exempted CCTs and the Huachen Non-Exempted 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 64 of the Circular, we are of the opinion that the Huachen Non-Exempted CCTs and the Huachen Non-Exempted Proposed Caps are in the interests of the Company and the Shareholders as a whole and that the Huachen Non-Exempted CCTs and the Huachen Non-Exempted Proposed Caps are on normal commercial terms, in the ordinary and usual course of business of the Company and 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 Huachen Non-Exempted CCTs and the Huachen Non-Exempted Proposed Caps.

Yours faithfully,
For and on behalf of the Independent Board Committee

Xu Bingjin	**Song Jian**	**Jiang Bo**
Independent non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*

* *for identification purposes*

The following is the letter of advice from Octal Capital Limited to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Continuing Connected Transactions prepared for the purpose of inclusion in this circular.

八方金融有限公司
OCTAL Capital Limited

Octal Capital Limited
801-805, 8th Floor, Nan Fung Tower
88 Connaught Road Central
Hong Kong

5 January 2021

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS

We refer to our engagement to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Huachen Non-Exempted CCTs and the Huachen Non-Exempted Proposed Caps, particulars of which are set out in the letter from the Board (the "**Letter from the Board**") of the circular issued by the Company to the Shareholders dated 5 January 2021 (the "**Circular**") and in which this letter is reproduced. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as defined in the Circular.

References are made to the announcements of the Company dated 15 November 2017, 20 December 2017 and 6 December 2018 in relation to, among other things, certain agreements entered into between the Company and Huachen which constitute continuing connected transactions of the Company (the "**Previous CCTs**"). Certain of such agreements will expire on 31 December 2020. As the parties intend to continue to carry out transactions of a similar nature from time to time after 31 December 2020, on 18 November 2020, the Company has entered into the Huachen Purchase Framework Agreement and the Huachen Sale Framework Agreement (the "**Huachen CCT Agreements**") with Huachen so as to continue to conduct the Huachen Non-Exempted CCTs for a period of three financial years commencing from 1 January 2021 to 31 December 2023.

As at the Latest Practicable Date, Huachen, through its wholly-owned subsidiary, Liaoning Xinrui, is interested in 1,535,074,988 Shares (representing approximately 30.43% 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. Hence, the Huachen Non-Exempted CCTs constitute continuing connected transactions under Chapter 14A of the Listing Rules. As some of the applicable percentage ratios (other than the profits ratio) for the Huachen Non-Exempted Proposed Caps in respect of the Huachen Non-Exempted CCTs are more than 5% and the Huachen Non-Exempted Proposed Caps are more than HK$10 million, the Huachen Non-Exempted CCTs are subject to reporting, announcement and shareholders' approval requirements as set out in Chapter 14A of the Listing Rules.

The Independent Board Committee has been established to advise the Independent Shareholders as to (i) the Huachen Non-Exempted CCTs; and (ii) the Huachen Non-Exempted Proposed Caps.

We are not connected with the Directors, chief executive and substantial shareholders of the Company or Huachen or any of their respective subsidiaries or associates and are therefore considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders. As at the Latest Practicable Date, we were not aware of any relationships or interests between the Group and us during the past two years immediately preceding the Latest Practicable Date, or any other parties that could be reasonably regarded as hindrance to our independence to act as the independent financial adviser to the Independent Board Committee and the Independent Shareholders. Besides, apart from the advisory fee and expenses payable to us in connection with our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders, no arrangement exists whereby we shall receive any other fees or benefits from the Group. Accordingly, we consider ourselves eligible to act as the independent financial adviser to the Company under the requirements of the Listing Rules.

In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Circular and have assumed that all information and representations made or referred to in the Circular were true at the time they were made and continue to be true as at the Latest Practicable Date. We have also relied on our discussion with the Directors and management of the Group regarding the Company and the relevant framework agreements with the Huachen Group, including the information and representations contained in the Circular. We have also assumed that all statements of belief, opinion and intention made by the Directors and management of the Group in the Circular were reasonably made after due enquiry. We consider that we have reviewed sufficient information to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have no reason to suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in the Circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and management of the Group. We have not, however, conducted an independent in-depth investigation into the business and affairs of the Group, the Huachen Group and their respective associates nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion regarding the terms of the Huachen Non-Exempted CCTs and the Huachen Non-Exempted Proposed Caps and giving our independent financial advice to the Independent Board Committee and the Independent Shareholders, we have considered the following principal factors and reasons:

1. Background of and reasons for the Huachen Non-Exempted CCTs

1.1 Background of the Group and Huachen

The Group is engaged in the manufacture and sale of minibuses, MPVs and automotive components through its major operating subsidiaries including RBJAC, and the provision of auto financing service to customers and dealers through its subsidiary. During the course of its business, the Group acquires materials and automotive components from the Huachen Group, sells automobiles, materials and automotive components to the Huachen Group on an ongoing basis. The manufacturing facilities of the Group are located in Shenyang, the PRC.

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, the manufacture and sale of Zhonghua sedans (the "**Zhonghua Business**"), and refitting and sale of automobiles. Similar to the Group, the manufacturing facilities of the Huachen Group are also located in Shenyang, the PRC.

1.2 Reasons for the Huachen Non-Exempted CCTs

Overview

As mentioned above, the Group is engaged in the manufacture and sale of minibuses, MPVs and automotive components through its major operating subsidiaries. In particular, the manufacture and sale of minibuses by the Group is carried out by RBJAC, which is effectively owned as to 51% by the Company and 49% by Renault SAS. Meanwhile, 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 RBJAC or the Huachen Group for use in its assembly process as an automobile manufacturer.

As part of its ordinary manufacturing processes, the Group purchases raw materials and basic automotive components to be used in the manufacturing of automotive components and for processing into core automotive components for use in automobile manufacturing. After processing the raw materials and the basic automotive components, the Group sells the processed automotive components to members of the Huachen Group which, as manufacturer of automobiles or automotive components, will use the processed automotive components in their assembly process. In addition, the Group purchases from the Huachen Group certain core automotive components which are tailor-made for the use of RBJAC's minibuses.

Based on the above, the Huachen Non-Exempted CCTs are carried out in the ordinary course of business of the Group and are expected to continue to be carried out as its principal businesses in the three financial years ending 31 December 2023. Accordingly, the Board considers it appropriate to seek Independent Shareholders' approval for the Huachen Non-Exempted CCTs and the Huachen Non-Exempted Proposed Caps for each of the three financial years ending 31 December 2023 (the "**Review Period**").

Proximity of production bases and centralisation of purchases from the Huachen Group

With reference to the Letter from the Board, the manufacturing facilities of the Huachen Group and the Group are both located in Shenyang, the PRC. With the close proximity of the manufacture 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 the procurement lead time and transportation costs when compared with other suppliers.

Moreover, it has been the Group's on-going business practice to order materials and automotive components in batches in order to achieve efficient inventory planning and to avoid incurring unnecessary costs by ordering excessive inventories, which is in line with the short supply cycles under the industry practice. Meanwhile, the Huachen Group has centralised the sourcing of steel. Through centralisation of purchases of materials such as steel from the Huachen Group, the Group can benefit from better pricing for bulk purchases, thereby lowering the overall procurement costs of the Group.

Long-term partnership between the Group and the Huachen Group

Since the Group has been purchasing certain raw materials and automotive components for its manufacturing operation from the Huachen Group over the years, the close relationship between the Group and the Huachen Group allows the Group to secure stable supply of raw materials and automotive components for its operation. In addition, the long-term supply relationship has allowed the Huachen Group to develop thorough understanding of the technical requirements and specifications required by the Group and become familiar with the production cycle and operation need of the Group, thereby ensuring the timely supply of raw materials and automotive components which (i) meets the necessary quality and standards as required by the Group and (ii) minimises any disruptions to the Group's existing business operations.

Tailor-made products which are mutually exclusive between the Group and the Huachen Group

Based on our discussion with the Company, we understand that the Group has been supplying automotive components to the Huachen Group for use in the manufacture of Zhonghua sedans. In particular, subsequent to the disposal of the Zhonghua Business by the Group to the Huachen Group in 2009, certain subsidiaries of the Group still maintained its supply of automotive components to the Huachen Group which are tailor-made for the manufacture of Zhonghua sedans.

As advised by the Company, the specification of automotive components is usually tailor-made for specific brands of vehicles of particular automotive manufacturers due to confidentiality and control over the core production technologies and assurance, and the same type of automotive component of an automotive manufacturer would usually be used in various models of vehicles. Therefore, automotive component suppliers are usually required to source parts and components and raw materials exclusively from their respective clients for onward processing and assembly in order to comply with the required standard and specification. On the contrary, it is common for an automotive manufacturer to rely on limited suppliers for components for its products and it is rare and difficult for automotive manufacturer to change or replace suppliers frequently or within a short period of time.

Under the Huachen Non-Exempted CCTs, the automotive components manufactured by Shenyang Jindong, Dongxing Automotive, Shenyang XingYuanDong Automotive Component Co., Ltd.*（瀋陽興遠東汽車零部件有限公司）(“**Xing Yuan Dong**”), and Ningbo Yuming Machinery Industrial Co., Ltd.*（寧波裕民機械工業有限公司）(“**Ningbo Yuming**”), whose purchase of raw materials and automotive components from and/or sales of materials and automotive components to the Huachen Group form part of the Huachen Non-Exempted Proposed Caps, are to be exclusively supplied to the Huachen Group for its further processing and assembly into the Zhonghua sedans produced by the Huachen Group. As such, it is common for an automotive component manufacturer (which includes the Group) to build long term business relationship with particular automotive manufacturer (such as the Huachen Group under the Huachen Purchase Framework Agreement and the Huachen Sale Framework Agreement and their corresponding previous purchase and sale framework agreements) which is mutually reliant in nature.

In addition, as advised by the Company, we understand that RBJAC does not have its own stamping workshop and has been purchasing press parts and other automotive components from the Huachen Group for the use of RBJAC’s minibuses. As set out in the Letter from the Board, such purchase facilitates the Group to have core automotive components with stable quality, and ensures the technology used in the production of such core automotive components will remain within the control of the Group, thereby enabling the Group to exercise more effective control over the quality of the automobiles produced by the Group.

As further advised by the Company, we understand that the relevant automotive parts and components produced by the Huachen Group are tailor-made for the Group for further processing and for manufacturing minibuses. As a selected supplier for automotive components for the Group, the products of the Huachen Group have been repeatedly tested in various ways by the Group to ensure it meets the required quality and specification. Based on the above, the entering into of the Huachen Non-exempted CCTs will continue to secure a long-term supply of tailor-made automotive materials and components between the Group and the Huachen Group which are mutually essential to their automotive productions.

Leverage on the distribution network of the Huachen Group

With respect to the sale of automobiles by RBJAC to the Huachen Group, we were advised by the management of the Group that it is the intention of the Group to leverage on the distribution network of the Huachen Group. RBJAC will also sell spare parts of such automobiles to the Huachen Group for after sales replacement purposes.

The Group has been selling certain models of vehicles to the Huachen Group for sales distribution in recent years while the Huachen Group will re-sell such vehicles to third parties on certain mark-up margins under its developed and extensive sales network. With reference to the annual reports of the Group for the year ended 31 December 2018 and the year ended 31 December 2019 and the interim report of the Group for the six months ended 30 June 2020 (collectively, the "**Financial Reports**"), we noted that the development of the minibus and MPV business of RBJAC was partly hindered by the requirement in upgrading its existing model under the China VI Emission Standards (as defined below) and the adverse market impact caused by the novel coronavirus ("**COVID-19**") outbreak, which has led to a decrease in sales volume during the the two years ended 31 December 2018 and 2019 and the six months ended 30 June 2020 (the "**Historical Period**"). In response, RBJAC has pro-actively reviewed its existing products and developed new models under the changing policy requirements in the PRC and the market sentiments. In particular, RBJAC (i) rescheduled its production scheme and launch dates for the new models of Renault vehicles namely "Master" and "Trafic" from the financial year ended 31 December 2019 and financial year ending 31 December 2020 to the three financial years ending 31 December 2023; and (ii) developed new model in light commercial vehicle ("**LCV**") as well as the potential electric vehicle ("**EV**") products which are anticipated to be launched in the coming three financial years ending 31 December 2023 subject to the then market conditions.

In view of the aforementioned scheduled launch of various vehicles by RBJAC, it is the Company's business strategy to continue making use of the distribution network of Huachen for sale of its automobiles. By expanding its business partnership network through the Huachen Group in sale of automobiles, the Group can leverage on its established sales channels and distribution network in the PRC to strengthen the Group's sales performance and market presence in the region.

Having considered: (i) the principal business activities of the Group and the mutual reliance on the business relationship between the Group and the Huachen Group; and (ii) our discussions with the Company on the reasons for and benefits of entering into the Huachen Purchase Framework Agreement and the Huachen Sale Framework Agreement as set out above, we concur with the Board that such agreements (a) will continue to secure the long-term business relationship with the Huachen Group which facilitate the stable operations between the Group and the Huachen Group and the cost-effectiveness in the overall procurement of the Group; (b) are in the ordinary and usual course of business of the Group; and (c) will continue to facilitate the Group's business growth, and is therefore fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

2. The Huachen Non-Exempted Proposed Caps

2.1 Huachen Approved Caps and historical figures

The following table sets out the Huachen Approved Caps and the actual sales/purchases of the Huachen Non-Exempted CCTs during the three financial years ending 31 December 2020:

		For the financial year ended/ending 31 December						
		2018		2019		2020		Brand of automobiles under the Huachen Non-Exempted CCTs
Huachen Non-Exempted CCTs		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 2020)*	(Major vehicle type)
A	Sale of automobiles, materials and/or automotive components by members of the Group to members of the Huachen Group	3,698,890	575,853	4,931,890	472,629	6,138,590	109,632	Zhonghua (Sedans) JinBei (Minibus, MPVs)
B	Purchases of materials and automotive components by members of the Group from members of the Huachen Group	1,638,200	383,025	2,406,400	310,457	3,836,700	83,355	Zhonghua (Sedans) JinBei (Minibus, MPVs)

As stated in the Letter from the Board, due to various factors such as slow down in the global economy, change in product mix of the Group or the counterparties, change in momentum of the automobile industry, and change in production flow of the Group or the counterparties which triggers a decrease in the demand for automotive components, the actual sales/purchases in respect of the continuing connected transactions for the three financial years ending 31 December 2020 were less than the Huachen Approved Caps for the three financial years ending 31 December 2020.

Based on information provided by the Company, we summarise in the following table the historical figures of the Previous CCTs for the financial years ended 31 December 2018 and 2019 and for the six months ended 30 June 2020 and the estimated monetary value of the transactions under categories (A) and (B) for the three financial years ending 31 December 2023:

		For the financial years ended 31 December		For the six months ended 30 June	For the financial years ending 31 December			
		2018	2019	2020	2021	2022	2023	Brand of automobiles under the Huachen Non-Exempted CCTs (Major vehicle type)
Huachen Non-Exempted CCTs		Historical figures	Historical figures	Historical figures	Proposed Cap/Estimated monetary value	Proposed Cap/Estimated monetary value	Proposed Cap/Estimated monetary value	
		(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*	
A	Sale of automobiles, materials and/or automotive components by members of the Group to members of the Huachen Group *(Note)*							
Huachen Non-Exempted Proposed Caps under transaction category (A)					**1,000,361**	**1,384,934**	**2,112,856**	
Estimated monetary value under transaction category (A)								
A1	Sale of materials and automotive components by Xing Yuan Dong	36,102	14,737	289	10,318	10,907	11,496	Zhonghua (Sedans)
A2	Sale of materials and automotive components by Dongxing Automotive	153,767	40,778	3,922	40,000	45,000	50,000	Zhonghua (Sedans)
A3	Sale of materials and automotive components by Shenyang Jindong	54,833	19,658	1,704	12,000	12,600	13,230	Zhonghua (Sedans)
A4	Sale of materials and automotive components by Ningbo Yuming	10,547	2,284	148	14,759	15,499	16,276	Zhonghua (Sedans)
A5	Sale of automobiles, materials and automotive components by RBJAC	320,561	395,172	103,569	923,284	1,300,929	2,021,854	Renault (LCV) JinBei (LCV)
B	Purchases of materials and automotive components by members of the Group from members of the Huachen Group *(Note)*							
Huachen Non-Exempted Proposed Caps under transaction category (B)					**295,438**	**369,438**	**499,438**	
Estimated monetary value under transaction category (B)								
B1	Purchase of materials and automotive components by Dongxing Automotive	72,558	22,944	3,128	22,000	24,000	26,000	Zhonghua (Sedans)
B2	Purchase of materials and automotive components by RBJAC	269,590	249,850	70,685	248,000	320,000	448,000	Renault (LCV) JinBei (LCV)
B3	Purchase of materials and automotive components by Shenyang Jindong	40,877	37,663	9,542	25,438	25,438	25,438	Zhonghua (Sedans)

Note:

Pursuant to the Huachen CCT Agreements, the Company is entitled to procure any member of the Group to perform the Group's obligation to purchase or sell (as the case may be) the automobiles, materials, automotive components or services (as the case may be) from or to the Huachen Group (as the case may be) in any circumstances including change in the structure of the Group or change in the product mix of any member of the Group.

In determining the Huachen Non-Exempted Proposed Caps for the three financial years ending 31 December 2023, 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 anticipated market condition of the automobile industry in the PRC in the three financial years ending 31 December 2023;
- the anticipated sales of automobiles by the Group in the coming three financial years ending 31 December 2023;
- the anticipated growth in the planned procurement volume of the automotive components such as the interior trim parts and mould components for the relevant Zhonghua sedans for the three financial years ending 31 December 2023 as compared to those for the financial year ended 31 December 2019 and financial year ending 31 December 2020;
- the launch of a new JinBei model in late November 2020; and the change of production schedule for proposed launch of new models of Renault "Master" and "Trafic" by RBJAC from the financial year ended 31 December 2019 and financial year ending 31 December 2020 to the three financial years ending 31 December 2023, subject to market conditions;
- the estimated sales of the Group's automobiles in 2021 with an anticipated growth rate of approximately 35.0% and 54.1% in 2022 and 2023 respectively;
- changes in product mix in response to market demand 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;
- the lower level in demand for materials and automotive components from the Huachen Group as compared to the approved cap for the two financial years ended 31 December 2019 and financial year ending 31 December 2020 and the anticipated sale of Zhonghua sedans in the PRC and overseas in the coming three financial years ending 31 December 2023;
- the expected rate of usage and demand for the goods during the term of the Huachen Non-Exempted CCTs estimated based on the historical transaction volume and amount where available;

- the expected prices for the relevant goods by reference to the historical prices and applicable rates;

- the historical figures of the Huachen Non-Exempted CCTs (where applicable); and

- a certain percentage of buffer for potential increment in the transaction volume.

Based on the above table of the Huachen Non-Exempted Proposed Caps, we noted that the estimated monetary values for each of the transactions under category (A) and (B) are expected to increase during the three financial years ending 31 December 2023. Since the purchase of raw materials and automotive components by the Group in transactions under category (B) are to be used in the manufacturing of automotive components and vehicles to be sold back to the Huachen Group in transactions under category (A), their expected value under the Huachen Non-Exempted Proposed Caps are positively correlated with each other. The increase was primarily attributable to the Group's expected increase in production and sales of vehicles during the same period driven by (i) the scheduled launch of the new models of the existing products of minibuses and MPVs series and new range of vehicles by RBJAC and (ii) the gradual recovery from the impact of COVID-19 in the anticipated sales of Zhonghua sedans in the PRC and overseas.

As discussed with the management of the Group, we understand that the Huachen Non-Exempted Proposed Caps were made upon taking into account (i) the historical transacted amounts of the above transactions during the Historical Period were less than the corresponding Huachen Approved Caps; and (ii) the lower level in anticipated sale of Zhonghua sedans in the PRC and overseas and therefore its corresponding decrease in procurement amount of raw materials and automotive components in the coming three financial years ending 31 December 2023. Therefore the Company has set the Huachen Non-Exempted Proposed Caps at a lower level than the Huachen Approved Caps for the two years ended 31 December 2019 and the year ending 31 December 2020.

On the other hand, we noted from the announcement of the Company dated 20 November 2020 whereby it was announced that the Company was informed by Huachen that Huachen had received the civil ruling issued by Shenyang Intermediate People's Court, which has accepted the application made by Gezhi Automobile Technology Co., Ltd.*（格致汽車科技股份有限公司）for the restructuring of Huachen (the "**Possible Restructuring**"). As stated in the Letter from the Board, up to the Latest Practicable Date, the Company is not aware of any suspension in operation of the Huachen Group.

As discussed with the management of the Group, we noted that in spite of the possible restructuring of Huachen, the Group has maintained long-term relationship with the Huachen Group since the disposal of the Zhonghua Business and it intends to continue the co-operation with the Huachen Group in the Review Period as part of its ordinary and usual course of business. Based on (i) our analysis on the reasons and benefits of the Huachen Non-Exempted CCTs to the Group as set out in the section headed *"1.2 Reasons for the Huachen Non-Exempted CCTs"* in this letter; and (ii) the recent introduction of new JinBei model in late November 2020 and the proposed production schedule of Zhonghua Sedans and the new models of Renault Master, Trafic and the potential EV in the Review Period, we concur with the management of the Group that it is fair and reasonable for the Group to enter into the Huachen Non-Exempted CCTs.

Nevertheless, in respect of the potential instability situation of the Huachen Group, we noted that the Group has proposed certain risk prevention measures, in particular, (i) the management of the Group will communicate with the management team of the relevant subsidiaries if there is any update on the status of the possible restructuring of Huachen, and the management of the Group will regularly review the terms and status of recent transactions with the Huachen Group and formulate strategic measures where appropriate; (ii) the Group is encouraged to only accept purchase orders of automobiles and certain components from the Huachen Group upon receipt of full upfront payment during the interim period until the proposed restructuring of Huachen has been settled; and (iii) the Group plans to produce and keep stock of materials and automotive components at minimum level to avoid stockpiling.

In addition, based on the information provided by the management of the Group, we noted that the raw materials and automotive components to be purchased by the Group in transactions under category (B) are to be used in the manufacturing of automotive components and vehicles, some of which will be sold back to the Huachen Group in transactions under category (A). The Group reserves its options to perform the purchase of raw materials and automotive components in response to the potential impact of the operation of the Huachen Group under the Possible Restructuring.

Given the measures in place by the Group and the interlinked nature of the production cycle of the underlying transactions, we are of the view that the Group would continue to perform its ordinary course of business and mitigate any transaction risks arisen from the potential financial hardship of the Huachen Group.

After considering the above factors, we further analyse the basis for the Huachen Non-Exempted Proposed Caps as follows:

2.2 Overview of the Huachen Non-Exempted CCTs

Based on information provided by the Company, we summarise in the following table the sale of automobiles, materials and automotive components by members of the Group to members of the Huachen Group under the Huachen Non-Exempted CCTs (shown as transaction category (A)) and purchases of materials and automotive components by members of the Group from members of the Huachen Group (shown as transaction category (B)):

	Huachen Non-Exempted CCTs	Major product type	Pricing Basis	Brand of automobiles under the Huachen Non-Exempted CCTs (Major vehicle type)
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	Interior trim parts and mould components	Cost plus basis	Zhonghua (Sedans)
A2	Sale of materials and automotive components by Dongxing Automotive	Press parts, welding parts and complete outsourced parts	Cost plus basis	Zhonghua (Sedans)
A3	Sale of materials and automotive components by Shenyang Jindong	Matching components and welding assemblies	Cost plus basis	Zhonghua (Sedans)
A4	Sale of materials and automotive components by Ningbo Yuming	Decorative strips, side corner window assemblies and sealing strips	Prevailing market price	Zhonghua (Sedans)
A5	Sale of automobiles, materials and automotive components by RBJAC	Automobiles and spare parts	(i) Prevailing market price for automobiles; and	Renault (LCV)
			(ii) Cost plus basis for spare parts	JinBei (LCV)
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	Steel plates	Cost plus basis	Zhonghua (Sedans)

Huachen Non-Exempted CCTs		Major product type	Pricing Basis	Brand of automobiles under the Huachen Non-Exempted CCTs (Major vehicle type)
B2	Purchase of materials and automotive components by RBJAC	Press parts and electronic control units	Cost plus basis	Renault (LCV) JinBei (LCV)
B3	Purchase of materials and automotive components by Shenyang Jindong	Matching components and certain welding parts, scrap materials	Cost plus basis	Zhonghua (Sedans)

Pursuant the terms of the Huachen Sale Framework Agreement, we understand that (i) most of the automotive components required by the Huachen Group are specially designed and processed by the Group for use in the manufacture of Zhonghua sedans (shown as transactions (A1) to (A4)); and (ii) RBJAC will sell automobiles to the Huachen Group to make use of the distribution network of Huachen and RBJAC will also sell spare parts of such automobiles to Huachen for after sales replacement purposes (shown as transaction (A5)).

Meanwhile, pursuant to the Huachen Purchase Framework Agreement, we understand that (i) Dongxing Automotive purchases steel plates from the Huachen Group and then processes the steel plates into appropriate press parts and welding parts, which will be sold to the Huachen Group for the latter's production of Zhonghua sedans (shown as transaction (B1)); (ii) RBJAC will purchase press parts from the Huachen Group to produce automotive components, and certain automotive components purchased will be used for further processing into core automotive components, which in turn will be used in the production of automobiles by RBJAC (shown as transaction (B2); and (iii) Shenyang Jindong purchases matching components, certain welding parts and press parts from the Huachen Group and then processes these into welding assemblies and other components and collect scrap materials such as scrap steel, defective components and non-metal packaging materials from Huachen and sell directly to other waste collectors for extracting useful materials (shown as transaction (B3)).

As regards the production flow under transaction category (B) and its correlation with the sale of automobiles, materials and/or automotive components under transaction category (A), we noted that some of the raw materials and automotive components under transaction category (B) are specifically purchased and designed for downstream products and sell back to the Huachen Group under category (A). Hence, certain transactions under transaction category (B) are dependent on the estimated demand under its corresponding downstream products in transaction category (A).

For instance, (i) the steel plates purchased under transaction (B1) will be processed into press parts and welding parts, which will be sold to the Huachen Group under transaction (A2); (ii) the press parts and electronic control units purchased by RBJAC under transaction (B2) will be further processed into core automotive components, some of which in turn will be used by RBJAC for production of automobiles under transaction (A5); and (iii) the matching components, certain welding parts and press parts purchased under transaction (B3) will be processed into welding assemblies and other components, which will be sold to the Huachen Group under transaction (A3).

Pricing policy adopted in the transactions under categories (A) and (B)

We understand that the Group has determined the pricing terms of the Huachen Non-Exempted CCTs based on (i) the prevailing market price; or (ii) at a price to be agreed between the Group and the Huachen Group upon the basis of the principle of "cost plus".

Market price means the price at which the same or comparable type of products is offered 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 (i) the price that the Group offered to independent customers for comparable products in response to the invitations to tender made by customers; or (ii) 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 comparable products. In any event, terms of each sale to the Huachen Group shall be no more favourable than the terms offered to independent customers for sale of comparable products.

On the other hand, cost plus is determined based on the cost for manufacturing the required specification and quantity of the 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 cost, procurement cost, labour, taxation, management fee and the amortisation to the production plant and equipment, etc. In determining the margin to be used, the Group will mainly make reference to the internal target profit margin of the relevant products to be sold to the Huachen Group.

Payment terms

The payments under the Huachen Purchase Framework Agreement and the Huachen Sale Framework Agreement shall be paid at the end of each month after confirmation of the price and quantity of the automobiles, materials and/or automotive parts, subject to credit terms ranging from 30 to 90 days, which is the usual credit term policy adopted by the Group, as well as assessments based on the payment policies of the relevant vendor at the material time.

2.3 Transaction category (A): Sale of automobiles, materials and/or automotive components by members of the Group to members of the Huachen Group

The Group applies the cost-plus basis in determining the pricing term of the sale of materials and automotive components by members of the Group to the Huachen Group, including (i) the sale of interior trim parts and mould components by Xing Yuan Dong (shown above as transaction (A1)); (ii) sale of press parts, welding parts and complete outsourced parts by Dongxing Automotive (shown above as transaction (A2)); and (iii) the sale of matching components and welding assemblies by Shenyang Jindong (shown above as transaction (A3)). The materials and automotive components to be sold to the Huachen Group by the Group are specially designed for fit-in the specifications requested by the Huachen Group in its car manufacturing/component processing businesses, which would not be entirely compatible 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.

On the other hand, the Group applies the prevailing market price basis in determining the pricing term of the sale of automobiles by RBJAC to the Huachen Group (shown above as transaction (A5)) and the sale of certain materials such as decorative strips, side corner window assemblies and sealing strips by members of the Group to the Huachen Group (shown above as transaction (A4)). As the automobiles manufactured by RBJAC and materials such as decorative strips, side corner window assemblies and sealing strips produced by members of the Group are also for sale to independent third parties, the pricing for each sale of automobiles by RBJAC and materials such as decorative strips, side corner window assemblies and sealing strips by members of the Group to the Huachen Group will be determined by reference to the prevailing market price of the automobiles and materials concerned.

In respect of the materials and automotive components, they are to be purchased by the Huachen Group from RBJAC 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 profit margin as agreed between the Group and the Huachen Group and the cost will be estimated with reference to material cost, production cost, processing cost, transportation fee, procurement cost, labour cost, taxation, management fee and the amortization to the production plant and equipment, etc.

Review on transactions (A1) to (A4)

Based on the information provided by the management of the Group, we noted that for transactions (A1), (A2) and (A3), the estimated price per unit will be determined based on the costs of the respective automotive components plus an internal target profit margin which falls in the range of 5% to 10%, 2% to 7% and 1% to 3% respectively during the Review Period, which was determined by taking into consideration various factors, including but not limited to, cost of material and labour, complexity of processing procedures, transportation cost, management fee, taxation and the amortisation to the production plant and equipment, etc..

With respect to transactions (A1) to (A3), we were confirmed by the Company that all of the materials and automotive components supplied by members of the Group to the Huachen Group were tailor-made for the automobiles of the Huachen Group for the production of the Zhonghua sedans. Therefore, there were no direct comparable purchases transactions with independent third parties for the above automotive components available for our comparison. We were confirmed by the Company that these automotive components are specifically designed and produced by the Group for the Huachen Group to be compatible with the configuration of certain models of sedans produced by the Huachen Group. It is difficult for the Huachen Group to identify other suppliers which can produce the same products in comparable quality and quantity.

In addition, Xing Yuan Dong did not have any sales of components of the same category made to independent third parties during the Historical Period and thus the pricing under transaction (A1) was merely determined based on internal target profit margin with reference to past transactions. Based on our discussion with the management of the Group, we were advised that in reviewing the past transactions, the Group have also made reference to sales of auto parts of for different car models to independent third party customers apart from historical transactions with Huachen Group.

Nevertheless, for our due diligence purpose, we have obtained three recent samples of other sale transactions of automotive parts made by the Group to independent third parties and we noted that the profit margins were in the range of 5% to 10% while the lower end of the internal target profit margin of 5% is within this range. Based on the above, we are of the view that the setting up of such margin is not prejudicial to the Independent Shareholders' interests. Given the nature of automotive parts of transaction (A1) was different from each other with respect to product specification and material and labour cost, the comparison above was taken as a reference for the purpose in analysing whether the markup for such automotive parts under transaction (A1) is reasonable.

As regards the pricing terms of transactions (A2) and (A3) which were also determined using cost-plus basis, we have obtained and reviewed (i) the breakdown of comparable past transactions between the Group and the Huachen Group; and (ii) three recent samples for each of the transactions (A2) and (A3) between respective member of the Group and independent third party customers during the Historical Period. Based on the comparison of profit margin of each set of the samples against the corresponding estimated internal profit margin during the Review Period, we noted that the margin was stable during the Historical Period and the margin in the sample were also higher than the lower bound of the corresponding estimated profit margin of 2% and 1% under the transactions (A2) and (A3) respectively. We also noted that the unit price of relevant automotive components in the Review Period was comparable to the actual average unit price during the Historical Period.

We have also obtained and reviewed three recent samples for the transaction (A4) between Ningbo Yuming and independent third party customers during the Historical Period. We noted that the unit price of the samples is comparable to the estimated unit price of the automotive components under transaction (A4) in the Review Period.

In respect of the corresponding estimated monetary value under transaction (A1) to (A4) 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 the corresponding estimated monetary value under the Huachen Non-Exempted 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 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 corresponding monetary value for each of the transactions (A1) to (A4) during the Review Period was determined after taking into consideration of (i) the actual transacted amount for the year ended 31 December 2019 to eliminate possible distortion of data from the COVID-19 outbreak in 2020 for transactions (A1) to (A3); (ii) the estimated lower level in demand for automotive parts from the Huachen Group during the Review Period in 2021 as compared to that of 2019 for transactions (A1) to (A4); (iii) the estimated demand of Zhonghua sedans and the current inventory level in decorative strips, side corner window assemblies and sealing strips given by the Huachen Group; and (iv) the sales unit price being the same as in 2020. Based on the estimation of the Company, the compound annual growth rate of the estimated amount of approximately 5.6%, 11.8%, 5.0% and 5.0% under each of the transactions (A1), (A2), (A3) and (A4) from 2021 to 2023 was determined by favorable government policies in promoting automobile consumption (as further discussed below under the 2019 Notice (as defined below) while the Meeting Summary (as defined below)) was taken into account in determining the growth rate and the estimated amount. We also noted from the management of the Group 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.

With reference to the notice of "Implementation Plan for Further Optimising Supply and Promoting the Steady Growth of Consumption and Promoting the Formation of a Strong Domestic Market (2019)" 《進一步優化供給推動消費平穩增長促進形成強大國內市場的實施方案（2019年）》(the "**2019 Notice**") and as further mentioned in the executive meeting summary of the State Council of the PRC on 18 November 2020 (the "**Meeting Summary**"), favorable policies will be implemented by the PRC government to promote domestic demand in automobile consumption following the COVID-19 outbreak, including but not limited to increasing the number of license plates, promotion of automobile "Going to the countryside" scheme and offering of automobile trade-in, which provided extra incentive for rural residents to purchase trucks of 3.5 tons or less and passenger cars with displacements of 1.6 liters or less, in order to substitute vehicles with deprecated national emission standards into new ones. We noted that the Company has taken a prudent approach on setting the Huachen Non-Exempted Proposed Caps which are at a lower level than the Huachen Approved Caps after considering the actual transacted amount during the Historical Period, and estimated a mild increment with respect to the favorable government policies to be implemented during the Review Period. We consider that the adoption of a prudent approach is appropriate under the prevailing sales pattern for traditional sedans in the PRC.

Nevertheless, we noted that the prospect of automobile industry may be possibly affected by (i) the government policies and subsidies (the "**Subsidies**") in exemption on vehicle purchase tax for the period from 2014 to 2020 and recently extended to 2022, which provided extra incentives in purchase of new energy vehicles; and (ii) rising popularity and availability of car-hailing services which may hinder the need for individuals to buy vehicles. Such measures and prospects may lead to uncertainty on the prospects of the Zhonghua sedans, which in turn affect the auto parts sales by the Group to the Huachen Group.

As advised by the management of the Group, the effect of the Subsidies has been taken into account in setting the Huachen Non-Exempted Proposed Caps by benchmarking the estimated sales with reference to the historical figures for the year ended 31 December 2019 with only a mild increment as compared to the historical transaction amount, assuming that there will be no significant change in the policies and business as compared to the preceding year before the impact of COVID-19.

In respect of the impact of car-hailing services, we were advised by the management of the Group that the popularity of car-hailing may on one hand decrease the demand for Zhonghua sedan by potential customers if they opt for using car-hailing services, and on the other hand, considering the hygiene issue especially under the impact of COVID-19, the popularity of car-hailing may be less significant in the near future. Furthermore, if the car-hailing services are becoming more popular, there will be an increase in demand for new cars from the car-hailing service providers. It is uncertain whether the popularity of the car-hailing services may have an impact on the future car sales of Zhonghua sedans in the Review Period.

Review on transaction (A5)

We noted that the major component included in the corresponding Huachen Non-Exempted Proposed Caps is the sale of automobiles to the Huachen Group. As advised by the management of the Group, through continuous effort in the development, a new JinBei model was introduced to the market in late November 2020, and new models of Renault Master, Trafic and also the potential EV products might be introduced to the market in the Review Period. On the other hand, we noted that the materials and automotive components are to be purchased by Huachen Group as spare parts of the aforesaid automobiles for after sales replacement purposes.

In respect of the estimated monetary value under transaction (A5) for the sale of automobiles, materials and automotive components by RBJAC 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 sales of products in the retail stores under the sales network of the Huachen Group summing approximately up to the corresponding estimated monetary value under the Huachen Non-Exempted 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. We noted that the Company has considered the sales of the Group’s automobiles in 2021 with an anticipated growth rate of approximately 35.0% and 54.1% in 2022 and 2023 respectively which is primarily attributable to (i) the launch of a new JinBei model in late November 2020; (ii) the scheduled launch of new models of minibuses and MPVs and a new range of automobiles by RBJAC, the production of which are, subject to market conditions, anticipated to commence in the coming three financial years ending 31 December 2023; and (iii) the postponement of the production schedule for the proposed launch of new models of Renault Master and Trafic by RBJAC from the Historical Period to the Review Period in estimating the quantity of the corresponding automobile sales.

We further noted that the estimated monetary value under transaction (A5) in 2021 represented an increment of approximately RMB528.1 million (the "**Increment**") or an increase of approximately 133.6% as compared to the historical transaction amount in 2019. The historical transaction amount in 2019 was used as the base for comparison in order to eliminate the effect of COVID-19 on the automobile sales. As per our further discussion with the management of the Company and based on our review of the automobile sales plan for the Review Period (the “**Sales Plan**”), we noted that the Increment as well as the subsequent growth in the estimated monetary value under transaction (A5) in 2022 and 2023 will be contributed by three major components, including (i) the recovery of sales of certain existing JinBei models which were at sale in the Historical Period (the “**Current Models**”) to the level in 2019 before the impact of COVID-19 and the increase in demand from owners of old vehicles for replacement following the implementation of the China

VI Emission Standards, which is expected to contribute increment in sales in each of the years under the Review Period; (ii) the sales volume to be realised during the Review Period brought by the launch of a new JinBei model in late November 2020, in particular during the first full year of launch in 2021; and (iii) the sales volume to be realised by the launch of the brand new range of premium automobiles models in the LCV segment by RBJAC developed with the Group's joint venture partner Renault SAS (the "**New RBJAC Models**"), the production of which are, subject to market conditions, anticipated to commence in the coming three financial years ending 31 December 2023. We summarised our analysis as below:

(i) the recovery of sales of the Current Models

The Current Models have been uplifted to comply with the China VI Emission Standards. Considering the customers' brand loyalty to JinBei models, the management of the Group expected that there will be an increase in demand for the uplifted Current Models in the Review Period arising from the need of replacement of old models by the customers in response to the revision of the aforesaid emission standard. Having considered the above, the management of the Group expected that there will be an increase in the transaction amount of the uplifted Current Models in each year of the Review Period under transaction (A5) of the Huachen Non-Exempted Proposed Caps compared to the transaction amount in 2019, with an increase of approximately 20% in 2021 based on the historical sales of the Current Models of approximately RMB395.2 million in 2019 (contributing approximately 14.6% of the Increment), and a mild increase of approximately 10% in 2022 followed by a slight decrease by approximately 10% in 2023 compared to the prior year during which the trend of the replacement need will be lessened. The Group expected that the number of units of the uplifted Current Models will contribute approximately 65.4%, 55.3% and 35.0% of total units to be sold under each year of the Review Period with estimated revenue from the Current Models contributing approximately 51.2%, 39.9% and 23.1% of the Huachen Non-Exempted Proposed Caps for the respective years.

For our due diligence purpose, we have reviewed the Sales Plan and enquired the management of the Group in respect of the basis in determining the estimated sales quantity and the selling prices of the Current Models.

As advised by the management of the Group, in setting out the expected quantity of the Current Models in the Sales Plan, they have taken into consideration of the following: (i) the solid demand from the existing customers due to brand loyalty for the Current Models as a result of the need of replacement of old models in response to the revision of the aforesaid emission standard; (ii) the recovery of the economy of the PRC following the expected lessened impact of COVID-19 in 2021 leading to the recovery of the sales amount to the pre COVID-19 period; (iii) the potential growth in the logistics industry following the change in the spending pattern in the PRC with an increase in demand for goods delivery, leading to an expected increase in the total industry volume in the vehicle categories that RBJAC is operating in and (iv) the branding effect under the brand name of "Renault Brilliance JinBei" (華晨雷諾金杯) of the Current Models and improved product quality following the cooperation with Renault SAS in the development of the new JinBei models, it is expected that market share of RBJAC in the vehicle category of the Current Models and the new JinBei model will increase from approximately 22.2% in the ten months ended October 2020 to approximately 26.1% in the year 2021 and further increase to approximately 36.2% in the year 2023 based on the Group's internal research.

Based on our research on China Association of Automobile Manufacturers ("**CAAM**"), we noted that the sales of commercial vehicle (including minibus where certain Current Models are within this category) were approximately 467.6 million units for the eleven months ended 30 November 2020, representing an increase of 20.5% as compared to the corresponding period in the preceding year which indicated that the current market sentiment on this vehicle category. Besides, the management of the Group further confirmed that there will be no restriction imposed on the coverage of the dealership network and sales area for each of the three years ending 31 December 2023, which, in the view of the management of the Group, would facilitate the Group to achieve the target sales quantity.

In respect of the selling prices of the Current Models in the Sales Plan, we noted that the selling prices are generally consistent with those in the historical period with a slight increase which was mainly due to the uplift of the automotive components. We have performed a research on the guided prices of the Current Models in the market and noted that the selling prices quoted on AutoHome, an automobile advertising platform (www.autohome.com.cn), are within the range of the selling prices of the Current Models in the Sales Plan. We have also compared the selling prices of the Current Models in the Sales Plan against the selling prices of the minibus models of different brands with similar specifications and similar level of branding in the market and we noted that the selling prices of the Current Models fall within the price range of comparable models in the market.

(ii) the sales volume to be realised from the launch of a new JinBei model in late November 2020

We noted that a new JinBei model has been launched in November 2020 and it is expected in the Sales Plan that the majority of its sales will be realised in 2021 and 2022 respectively. The number of units of the new JinBei model was estimated to contribute approximately 28.8%, 24.0% and 12.4% of the total units to be sold under each year of the Review Period with the estimated revenue amounting to approximately 34.4% (contributing approximately 60.1% of the Increment), 26.0% and 12.3% of the Huachen Non-Exempted Proposed Caps for the respective years.

Based on our discussion with the management of the Group, we understand that the new JinBei model launched in late November 2020 was positioned as a new flagship model with a revamp in its outlook, design and specifications which is expected to gain a competitive edge over other market participants with specific servicing requirements designed to cater for professional users for the transportation of people, goods, and services, including goods capacity, fuel-consumption efficiency, passenger/goods flexibility, etc.. The new JinBei model is targeted to a new market segment which can suit the need of customers for self use purpose with extra large passenger capacity and increased leg rooms and for commercial purpose with flexibility in changing the goods carrying compartments. For our due diligence purpose, we have reviewed the Sales Plan and enquired the management of the Group in respect of the basis in determining the estimated sales quantity and the selling prices of the new JinBei model. As advised by the management of the Group, in setting out the expected quantity of the new JinBei models in the Sales Plan, they have taken into consideration of the following: (i) the competitive edge of the new flagship model which can attract new target customers from the market to drive up the total sales volume; (ii) the incorporation of the new design and specifications into the new JinBei model coupled with the new branding effect of Renault Brilliance JinBei and improved product quality since the collaboration with Renault SAS, with the expectation that market share of RBJAC in the vehicle category of the Current Models and the new JinBei model increasing from approximately 22.2% in the ten months ended October 2020 to approximately 26.1% in the year 2021 and it will further increase to approximately 36.2% in the year 2023 based on the Group’s internal research; and (iii) the potential growth in the logistics industry following the change in the spending pattern in the PRC with an increase in demand for goods delivery, leading to an expected increase in the total industry volume in the vehicle categories that RBJAC is operating in.

We have obtained from the management of the Group the latest sales summary and the secured sales orders of the new JinBei model and noted that the secured sales of the new JinBei model was on track with the expected sales quantity in the Sales Plan. Furthermore, we noted from the website of RBJAC that in November 2020 it has entered into a strategic cooperation with 快狗打車 (transliterated as Kuaigou Dache), a PRC based urban freight transportation platform, where RBJAC will provide 1,000 units of automobiles, with the vast maiority of which comprising the new JinBei model as advised by the management of the Group, for supporting the car replacement plan of Kuaigou Dache. We believed that the current sales figures coupled with the strategic cooperation with Kuaigou Dache provided positive confirmation on the expected sales unit of the new JinBei model in 2021.

Moreover, based on our research on CAAM, we noted that the production and sales of commercial vehicle (including LCV where the new JinBei model are categorised in) were 472.1 million and 467.6 million units respectively for the eleven months ended 30 November 2020, representing an increase of approximately 22.2% and 20.5% as compared to the eleven months ended 30 November 2019, which may indirectly indicate the current market sentiment on the vehicle category. Besides, the management of the Group further confirmed that there will be no restriction imposed on the coverage of the dealership network and sales area for each of the three years ending 31 December 2023, which, in the view of the management of the Group, would facilitate the Group to achieve the target sales quantity.

In respect of the selling price of the new JinBei model in the Sales Plan, given that the new JinBei model was launched in November 2020, we have performed a research on the guided price of the new JinBei model in the market and noted that the selling price of the new JinBei model in the Sales Plan is comparable to the selling price quoted on AutoHome, an automobile advertising platform (www.autohome.com.cn). We have also compared LCV models of different brands with similar specifications and similar level of branding in the market and we noted that the selling prices of the new JinBei model in the Sales Plan are within the pricing range of similar models in the market.

(iii) the sales volume to be realised by the New RBJAC Models

On 4 July 2017, the Company and Renault SAS entered into a framework cooperation agreement, pursuant to which the Group agreed to dispose of 49% equity interest in Shenyang Brilliance JinBei Automobile Co., Ltd.* (瀋陽華晨金杯汽車有限公司, now known as RBJAC) to Renault SAS for cash consideration of RMB1 (the "**Disposal**"). In December 2017, the Disposal was completed and the Group and Renault SAS have entered into an equity joint venture contract, which aimed to engage in the manufacture and sale of LCV products under the JinBei, Renault and Huasong brands. Renault is one of the world's leading automotive brands and one of the leaders in the European LCV market. Following the completion of the Disposal and with the cooperation with Renault SAS, it is expected by the Group that new high end LCV models and new energy vehicles will be introduced by the new joint venture in the future with a higher price level compared to the Current Models and the new JinBei model as a result of market differentiation of the New RBJAC Models.

As advised by the management of the Group, the new models under Renault brand had yet to be launched during the Historical Period during the early stage of the collaboration of the joint venture under RBJAC. Pursuant to the Sales Plan, the first of the New RBJAC Models under the brand of Renault will be launched in late 2021 while the launch of the remaining New RBJAC Models are anticipated to commence in the coming three financial years ending 31 December 2023.

As advised by the management of the Group, it is estimated that (i) the New RBJAC Models to be launched in 2021 will contribute approximately 5.8%, 5.1% and 3.9% of the total unit sales for each year during the Review Period, with the estimated transaction amount representing approximately 14.4% (contributing approximately 25.2% of the Increment), 11.5% and 8.2% of the Huachen Non-Exempted Proposed Caps for the respective years; (ii) the two New RBJAC Models to be launched in 2022 will contribute approximately 15.6% and 30.0% of the total unit sales for the year ending 31 December 2022 and 2023 respectively, with the estimated transaction amount representing approximately 22.6% and 39.7% of the Huachen Non-Exempted Proposed Caps for the respective years; and (iii) the two New RBJAC Models to be launched in 2023 will contribute approximately 18.7% of the total unit sales for the year ending 31 December 2023, with the estimated transaction amount representing approximately 16.8% of the Huachen Non-Exempted Proposed Caps for the corresponding year.

Based on our research on CAAM, we noted that the production and sales of commercial vehicle (including LCV where certain New RBJAC Models are within this category) were 472.1 million and 467.6 million units respectively for the eleven months ended 30 November 2020, representing an increase of 22.2% and 20.5% as compared to the corresponding period in the preceding year.

In respect of the selling prices of the New RBJAC Models in the Sales Plan, given that the New RBJAC Models are yet to be launched, we have performed a research on the market price of LCV of other brands in the PRC with similar specifications under the same category and with the same level of branding of Renault, we noted that the selling prices of the New RBJAC Models were within the pricing range of those brands in the PRC. For certain New RBJAC Models with similar specifications that Renault SAS has launched in other countries, we have also performed a research on the pricing range of the New RBJAC Models under the same category and we noted that the quoted selling prices in the Sales Plan are within the pricing range of those models.

Based on the estimation of the Company, the compound annual growth of approximately 48.0% under the transaction (A5) was determined by (i) the estimated sales growth based on introduction of the aforementioned models; and (ii) estimated sales growth of new and existing models under favorable government policies in promoting automobile consumption (as further discussed above under the 2019 Notice and the Meeting Summary) and the incentives provided in supporting the development of the automobile industry. Upon our enquiry with the management of the Group on the tentative schedule of production and sales of corresponding products, we note that a new JinBei model was introduced to the market in late November 2020, and new models of Renault Master, Trafic and also the potential EV products might be introduced to the market in the Review Period. Accordingly, the Company anticipated that to make use of the distribution network of Huachen for sale of JinBei and Renault models, the sale of the relevant models of automobiles, automotive components and materials to the Huachen Group will increase in the Review Period. For our due diligence purpose, we have obtained the historical sales data of the Group for a car model launched in the first quarter of 2019 and observed that the month-on-month growth in the six months since its launch amounted to approximately 21.3%, where the total sales in 2019 contributed approximately 65.3% of the aggregated sales amount since its launch to November 2020, which might indirectly indicate the market sentiment towards new car model introduction. Combined with the estimated quantity of products assigned to the retail stores under the sales network estimated by the Huachen Group, we are of the view that the estimated monetary value is reasonable.

As regards the pricing term of transaction (A5), we have reviewed the breakdown of comparable past transactions between RBJAC and the Huachen Group. We have also obtained and reviewed three recent samples of transaction between RBJAC and independent third party customers during the Historical Period and compared the pricing terms of them against the transaction (A5). We noted that the unit price of the actual transactions of the same type of automobiles, materials and automotive components in the Historical Period are comparable to the estimated unit price set in transaction (A5).

As mentioned above, those spare parts under the transaction (A5) are specifically designed, produced and sold to the after sales unit of the Huachen Group for the vehicles under the same transaction, and there are no comparable transactions with independent customers in respect of the automotive components. With regard to the sale of minibuses to the Huachen Group, we have compared the unit price of the minibuses to the past comparable transactions of RBJAC 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.

As advised by the Company, the actual sales of the automobiles in the Historical Period, which mainly consist of minibuses, were lower than those as planned because of the policy in respect of strict control on the production and registration of minibuses and other motor vehicles released by the PRC government on 1 July 2016 as set out in the (Circular on Strengthening the Production and Registration Management of Minibuses and Motorcycles)"《關於加強小微型面包車、摩托車生產和登記管理工作的通知》(the "**2016 Policy**"), which suspends new registration of M2 series minibuses and require certain improvements on the existing M2 minibuses. As a result of the 2016 Policy, production of certain minibus models of the Group has been suspended. Moreover, under the new environmental standard under the "Limits and Measurement Methods for Emissions from Light-Duty Vehicles" 《輕型汽車污染物排放限值及測量方法(中國第六階段)》 (the "**China VI Emission Standards**") promogulated in December 2016 and to be implemented in July 2020, certain types of light-duty vehicles powered primarily by gasoline or diesel will have to satisfy more stringent evaporative and refueling emission-control requirements, where certain models in Huachen Group's production pipeline have been suspended and were subject to redesign and undergo relevant tests in pre-production, production, and in-use stages in compliance with the new emission standards. Hence the actual amount of minibuses sold to the Huachen Group by RBJAC as well as the materials and automotive components purchased from the Huachen Group by the Group decreased during the two financial years ended 31 December 2019 and the six months ended 30 June 2020.

On the other hand, we noted that the prospect of the automobile industry may be possibly affected by (i) the Subsidies which provided extra incentives in the purchase of new energy vehicles; and (ii) rising popularity and availability of car-hailing services which may hinder the need for individuals to buy vehicles.

We have further enquired the management of the Group on the effect of the Subsidies in the estimation of automobile sales in the Review Period. We were advised by the management of the Group that (i) the majority of estimated sales of the car models in the Review Period are positioned as multi-purpose use and versatility, it is expected that the target customers will consider a number of factors including price, durability, cargo capacity and fuel consumption rate, etc., where the Subsidies was not a determinant factor in customer choice on selecting automobiles for its needs; and (ii) during the Historical Period where the exemption scheme was effective, the performance of the Group in selling automobile products was not adversely impacted as compared to the preceding year before the impact of COVID-19. Therefore, we are of the view that the Subsidies may not have a significant impact on the estimation of the corresponding transaction amount under transaction (A5) included in Huachen Non-Exempted Proposed Caps in the Review Period.

In respect of the impact of car-hailing services, we were advised by the management of the Group that the automobile to be sold under transaction (A5) are mainly minibuses and MPVs which are different from sedans which are more popularly chosen for car-hailing services. Therefore, we are of the view that the popularity of the car-hailing services may not have an impact on the estimation of the corresponding transaction amount under transaction (A5) included in the Huachen Non-Exempted Proposed Caps in the Review Period.

Subject to market conditions, RBJAC also proposes to launch new models of Renault “Master” and “Trafic”, which proportionately use less materials and automotive components purchased from the Huachen Group, during the three financial years ending 31 December 2023 and intends to sell the JinBei and Renault automobiles to the Huachen Group to make use of the distribution network of Huachen. Furthermore, potential EV products might also be launched to the market during the three financial years ending 31 December 2023. In view of the scheduled launch of these new models, the management of the Group anticipated that the amount of sale of automobiles, automotive components and materials by members of the Group to members of the Huachen Group during the financial years ending 31 December 2023 is anticipated to have a large increment from the historical figures of the two financial years ended 31 December 2019 and the six months ended 30 June 2020.

Taking into account (i) the change of launch schedule of the LCV models; and (ii) the suspension of certain existing models during the Historical Period due to the revision of emission standard into the China VI Emission Standards, the total volume of automobiles, materials and automotive components sold by RBJAC to the Huachen Group was lower than expected during the Historical Period. We noted the Company has taken a prudent approach on estimation of the monetary value under transaction (A5) after considering the actual transacted amount during the Historical Period and the anticipated sale of the new models of automobiles during the Review Period.

2.4 Transaction category (B): Purchases of materials and automotive components by members of the Group from members of the Huachen Group

In the course of production under the Huachen Purchase Framework Agreement, the cost-plus basis applies to cases where certain members of the Group will purchase materials and automotive components from the Huachen Group for further processing and will sell back the press parts and welding parts to the Huachen Group for the latter's production of Zhonghua sedans (shown above as transactions (B1) and (B3)).

Pursuant to the terms of transaction (B2) under the Huachen Purchase Framework Agreement, the materials and automotive components are to be purchased by RBJAC from the Huachen Group on terms which are to be agreed between the Group and the Huachen Group on a cost plus basis.

We noted that the estimated price per unit for each of the transactions (B1) to (B3) will be determined based on the costs of the respective automotive components plus target profit margin proposed by the Huachen Group, which is determined by taking into consideration various factors, including but not limited to cost of material and labour, taxation, management fee and storage fee, etc.

Review on transactions (B1) and (B3)

We have reviewed the breakdown of comparable past transactions between members of the Group and the Huachen Group. We have also obtained and reviewed three recent samples of purchases by members of the Group from independent third party suppliers during the Historical Period and compared them against the unit price of the automotive components under transaction (B1). Upon comparison, we noted that the unit price of the automotive components purchased from independent third parties is comparable to that under transaction (B1).

Based on our enquiry on comparable purchases to transaction (B3), we were informed by the Company that in respect of scrap materials arisen from production of models of Zhonghua sedans purchased by Shenyang Jindong, due to the different types and properties of the purchased scrap materials, there were no direct comparable transactions with independent third parties for the purchase of scrap materials of the same category available for our comparison. For our due diligence purpose, we have obtained and reviewed three recent samples for the transaction (B3) between Shenyang Jindong and independent third party suppliers during the Historical Period. We noted that the unit price of the samples is comparable to the estimated unit price of automotive components in the Review Period. Given the nature of automotive parts of transaction (B3) was different from each other with respect to product specification, the comparison above was taken as a reference for the purpose in analysing whether the unit price adopted under transaction (B3) is reasonable.

In addition, 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 third party suppliers with the same quality to cater the need of Huachen Group in its automotive component requirements without additional processing cost, where the Huachen Group has better understanding regarding the production cycle and demand for the raw materials to be sourced due to the interlinked nature of transaction category (B) and the corresponding raw material for Huachen Group's use as set forth in category (A).

In respect of the estimated monetary value under transactions (B1) and (B3) in each of the three financial years during the Review Period, we have obtained from the Company a list of estimated purchases of automotive components summing approximately up to the corresponding estimated monetary value under the Huachen Non-Exempted Proposed Caps. As advised by the Company, the level of the corresponding monetary value for the Review Period was determined after taking into consideration of (i) the actual transacted amount under each of the transactions (B1) and (B3) in 2019 to eliminate possible distortion of data from the COVID-19 outbreak in 2020; (ii) the estimated demand for downstream products under transaction (A2) and (A3) respectively during the Review Period; and (iii) the inventory level of steel plates that are remained unused in the Historical Period and ready to be consumed without additional purchase for transaction (B1). On the other hand, based on the estimation of the Company, the monetary value under the transaction (B3) was determined by the estimated volume of scrap material under the change in product mix and scale in the production of the Zhonghua sedans, which is driven by the decrease in unit price of scrap material including carton boxes and plastic wastes and the anticipated fluctuation in demand and price of scrap material during the Review Period.

Based on the estimation of the Company, the compound annual growth rate of approximately 8.7% under the transaction (B1) was determined by the estimated demand under the transaction (A2), which is anticipated to be driven by favorable government policies in promoting automobile consumption (as further discussed above under the 2019 Notice and the Meeting Summary). 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 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, for transaction (B3), we were advised by the Company that 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 scrap steel, 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 will affect the purchase volume of the scrap materials. We were further advised by the Company that it is difficult to predict the prices of scrap materials between 2021 and 2023 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 for the Review Period. As advised by the Company, the actual transacted amount was lower than expectation during the Historical Period as the actual production volume of Zhonghua sedans dropped below the planned production volume during the Historical Period due to the reasons as set out above. 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 estimated monetary value under transaction (B3), 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 estimated monetary value.

Nevertheless, we noted that the prospect of automobile industry may be possibly affected by (i) the Subsidies which provided extra incentives in the purchase of new energy vehicles; and (ii) the rising popularity and availability of car-hailing services which may hinder the need for individuals to buy vehicles. Such measures and prospects may lead to uncertainty on the prospects of the Zhonghua sedans, which in turn affect the auto parts sales and procurement by the Group to the Huachen Group.

We have enquired the management of the Group on the effect of the Subsidies in the estimation of transaction amount under the transaction (B1) and (B3) in the Review Period and were advised by the management of the Group that the effect of the Subsidies has been taken into account in setting the Huachen Non-Exempted Proposed Caps by benchmarking the estimated sales with reference to the historical figures for the year ended 31 December 2019 with only a mild increment as compared to the historical transaction amount, assuming that there will be no significant change in the policies and business as compared to the preceding year before the impact of COVID-19.

In respect of the impact of car-hailing services, we were advised by the management of the Group that the popularity of car-hailing may on one hand decrease the demand of family car by potential customers if they opt for using car-hailing services, and on the other hand, considering the hygiene issue especially under the impact of COVID-19, the popularity of car-hailing may be less significant in the near future. Furthermore, if the car-hailing services are becoming more popular, there will still be an increase in demand for new cars from the car-hailing service providers. It is uncertain whether the popularity of the car-hailing services may have an impact on the future car sales of Zhonghua sedans in the Review Period.

Review on transaction (B2)

In respect of the estimated monetary value under transaction (B2) for the purchases by RBJAC from the Huachen Group for each of the three financial years during the Review Period, we have obtained from the Company a list of estimated purchases of automotive components summing approximately up to the corresponding estimated monetary value under the Huachen Non-Exempted Proposed Caps. We noted that for the transaction (B2), the Company has considered (i) the estimated sales of the Group's automobiles in 2021 with an anticipated growth rate of approximately 35.0% and 54.1% in 2022 to 2023 respectively; and (ii) the changes in product mix in response to market demand which resulted in changes in the types of materials and automotive components used in determination of the estimated quantity of the corresponding automotive components. Based on the estimation of the Company, the compound annual growth rate of approximately 34.4% under the transaction (B2) was determined by (i) the estimated sales growth based on introduction of the aforementioned models as set forth in transaction (A5); (ii) change in product mix and corresponding requirements of automotive materials; and (iii) estimated sales growth of new and existing models under favorable government policies in promoting automobile consumption (as further discussed above under the 2019 Notice and the Meeting Summary) and the incentives provided in supporting the development of the automobile industry. For instance, the Company has included purchase of electronic control units and suspended purchase of power trains in transaction (B2) compared to that of the Previous CCTs in response to the production plan of new models of automobiles. Upon our enquiry with the management of the Group on the tentative schedule of production and sales of corresponding products, we noted that a new JinBei model was introduced to the market by the end of 2020; and new models of Renault Master, Trafic and the potential EV products might also be introduced to the market in the Review Period. Accordingly, the Company anticipated that the sale of the relevant models of automobiles, relevant automotive components and materials to the Huachen Group will increase in the Review Period. Accordingly, the Company anticipated that the purchase of the relevant automotive components and materials from the Huachen Group will increase in the Review Period.

On the other hand, we noted that the estimated price per unit will be determined based on target cost basis, as such the Group can achieve an internal target profit margin by negotiating with the Huachen Group to determine the estimated price of each automotive component for the relevant models. We are informed by the management of the Group that it will be difficult for the Company to obtain a large volume of the relevant raw materials from independent third party suppliers with the same quality and specification to cater for Huachen Group's need in its automotive component requirements without additional processing cost, where the Huachen Group can prepare such raw materials or components based on its demand due to the interlinked nature of transaction (B2) and the corresponding raw materials for Huachen Group's use as set forth in transaction (A5). For our due diligence purpose, we have obtained and reviewed three recent samples for the transaction (B2) between RBJAC and independent third party customers during the Historical Period. We noted that the unit price of the samples is comparable to the estimated unit price of automotive components in the Review Period. Given the product specification of automotive parts of transaction (B2) was different from that of the comparables, the comparison above was taken as a reference for the purpose in analysing whether the unit price adopted under transaction (B2) is reasonable.

As advised by the Company, based on the implementation of the 2016 Policy as mentioned above, the actual sales of the automobiles in the Historical Period, which mainly consist of minibuses, were lower than those as planned as production of certain minibus models of the Group has been suspended. Moreover, under the new environmental standard under the China VI Emission Standards, certain types of light-duty vehicles powered primarily by gasoline or diesel will have to satisfy more stringent evaporative and refueling emission-control requirements, where certain models in Huachen Group's production pipeline have been suspended and were subject to redesign and undergo relevant tests in pre-production, production, and in-use stages in compliance with the new emission standards. Further, the product mix of the Group was shifted to production of certain economy minibus models during the Historical Period and their cost components are relatively lower than other models. Therefore, the total volume of automobiles, materials and automotive components sold by RBJAC to the Huachen Group was lower than the expected units during the Historical Period. We note the Company has taken a prudent approach on estimation of the monetary value under transaction (B2) after considering the actual transacted amount during the Historical Period and the anticipated sale of the new models of automobiles during the Review Period as set forth in transaction (A5).

Moreover, in view of the scheduled launch of new series of automobiles (including new JinBei model and Renault Master, Trafic and the potential EV products), RBJAC anticipated that there will be an increase in the demand for corresponding automotive components provided by the Huachen Group during the Review Period and thus leading to the increase in the estimated purchases of press parts and electronic control units from the Huachen Group. Despite the weak demand for the relevant components of minibuses for the Historical Period and the PRC government policies in respect of certain models of minibuses during the Historical Period, taking into account (i) the change in launch schedule of the LCV models which is expected to commence in the Review Period; and (ii) the resumption of sale of existing models after modification in response to the revision of emission standard, it is expected that the demand for the automotive components from the Huachen Group will increase as a result of the introduction of several new models and increase in marketing and promotion effort on the new models for the Review Period.

On the other hand, we noted that the prospect of the automobile industry may be possibly affected by (i) the Subsidies which provided extra incentives in the purchase of new energy vehicles; and (ii) the rising popularity and availability of car-hailing services which may hinder the need for individuals to buy vehicles.

We have further enquired the management of the Group on the effect of the Subsidies in the estimation of automobile sales in the Review Period. We were advised by the management of the Group that (i) the majority of estimated sales of the car models in the Review Period are positioned as multi-purpose use and versatility, it is expected that the target customers will consider a number of factors including price, durability, goods capacity and fuel consumption rate, etc., where the Subsidies was not a determinant factor in customer choice on selecting automobiles for its needs; and (ii) during the Historical Period where the exemption scheme was effective, the performance of the Group in selling automobile products was not adversely impacted as a result of the slight increase in sale of automobiles for the year ended 31 December 2019 as compared to the preceding year before the impact of COVID-19. Therefore, we are of the view that the Subsidies may not have a significant impact on the estimation of the Huachen Non-Exempted Proposed Caps in the Review Period.

In respect of the impact of car-hailing services, we were advised by the management of the Group that the automobile to be sold under transaction (A5) are mainly minibuses and MPVs which are different from sedans that are more popularly chosen for car-hailing services. As the procurement volume under transaction (B2) is correlated to the car sales under transaction (A5), we are of the view that the popularity of the car-hailing services may not have an impact on the estimation of the Huachen Non-Exempted Proposed Caps in the Review Period.

On the above basis, we are of the view that the bases on which each of the estimated monetary value under transaction categories (A) and (B) and the corresponding Huachen Non-Exempted Proposed Caps were determined are fair and reasonable and in the interests of the Shareholders and the Company as a whole.

3. Internal Control Procedures of the Group

With reference to the Letter from the Board, we noted that the Company has established certain internal control measures to ensure that the transactions entered into under the Huachen CCT Agreements will be conducted in accordance with the pricing policies of the Group and the respective terms of such agreements are on normal commercial terms and in the ordinary and usual course of business of the Group and that the terms shall not be less favourable than the terms which can be obtained from an independent third party for the provision/purchase of similar goods so far as the Company is concerned. Such internal control measures mainly include the following:

(i) the final pricing and other major terms of the Huachen Non-Exempted CCTs are required to be approved by the senior management of the various departments involved such as the department head, chief financial officer and/or the general manager of the relevant members of the Group 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;

(ii) the managers of the relevant members of the Group will review the terms of the transactions undertaken pursuant to the Huachen CCT Agreements on a regular basis to ensure the prices for the goods to be purchased thereunder will reflect the pricing policies of the Group and will be on arm's length basis under normal commercial terms;

(iii) the finance department of the Company will review, on a monthly basis, the transaction amount under each of the Huachen CCT Agreements and submit such information for the management's review, including but not limited to the historical transaction amount, to ensure that the relevant transactions are carried out in accordance with the terms of the Huachen CCT Agreements and will not exceed the respective annual caps; and

(iv) the auditors of the Company and the independent non-executive Directors will conduct annual review on the transactions entered into under the Huachen CCT Agreements in accordance with the Listing Rules.

We noted from the Financial Reports that the independent non-executive Directors have reviewed and confirmed that the internal control procedures put in place by the Company are adequate and effective and the Previous CCTs have been conducted according to Chapter 14A of the Listing Rules. We have also obtained and reviewed copies of the aforementioned letters from the Company's auditors and noted that there was no inconsistency between the disclosure in the Financial Reports and the letters from the Company's auditors.

To further assess whether the above internal control measures are in place and sufficient for monitoring the Previous CCTs, we have obtained and reviewed the internal control procedures detailing the guidance and policies for conducting the Previous CCTs and the monthly report of the relevant transactions and noted that the Company has conducted monthly review on the extent of utilisation of the approved caps under the Previous CCTs and the transaction amounts are within the said proposed caps for the Previous CCTs and the abovementioned internal control measures were in place for the Previous CCTs.

We also noted from the announcement of the Company dated 20 November 2020 in relation to the Possible Restructuring. As stated in the Letter from the Board, up to the Latest Practicable Date, the Company is not aware of any suspension in operation of the Huachen Group.

In view of the uncertainties attached to the Possible Restructuring, we noted that the management of the Company will adopt a prudent approach and impose stringent interim internal control measure in relation to all transactions with Huachen to safeguard the interest of the Company and the Shareholders. As stated in the Letter from the Board, (i) the management of the Company will communicate with the management team of the relevant subsidiaries if there is any update on the status of the possible restructuring of Huachen, and will regularly review the terms and status of recent transactions with the Huachen Group and formulate strategic measures where appropriate; (ii) the Group is encouraged to only accept purchase orders of automobiles and certain components from the Huachen Group upon receipt of full upfront payment during the interim period until the proposed restructuring of Huachen has been settled; and (iii) the Group plans to produce and keep stock of materials and automotive components at minimum level to avoid stockpiling.

As further stated in the Letter from the Board, in relation to purchases to be made by the Group from the Huachen Group under the Huachen Purchase Framework Agreement, the Group is encouraged to, where possible, place smaller but more frequent purchase orders to reduce possible interruption in delivery. The management of the Company will continue to closely monitor the development of the restructuring of Huachen and will implement additional measures and internal control policies to safeguard the interest of the Company and the Shareholders when necessary.

Taking into account the internal control procedures in place attached to the Huachen Non-Exempted CCTs, in particular (i) the restriction by way of setting the Huachen Non-Exempted Proposed Caps; (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 Huachen Non-Exempted CCTs); (iii) the Group's historical internal control procedural records for Previous CCTs for the period from 1 January 2018 to the Latest Practicable Date; and (iv) the procedure and measures including regular review of the status of the Possible Restructuring, payment status of Huachen and stock maintenance, we consider that the Company has taken appropriate measures to govern the Group in carrying out the Huachen Non-Exempted CCTs thereby safeguarding the interests of the Shareholders.

RECOMMENDATION

Having considered the principal factors and reasons above, we consider that the terms of the Huachen Non-Exempted CCTs and the Huachen Non-Exempted 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 Huachen Non-Exempted CCTs and the Huachen Non-Exempted 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 28 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions in respect of connected transactions and transactions subject to the compliance to the Takeovers Code 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 18 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions in respect of mergers and acquisitions, connected transactions and transactions subject to the compliance to the Takeovers Code 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

Interests of Directors and Chief Executives of the Company

As at the Latest Practicable Date, the interests and short positions of each Director, chief executive and their respective close 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 in 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 Directors/ chief executives	Type of interests	Number and class of Shares held: Long Position	Number and class of Shares held: Short Position	Approximate shareholding percentage *(Note)*	Number of share options granted (Percentage of the Company's issued share capital)
Mr. Wu Xiao An (also known as Mr. Ng Siu On)	Personal	6,200,000 ordinary	–	0.12%	–

Notes:

(1) The percentage of shareholding is calculated on the basis of 5,045,269,388 Shares in issue of the Company as at the Latest Practicable Date.

Associated Corporation of the Company

Name of Directors/ chief executives	Name of associate corporation	Type of interests	Number and class of Shares held Long Position	Short Position	Approximate shareholding percentage *(Note 1)*
Mr. Wu Xiao An (also known as Mr. Ng Siu On)	Xinchen China Power Holdings Limited ("**Power Xinchen**")	Trustee and interest in a controlled corporation *(Note 2)*	33,993,385 ordinary	–	2.65%
		Beneficial owner (in shares) *(Note 3)*	8,320,041 ordinary	–	0.65%

Notes:

(1) The percentage of shareholding is calculated on the basis of 1,282,211,794 ordinary 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 approximately 31.20% by the Company. The 33,993,385 shares in long position are interests of a discretionary trust under an incentive scheme of Power Xinchen. The said trust held 33,993,385 shares of Power Xinchen. Mr. Wu Xiao An is one of the trustees of the aforementioned trust. Mr. Wu also held 50% interests in Lead In Management Limited which is also a trustee of the said trust. Accordingly, Mr. Wu was deemed or taken to be interested in the 33,993,385 shares of Power Xinchen, representing approximately 2.65% of its issued share capital as at the Latest Practicable Date.

(3) Mr. Wu Xiao An held 8,320,041 shares of Power Xinchen in the capacity of beneficial owner, representing approximately 0.65% of its issued share capital as at the Latest Practicable Date.

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors, chief executives or their respective close 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 has 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.

Interests of Substantial Shareholders

As at the Latest Practicable Date, so far as it is 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 as recorded in the register required to be kept by the Company under Section 336 of the SFO:

	Number and class of Shares held/ Approximate shareholding percentage *(Note 1)*					
Name of Shareholders	**Long Position**	**%**	**Short Position**	**%**	**Lending Pool**	**%**
Baillie Gifford & Co *(Note 2)*	505,060,000	10.01	–	–	–	–
Citigroup Inc. *(Note 3)*	301,876,120	5.98	1,270,940	0.02	297,100,185	5.88
Huachen *(Note 4)*	1,535,074,988	30.43	–	–	–	–
J.P. Morgan Chase & Co. *(Note 5)*	252,737,413	5.00	15,894,015	0.31	210,968,380	4.18
Liaoning Provincial Transportation Investment Group Co. Ltd. ("**LPTI**") *(Note 6)*	600,000,000	11.89	–	–	–	–
Liaoning Transportation Investment Co., Ltd. ("**LTI**") *(Note 6)*	600,000,000	11.89	–	–	–	–
Liaoning Xinrui *(Note 4)*	1,535,074,988	30.43	–	–	–	–

Notes:

(1) The percentage of shareholding is calculated on the basis of 5,045,269,388 Shares in issue of the Company as at the Latest Practicable Date.

(2) The 505,060,000 Shares in long position were held as to 100,236,000 Shares in the capacity as investment manager and as to 404,824,000 Shares as corporate interest.

(3) The 301,876,120 Shares in long position were held as to 2,307,497 Shares as security interest, as to 2,468,438 Shares as corporate interest and as to 297,100,185 Shares in the capacity as approved lending agent. The 1,270,940 Shares in short position were held as corporate interest.

(4) According to the disclosure of interest notice filed by Huachen on 5 November 2020, Liaoning Xinrui held direct interest in 1,535,074,988 Shares and is a wholly-owned subsidiary of Huachen. Therefore, Huachen is deemed to be interested in the interest of Liaoning Xinrui in the Company by virtue of the SFO. The 1,535,074,988 Shares in long position were held by Huachen in the capacity as corporate interest, and by Liaoning Xinrui in the capacity as beneficial owner.

(5) The 252,737,413 Shares in long position were held as to 25,285,893 Shares as corporate interest, as to 16,474,000 Shares in the capacity as investment manager, as to 9,140 Shares as security interest, and as to 210,968,380 Shares in the capacity as approved lending agent. The 15,894,015 Shares in short position were held as corporate interest.

(6) According to the disclosure of interest notice filed by LPTI on 9 July 2020, LTI held direct interest in 600,000,000 Shares and is owned as to 83.68% by LPTI. Therefore, LPTI is deemed to be interested in the interest of LTI in the Company by virtue of the SFO. The 600,000,000 Shares in long position were held by LPTI in the capacity as corporate interest, and by LTI in the capacity as beneficial owner.

Save as disclosed above, as at the Latest Practicable Date, there was no other person so far as it is known to the Director and chief executive of the Company, other than a Director or chief executive of the Company as having an interest or a short position in the Shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

3. DIRECTORS' INTERESTS IN ASSETS AND/OR ARRANGEMENT

As at the Latest Practicable Date:

(a) none of the Directors or the chief executives of the Company had any direct or indirect interests in any assets which have been, since 31 December 2019, being the date to which the latest published audited consolidated financial statements of the Group were made up, acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group; and

(b) none of the Directors or the chief executives of the Company was materially interested, either directly or indirectly, in any subsisting contract or arrangement that was significant in relation to the business of the Group.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors entered into any service contract (excluding agreements expiring or determinable by employers within one year without payment of compensation other than statutory compensation) with the Company or any member of the Group.

5. EXPERT AND CONSENT

The following is the qualifications of the expert who has given opinion or advice 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 a copy of its letter and/or the reference to its name and its advice included in this circular in the form and context in which it respectively appears. A letter from the Independent Financial Adviser, dated the date of this circular, has been issued for the purpose of incorporation herein.

As at the Latest Practicable Date, the Independent Financial Adviser had no shareholding, direct or indirect, in any member of the Group or right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, the Independent Financial adviser had no direct or indirect interests in any assets which had since 31 December 2019 (being the date to which the latest published audited financial statements of the Group were made up) been acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group.

6. NO MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors confirmed that they were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2019, being the date to which the latest published audited consolidated financial statements of the Group were made up.

7. COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors and their respective close associates (as defined in the Listing Rules) had any competing interests in any business that competed or was likely to compete, either directly or indirectly, with the business of the Group.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection on any weekday (Saturdays and public holidays excepted) from 9:30 a.m. to 5:00 p.m. (unless typhoon signal No. 8 or above is hoisted or a black rainstorm warning signal is issued) at the Company's principal place of business at Suites 1602-05, Chater House, 8 Connaught Road Central, Hong Kong from the date of this circular up to and including the date of the Special General Meeting.

(a) the letter from the Board dated 5 January 2021, the text of which is set out on pages 5 to 24 of this circular;

(b) the written consent from the Independent Financial Adviser referred to in the paragraph headed "Expert and Consent" in this Appendix to this circular;

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

(d) the letter from the Independent Financial Adviser, the text of which is set out on pages 26 to 64 of this circular;

(e) the Huachen Purchase Framework Agreement and the Huachen Sale Framework Agreement setting out the terms of the respective Huachen Non-Exempted CCTs; and

(f) this circular.

9. MISCELLANEOUS

The English text of this circular shall prevail over the Chinese text in the event of 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 Pheasant – Jasmine Room, 1/F, Mandarin Oriental Hong Kong, 5 Connaught Road Central, Central, Hong Kong on Friday, 22 January 2021 at 9:00 a.m., for the purposes of considering and, if thought fit, passing, with or without modification, the following resolution as an ordinary resolution of the Company:

ORDINARY RESOLUTION

1. "**THAT**:

(a) the entering into of the Huachen Purchase Framework Agreement and the Huachen Sale Framework Agreement (as defined and described in the circular of the Company dated 5 January 2021 (the "**Circular**"), a copy of the Circular marked "A" together with a copy of the Huachen Purchase Framework Agreement marked "B" and the Huachen Sale Framework Agreement marked "C" are tabled before the meeting and initialled by the chairman of the meeting for identification purpose) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;

(b) the Huachen Non-Exempted Proposed Caps (as defined and described in the Circular) in respect of the proposed maximum annual monetary value of the transactions contemplated under the Huachen Purchase Framework Agreement and the Huachen Sale Framework Agreement for each of the three financial years ending 31 December 2023 be and are hereby approved; and

* *for identification purpose only*

(c) the director(s) of the Company be and are hereby authorized for and on behalf of the Company to, amongst other matters, sign, execute and deliver or to authorize the signing, execution and delivery of all such documents and to do all such things as they may in their absolute discretion consider necessary, expedient or desirable to implement and/or to give effect to or otherwise in connection with the Huachen Purchase Framework Agreement and the Huachen Sale Framework Agreement and the transactions contemplated thereunder and to be in the interests of the Company."

Yours faithfully
By Order of the Board
Brilliance China Automotive Holdings Limited
Lam Yee Wah Eva
Company Secretary

Hong Kong, 5 January 2021

Registered Office:
Victoria Place
5th Floor
31 Victoria Street
Hamilton HM10
Bermuda

Head Office and Principal Place of Business in Hong Kong:
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 authorized 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 (i.e. at or before 9:00 a.m. on Wednesday, 20 January 2021 (Hong Kong time)) 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 and in such event, the form of proxy will be deemed revoked.

5. The register of members of the Company will be closed from Tuesday, 19 January 2021 to Friday, 22 January 2021, both days inclusive, during which period no transfer of shares will be registered. The record date for the meeting is Tuesday, 19 January 2021. Only shareholders of the Company whose names appear on the register of members of the Company on Tuesday, 19 January 2021 or their proxies or duly authorised corporate representatives are entitled to attend and vote at the above meeting. In order to qualify for attending and voting at the meeting, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m., Hong Kong time, on Monday, 18 January 2021.

6. 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.

7. In view of the ongoing novel coronavirus (COVID-19) pandemic and to protect the attendees of the meeting from the risk of infection, the Company will implement the following precautionary measures at the meeting:

   (a) Compulsory body temperature checks will be conducted for every shareholder, proxy, corporate representative and other attendee at the entrance of the meeting venue. Any person with a body temperature above the reference range suggested by the Department of Health of The Government of The Hong Kong Special Administrative Region of the People's Republic of China (the "**HKSAR Government**") from time to time, or is exhibiting flu-like symptoms may be denied entry into the meeting venue.

   (b) Each attendee may be asked to complete and submit a health declaration form prior to entry into the meeting venue, providing his/her name and contact details, as well as certain health-related information. Anyone who is subject to quarantine or responds positively to any of those questions may be denied entry into the meeting venue.

   (c) Each attendee will be required to wear a surgical face mask prior to admission to the meeting venue and throughout the meeting, and to maintain a safe distance between seats, if necessary. Please note that no masks will be provided at the meeting venue and attendees should bring and wear their own masks.

   (d) No refreshments or drinks will be served, and there will be no corporate gifts.

   Any person who does not comply with the aforementioned precautionary measures or is subject to any health quarantine prescribed by the HKSAR Government may be denied entry into the meeting venue, or be required to leave the meeting venue, at the absolute discretion of the Company to the extent as permitted by law.

8. In the interest of all stakeholders' health and safety, the Company reminds all shareholders that physical attendance in person at the meeting is not necessary for the purpose of exercising voting rights. As an alternative, by using proxy forms with voting instructions inserted, shareholders may appoint the chairman of the meeting as their proxy to vote on the relevant resolution at the meeting instead of attending the meeting in person.

9. Due to the constantly evolving COVID-19 pandemic situation, the Company may be required to change the meeting arrangements when appropriate. Shareholders should check the website of the Company and/or that of The Stock Exchange of Hong Kong Limited for future announcements and updates on the meeting arrangements.

As at the date of this notice, the board of Directors comprises five executive directors, Mr. Wu Xiao An (also known as Mr. Ng Siu On) (Chairman), Mr. Yan Bingzhe (Chief Executive Officer), Mr. Zhang Wei, Mr. Sun Baowei and Ms. Ma Nina; and three independent non-executive directors, Mr. Xu Bingjin, Mr. Song Jian and Mr. Jiang Bo.