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If you have sold or transferred all your shares in **Xinchen China Power Holdings Limited**, you should at once hand this circular to the purchaser or 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 transferee.

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POWER XINCHEN

新 晨 动 力

XINCHEN CHINA POWER HOLDINGS LIMITED

新晨中國動力控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1148)

**(1) MAJOR TRANSACTION AND CONNECTED TRANSACTION WITH
BBA IN RELATION TO ACQUISITION OF CRANKSHAFT PRODUCTION LINE
IN TIEXI DISTRICT, SHENYANG CITY;**

**(2) MAJOR TRANSACTION AND CONNECTED TRANSACTION WITH
BBA IN RELATION TO CALL OPTION OVER CRANKSHAFT
PRODUCTION LINE IN TIEXI DISTRICT, SHENYANG CITY;**

**(3) CONTINUING CONNECTED TRANSACTIONS WITH BBA
IN RELATION TO CONSULTANCY SERVICES, SUPPLY AND PURCHASE ARRANGEMENTS
RELATED TO THE ACQUIRED CRANKSHAFT PRODUCTION LINE;**

**(4) REVISION OF ANNUAL CAPS
FOR CONTINUING CONNECTED TRANSACTIONS WITH BBA;**

(5) RE-ELECTION OF DIRECTOR;

AND

(6) NOTICE OF EXTRAORDINARY GENERAL MEETING

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

 **金 融 有 限 公 司**
OCTAL Capital Limited

A letter from the Board is set out on pages 9 to 35 of this circular. A letter from the Independent Board Committee is set out on pages 36 to 37 of this circular. A letter from Octal Capital Limited containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 38 to 76 of this circular.

A notice convening the EGM to be held at Gloucester Room, 2/F., Mandarin Oriental Hotel, 5 Connaught Road Central, Hong Kong on Wednesday, 25 March 2015 at 9:00 a.m. is set out on pages 97 to 98 of this circular. Whether or not you are able to attend the EGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon and deposit the same at the Company's branch share registrar 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 and in any event not less than 48 hours before the time appointed for the holding of the EGM or adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM if you wish.

18 February 2015

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

“Acquired Assets”	means the Crankshaft Production Line, the supporting equipment and facilities and the related spare parts in connection with the operation of the Crankshaft Production Line as set out in the Assets Transfer Agreement
“Agreement on Operation Site”	means an Agreement on Operation Site entered into between BBA, Mianyang Xinchun and Shenyang Xinchun on 21 January 2015, pursuant to which the Original Lease Agreement in relation to the Operation Site will be transferred to Mianyang Xinchun
“Articles”	means the articles of association of the Company
“Assets Transfer Agreement”	means an assets transfer agreement entered into between BBA and Mianyang Xinchun on 21 January 2015, pursuant to which BBA would transfer to Mianyang Xinchun the Acquired Assets and Transferred Contracts
“associates”	has the meaning ascribed thereto in the Listing Rules
“BBA”	means BMW Brilliance Automotive Ltd. (華晨寶馬汽車有限公司*), a sino-foreign equity joint venture company incorporated in the PRC which is owned as to 50% by Shenyang Jinbei (an indirect wholly-owned subsidiary of Brilliance China) and 50% by BMW Holdings B.V.
“BBA Compliance Agreement”	means the compliance agreement dated 23 May 2014 entered into between BBA, the Company and Mianyang Xinchun in relation to the sale and purchase of engines, engine parts and components and raw materials for manufacturing engines and engine parts and components and the provision of related services

DEFINITIONS

“BMW”	means BAYERISCHE MOTOREN WERKE AKTIENGESELLSCHAFT, a corporation organized and existing under the Laws of the Federal Republic of Germany
“Board”	means the board of Directors
“Brilliance China”	means Brilliance China Automotive Holdings Limited (華晨中國汽車控股有限公司*), a company incorporated in Bermuda, whose shares are listed on the Main Board of the Stock Exchange, and a controlling shareholder of the Company
“business day”	means any day on which the Stock Exchange is open for the business of dealing in securities
“Call Option”	means BBA’s right to buy all or any part of the Acquired Assets together with the Transferred Contracts, and the equipment, facilities and related services as a result of the implementation of the Expansion Plan and the Investment Plan as set out in the Assets Transfer Agreement
“Change of Control”	means any transaction or series of related transactions involving (i) a merger, consolidation, amalgamation, scheme of arrangement, reorganization, or other similar transaction of a party, (ii) a direct or indirect transfer or pledge of more than 50% of the equity interest or voting power of a party, or (iii) sale, transfer, lease or other disposition of all or substantially all of the assets of a party
“Closing”	means the closing date for the Assets Transfer Agreement, which is expected to take place on 30 April 2015
“Company”	means Xinchon China Power Holdings Limited (新晨中國動力控股有限公司), an exempted company incorporated in the Cayman Islands with limited liability

DEFINITIONS

“Conditions Precedent”	means the conditions which need to be satisfied before the Assets Transfer Agreement will become effective
“connected person”	has the meaning ascribed thereto in the Listing Rules
“Consultancy Fees”	means the fees paid to the consultants who are production associates of BBA will be paid on the basis of a monthly rate (including tax) and other consultants will be paid on the basis of a working day rate (including tax)
“Consulting Service and Technical Support Agreement”	means a consulting service and technical support agreement entered into between BBA and Mianyang Xinchun on 21 January 2015, pursuant to which BBA agrees to provide a list of services to Mianyang Xinchun in relation to the operation and maintenance of the Crankshaft Production Line and the implementation of the Expansion Plan
“controlling shareholder”	has the meaning ascribed thereto in the Listing Rules
“Crankshaft Production Line”	means the crankshaft production line in Tiexi District of Shenyang City, the PRC which is currently owned and operated by BBA
“CSRC”	means China Securities Regulatory Commission
“Deloitte”	means Deloitte Touche Tohmatsu, the Company’s reporting accountant
“Directors”	means the director(s) of the Company
“EGM”	means the extraordinary general meeting of the Company to be convened and held on Wednesday, 25 March 2015, including any adjournment thereof
“Expansion Plan”	means the expansion plan to be implemented by Mianyang Xinchun in expanding the production capacity and carrying out upgrading works to the Crankshaft Production Line

DEFINITIONS

“Group”	means the Company and its subsidiaries
“HK\$”	means Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	means the Hong Kong Special Administrative Region of the PRC
“Huachen”	means Huachen Automotive Group Holdings Company Limited* (華晨汽車集團控股有限公司), a state-owned company incorporated in the PRC and a controlling shareholder of Brilliance China
“Incentive Scheme”	means an incentive scheme established by the Company in 2011 before the global offering which serves as a retention tool and to align the interests of certain Directors, management, employees and the relevant personnel of the Group as referred to in the prospectus of the Company dated 28 February 2013
“Independent Board Committee”	means the independent committee of the Board comprising all the independent non-executive Directors, being Mr. Chi Guohua, Mr. Wang Jun, Mr. Huang Haibo and Mr. Wang Songlin
“Independent Financial Adviser”	means 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 Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong), being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the transactions contemplated under the Transaction Agreements
“Independent Shareholders”	means the Shareholder(s) other than Brilliance China and its associates

DEFINITIONS

“Investment Plan”	means the agreed investment plan between BBA and Mianyang Xincheng in relation to the Expansion Plan
“Latest Practicable Date”	means Friday, 13 February 2015, being the latest practicable date prior to the printing of this circular, for ascertaining certain information for inclusion in this circular
“Lead In”	means Lead In Management Limited (領進管理有限公司), a company incorporated on 18 May 2011 in the BVI and is owned as to 50% by Mr. Wu Xiao An and 50% by Mr. Wang Yunxian, both of whom are the executive Directors and which was incorporated for the purpose of holding the Shares on trust for the beneficiaries pursuant to the Incentive Scheme
“Listing Rules”	means the Rules Governing the Listing of Securities on the Stock Exchange
“Mianyang Xincheng”	means Mianyang Xincheng Engine Co., Ltd.* (綿陽新晨動力機械有限公司) (including its branches), a company incorporated in the PRC and an indirect wholly-owned subsidiary of the Company
“Mr. Tang”	means Mr. Tang Qiao, a Non-executive Director of the Company who was appointed by the Board on 4 September 2014
“N20 Supply Arrangement”	means the arrangement among BMW, BBA and Mianyang Xincheng in relation to the assembly of N20 engines and the provision of related engine parts and components and services
“Operation Site”	means the site which is used for the operation of the Crankshaft Production Line

DEFINITIONS

“Original Lease Agreement”	means the lease agreement entered into between Shenyang Xincheng and BBA on 28 August 2012 in relation to the premises located at No. 19, Road 13, Shenyang Economic and Technological Development Zone, Tiexi District, Shenyang City
“Purchase Agreement on Finished Crankshaft”	means a purchase agreement for finished crankshafts entered into between BBA and Mianyang Xincheng on 21 January 2015, pursuant to which BBA agrees to purchase and Mianyang Xincheng agrees to sell the finished crankshafts
“PRC”	means The People’s Republic of China (excluding, for the purpose of this circular, Hong Kong, the Macao Special Administrative Region of the PRC and Taiwan)
“Raw Materials Supply Agreement”	means a raw materials supply agreement entered into between BBA and Mianyang Xincheng on 21 January 2015, pursuant to which BBA agrees to supply Mianyang Xincheng with the raw materials for the production of crankshafts for the production of N20 engines or Bx8 engines or for the development and testing in relation to the production of Bx8 engines
“Revised Annual Caps”	means the revised annual caps for the continuing connected transactions contemplated under the BBA Compliance Agreement for the two financial years ending 31 December 2015 and 2016
“RMB”	means Renminbi, the lawful currency of the PRC
“Services”	means the services to be provided by BBA to Mianyang Xincheng pursuant to the Consulting Service and Technical Support Agreement

DEFINITIONS

“Service Orders”	means the service orders to be issued by BBA for the services to be provided by each consultant or group of consultants to Mianyang Xincheng
“SFO”	means the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)
“Share(s)”	means the ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shared Services”	means the shared services between BBA and Mianyang Xincheng which include certain function, facilities and services that BBA provides and/or engages third party providers to provide, including but not limited to logistics, information technology, human resource, finance, quality metrology, laboratory, facility management pursuant to the Consulting Service and Technical Support Agreement
“Shareholder(s)”	means the holder(s) of the Share(s)
“Shenyang Automotive”	means Shenyang Brilliance Jinbei Automobile Co., Ltd.* (瀋陽華晨金杯汽車有限公司), a company established in the PRC, and an indirect non wholly-owned subsidiary of Brilliance China
“Shenyang Jinbei”	means Shenyang Jinbei Automotive Industry Holdings Co., Ltd.* (瀋陽金杯汽車工業控股有限公司), a company established in the PRC, and an indirect wholly-owned subsidiary of Brilliance China
“Shenyang Xincheng”	means Xincheng Engine Shenyang Co., Ltd.* (新晨動力機械(瀋陽)有限公司) (previously named CMT International Logistics Group Shenyang Co., Ltd.* (中床國際物流集團瀋陽有限公司)), a company established in the PRC, and an indirect wholly-owned subsidiary of the Company

DEFINITIONS

“Stock Exchange”	means The Stock Exchange of Hong Kong Limited
“subsidiaries”	has the meaning ascribed thereto in the Listing Rules
“substantial shareholder”	has the meaning ascribed thereto in the SFO
“Transaction Agreements”	means the Assets Transfer Agreement, the Raw Materials Supply Agreement, the Consulting Service and Technical Support Agreement and the Purchase Agreement on Finished Crankshaft
“Transferred Contracts”	means the related contracts in connection with the operation of the Crankshaft Production Line
“Transitional Period”	means a target transitional period of consecutive 30 months commencing from the date of the Transaction Agreements
“Wuliangye Yibin”	means Wuliangye Yibin Co., Limited* (宜賓五糧液股份有限公司), a state-owned company incorporated in the PRC
“Yibin Wuliangye”	means Sichuan Province Yibin Wuliangye Group Co., Ltd.* (四川省宜賓五糧液集團有限公司), a state-owned company incorporated in the PRC, one of the Company’s controlling shareholders
“%”	means per cent

* *for identification purposes only*

For the purposes of illustration only, any amount denominated in RMB in this circular and translated into HK\$ was translated at the rate of RMB1 = HK\$1.236. Such translations should not be construed as a representation that the amounts in question have been, could have been or could be, converted at any particular rate at all.

LETTER FROM THE BOARD

POWER XINCHEN

新 晨 動 力

XINCHEN CHINA POWER HOLDINGS LIMITED

新晨中國動力控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1148)

Executive Directors:

Mr. Wu Xiao An (also known as Mr. Ng Siu On) (*Chairman*)
Mr. Wang Yunxian (*Chief Executive Officer*)

Non-executive Directors:

Mr. Qi Yumin
Mr. Tang Qiao

Independent Non-executive Directors:

Mr. Chi Guohua
Mr. Wang Jun
Mr. Huang Haibo
Mr. Wang Songlin

Registered office:

Clifton House
75 Fort Street
P.O. Box 1350
Grand Cayman KY1-1108
Cayman Islands

*Principal place of business
in Hong Kong:*

Suites 1602-05
Chater House
8 Connaught Road Central
Hong Kong

18 February 2015

To the Shareholders

Dear Sir or Madam,

- (1) MAJOR TRANSACTION AND CONNECTED TRANSACTION WITH
BBA IN RELATION TO ACQUISITION OF CRANKSHAFT PRODUCTION LINE
IN TIEXI DISTRICT, SHENYANG CITY;
- (2) MAJOR TRANSACTION AND CONNECTED TRANSACTION WITH
BBA IN RELATION TO CALL OPTION OVER CRANKSHAFT
PRODUCTION LINE IN TIEXI DISTRICT, SHENYANG CITY;
- (3) CONTINUING CONNECTED TRANSACTIONS WITH BBA
IN RELATION TO CONSULTANCY SERVICES, SUPPLY AND PURCHASE ARRANGEMENTS
RELATED TO THE ACQUIRED CRANKSHAFT PRODUCTION LINE;
- (4) REVISION OF ANNUAL CAPS
FOR CONTINUING CONNECTED TRANSACTIONS WITH BBA;
- (5) RE-ELECTION OF DIRECTOR;
- AND
- (6) NOTICE OF EXTRAORDINARY GENERAL MEETING

INTRODUCTION

Reference is made to the Company's announcement dated 21 January 2015. On 21 January 2015 (after trading hours), Mianyang Xincheng entered into the following agreements, including the Assets Transfer Agreement, the Agreement on Operation Site, the Consulting Service and Technical

LETTER FROM THE BOARD

Support Agreement, the Raw Materials Supply Agreement and the Purchase Agreement on Finished Crankshaft, with BBA in connection with the acquisition by Mianyang Xincheng of the Crankshaft Production Line, and subsequent arrangements for the operation of the Crankshaft Production Line and supply of finished crankshafts to BBA.

The purpose of this circular is to provide you with, among other things, (i) further details of the Transaction Agreements and the transactions contemplated thereunder and the Revised Annual Caps, (ii) recommendations from the Independent Board Committee to the Independent Shareholders and (iii) the advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders.

1) MAJOR TRANSACTION AND CONNECTED TRANSACTION: ACQUISITION OF CRANKSHAFT PRODUCTION LINE

On 21 January 2015 (after trading hours), Mianyang Xincheng and BBA entered into an assets transfer agreement (the “**Assets Transfer Agreement**”) pursuant to which BBA will transfer to Mianyang Xincheng the Crankshaft Production Line, the supporting equipment and facilities, the related spare parts (the “**Acquired Assets**”) and related contracts in connection with the operation of the Crankshaft Production Line (the “**Transferred Contracts**”).

The Acquired Assets comprise (i) the Crankshaft Production Line, the supporting equipment and facilities to be transferred together with the Crankshaft Production Line including, without limitation, conveyor, centering machine, marking machine, milling machine, turning machine, drilling machine, grinding machine, pre-setter machine, washing machine, tool dry machine, lifting machine, measuring devices, repair tooling, test benches and logistics tools; (ii) the related contracts in connection with the operation of the Crankshaft Production Line and (iii) the spare parts which BBA has purchased for maintaining or repairing the Crankshaft Production Line and/or the supporting equipment and facilities to be transferred together with the Crankshaft Production Line. The Acquired Assets are located in a production facility at Shenyang Economic and Technology Development Zone, Tiexi District, the PRC. The Crankshaft Production Line is currently used by BBA to produce crankshafts which are in turn utilised internally in the production of N20 engines. It was further intended that the Crankshaft Production Line would be used to produce crankshafts for use in the newer Bx8 engines. The Crankshaft Production Line was built in 2012 and has been in production since then. The original purchase costs of the Crankshaft Production Line and supporting equipment and facilities and spare parts were approximately RMB356,727,100.50 (equivalent to approximately HK\$440,914,696.22) and RMB17,095,101.99 (equivalent to approximately HK\$21,129,546.06), respectively. The related equipment, facilities and spare parts were acquired between 2012 and 2014. The current production capacity of the Crankshaft Production Line is approximately 400,000 units per annum.

LETTER FROM THE BOARD

Key terms:

(a) Consideration

The consideration under the Assets Transfer Agreement shall consist of (i) the fair market value of the Acquired Assets and the Transferred Contracts, which shall not be higher than the book value of the Acquired Assets and the Transferred Contracts plus a reasonable margin of 5% based on arm's length negotiations, (ii) value added tax, and (iii) customs related tax, if any. The fair market value was determined applying the cost approach, based on net book value of the Acquired Assets (which is the total capital invested by BBA in building the Acquired Assets less depreciation). The consideration for the Acquired Assets is estimated to be approximately RMB391,428,336.83 (equivalent to approximately HK\$483,805,424.32), after taking account of the book value of the Crankshaft Production Line and supporting equipment and facilities of approximately RMB288,863,882.81 (equivalent to approximately HK\$357,035,759.15) as at 31 December 2014, book value of spare parts of approximately RMB17,095,101.99 (equivalent to approximately HK\$21,129,546.06) as at 31 October 2014, customs/duties that may be incurred by BBA for the transfer of imported equipment and facilities under the customs custody of approximately RMB12,664,000.00 (equivalent to approximately HK\$15,652,704.00), 5% margin on the sum of the book value of the Acquired Assets and the Transferred Contracts and customs/duties of approximately RMB15,931,149.24 (equivalent to approximately HK\$19,690,900.46) and value added tax of approximately RMB56,874,202.79 (equivalent to approximately HK\$70,296,514.65). The consideration under the Assets Transfer Agreement will be settled by internal resources and bank borrowing.

A further determination of the consideration in respect of spare parts to be acquired and to be transferred as at Closing shall be made five days before Closing. The parties will sign a confirmation letter whereby the final consideration to be paid by Mianyang Xinchun to BBA will be stated. Mianyang Xinchun shall, no later than the Closing, pay BBA the total consideration and related taxes.

Pricing has been agreed upon between BBA and Mianyang Xinchun through arm's length negotiations.

LETTER FROM THE BOARD

(b) Expansion Plan

As part of the acquisition, Mianyang Xincheng will commit to an expansion plan for expanding the production capacity of and upgrading the Crankshaft Production Line (the “**Expansion Plan**”) and to make certain investments in respect of the Expansion Plan from 2015 to 2018 (the “**Investment Plan**”). The Expansion Plan and Investment Plan (including the total commitment amount) may be amended and updated solely by BBA provided that BBA gives notice to Mianyang Xincheng of such amendments. The finished crankshafts produced will be sold exclusively to BBA, and the volume and specifications requirements of the finished crankshafts are entirely dependent on the production requirements of BBA. As part of its supply chain management, it is vital for BBA to be able to ensure the production volumes and technical specifications of the finished crankshafts would meet its production needs and to make adjustments as necessary. Accordingly, the parties had agreed that BBA would have the ability to amend and update the Expansion Plan and Investment Plan. Nonetheless, the Company expects that there will be due consultation about such amendments in keeping with co-operative and mutually facilitative relationship between the parties. The Directors consider such arrangement is fair and reasonable and in the interest of the Company and its shareholders in light of the above circumstances.

The Expansion Plan and the Investment Plan are intended for expanding the production capacity of and upgrading the Crankshaft Production Line to produce Bx8 finished crankshafts. The expected rollout of the upgrade is dependent on the planned rollout of Bx8 engines by BMW, which in turn is subject to various contingencies. Given each of the N20 and Bx8 engines is equipped with one unit of finished crankshaft, the timing and amount of the increase in production volumes of the Crankshaft Production Line will be dependent on budgetted sales of N20 and Bx8 engines to BBA and/or Shenyang Jinbei. The parties may adjust the Expansion Plan and the Investment Plan taking into account, among other things, market demand for the vehicles equipped with N20 and Bx8 engines, market demand for finished crankshafts to be produced by the Group, utilisation rate of the existing production capacities, rollout timetable of Bx8 engines and specifications of Bx8 engines.

LETTER FROM THE BOARD

As at the Latest Practicable Date, the total aggregate commitment anticipated under the Expansion Plan is approximately RMB791,000,000 (equivalent to approximately HK\$977,676,000), and the Investment Plan envisages the Company's commitment of approximately RMB424,000,000 (equivalent to approximately HK\$524,064,000) in 2015, approximately RMB145,000,000 (equivalent to approximately HK\$179,220,000) in 2016, approximately RMB122,000,000 (equivalent to approximately HK\$150,792,000) in 2017 and approximately RMB100,000,000 (equivalent to approximately HK\$123,600,000) in 2018. Of the total aggregate commitment anticipated under the Expansion Plan, approximately RMB210,000,000 (equivalent to approximately HK\$259,560,000) is proposed to be utilised for upgrading the Crankshaft Production Line and approximately RMB581,000,000 (equivalent to approximately HK\$718,116,000) is proposed to be utilised for expansion of production capacity.

Performance guarantees will be issued by bank(s) in favour of BBA to secure Mianyang Xincheng's payment obligations under the Investment Plan from 2015 to 2018. The actual performance guarantee amount will be subject to change with reference to the original Investment Plan and the actual investment amounts that Mianyang Xincheng will end up spending each year. The initial performance guarantee is estimated to amount to approximately RMB424,000,000 (equivalent to approximately HK\$524,064,000) for 2015 and will be issued on or before 15 April 2015. The estimated bank related charges in relation to the performance guarantee is approximately RMB17,000,000 (equivalent to approximately HK\$21,012,000). The performance guarantee is a commitment by Mianyang Xincheng such that in the event Mianyang Xincheng fails to settle its payment obligations in relation to the Investment Plan, BBA will draw upon the performance guarantee for payment.

(c) Conditions Precedent to the Assets Transfer Agreement

The completion of the Assets Transfer Agreement will occur upon the satisfaction of the following conditions precedents (the "**Conditions Precedent**"):

- (i) the consideration being fully paid by or on behalf of Mianyang Xincheng to BBA;
- (ii) evidential documentation being produced to BBA indicating that Mianyang Xincheng has been the sole shareholder of Shenyang Xincheng;
- (iii) performance guarantees being issued by bank(s) in favour of BBA to secure Mianyang Xincheng's payment obligations under the Investment Plan from 2015 to 2018. The actual performance guarantee amount will be subject to change with reference to the original Investment Plan and the actual investment amounts that Mianyang Xincheng will end up spending each year;

LETTER FROM THE BOARD

- (iv) BBA having obtained the approval from the relevant customs authority in relation to the relevant duty and tax for the transfer of imported Acquired Assets (if any);
- (v) the Assets Transfer Agreement and the transactions contemplated thereunder having been approved by the Independent Shareholders;
- (vi) the Transaction Agreements and the Agreement on Operation Site having been duly executed by the parties; and
- (vii) all necessary approvals, permits, licenses, registrations and filings from relevant commissions and related government authorities regarding environment protection and urban planning in relation to production of crankshafts being obtained by Mianyang Xinchun (if any).

Conditions (i) to (iii) may be waived in writing at the discretion of BBA. Condition (iv) may be waived in writing at the discretion of Mianyang Xinchun. Condition (vi) may be waived in writing by both parties. Conditions (v) and (vii) may be not be waived by any party. As at the Latest Practicable Date, none of the conditions precedent have been fulfilled or waived or is intended to be waived, save for conditions (vi). A waiver of conditions (i) or (iii) by BBA would affect the cost and accordingly the financial impact of the acquisition for the Group. The Company does not expect a waiver of any of the other conditions to affect the substance of the acquisition.

(d) Closing

Subject to the satisfaction or waiver (by the party or parties who have the right to do so) of the Conditions Precedents, the parties agree that closing is expected to take place on 30 April 2015 or any other date as agreed between the parties in writing (the “**Closing**”).

Further Acquisition

BBA has been in the process of upgrading the Crankshaft Production Line to enable it to produce crankshafts for the newer Bx8 engines and expanding the production capacity of the Crankshaft Production Line. BBA and Mianyang Xinchun are in negotiations for the transfer of Bx8 engines related improvements to the Crankshaft Production Line and the potential supply of Bx8 finished crankshaft. Once the arrangements in relation to Bx8 finished crankshaft supply have been finalised, a separate agreement will be entered into between the Group and BBA for the acquisition of these additional equipment and facilities, and the Company will comply with the requirements of the Listing Rules in relation to such acquisition and related transaction (if any) in due course.

LETTER FROM THE BOARD

Financial effects of the Acquisition

Upon the completion of the Asset Transfer Agreement, property, plant and equipment, inventories and trade and other receivables will be increased by approximately RMB316.6 million (equivalent to approximately HK\$391,317,600), RMB18.0 million (equivalent to approximately HK\$22,248,000) and RMB56.9 million (equivalent to approximately HK\$70,328,400), respectively. Assuming the consideration will be settled by cash, there will be a decrease of approximately RMB391.4 million (equivalent to approximately HK\$483,770,400) in bank balances and cash. The value added tax to be paid pursuant to the Asset Transfer Agreement will be used to set-off other value added tax obligations of the Group. The supply of finished crankshaft to BBA following completion of the acquisition of the Crankshaft Production Line is expected to generate additional revenue and profit, so the Group believes that the acquisition of the Acquired Assets will bring a positive effect on the earnings of the Group. The Group intends to settle the consideration through bank borrowing and internal resources. Should the Group raise cash from bank borrowing to finance the acquisition of the Crankshaft Production Line, both the total assets and total liabilities will be increased by the same amount while there may be an increase in the Group's debt-to-equity ratio.

2) MAJOR TRANSACTION AND CONNECTED TRANSACTION: CALL OPTION

Pursuant to the Assets Transfer Agreement, the Company has granted BBA a call option to buy back all or any part of the Acquired Assets together with the Transferred Contracts, and the equipment, facilities and related services resulting from the implementation of the Expansion Plan (the "Call Option").

Key terms:

Call Option exercise period:	The period commencing from the date when the title of the Acquired Assets is transferred to Mianyang Xincheng to the end of production date of Bx8 engines, which is estimated to be 31 December 2023.
Triggering events for exercise:	(i) after the Closing, Mianyang Xincheng undergoes a Change of Control, or any mergers, split-up, transfer or other similar reorganizations that may involve BBA's or BMW's competitors or have a material negative impact on the performance of the Asset Transfer Agreement and/or any other Transaction Agreements or the Agreement on Operation Site;

LETTER FROM THE BOARD

- (ii) Mianyang Xincheng fails to supply to BBA with finished crankshafts as needed by BBA in accordance with the Purchase Agreement on Finished Crankshafts except for the following two conditions:
 - a) During the Transitional Period, Mianyang Xincheng fails to supply to BBA with finished crankshafts as needed by BBA in accordance with the Purchase Agreement on Finished Crankshaft due to BBA's intentional misconduct or gross negligence;
 - b) During the Transitional Period, Mianyang Xincheng fails to supply to BBA with finished crankshafts as needed by BBA in accordance with the Purchase Agreement on Finished Crankshaft due to BBA's minor negligence;
- (iii) Mianyang Xincheng commits a breach of any of its post-closing obligations and fails to correct the same within 45 days from written notice being sent by BBA requiring the breach to be remedied;
- (iv) after the Closing, the Agreement on Operation Site or any Transaction Agreements other than the Assets Transfer Agreement is terminated by BBA in accordance with the terms and conditions stated in the Agreement on Operation Site or the Transaction Agreements and applicable laws; or
- (v) after the Closing, Mianyang Xincheng becomes insolvent, files a petition for bankruptcy or insolvency, is subject to the appointment of a receiver or administrator over any of its assets, or other bankruptcy or insolvency proceedings are commenced by or against it.

Exercise price of
the Call Option:

The Call Option exercise price shall be determined based on the fair market value of assets and the contracts to be repurchased, but shall not be higher than the book value of the assets and the contracts plus a reasonable margin of 5% based on arm's length negotiations.

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The Company is unable to estimate the Call Option exercise price at this stage, as the fair market value of the assets will depend on various factors such as when the Call Option is exercised which in turn will affect how much of the Expansion Plan has been implemented, and the amount of depreciation on the assets. It is expected that the fair market value will be determined applying the cost approach, based on net book value of the assets (which will be the total investment amount to be paid by the Group less depreciation). As stated above, the Company currently estimates that the total consideration under the Assets Transfer Agreement for the initial acquisition will be approximately RMB391,428,336.83 (equivalent to approximately HK\$483,805,424.32). As at the Latest Practicable Date, the total commitment amount anticipated under the Expansion Plan from 2015 to 2018 is approximately RMB791,000,000 (equivalent to approximately HK\$977,676,000). Therefore, the maximum exercise price of the Call Option is estimated to be approximately RMB1,181,831,840.74 (equivalent to approximately HK\$1,460,744,155.15), being the aggregated amount of initial acquisition consideration (excluding value added tax) and committed investment amount under the Expansion Plan, plus a reasonable margin of 5% on the book value of the relevant assets, which is considered to be fair and reasonable and in the interests of the Company and its Shareholders as a whole. The assumption that the Company has taken into account in calculating the estimated maximum exercise price of the Call Option is that there will not be substantial changes to the aggregate estimated investment amount under the Expansion Plan. If and when the Call Option is exercised, the Company will make an announcement of the final exercise price.

If the Call Option is exercised, the parties shall, by signing a new asset transfer agreement, complete the transaction in relation to the Call Option within 60 days after BBA's written notice is provided to Mianyang Xincheng. Liquidated damages of 50% of the Call Option consideration is payable in the event of default unless the failure to complete is primarily attributable to BBA.

Financial effects of the Call Option

Should BBA exercises the Call Option, the Group will be required to transfer all or part of the Acquired Assets together with the Transferred Contracts, and the equipment, facilities and related services resulting from the implementation of the Expansion Plan to BBA at a consideration based on the book value of relevant assets and the contracts plus a 5% margin. The difference between the final consideration and net book value of the relevant assets and contracts being transferred to BBA will be recognised in the profit and loss of the Group in the same period. As explained above, the consideration payable upon exercise of

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the Call Option is dependant on various factors such as when the Call Option is exercised, which in turn will affect how much of the Expansion Plan has been implemented and the amount of depreciation on the assets. Accordingly, it would not be meaningful to provide a numerical description of the financial effects of the Call Option as any calculation would require various assumptions to be made. Assuming that BBA exercises the Call Option shortly after the acquisition, the Group expects to receive cash inflow from the disposal of relevant assets based on the net book value plus a 5% margin which will in turn increase the total assets of the Group, while the Group will be responsible for certain costs related to the exercise of the Call Option, which will increase the total liabilities of the Group. After transferring the Crankshaft Production Line back to BBA, the Group may not be able to supply finished crankshaft to BBA. Therefore, the Group believes that the exercise of the Call Option will have negative impact on the total earnings of the Group.

3) CONTINUING CONNECTED TRANSACTIONS

Reference is made to the Company's circular dated 28 May 2014 and the Company's announcements dated 23 May 2014 and 28 May 2014. As described therein, Mianyang Xincheng, the Company and BBA entered into a compliance agreement in relation to the sale and purchase of engines, engine parts and components and raw materials for manufacturing engines and engine parts and components and the provision of related services (the "**BBA Compliance Agreement**").

On 21 January 2015 (after trading hours), further to the BBA Compliance Agreement, Mianyang Xincheng and BBA entered into the following operational agreements:

(A) Consulting service and technical support agreement

On 21 January 2015 (after trading hours), Mianyang Xincheng and BBA entered into a consulting service and technical support agreement (the "**Consulting Service and Technical Support Agreement**") pursuant to which BBA agrees to provide the following services to Mianyang Xincheng (the "**Services**"):

- (a) in relation to the operation and maintenance of the Crankshaft Production Line:
 - (i) advisory, consultancy, assistance, technical training, review of personnel qualification or technical support in connection with the operation of the Crankshaft Production Line for manufacturing the crankshafts;

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- (ii) advisory, consultancy, assistance, technical training, review of personnel qualification, negotiation support with third party service providers or technical support in connection with the maintenance and repairing of the Crankshaft Production Line;
 - (iii) other advisory, consultancy, assistance or technical support, as otherwise explicitly agreed by both parties in writing, to facilitate the crankshaft supply to BBA;
- (b) in relation to the implementation of the Expansion Plan:
- (i) advisory and consultancy on the implementation schedule and timeline control of the Investment Plan with respect to the Expansion Plan;
 - (ii) steering and participating in the implementation of the Investment Plan and the Expansion Plan;
 - (iii) selecting suppliers of the related equipment and tools and appropriate service providers;
 - (iv) defining standards and specifications of relevant equipment and tools;
 - (v) providing engineering services and related technical support; and
 - (vi) advising on alteration, addition, improvement, validation or other technical support to the implementation and execution of the Expansion Plan.

Key terms:

(a) *Service Orders*

BBA may issue service orders for the services to be provided by each consultant or group of consultants to Mianyang Xincheng (the “**Service Orders**”) which contain particulars pertaining to the related consulting and advisory services to be provided by BBA (including provisions relating to the price, quantity, service standards and payment method). Mianyang Xincheng shall agree with all the terms and conditions provided in the Service Orders, unless notice with reasons for objection by Mianyang Xincheng is served on BBA within five business days of receipt of the Service Order. The Service Orders will be reviewed quarterly.

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The parties may further determine and agree on the content, scope and requirements of the Services according to the actual requirements of the finished crankshafts supply from Mianyang Xincheng to BBA pursuant to the Purchase Agreement on Finished Crankshaft and will be documented in the Service Orders. The terms of the Service Orders must be consistent with and subject to the terms of the Transaction Agreements and on normal commercial terms.

(b) Service Fees

Consultants who are production associates of BBA will be paid on the basis of a monthly rate (including tax) and other consultants will be paid on the basis of a working day rate (including tax) (the “**Consultancy Fees**”). BBA will issue quarterly invoices to Mianyang Xincheng based on a list specifying the monthly working time records and the related costs accrued.

BBA may from time to time share certain function, facilities and services with Mianyang Xincheng that BBA provides and/or engages third party providers to provide, including but not limited to logistics, information technology, human resource, finance, quality metrology, laboratory, facility management (the “**Shared Services**”). BBA and Mianyang Xincheng may enter into separate agreements which contain particulars pertaining to the details of the shared functions, facilities and services (including provisions relating to the price, quantity, service scope and payment method). BBA will charge Mianyang Xincheng for the cost actually incurred by BBA plus a reasonable margin of 5% in respect of the functions shared by Mianyang Xincheng. The terms of these Shared Services agreements must be consistent with and subject to the terms of the Transaction Agreements and on normal commercial terms.

(c) Term

As the transactions contemplated under the Consulting Service and Technical Support Agreement will be subject to the BBA Compliance Agreement (which is effective until 17 June 2017), the Consulting Service and Technical Support Agreement will be effective from the Closing of the Assets Transfer Agreement to 17 June 2017, unless it is terminated before the expiration of the term by any party serving at least 3 months’ prior written notice to the other parties. Subject to the compliance with the requirements of the Listing Rules (including the independent shareholders’ approval requirement), upon the expiration of the initial three-year term of the BBA Compliance Agreement, the Consulting Service and Technical Support Agreement will be automatically renewed for successive periods of 3 years.

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The parties will review the qualification of Mianyang Xincheng's personnel working in the relevant positions in connection with the operation of the Crankshaft Production Line quarterly. Based on such quarterly review, the parties shall mutually determine the necessity of the Services.

(d) Payment terms

The quarterly invoice, which is based on a list specifying the monthly working time records and the related costs accrued, shall be provided to Mianyang Xincheng prior to the 10th day of the following month and confirmed within the following three business days by Mianyang Xincheng. Mianyang Xincheng shall then make payment to BBA within 45 days of receipt of the original invoice. Taxes payable by BBA in connection with the Services shall be added to the Consultancy Fees.

Mianyang Xincheng may, with written notice to BBA, set off its receivables from or payables to BBA arising from Mianyang Xincheng's rights, obligations or liabilities under the Transaction Agreements (excluding the Assets Transfer Agreement).

(e) Pricing

For the pricing policy in relation to the Consultancy Fees and the Shared Services, please refer to the paragraph below "Pricing Policy" under "4) Revision of Annual Caps for the Continuing Connected Transactions with BBA".

(B) Raw materials supply agreement

On 21 January 2015 (after trading hours), Mianyang Xincheng and BBA entered into a raw materials supply agreement (the "**Raw Materials Supply Agreement**") pursuant to which BBA agrees to supply Mianyang Xincheng with the raw materials for the production of crankshafts for the production of N20 engines or Bx8 engines or for the development and testing in relation to the production of Bx8 engines.

Key terms:

Invoices shall be issued by BBA within the first 10 days of each month for raw materials delivered during the previous month and payment shall be made by Mianyang Xincheng within 45 days after receipt of the relevant invoices.

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Mianyang Xincheng may, with written notice to BBA, set off its receivables from or payables to BBA arising from Mianyang Xincheng's rights, obligations or liabilities under the Transaction Agreements (excluding the Assets Transfer Agreement).

As the transactions contemplated under the Raw Materials Supply Agreement will be subject to the BBA Compliance Agreement (which is effective until 17 June 2017), the Raw Materials Supply Agreement will be effective from the Closing of the Assets Transfer Agreement to 17 June 2017, unless it is terminated before the expiration of the term by any party serving at least 3 months' prior written notice to the other parties. Subject to the compliance with the requirements of the Listing Rules (including the independent shareholders' approval requirement), upon the expiration of the initial three-year term of the BBA Compliance Agreement, the Raw Materials Supply Agreement will be automatically renewed for successive periods of 3 years.

For the pricing policy in relation to the procurement of raw materials from BBA by Mianyang Xincheng, please refer to the paragraph below "Pricing Policy" under "4) Revision of Annual Caps for the Continuing Connected Transactions with BBA".

(C) Purchase agreement on finished crankshaft

On 21 January 2015 (after trading hours), Mianyang Xincheng and BBA entered into a purchase agreement for finished crankshafts (the "**Purchase Agreement for Finished Crankshafts**") pursuant to which BBA agrees to purchase and Mianyang Xincheng agrees to sell the finished crankshafts which are to be produced by Mianyang Xincheng in accordance with the Transaction Agreements by using the Crankshaft Production Line and for the sole purpose of supplying to BBA for its assembly of N20 engines and Bx8 engines.

Key terms:

The parties may enter into purchase orders approximately every three months which contain particulars pertaining to the sale and purchase of finished crankshafts (including provisions relating to the price, quantity, quality and payment method). The terms of the purchase orders must be consistent with and subject to the terms of the Transaction Agreements and on normal commercial terms.

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Upon receiving the purchase orders, Mianyang Xincheng will issue compliance invoices to notify BBA of the timely delivery of the finished crankshafts. BBA shall then make payment within 45 days from the 25th day of the month when the compliance invoices are received from Mianyang Xincheng, that is by the 10th day of the second month following the receiving month. In the event Mianyang Xincheng issues the compliance invoices to BBA on a date between 26th and 31st of the month, BBA shall then make payment within 45 days from the 25th day of the month following the receiving month.

Mianyang Xincheng may, with written notice to BBA, set off its receivables from or payables to BBA arising from Mianyang Xincheng's rights, obligations or liabilities under the Transaction Agreements (excluding the Assets Transfer Agreement).

As the transactions contemplated under the Purchase Agreement on Finished Crankshafts will be subject to the BBA Compliance Agreement (which is effective until 17 June 2017), the Purchase Agreement on Finished Crankshafts will be effective from the Closing of the Assets Transfer Agreement to 17 June 2017, unless it is terminated before the expiration of the term by any party serving at least 3 months' prior written notice to the other parties. Subject to the compliance with the requirements of the Listing Rules (including the independent shareholders' approval requirement), upon the expiration of the initial three-year term of the BBA Compliance Agreement, the Purchase Agreement on Finished Crankshafts will be automatically renewed for successive periods of 3 years.

For the pricing policy in relation to the sale of finished crankshafts by Mianyang Xincheng to BBA, please refer to the paragraph below "Pricing Policy" under "4) Revision of Annual Caps for the Continuing Connected Transactions with BBA".

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4) REVISION OF ANNUAL CAPS FOR THE CONTINUING CONNECTED TRANSACTIONS WITH BBA

Upon completion of the Asset Transfer Agreement, the Group will supply finished crankshafts to BBA pursuant to the Purchase Agreement on Finished Crankshaft. On the other hand, the Group will procure raw materials from BBA pursuant to the Raw Materials Supply Agreement and consultancy service and technical support for the production of crankshafts from BBA pursuant to the Consulting Service and Technical Support Agreement. The Group expects the existing annual caps in relation to the transactions contemplated under the BBA Compliance Agreement for the two financial years ending 31 December 2015 and 2016 will be exceeded. Therefore, the Group proposes to revise the existing annual caps under the BBA Compliance Agreement.

Summary of the annual caps

Details of the relevant continuing connected transactions	Actual amounts (up to 30 November 2014) <i>(note)</i>	Existing annual caps			Revised annual caps	
		For the year ended 31 December 2014	For the year ending 31 December 2015	For the year ending 31 December 2016	For the year ending 31 December 2015	For the year ending 31 December 2016
(1) Sale of engine parts and components and raw materials for manufacturing engines and engine parts and components and the provision of the related consulting and advisory services by BBA or its subsidiaries to the Group	RMB261,514,967 (equivalent to approximately HK\$323,232,499)	RMB447,976,479 (equivalent to approximately HK\$553,698,928)	RMB1,247,388,395 (equivalent to approximately HK\$1,541,772,056)	RMB1,405,570,122 (equivalent to approximately HK\$1,737,284,671)	RMB1,646,970,239 (equivalent to approximately HK\$2,035,655,215)	RMB1,525,467,133 (equivalent to approximately HK\$1,885,477,376)
(2) Sale of engines, engine parts and components and raw materials for manufacturing engines and engine parts and components by the Group to BBA or its subsidiaries	RMB371,824,052 (equivalent to approximately HK\$459,374,528)	RMB518,326,709 (equivalent to approximately HK\$640,651,812)	RMB1,261,489,369 (equivalent to approximately HK\$1,559,200,860)	RMB1,321,661,349 (equivalent to approximately HK\$1,633,573,427)	RMB1,646,872,071 (equivalent to approximately HK\$2,035,533,880)	RMB1,743,150,632 (equivalent to approximately HK\$2,154,534,181)

Note: the actual figures include the historical transaction amounts in respect of purchase of engine parts and components and raw materials for manufacturing engines and engine parts and components directly and indirectly (via Huachen) from BBA and the sale of N20 engines and/or finished connection rods directly and indirectly (via Huachen) to BBA.

Basis of the proposed revised annual caps

The Revised Annual Caps are primarily based on the following:

- (i) the estimated volume of engines, engine parts and components and raw materials for manufacturing the engines and engine parts and components required by the Group and by BBA with reference to the expected market demand for products of BBA and Shenyang Automotive;

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- (ii) the designed annual production capacity of the Group and the planned upgrade of and expansion in the production capacity of the Crankshaft Production Line;
- (iii) the expected unit prices for the engines, engine parts and components and raw materials for manufacturing the engines and engine parts and components; and
- (iv) the estimated total consultancy fees and shared service fees payable to BBA.

The Group proposes to revise the annual caps primarily for the following reasons (i) the Group will supply finished crankshaft to BBA upon completion of the acquisition of the Crankshaft Production Line in April 2015, which will increase the transaction amounts between the Group and BBA; (ii) the increase in transaction amounts is expected to be higher in 2016 as the Crankshaft Production Line will have its first full year contribution in 2016; and (iii) the Group expects that there will be an increase in the expected demand for N20 engines in 2015 based on the latest figures provided by the Group's customers. The Group expects a decrease in unit prices of raw materials and finished products of N20 engines but an increase in the unit prices of raw materials and finished products of connection rods, based on the latest prices agreed by the parties. The latest prices were determined with reference to the latest raw materials costs provided by BBA, historical production costs incurred by the Group and anticipated profit margin from the sale of relevant products. The expected unit prices of the N20 engines and the engine parts and components and raw materials for manufacturing the N20 engines, connection rods and crankshaft are anticipated to be relatively stable, while the Group anticipates that expected unit prices of the connection rods and crankshafts will gradually decrease from 2015 to 2016. The expected prices are estimated with reference to the expected procurement costs of raw materials from BBA, production costs to be incurred by the Group and anticipated profit margin from the sale of relevant products.

Pricing policy for the continuing connected transactions

Pricing for the continuing connected transactions with BBA as contemplated under the BBA Compliance Agreement has been agreed upon between BBA and Mianyang Xincheng through arm's length negotiations. The prices for the mutual supplies and purchases between the Group and BBA are negotiated on a holistic arm's length basis, taking into account each party's overall costs of production and anticipated reasonable returns.

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In respect of the purchase prices of engine parts and components and raw materials for manufacturing engines and engine parts and components, the Group will assess the reasonableness of the purchase prices of engine parts and components for assembling N20 engines as a proportion of the total production costs, which is expected to be comparable to the historical production costs structure of engines sold by the Group (including engines sold to independent third parties) in the latest financial year. In respect of the assessment of the reasonableness of the purchase prices of connection rod roughcasts and related parts and crankshaft roughcasts, the Group will make reference to, among others, the market prices of similar products produced in the PRC, the difference in the production costs incurred by PRC and overseas suppliers (if applicable), the quality and specification of connection rod roughcasts and related parts and crankshaft roughcasts to be procured from BBA, the transportation costs and other related transaction costs.

The consultancy fees to be incurred for supporting the operation of the Crankshaft Production Line is based on the estimated number of productions associate and consultants required, estimated working hours and relevant applicable charging rates. BBA will prepare a staff plan and the Group will assess the reasonableness of the plan taking into account various factors including the number of workers the Group considers is needed for the operation of the Crankshaft Production Line compared with the manpower plan proposed by BBA. The charging rates for production associates and consultants are subject to change, but the current applicable rate is approximately RMB10,000 per month for operators and between RMB1,000 to RMB14,000 per day for local specialists, local managers and other overseas consultants. The Group will make reference to, among other things, internal remuneration guidance for the Group's employees, academic background and technical knowledge of BBA's production associates and consultants and difference in remuneration package for PRC-based company and international company, to assess the reasonableness of the applicable charging rate of BBA's production associates and consultants. The estimated amount payable to BBA by sharing BBA's certain function, facilities and services, such as laboratory related testing and general administrative costs, is based on actual costs to be incurred by BBA and shall be primarily apportioned based on routing time for producing one unit of crankshaft and number of production associates and consultants of BBA working on the Crankshaft Production Line under the Consulting Service and Technical Support Agreement. BBA will prepare an invoice setting out the above details and the Group will review the invoice and check whether the costs will be shared with BBA based on the aforementioned methods.

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The pricing for the mutual supplies and purchases between the Group and BBA pursuant to the BBA Compliance Agreement is based on a costs-plus approach. The Group will price the N20 engines and the engine parts and components (including the connection rods and crankshafts) to be sold to BBA by reference to the raw material costs provided by BBA, production costs to be incurred by the Group and its anticipated reasonable profits. The margin to be charged by the Group is expected to be comparable with the level of profits derived from the sale of gasoline engines to independent third parties in the latest financial year but it may vary depending on factors such as the expected quantity, quality and specifications of the products to be sold, market competition from other supplier(s) of BBA and strategic collaboration with BBA.

The project directors in charge of the Group's production lines for producing the relevant products and BBA will communicate on semi-annual basis to discuss, among other things, the raw material and procurement costs of BBA from its suppliers and its production costs in processing any components before on-sale to the Group (if any), as well as the Group's production costs in assembling the N20 engines and producing connection rods and crankshafts. The parties monitor the prices for raw materials constantly and normally reconfirm the prices of engine parts and components and raw materials for manufacturing engines and engine parts and components on semi-annual basis. Should there be any changes in the purchase prices, the parties may adjust the sale prices of relevant products. The purchase prices and sale prices proposed by the Group's project directors based on negotiations with BBA will then be reviewed by the Group's Chief Financial Officer. The Group's Chief Financial Officer will compare the anticipated profit margin from the sale of the relevant products based on the proposed purchase and sale prices with the level of profits derived from the sale of gasoline engines to independent third parties in the latest financial year to ensure that such margin is comparable with the margin obtained from the sale to the independent third parties. After that, the proposed purchase and sale prices will be acknowledged by the Group's Chief Executive Officer. Taking into account the internal procedures described above, the Directors consider that these methods and procedures can ensure that the transactions will be conducted on normal commercial terms and not prejudicial to the interests of the Company and its minority shareholders.

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REASONS FOR AND BENEFITS OF ENTERING INTO THE TRANSACTION AGREEMENTS

Reference is made to the Company's circular dated 28 May 2014 and the Company's announcements dated 23 May 2014 and 28 May 2014. As described therein, BMW, BBA and Mianyang Xincheng have entered into an N20 Supply Arrangement for supply of N20 engines by Mianyang Xincheng to BBA, as well as related mutual supply arrangements in relation to the manufacture and supply by Mianyang Xincheng of connection rods for use in the assembly of N20 engines. Crankshafts are another integral engine component used in the assembly of N20 engines and Bx8 engines.

Other than connection rods, as stated in the 2014 interim report of the Company, the Group has been focusing and allocating more resources on the development of core engine parts and components business for foreign-branded auto manufacturer(s), especially for BBA in order to benefit from the rapid growth in foreign-branded auto segment. Crankshaft is considered as another core engine part and component. The acquisition of the Crankshaft Production Line would allow the Group to further diversify its business and enrich its product portfolio, broaden its revenue stream and deepen its collaboration with BBA. More importantly, the acquisition will be a key milestone in the Group's long term development plan of aiming to be a stable engine and engine components supplier of BBA.

As crankshaft production will be a new business line for the Group, and BBA has stringent product quality and technical requirements applicable across its supply and manufacturing chain, Mianyang Xincheng has agreed to accept BBA's guidance and assistance in the initial operational period following the acquisition. The Consulting Service and Technical Support Agreement will allow BBA to provide such assistance to Mianyang Xincheng in order to facilitate the smooth operation of the Crankshaft Production Line, and the gradual expansion and upgrading of the Crankshaft Production Line. Mianyang Xincheng will benefit from BBA's support in its consulting service and technical support.

The Raw Materials Supply Agreement and the Purchase Agreement on Finished Crankshafts are structured similarly to the arrangements for the raw material supply and finished product supply arrangements for connection rods.

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INFORMATION OF THE PARTIES INVOLVED

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

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

LISTING RULES REQUIREMENTS

As at the Latest Practicable Date, Brilliance China, a controlling shareholder of the Company, is indirectly interested in 50% of the issued share capital of BBA. As BBA is an associate of Brilliance China, it is a connected person of the Company. Mianyang Xinchun, on the other hand is an indirect wholly-owned subsidiary of the Company. Shenyang Xinchun, is an indirect wholly-owned subsidiary of the Company.

As the highest applicable percentage ratio in respect of both the acquisition of the Crankshaft Production Line and the grant of the Call Option pursuant the Assets Transfer Agreement is more than 25% but less than 100% and the consideration is more than HK\$10 million, each of the acquisition of the Crankshaft Production Line and the grant of the Call Option pursuant to the Assets Transfer Agreement constitutes a major transaction and a connected transaction of the Company and is subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapters 14 and 14A of the Listing Rules.

As the Revised Annual Caps exceed HK\$10 million, the revision of the annual caps under the BBA Compliance Agreement and the entering into of the Consulting Service and Technical Support Agreement, the Raw Materials Supply Agreement and the Purchase Agreement on Finished Crankshaft are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

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INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee, comprising Mr. Chi Guohua, Mr. Wang Jun, Mr. Huang Haibo and Mr. Wang Songlin, being the independent non-executive Directors, has been established to advise the Independent Shareholders as to whether the terms of the Transaction Agreements are fair and reasonable and whether the transactions contemplated thereunder are in the interest of the Company and the Shareholders as a whole, after taking into account the recommendations of the Independent Financial Adviser. The Company has appointed the Independent Financial Adviser to make recommendations to the Independent Board Committee and the Independent Shareholders as to whether the terms of the Transaction Agreements and the Revised Annual Caps are fair and reasonable and whether the transactions contemplated thereunder are in the interest of the Company and the Shareholders as a whole.

5) RE-ELECTION OF RETIRING DIRECTOR

Mr. Tang Qiao (“**Mr. Tang**”) was appointed as a Non-executive Director on 4 September 2014. Pursuant to the articles of association of the Company (the “**Articles**”) and the Listing Rules, Mr. Tang shall hold office until the next general meeting of the Company and, being eligible, offer himself for re-election and thereafter subject to retirement by rotation and re-election at annual general meetings of the Company.

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

Mr. Tang Qiao, aged 60, is a postgraduate, senior economist, member of Communist Party of China, and National People’s Congress of the People’s Republic of China delegate. Since he began working in 1972, he has been appointed as the production deputy chief of Yi Bin Region Planning Economic Committee, the vice director of Yibin Machinery Factory, the planning chief of Yi Bin Region Planning Economic Committee, the deputy director and a member of Party Committee of the Statistical Bureau, the director and the vice deputy secretary of Yibin Paper Machinery Factory, the commissioner and the party secretary of Yi Bin Region Planning Commission, the deputy director and the secretary of Party Committee of the Price Bureau, the director of Resources Unit, Changning County Party secretary, the deputy mayor and a member of Party Committee of Yibin Municipal Government and the deputy secretary of Party Committee of State-owned Assets Supervision and Administration Commission in Yibin City, and a member of the Standing Committee of the Yibin Municipal Committee. He was the vice secretary of the party committee, the director and the president of Sichuan Province Yibin Wuliangye Group Co., Ltd.* (四川省宜賓五糧液集團有限公司) (“**Yibin Wuliangye**”) and the director and the chairman of Wuliangye Yibin Co., Limited* (宜賓五糧液股份有限公司) (“**Wuliangye Yibin**”) since 2007. Wuliangye Yibin is a listed company on the Shenzhen Stock Exchange since 1998 with stock code 858. Mr. Tang was the vice secretary of the party committee, the director and the president

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of Yibin Wuliangye and the secretary of the party committee, the director and the chairman of Wuliangye Yibin since January 2011. He was the secretary of the party committee, the director and the president of Yibin Wuliangye and the secretary of the party committee and the chairman of Wuliangye Yibin since April 2011. He was the secretary of the party committee and the chairman of Yibin Wuliangye and the secretary of the party committee and the chairman of Wuliangye Yibin since June 2011. He is the secretary of party committee and the chairman of Yibin Wuliangye and the secretary of the party committee and the director of Wuliangye Yibin since September 2011. Mr. Tang was elected as the vice president of China National Food Industry Association in 2010. Save as disclosed above, Mr. Tang did not hold any major appointment or professional qualification or directorship in other public companies, the securities of which are listed on any securities market in Hong Kong or overseas in the last three years, nor does he hold any other positions with the Group.

Terms of Office

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

Disclosure under Rule 13.51(2)

On 29 April 2011, the China Securities Regulatory Commission (the "CSRC") issued an administrative decision letter to Wuliangye Yibin imposing warnings and fines on Wuliangye Yibin and eight officers (including Mr. Tang) for four incidents of omissions in disclosures of Wuliangye Yibin's public announcements between November 2007 and April 2009 and the annual report for the financial year 2007. The following are details of the four incidents:

(i) *Failure to disclose relevant information about an investment in a third party after the third party entered into bankruptcy proceedings in 2004*

The amount of the investment was RMB55 million. The non-disclosure was first raised by the Shenzhen Stock Exchange and the Sichuan Branch of the CSRC in March 2009 and subsequently disclosed by Wuliangye Yibin in its rectification announcement in March 2009. The CSRC concluded that the amount of the investment was not material, but nonetheless characterised the non-disclosure as a material omission.

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(ii) Failure to disclose on a timely basis relevant information about an investment in a third party after the third party entered into bankruptcy proceedings in 2007

The amount of the investment was RMB87 million. Wuliangye Yibin made the relevant disclosure in its 2008 annual report. The CSRC characterised this as a failure to disclose information on a timely basis.

(iii) Failure to correct on a timely basis a typographical error in its 2007 annual report

The 2007 annual report wrongly disclosed “Revenue from Main Business” as RMB8,250,661,500 when it was RMB7,250,661,500. However, the figures for “Net Profit” and “Profit from Main Business” were correct. The correct disclosure was subsequently made in the interim report for the six months ended 30 June 2009. The CSRC characterised this as a failure to disclose information on a timely basis.

(iv) Failure to disclose on a timely basis that a director was subject to criminal proceedings

Wuliangye Yibin disclosed information about the proceedings involving a director in its 2007 annual report, which was filed two months after the proceedings commenced. The CSRC characterised this as a failure to disclose information on a timely basis.

The CSRC determined that since Mr. Tang was the chairman of the board of Wuliangye Yibin at the time, he should be perceived as being overall responsible for the disclosure obligations of Wuliangye Yibin and for establishing and maintaining an effective internal control system. As a result, Mr. Tang received a warning and a fine of RMB250,000 from the CSRC, together with Wuliangye Yibin and seven other senior management members. These fines were settled in 2011 and Mr. Tang continues to serve as director of Wuliangye Yibin.

Mr. Tang was appointed as chairman of Wuliangye Yibin in March 2007 and had no involvement with Wuliangye Yibin prior to such appointment. Some of the above non-disclosure issues arose in the period prior to his involvement with the company. In an effort to address the disclosure issues, Mr. Tang had in 2009 led the implementation of measures to improve Wuliangye Yibin’s internal control systems and corporate governance.

LETTER FROM THE BOARD

As disclosed above and as at the date hereof, Mr. Tang is also a director of Yibin Wuliangye, which is a subsidiary of Wuliangye Yibin and is one of the controlling shareholders of the Company, and Mr. Tang has held key senior management roles within the Yibin Wuliangye group.

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

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

Suitability under Rules 3.08 and 3.09

Mr. Tang has been a director of Wuliangye Yibin since 2007 and is experienced with managing a listed company. He is also a director of Yibin Wuliangye, which is one of the controlling shareholders of the Company and has held key senior management roles within the Yibin Wuliangye group. Having a top senior management of the Yibin Wuliangye group also represented on the board would help represent the Company's interests within the Yibin Wuliangye group, and facilitate relations and communications between the Company and both of its key shareholders. Mr. Tang also has extensive experience in the local government and the Company believes that the appointment of such a senior figure to the Board would provide better communication channel, facilitate better relations with and obtain support from the local government.

As disclosed above pursuant to Rule 13.51(2) of the Listing Rules, the Company believes the CSRC disciplinary actions do not affect Mr. Tang's suitability to serve as a Director. The Company notes in particular that the CSRC did not require Mr. Tang to step down and he continues to serve as a director of Wuliangye Yibin. The Company is of the view that Mr. Tang is a suitable candidate to serve as a director under Rules 3.08 and 3.09 of the Listing Rules.

LETTER FROM THE BOARD

EGM

The Company will convene the EGM to, among other things, to consider and approve the Transaction Agreements, and the transaction contemplated thereunder, the Revised Annual Caps and the re-election of a director. The notice convening the EGM is set out on pages 97 to 98 of this circular. Brilliance China and its associates which held 400,000,000 Shares representing approximately 31.07% of the issued share capital of the Company as at the Latest Practicable Date, are required to abstain from voting at the EGM in relation to the Transaction Agreements and the Revised Annual Caps. Save as disclosed, none of the Shareholders have any material interest in the transactions contemplated under the Transaction Agreements, the Revised Annual Caps or the re-election of director and therefore are not required to abstain from voting at the EGM.

Pursuant to the Listing Rules, voting by poll is mandatory at all general meetings (except where the chairman of the meeting, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands). The Chairman of the EGM will demand a poll on the resolution proposed at the EGM. The results of the poll will be published on the websites of the Company and the Stock Exchange on the day of the EGM.

A proxy form for use at the EGM is enclosed. Whether or not you are able to attend the EGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon and deposit the same at the Company's branch share registrar 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 and in any event not less than 48 hours before the time appointed for the holding of the EGM or adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM if you wish.

RECOMMENDATION

Mr. Wu Xiao An, an executive Director, is also the chairman and an executive director of Brilliance China. Mr. Qi Yumin, a non-executive Director, is also a director of Brilliance China and the chairman and president of Huachen (which is a controlling shareholder of Brilliance China and a deemed connected person of the Company under Rule 14A.06 of the Listing Rules by the Stock Exchange). As Brilliance China is indirectly interested in 50% of the issued share capital of BBA, BBA is an associate of Brilliance China. Accordingly, Mr. Wu Xiao An and Mr. Qi Yumin

LETTER FROM THE BOARD

had abstained from voting at the Board resolutions in respect of the transactions contemplated under the Transaction Agreements. The Board confirms that except for Mr. Wu Xiao An and Mr. Qi Yumin, none of the other Directors has any material interest in the transactions contemplated under the Transaction Agreements. Accordingly, none of the other Directors, except for Mr. Wu Xiao An and Mr. Qi Yumin, were required to abstain from voting on the Board resolutions in relation to the transactions contemplated under the Transaction Agreements.

The Directors (including the independent non-executive Directors whose views have been set out in this circular after taking into consideration the advice of the Independent Financial Adviser, and except for Mr. Wu Xiao An and Mr. Qi Yumin who had abstained from voting on the Board resolutions) are of the view that the transactions contemplated under the Transaction Agreements (including the Revised Annual Caps) are on normal commercial terms, in the ordinary and usual course of business of the Company and such terms are fair and reasonable and in the interests of the Company and its Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors, except for Mr. Wu Xiao An and Mr. Qi Yumin who had abstained from voting on the Board resolutions) recommend the Independent Shareholders to vote in favour of the resolutions in relation to the Transaction Agreements and the Revised Annual Caps to be proposed at the EGM.

The Board considers that the re-election of the Director is in the interests of the Company and the Shareholders as a whole, and therefore recommends the Shareholders to vote in favour of the resolutions in relation to the re-election of director to be proposed at the EGM.

ADDITIONAL INFORMATION

Your attention is drawn to (i) the letter from the Independent Board Committee as set out on pages 36 to 37 of this circular which contains its recommendation to the Independent Shareholders as to voting at the EGM, and (ii) the letter from the Independent Financial Adviser as set out on pages 38 to 76 of this circular which contains, among others, its advice to the Independent Board Committee and the Independent Shareholders.

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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

POWER XINCHEN

新 晨 动 力

XINCHEN CHINA POWER HOLDINGS LIMITED

新晨中國動力控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1148)

18 February 2015

To the Independent Shareholders

Dear Sir or Madam,

**(1) MAJOR TRANSACTION AND CONNECTED TRANSACTION WITH
BBA IN RELATION TO ACQUISITION OF CRANKSHAFT PRODUCTION LINE
IN TIEXI DISTRICT, SHENYANG CITY;**

**(2) MAJOR TRANSACTION AND CONNECTED TRANSACTION WITH
BBA IN RELATION TO CALL OPTION OVER CRANKSHAFT
PRODUCTION LINE IN TIEXI DISTRICT, SHENYANG CITY;**

**(3) CONTINUING CONNECTED TRANSACTIONS WITH BBA
IN RELATION TO CONSULTANCY SERVICES, SUPPLY AND PURCHASE ARRANGEMENTS
RELATED TO THE ACQUIRED CRANKSHAFT PRODUCTION LINE;**

AND

**(4) REVISION OF ANNUAL CAPS
FOR CONTINUING CONNECTED TRANSACTIONS WITH BBA**

We refer to the circular issued by the Company to Shareholders dated 18 February 2015 (the “**Circular**”) of which this letter forms part. Terms defined in this Circular shall have the same meanings in this letter unless the context otherwise requires.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

We have been appointed as the Independent Board Committee to consider the terms of the Transaction Agreements and to advise the Independent Shareholders in connection with the Transaction Agreements and the transactions contemplated thereunder (including the Revised Annual Caps) as to whether, in our opinion, their terms are fair and reasonable so far as the Independent Shareholders are concerned and whether the Transaction Agreements and the transactions contemplated thereunder (including the Revised Annual Caps) are in the interests of the Company and the Shareholders as a whole. Octal Capital Limited has been appointed as the Independent Financial Adviser to advise us in this respect.

We wish to draw your attention to the letter from the Board and the letter from the Independent Financial Adviser as set out in the Circular. Having taken into account the principal factors and reasons considered by, and the advice of, the Independent Financial Adviser as set out in its letter of advice, we consider that the terms of the Transaction Agreements and the transactions contemplated thereunder (including the Revised Annual Caps) to be fair and reasonable so far as the interests of the Independent Shareholders are concerned and to be in the interests of the Company and the Shareholders as a whole. We therefore recommend the Independent Shareholders to vote in favour of the relevant resolutions to approve the Transaction Agreements and the transactions contemplated thereunder (including the Revised Annual Caps) in the EGM.

Yours faithfully,

For and on behalf of the Independent Board Committee of

Xinchen China Power Holdings Limited

Chi Guohua Wang Jun Huang Haibo Wang Songlin

Independent non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders prepared for the incorporation into this circular.



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

18 February 2015

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

MAJOR AND CONNECTED TRANSACTIONS, CONTINUING CONNECTED TRANSACTIONS AND REVISION OF ANNUAL CAPS

INTRODUCTION

We refer to our engagement to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Transaction Agreements and transactions contemplated thereunder and the Revised Annual Caps, particulars of which are set out in the letter from the Board (the “**Letter from the Board**”) of the circular to the Shareholders dated 18 February 2015 (the “**Circular**”) and in which this letter is reproduced. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as given to them under the definitions section of the Circular.

As set out in the Letter from the Board, on 21 January 2015, Mianyang Xincheng entered into the following agreements with BBA, including (i) the Assets Transfer Agreement, pursuant to which (a) BBA will transfer to Mianyang Xincheng the Crankshaft Production Line, the supporting equipment and facilities, the related spare parts (the “**Acquired Assets**”) and related contracts in connection with the operation of the Crankshaft Production Line (the “**Transferred Contracts**”) and (b) the Company will grant BBA a call option to buy back all or any part of the Acquired Assets together with the Transferred Contracts and the equipment, facilities and related services resulting from the implementation of the Expansion Plan (the “**Call Option**”); (ii) the Agreement on Operation Site, an agreement between BBA, Mianyang Xincheng and Shenyang Xincheng pursuant

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

to which the lease for the Operation Site will be assumed by Mianyang Xincheng, and the remaining leased area other than the Operation Site (the “**Remaining Area**”) will continue to be leased by BBA; (iii) the Consulting Service and Technical Support Agreement, the Raw Materials Supply Agreement and the Purchase Agreement on Finished Crankshaft, with BBA in connection with the acquisition by Mianyang Xincheng of the Crankshaft Production Line, and subsequent arrangements for the operation of the Crankshaft Production Line and supply of finished crankshafts to BBA.

Upon completion of the Asset Transfer Agreement, the Group will supply finished crankshafts to BBA pursuant to the Purchase Agreement on Finished Crankshaft. On the other hand, the Group will procure raw materials from BBA pursuant to the Raw Materials Supply Agreement and consultancy service and technical support for the production of crankshafts from BBA pursuant to the Consulting Service and Technical Support Agreement. The Group expects the existing annual caps in relation to the transactions contemplated under the BBA Compliance Agreement for the two financial years ending 31 December 2015 and 2016 will be exceeded. Therefore, the Group proposes to revise the existing annual caps under the BBA Compliance Agreement.

As at the Latest Practicable Date, Brilliance China, the controlling shareholder of the Company, is indirectly interested in 50% of the issued share capital of BBA. As BBA is an associate of Brilliance China, it is a connected person of the Company. Mianyang Xincheng, on the other hand is an indirect wholly-owned subsidiary of the Company and Shenyang Xincheng is an indirect wholly-owned subsidiary of the Company. As the highest applicable percentage ratio in respect of both the acquisition of the Crankshaft Production Line and the grant of the Call Option pursuant to the Assets Transfer Agreement is more than 25% but less than 100% and the consideration is more than HK\$10 million, each of the acquisition of the Crankshaft Production Line and the grant of the Call Option pursuant to the Assets Transfer Agreement constitutes a major transaction and a connected transaction of the Company and is subject to the reporting, announcement, annual review and independent shareholders’ approval requirements under Chapters 14 and 14A of the Listing Rules. As the Revised Annual Caps exceed HK\$10 million, the revision of the annual caps under the BBA Compliance Agreement and the entering into of the Consulting Service and Technical Support Agreement, the Raw Materials Supply Agreement and the Purchase Agreement on Finished Crankshaft are subject to the reporting, announcement, annual review and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

The Company will hold the EGM for the purpose of considering and approving the Transaction Agreements and the transactions contemplated thereunder and the Revised Annual Caps by the Independent Shareholders. Brilliance China and its associates will abstain from voting at the EGM in relation to the Transaction Agreements and the Revised Annual Caps, at which the proposed resolutions will be passed by way of ordinary resolutions and voting will be conducted by way of poll in accordance with the requirements of the Listing Rules.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We are not connected with the Directors, chief executive and substantial shareholders of the Company, Mianyang Xincheng, BMW, BBA, Brilliance China or any of their respective subsidiaries or associates and are therefore considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders. During the last two years, we were engaged as an independent financial adviser to the Company in respect of a discloseable and connected transaction (details can be referred to the circular of the Company dated 31 December 2013), continuing connected transactions (details can be referred to the circular of the Company dated 28 May 2014) and continuing connected transactions (details can be referred to the announcement of the Company dated 15 August 2014) (the “**Previous Engagements**”). Under the Previous Engagements, we were required to express our opinion on and give recommendation to the Independent Board Committee and the Shareholders in respect of the relevant transactions. Apart from normal professional fees payable to us by the Company in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company or the directors, chief executive and substantial shareholders of the Company, Mianyang Xincheng, BMW, BBA, Brilliance China or any of their respective subsidiaries or associates. Despite the Previous Engagements, we consider our independence in regard of our engagement to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Transaction Agreements and the Revised Annual Caps (the “**Current Engagement**”) is unaffected due to the facts that (i) we were entitled to receive normal professional fees that are comparable to market rates and in line with general market practice under the Previous Engagements; (ii) the nature and counterparty of the Previous Engagements and the Current Engagement varied; (iii) the Current Engagement is handled by a different transaction team; and (iv) we have performed our duties with impartiality in respect of each of our engagements with the Company and additionally each of the engagements was handled independently as an individual task, and thus 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 Company regarding the 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 Company in the Circular were reasonably made after due enquiry. We consider that we have reviewed sufficient information to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have no reason to suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in the Circular nor to

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and management of the Company. We have not, however, conducted an independent in-depth investigation into the business and affairs of the Group, Mianyang Xincheng, BMW, BBA, Brilliance China and their respective controlling shareholder(s) and associates nor have we carried out any independent verification of the information supplied.

MAJOR AND CONNECTED TRANSACTION: ACQUISITION OF CRANKSHAFT PRODUCTION LINE

Principle factors and reasons considered

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

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

- *Background*

The Group is principally engaged in the manufacture of automotive engine of the passenger vehicles and light commercial vehicles; and development, manufacture and sale of light-duty gasoline and diesel engines and manufacture of engine parts and components for engines of passenger vehicles. Set out below is the extract from the annual report for the year ended 31 December 2013 (the “**2013 Annual Report**”) and the interim report for the six months ended 30 June 2014 (the “**2014 Interim Report**”) of the Company. During the two years ended 31 December 2013 and the six months ended 30 June 2014, gasoline engines and diesel engines have been the principal source of revenue of the Company and contributed over 90% of the total revenue.

	For the year ended 31 December 2012 (RMB'000) audited	For the year ended 31 December 2013 (RMB'000) audited	For the six months ended 30 June 2014 (RMB'000) unaudited
Gasoline engines	2,058,889	2,104,667	1,065,066
Diesel engines	470,405	388,703	251,587
Engine components and service income	<u>43,447</u>	<u>92,823</u>	<u>136,781</u>
Total	<u><u>2,572,741</u></u>	<u><u>2,586,193</u></u>	<u><u>1,453,434</u></u>

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As advised by the Company, the Company has been focusing and allocating more resources on the development of core engine parts and components business for foreign-branded auto manufacturer(s), especially for BBA in order to benefit from the rapid growth in foreign-branded auto segment. In 2014, the Company has acquired the connection rod production lines from Huachen, which has been allowing the Company to tap into a new business segment promptly and effectively and began supplying engine parts and components to BBA or its subsidiaries. As the Group continues to pursue its long term stable collaboration with BBA and pushes forward its effort to diversify the product portfolio, an acquisition of the Crankshaft Production Line would coincide with the Company's aim to enhance the business of engine parts and components.

BBA currently owns and operates the Crankshaft Production Line that produces the finished crankshafts for the sole purpose of use in the assembly of N20 engines, and eventually for use in the newer Bx8 engines in Tiexi District of Shenyang City. Mianyang Xincheng enters into an Assets Transfer Agreement that BBA would transfer to Mianyang Xincheng and Mianyang Xincheng would purchase from BBA the Acquired Assets and the Transferred Contracts. Upon the completion of such transfer, Mianyang Xincheng would carry out the operation of the Crankshaft Production Line to produce and supply to BBA the finished crankshafts with respect to the production of N20 engines, and eventually for use in the newer Bx8 engines by BBA.

Furthermore, BBA has also been in the process of upgrading the Crankshaft Production Line to enable it to produce crankshafts for the newer Bx8 engines and expanding the production capacity of the Crankshaft Production Line. BBA and Mianyang Xincheng are in negotiations for the transfer of Bx8 engines related improvements to the Crankshaft Production Line and the potential supply of Bx8 finished crankshaft. Once the arrangements in relation to Bx8 finished crankshaft supply have been finalised, a separate agreement will be entered into with BBA for the acquisition of these additional equipment and facilities, and the Company will comply with the requirements of the Listing Rules in relation to such acquisition and related transaction (if any) in due course.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- *Information on the Acquired Assets*

The Acquired Assets comprise (i) the Crankshaft Production Line, the supporting equipment and facilities to be transferred together with the Crankshaft Production Line including, without limitation, conveyor, centering machine, marking machine, milling machine, turning machine, drilling machine, grinding machine, pre-setter machine, washing machine, tool dry machine, lifting machine, measuring devices, repair tooling, test benches and logistics tools; (ii) the related contracts in connection with the operation of the Crankshaft Production Line and (iii) the spare parts which BBA has purchased for maintaining or repairing the Crankshaft Production Line and/or the supporting equipment and facilities to be transferred together with the Crankshaft Production Line.

The Acquired Assets are located in a production facility at Shenyang Economic and Technology Development Zone, Tiexi District, Shenyang, the PRC. The Crankshaft Production Line is currently used by BBA to produce crankshafts which are in turn utilised internally in the production of N20 engines. It was further intended that the Crankshaft Production Line would be used to produce crankshafts for use in the newer Bx8 engines. The Crankshaft Production Line was built in 2012 and has been in production since then. The original purchase costs of the Crankshaft Production Line and supporting equipment and facilities and spare parts were approximately RMB356,727,100.50 (equivalent to approximately HK\$440,914,696.22) and RMB17,095,101.99 (equivalent to approximately HK\$21,129,546.06), respectively. The related equipment, facilities and spare parts were acquired between 2012 and 2014. The current production capacity of the Crankshaft Production Line is approximately 400,000 units per annum.

- *Reasons for entering into the Assets Transfer Agreement*

Reference is made to the Company's circular dated 28 May 2014 and the Company's announcements dated 23 May 2014 and 28 May 2014 respectively. As described therein, BMW, BBA and Mianyang Xinchun have entered into an N20 Supply Arrangement for supply of N20 engines by Mianyang Xinchun to BBA, as well as related mutual supply arrangements in relation to the manufacture and supply by Mianyang Xinchun of connection rods for use in the assembly of N20 engines. Crankshafts are another integral engine component used in the assembly of N20 engines.

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Other than connection rods, as stated in the 2014 Interim Report of the Company, the Group has been focusing and allocating more resources on the development of core engine parts and components business for foreign-branded auto manufacturer(s), especially for BBA in order to benefited from the rapid growth in foreign-branded auto segment. Crankshaft is considered as another core engine part and component. The acquisition of the Acquired Assets would allow the Group to further diversify its business and enrich its product portfolio, broaden its revenue stream and deepen its collaboration with BBA. More importantly, the acquisition of the Acquired Assets will be a key milestone in the Group's long term development plan of aiming to be a stable engine and engine components supplier of BBA. Furthermore, such acquisition would give an opportunity for the Company to train its employees, develop expertise and increase management skills while working among side production associates of BBA who may from time to time share certain function, facilities and services with Mianyang Xincheng, including but not limited to logistics, information technology, human resource, finance, quality metrology, laboratory, facility management. Such consultancy and assistance from BBA would in some way help the Company to build up its own expertise in producing engine and engine components that meets the world class standard.

As crankshaft production will be a new business line for the Group, and BBA has stringent product quality and technical requirements applicable across its supply and manufacturing chain, Mianyang Xincheng has agreed to accept BBA's guidance and assistance in the initial operational period following the acquisition. The Consulting Service and Technical Support Agreement will allow BBA to provide such assistance to Mianyang Xincheng in order to facilitate the smooth operation of the Crankshaft Production Line, and the gradual expansion and upgrading of the Crankshaft Production Line.

Upon completion of the transfer of the Acquired Assets, the Company would benefit not only economically but also strategically in the long term. According to the annual report for the year ended 31 December 2013 of Brilliance China, BBA delivered with an approximately 47.7% increase in profit contribution in conjunction with an approximately 28.5% increase in sales volume. BBA also continued with its production capacity expansion which allows for production of up to 400,000 vehicles annually. Moreover, BBA has achieved sales of 206,729 BMW sedans and SUVs, representing an increase of an approximately 28.5% as compared that of 2012. According to the interim report for the six months ended 30 June 2014 of Brilliance China, BMW Brilliance Automotive Ltd. has achieved sales of 140,012 BMW vehicles in the first six months of 2014, an increase of approximately 32.5% as compared to 105,692 BMW vehicles sold in the same period in 2013. Given these

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strong operational results of BBA which suggest a clear indication that BMW vehicles in China are in strong demand, which in turn drives growth of BMW engines and engine components, i.e. crankshafts as another integral engine component used in the assembly of N20 engines, in the foreseeable future. As a result, acquiring the Crankshaft Production Line would grant the Group with higher operational results by selling crankshafts and achieve revenue diversification which is in align with the Company's ultimate objective.

Strategically, by acquiring the Crankshaft Production Line, the Group is able to obtain the world class technology and have an instant presence in the production of the automotive components in the most efficient way, rather than invest in developing its own production line which is both time consuming and capital intensive, and the end results may not be promising. Also, it would be a great opportunity for the Group to receive decades' worth of engineering and manufacturing expertise to use for its own operational and technological advancement and to help developing its future production lines for other engine components.

Based on the above, especially the increase of operational results from selling the crankshafts driven by the robust market demand for BMW vehicles and the technological advancement by cooperating with the experts of engineering and manufacturing of BBA, we consider that there is a strong commercial rationale for the Company to enter into the Assets Transfer Agreement and the acquisition of the Crankshafts Production Line would be a great business opportunity for the Company to expand its business spectrum into the engine components and align with its objective, broaden the revenue stream, enrich its product portfolio in the future, and enter into the upstream of engine manufacturing with a high-end product.

2. *Terms of the Assets Transfer Agreement*

- *Consideration*

The consideration under the Assets Transfer Agreement shall consist of (i) the fair market value of the Acquired Assets and the Transferred Contracts, which shall not be higher than the book value of the Acquired Assets and the Transferred Contracts plus a reasonable margin; (ii) value added tax; and (iii) customs related tax, if any. The fair market value was determined applying the cost approach, based on net book value of the Acquired Assets (which is the total capital invested by BBA in building the Acquired Assets less depreciation). Having considered the nature of the Acquired Assets being fixed assets (equipment and machineries) and hence the net book value

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of which is a reasonable representation of its value given the Acquired Assets have only depreciated during a period of two years, and the fact that both the income approach or the market approach were unable to produce any meaningful valuation due to insufficient information available, we are of the view that the fair market value which is based on the net book value of the Acquired Assets fair and reasonable.

The consideration for the Crankshaft Production Line, supporting equipment and facilities and related spare parts is estimated to be approximately RMB391,428,336.83 (equivalent to approximately HK\$483,805,424.32), after taking account of book value of the Crankshaft Production Line and supporting equipment and facilities of approximately RMB288,863,882.81 (equivalent to approximately HK\$357,035,759.15) as at 31 December 2014, book value of spare parts of approximately RMB17,095,101.99 (equivalent to approximately HK\$21,129,546.06) as at 31 October 2014, customs/duties may be incurred by BBA for the transfer of imported equipment and facilities under the customs custody of approximately RMB12,664,000.00 (equivalent to approximately HK\$15,652,704.00), 5% margin on the sum of the book value of the Acquired Assets and the Transferred Contracts and customs/duties of approximately RMB15,931,149.24 (equivalent to approximately HK\$19,690,900.46) and value added tax of approximately of RMB56,874,202.79 (equivalent to approximately HK\$70,296,514.65). The consideration under the Asset Transfer Agreement will be settled by the Company's internal resources and bank borrowing.

A further determination of the consideration in respect of spare parts to be acquired and to be transferred as at Closing shall be made five days before Closing. The parties will sign a confirmation letter whereby the final consideration to be paid by Mianyang Xincheng to BBA will be stated.

We noted that the total consideration of the production line was determined based on the net book value of the Acquired Assets, which is the total capital invested in building the Acquired Assets after deducting depreciation, plus a margin. Given the nature of the Acquired Assets are equipment and machineries, as abovementioned we consider that the determination of the consideration by making reference to its net book value is reasonable and in line with market practice. In addition to the inevitable tax surcharges such as value added tax and custom duty that must be complied according to relevant rules and regulation when acquiring assets in the PRC, the 5% reasonable margin is determined based on an arm's length negotiation with the counterparty and with reference to the profit margins of other similar connected transactions between the Group and BBA which we consider to be in line with market practice.

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

Based on the above criteria, we have endeavored to find but were unable to identify any close comparable transactions, save for the discloseable and connected transaction of the Company conducted in December 2013. We note that in the transaction where the Company acquired production lines manufacturing engines and connection rods from Huachen, the appraised value (and the consideration) of the production facilities by an independent valuer using cost approach represented a premium of approximately 10.6% over the net book value of the assets. Given the limited search results, we broadened our search to cover other industries and identified two cases of connected transactions in relation to acquisition of production facilities by Main Board listed companies. Amongst the two transactions, one of which that involves acquisition of a solar photovoltaic module production line and the consideration represented a discount of approximately 54.7% to the net book value of the acquired assets, and in the other transaction that involves acquisition of a display backlight module production line the consideration equaled the net book value of the acquired assets. Moreover, we further expanded our search coverage to all major transactions and/or very substantial acquisitions conducted by any Main Board listed companies with independent third parties in the past two years that involved acquisition of production lines/facilities, which however still yields no comparable transactions for our analysis. In light of the foregoing, we are of the view that there are limited comparable transactions available in the market for any meaningful comparison and assessment of the consideration.

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

- *Expansion Plan*

As part of the acquisition of the Acquired Assets, Mianyang Xincheng will commit to an expansion plan for expanding the production capacity and upgrading the Crankshaft Production Line (the “**Expansion Plan**”) and to make certain investments in respect of the Expansion Plan from 2015 to 2018 (the “**Investment Plan**”). The Expansion Plan and Investment Plan (including the total commitment amount) may be amended and updated solely by BBA provided that BBA gives notice to Mianyang Xincheng of such amendments. The finished crankshafts produced will be sold exclusively to BBA, and the volume and specifications requirements of the finished crankshafts are entirely dependent on the production requirements of BBA. As part of its supply chain management, it is vital for BBA to be able to ensure the production volumes and technical specifications of the finished crankshafts would meet its production needs and to make adjustments as necessary. Accordingly, the parties had agreed that BBA would have the ability to amend and update the Expansion Plan and Investment Plan. Nonetheless, the Company expects that there will be due consultation about such amendments in keeping with co-operative and mutually facilitative relationship between the parties. The Directors consider such arrangement is fair and reasonable and in the interest of the Company and its shareholders in light of the above circumstances. We concur with the Director’s view on such arrangement as BBA will be the sole customer of the finished crankshafts and BBA shall be at a better position than the Group to review and adjust the Expansion Plan and the Investment Plan as per its ongoing estimation of the demand for BBA’s vehicles and we are of the view that such arrangement would therefore optimize the efficiency and minimize any idle productivity of the Crankshaft Production Line. Accordingly, we consider such arrangement is fair and reasonable and in the interest of the Company and its shareholders.

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We are advised by the Company that the Expansion Plan and the Investment Plan are intended for expanding the production capacity of and upgrading the Crankshaft Production Line to produce Bx8 finished crankshafts. The expected rollout of the upgrade is dependent on the planned rollout of Bx8 engines by BMW, which in turn is subject to various contingencies. Given each of the N20 and Bx8 engines is equipped with one unit of finished crankshaft, the timing and amount of the increase in production volumes of the Crankshaft Production Line will be dependent on budgetted sales of N20 and Bx8 engines to BBA and/or Shenyang Jinbei. The parties may adjust the Expansion Plan and the Investment Plan taking into account, among other things, market demand for the vehicles equipped with N20 and Bx8 engines, market demand for finished crankshafts to be produced by the Group, utilisation rate of the existing production capacities, rollout timetable of Bx8 engines and specifications of Bx8 engines.

As at the Latest Practicable Date, the total aggregate commitment anticipated under the Expansion Plan is RMB791,000,000 (equivalent to approximately HK\$977,676,000), and the Investment Plan envisages the Company's commitment of approximately RMB424,000,000 (equivalent to approximately HK\$524,064,000) in 2015, approximately RMB145,000,000 (equivalent to approximately HK\$179,220,000) in 2016, approximately RMB122,000,000 (equivalent to approximately HK\$150,792,000) in 2017 and approximately RMB100,000,000 (equivalent to approximately HK\$123,600,000) in 2018. Of the total aggregate commitment anticipated under the Expansion Plan, approximately RMB210,000,000 (equivalent to approximately HK\$259,560,000) is proposed to be utilised for upgrading the Crankshaft Production Line and approximately RMB581,000,000 (equivalent to approximately HK\$718,116,000) is proposed to be utilised for expansion of production capacity.

Performance guarantees will be issued by bank(s) in favour of BBA to secure Mianyang Xincheng's payment obligations under the Investment Plan from 2015 to 2018. The actual performance guarantee amount will be subject to change with reference to the original Investment Plan and the actual investment amounts that Mianyang Xincheng will end up spending each year. The initial performance guarantee is estimated to amount to approximately RMB424,000,000 (equivalent to approximately HK\$524,064,000) for 2015 and will be issued on or before 15 April 2015. The estimated bank related charges in relation to the performance guarantee is approximately RMB17,000,000 (equivalent to approximately HK\$21,012,000). The performance guarantee is a commitment by Mianyang Xincheng such that in the event Mianyang Xincheng fails to settle its payment obligations in relation to the Investment Plan, BBA will draw upon the performance guarantee for payment.

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The Expansion Plan would allow the Group to continue to upgrade the Acquired Assets to enable it to produce crankshafts for the newer Bx8 engines and increase its production capacity in order to meet the increasing demand for BMW vehicles that are equipped with the Bx8 engines at the schedule pre-agreed by BBA. The Company considers that having a more cooperative relationship with BBA will enable the Group to further explore the business opportunities which can generate a sustainable and stable income stream for the Group in the long term. We concur with the view of the Company that the Expansion Plan and Investment Plan together represents a good opportunity for the Group to upgrade and expand production capacity of the Crankshaft Production Line with a view to increasing its business competitiveness and capturing the new and rising market demand for vehicles that are equipped with the Bx8 engines. The Expansion Plan may also facilitate the Group to achieve economies of scale so as to reduce production costs and allow the Group to increase its revenue of the Group.

- *Call Option*

Pursuant to the Assets Transfer Agreement, the Company has granted BBA the Call Option to buy back all or any part of the Acquired Assets together with the Transferred Contracts, and the equipment, facilities and related services resulting from the implementation of the Expansion Plan. The key terms of the Call Option are summarized below:

Call Option exercise period:	The period commencing from the date when the title of the Acquired Assets is transferred to Mianyang Xincheng to the end of production date of Bx8 engines, which is estimated to be 31 December 2023.
Triggering events for exercise:	(i) after the Closing, Mianyang Xincheng undergoes a Change of Control, or any mergers, split-up, transfer or other similar reorganizations that may involve BBA's or BMW's competitors or have a material negative impact on the performance of the Asset Transfer Agreement and/or any other Transaction Agreements or the Agreement on Operation Site;

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- (ii) Mianyang Xincheng fails to supply to BBA with finished crankshafts as needed by BBA in accordance with the Purchase Agreement on Finished Crankshaft except for the following two conditions:
 - a) During the Transitional Period, Mianyang Xincheng fails to supply to BBA with finished crankshafts as needed by BBA in accordance with the Purchase Agreement on Finished Crankshaft due to BBA's intentional misconduct or gross negligence;
 - b) During the Transitional Period, Mianyang Xincheng fails to supply to BBA with finished crankshafts as needed by BBA in accordance with the Purchase Agreement on Finished Crankshaft due to BBA's minor negligence;
- (iii) Mianyang Xincheng commits a breach of any of its post-closing obligations and fails to correct the same within 45 days from written notice being sent by BBA requiring the breach to be remedied;
- (iv) after the Closing, the Agreement on Operation Site or any Transaction Agreements other than the Assets Transfer Agreement is terminated by BBA in accordance with the terms and conditions stated in the Agreement on Operation Site or the Transaction Agreements and applicable laws; or

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- (v) after the Closing, Mianyang Xincheng becomes insolvent, files a petition for bankruptcy or insolvency, is subject to the appointment of a receiver or administrator over any of its assets, or other bankruptcy or insolvency proceedings are commenced by or against it.

Exercise price of the Call Option: The Call Option exercise price shall be determined based on the fair market value of assets and the contracts to be repurchased, but shall not be higher than the book value of the assets and the contracts plus a reasonable margin of 5% based on arm's length negotiations.

We are advised that the Company is unable to estimate the Call Option exercise price at this stage, as the fair market value of the Acquired Assets will depend on various factors such as when the Call Option is exercised which in turn will affect how much of the Expansion Plan has been implemented, and the amount of depreciation on the Acquired Assets. It is expected that the fair market value will be determined applying the cost approach, based on net book value of the assets (which will be the total investment amount to be paid by the Group less depreciation). As stated above, the Company currently estimates that the total consideration under the Assets Transfer Agreement for the initial acquisition will be approximately RMB391,428,336.83 (equivalent to approximately HK\$483,805,424.32). The total amount committed under the Expansion Plan from 2015 to 2018 is approximately RMB791,000,000 (equivalent to approximately HK\$977,676,000). Therefore, the maximum exercise price of the Call Option is estimated to be approximately RMB1,181,831,840.74 (equivalent to approximately HK\$1,460,744,155.15), being the aggregated amount of initial acquisition consideration (excluding value added tax) and committed investment amount under the Expansion Plan plus a reasonable margin of 5% on the book value of the relevant assets.

If the Call Option is exercised, the parties shall, by signing a new asset transfer agreement, complete the transaction in relation to the Call Option within 60 days after BBA's written notice is provided to Mianyang Xincheng. Liquidated damages of 50% of the Call Option consideration is payable in the event of default unless the failure to complete is primarily attributable to BBA.

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We are advised that the Crankshaft Production Line was owned and operated by BBA as part of the production of engines for the BMW vehicles produced by BBA since 2012 and the Company has not engaged in production of crankshaft in the past. Hence, the Call Option was granted to BBA as per BBA's request in order to protect its interest and its investment in the Crankshaft Production Line and to minimize the possible potential impact from certain undesirable events which may occur after Closing, one of which would be Mianyang Xincheng failing to supply to BBA with sufficient finished crankshafts of up to the standards as needed and required by BBA in accordance with the Purchase Agreement on Finished Crankshaft. The Call Option is exercisable by BBA at its own discretion during the exercise period and BBA shall inform the Group in writing should BBA decided to exercise the Call Option.

Based on the terms and conditions of the Call Option given above, we consider the Call Option could also be beneficial to the Group in case of the occurrence of the undesirable events. As acquiring a new business production line, the Company could encounter many unforeseeable circumstances and the Acquired Assets may not be suitable to fulfill the purposes for which they have been originally acquired for, i.e. plant capacity may be inadequate, lack of operating skills of the engineers and management staff, frequent unnecessary break-downs or maintenances, etc. In the event that such undesirable events occur, the Call Option in fact provides the Group with an immediate exit option to dispose of the Crankshaft Production Line at a reasonable price within a short timeframe. Therefore, the Call Option will grant the Company a mechanism to compensate for the investment cost of the Acquired Assets and the exercise price shall be determined based on the fair market value of assets and the contracts to be repurchased, but shall not be higher than the book value of the assets and the contracts plus a reasonable margin of 5% based on arm's length negotiations. However, in view that BBA will provide consulting service and technical support, the Company considers that the likelihood of occurrence of the aforesaid undesirable events is low. Against the above background, we are of the view that the existence of the Call Option is commercially justifiable and we consider that the exercise price of the Call Option, which is determined based on fair market value, is reasonable and both BBA and the Group's interests and risks can be, on balance, protected and mitigated under such arrangement.

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

(i) Earnings

As set out in the Letter from the Board, the Group acquires the Acquired Assets to produce crankshafts for the sole purpose of use in the assembly by N20 engines, and eventually for use in the newer Bx8 engines.

Upon completion of the transfer, the Acquired Assets will become assets of the Group and allow the Group to further diversify its business, enrich its product portfolio, and build up expertise in high-end products. Moreover, the Acquire Assets will facilitate the Group to enter into the crankshafts business and generate future income. Hence, the acquisition of the Acquired Assets would not only broaden the Company's product portfolio, but also increase its revenue stream and deepen its collaboration with BBA.

Furthermore, as advised by the Company who followed the relevant PRC taxation practice based on the Measures on Several Issues concerning the National Implementation of Value-added Tax Reform issued jointly by Ministry of Finance of the PRC and State Administration of Taxation of the PRC in December 2008, the relevant VAT paid is allowed to be and will be used to set-off of other VAT obligations of the Group and will not be recorded as an expense in the income statement upon completion of the acquisition of the Acquired Assets. As such, the Company expects that the acquisition of the Acquired Assets will bring positive effect to the earnings of the Group.

(ii) Cashflow

Based on the 2014 Interim Report, the Group had cash and bank balances of approximately RMB1,055.2 million as at 30 June 2014. As advised by the Company, the Company intends to settle the Consideration by way of bank borrowing and internal resources. Thus, it is expected that there will be a cash outflow of the Group arising from the Assets Transfer Agreement but we consider this will not affect the working capital sufficiency of the Group as the Group has been profit-making consecutively since 2009 and recorded a net current assets in the amount of RMB1,151.1 million as at 30 June 2014. In addition, we have reviewed the working capital forecast of the Group for the year ending 31 December 2015 and it shows that the Group would maintain a positive cashflow and sufficient working capital for its business operations.

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(iii) Net asset value

According to the 2014 Interim Report, as at 30 June 2014, the unaudited consolidated net assets attributable to equity holders of the Company and the net asset value per Share were approximately RMB2,332.2 million and approximately RMB1.81 respectively. Upon the completion of the Asset Transfer Agreement, property, plant and equipment and inventory of the Group will increase while, inventory and trade and other receivables will be increased by approximately RMB316.6 million (equivalent to approximately HK\$391,317,600), RMB18.0 million (equivalent to approximately HK\$22,248,000) and RMB56.9 million (equivalent to approximately HK\$70,328,400), respectively. Assuming the consideration will be settled by cash, there will be a decrease of approximately RMB391.4 million (equivalent to approximately HK\$483,770,400) in bank balances and cash.

According to the unaudited pro forma statement of assets and liabilities in Appendix II to the Circular, the unaudited pro forma net assets would remain unchanged at approximately RMB2,332.2 million. Accordingly, we consider that the Assets Transfer Agreement is expected to have a neutral effect on the Group's net assets position and on net asset value per Share.

(iv) Gearing

According to the 2014 Interim Report, the gearing ratio of the Group as at 30 June 2014 was approximately 30.1%, as derived by dividing the total interest-bearing liabilities of the Group as at 30 June 2014 of approximately RMB702.2 million by the total equity of approximately RMB2,332.2 million as at 30 June 2014. According to the unaudited pro forma statement of assets and liabilities in Appendix II to the Circular, the unaudited pro forma interest-bearing liabilities and the unaudited pro forma total equity of the Group as at 30 June 2014 would remain unchanged and amounted to approximately RMB702.2 million and approximately RMB2,332.2 million respectively, and the gearing ratio would remain unchanged at approximately 30.1%. However, given the Group intends to settle the consideration through bank borrowing and internal resources, the gearing ratio of the Group may increase.

On such basis, we are of the view that the transactions under the Assets Transfer Agreement will have a positive effect on the Group's earnings and a neutral effect on the Group's net assets positions and gearing, albeit it will have a negative short term impact on the Group's cashflow. Thus, we are of the view that the Assets Transfer Agreement is, on balance, in the interests of the Company and the Shareholders as a whole.

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RECOMMENDATION

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

THE CONTINUING CONNECTED TRANSACTIONS

Principal factors and reasons considered

In arriving at our opinion regarding the terms of the Raw Materials Supply Agreement, the Consulting Service and Technical Support Agreement, the Purchase Agreement on Finished Crankshaft, and the Revised Annual Caps, we have considered the following principal factors and reasons:

1. *Background of and reasons for entering into the Continuing Connected Transactions*

The Group is principally engaged in the manufacture of automotive engines of the passenger vehicles and light commercial vehicles; and development, manufacture and sale of light-duty gasoline and diesel engines and manufacture of engine parts and components for engines of passenger vehicles. Reference is made to the Company's circular dated 28 May 2014 and the Company's announcements dated 23 May 2014 and 28 May 2014 respectively. As described therein, since BMW, a global leading automobile manufacturer, is a joint venture partner of Shenyang Jinbei and the market demand of BMW vehicles is growing rapidly, a stable collaboration between Mianyang Xincheng and BBA would help the Company to diversify its revenue stream and improve its management capabilities and levels. In light of the abovementioned benefit, Mianyang Xincheng, the Company and BBA entered into a compliance agreement in relation to the sale and/or purchase of engines, engine parts and components and raw materials for manufacturing engines and engine parts

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and components and the provision of related services (the “**BBA Compliance Agreement**”) pursuant to which the Group and BBA and its subsidiaries will conduct the following transactions (the “**Continuing Connected Transactions**”):

- (i) the Group will sell to BBA or its subsidiaries and BBA or its subsidiaries will purchase from the Group engines, engine parts and components and raw materials for manufacturing engines and engine parts and components from time to time;
- (ii) BBA or its subsidiaries will sell to the Group and the Group will purchase from BBA or its subsidiaries engine parts and components and raw materials for manufacturing engines and engine parts and components from time to time; and
- (iii) BBA or its subsidiaries will provide to the Group consulting and advisory services relating to engines or engine parts and components from time to time.

The BBA Compliance Agreement is in effect for three (3) years from the effective date of the BBA Compliance Agreement on 17 June 2014 (inclusive of the first day and the last day of the term) unless it is terminated before the expiration of the term by any party serving at least three (3) months’ prior written notice to the other parties. Subject to compliance with the requirements of the Listing Rules (including the independent shareholders’ approval requirement), upon the expiration of the initial three-year term, the BBA Compliance Agreement will be automatically renewed for successive periods of three (3) years.

As advised by the Group, due to the BMW’s control on confidentiality of its core production technologies and assurance on stable and quality supply, the Group is required to source parts and components exclusively from BBA for its onward processing and assembly and then sell the engines and finished parts back to BBA. We also noted that the Group is refrained from manufacturing, purchasing or procuring parts and components for engines from any party except BBA unless consented by BBA in writing in advance or pursuant to the rights to procure and assemble the parts and components for engines in the PRC. It is expected that the Continuing Connected Transactions under the BBA Compliance Agreement will provide additional revenue to the Group.

As set out in the Letter from the Board, on 21 January 2015, Mianyang Xinchun and BBA entered into the following agreements which include (i) the Consulting Service and Technical Support Agreement, (ii) the Agreement On Operation Site, (iii) the Raw Materials Supply Agreement and (iv) the Purchase Agreement for Finished Crankshaft, in connection with arrangements for the operation of the Crankshaft Production Line and supply of finished crankshafts to BBA for the production of N20 engines, and eventually for use in the newer Bx8 engines.

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The transactions contemplated under the Consulting Service and Technical Support Agreement, the Raw Materials Supply Agreement and the Purchase Agreement on Finished Crankshaft will be subject to the BBA Compliance Agreement with the initial term of 3 years from the effective date of the BBA Compliance Agreement, which is until 17 June 2017, unless it is terminated before the expiration of the term by any party serving at least 3 months' prior written notice to the other parties. Subject to the compliance with the requirements of the Listing Rules (including the independent shareholders' approval requirement), upon the expiration of the initial three-year term of the BBA Compliance Agreement, the Consulting Service and Technical Support Agreement, the Raw Materials Supply Agreement and the Purchase Agreement on Finished Crankshaft will be automatically renewed for successive periods of 3 years. The following paragraphs summarize the major terms of the agreements:

- *Consulting Service and Technical Support Agreement*

The Company and BBA entered into the Consulting Service and Technical Support Agreement pursuant to which BBA agrees to provide a variety of services to the Group in relation to the operation and maintenance of the Crankshaft Production Line and the implementation of the Expansion Plan.

The parties will review the qualification of the Group's personnel working in the relevant positions in connection with the operation of the Crankshaft Production Line quarterly. Based on such quarterly review, the parties shall mutually determine the necessity of the Services. Consultants who are production associates of BBA will be paid on a monthly basis and other consultants will be paid on a daily basis. BBA will issue quarterly invoices to the Group based on a list specifying the monthly working time records and the related costs accrued.

BBA may also from time to time share certain function, facilities and services with the Group that BBA provides and/or engages third party providers to provide, including but not limited to logistics, information technology, human resource, finance, quality metrology, laboratory and facility management. BBA and the Company may enter into separate agreements which contain particulars pertaining to the details of the shared functions, facilities and services (including provisions relating to the price, quantity, service scope and payment method).

To enable the Group to successfully manage the operation of Crankshaft Production Line during the transition phase and to produce and supply to BBA the required finished crankshafts at BMW standards on a long-term and stable basis, it is reasonable and beneficial to the Group for it to accept BBA's guidance and assistance and other related services to operate the Crankshaft Production Line.

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Moreover, it is a good opportunity for the staff and operation management personnel to receive advisory, consultancy, assistance, technical training, review of personnel qualification, feedbacks on technical support in connection with not only the operation of the Crankshaft Production Line but also with engine components manufacturing skills in general. This collaboration and consulting services shall elevate the Group's production technology, mechanical and engineering skills, as well as the management capabilities and levels of the Group.

- *Raw Materials Supply Agreement*

The Company and BBA entered into the Raw Materials Supply Agreement pursuant to which BBA agrees to supply the Group with the raw materials for the production of crankshafts for the production of N20 engines or Bx8 engines or for the development and testing in relation to the production of Bx8 engines and the Group agrees to purchase exclusively from BBA these raw materials for the production of N20 engines or Bx8 engines or for the development and testing in relation to the production of production of Bx8 engines.

Under the Raw Materials Supply Agreement, BBA will purchase the raw materials from BBA's supplier and further resell them to the Group. The price for the raw materials which BBA may charge the Group shall be the cost that BBA pays the BBA's supplier for purchasing the same raw materials, plus (a) all the costs and expenses in relation to the import and transportation of raw materials; (b) the reasonable margin for reselling the raw materials to the Group determined on an arm-length's basis; and (c) other costs and expenses incurred by BBA before the delivery to the Group.

Through the Raw Materials Supply Agreement, the Group is able to procure Raw Materials directly from BBA or BBA recognized suppliers, which guarantees that the quality of the raw material is able to meet the BMW standard and meanwhile mitigate the risk of delayed material supply which may disrupt the production schedule of the Group.

- *Purchase Agreement for Finished Crankshaft*

The Company and BBA entered into the Purchase Agreement for finished crankshafts pursuant to which BBA agrees to purchase and the Group agrees to sell exclusively to BBA the finished crankshafts which are to be produced by Mianyang Xincheng in accordance with the Transaction Agreements by using the Crankshaft Production Line for the sole purpose of supplying to BBA for its assembly of the N20 engines and Bx8 engines. The specific quantity and delivery date of the finished crankshafts shall be issued by BBA.

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The parties may enter into purchase orders approximately every three months which contain particulars pertaining to the sale and purchase of finished crankshafts (including provisions relating to the price, quantity, quality and payment method). The terms of the purchase orders will be consistent with and subject to the terms of the Transaction Agreements and on normal commercial terms. Upon receiving the purchase orders, the Group will issue compliance invoices to notify BBA of the timely delivery of the finished crankshafts.

As part of our due diligence, we have visited the websites of BMW and noted that BMW is one of Germany's largest industrial companies engaging in the manufacture of cars and motorcycles and has been engaging in such business for over 80 years. Currently, BMW has launched various types of vehicle under the brand BMW, MINI and Rolls-Royces. In 2003, BMW and Brilliance China established the joint venture company, namely BBA, based in Shenyang province for the production and sales of vehicles and extension of BMW's international presence. According to the information published by BMW, the sale of vehicles under the brand BMW in the PRC has shown a significant growth from approximately 24,000 units in 2005 to approximately 362,100 units in 2013 and the PRC was the largest market of BMW, in terms of unit sold, in 2013.

According to China Association of Automobile Manufacturers (中國汽車工業協會¹), the unit sales of sedans in the PRC have been increasing from approximately 10.1 million in 2011 to approximately 10.7 million in 2012 and further increased to approximately 12.0 million in 2013. In particular, we noted that the sales of German sedan in the PRC grew by approximately 16% during both 2012 and 2013 which is higher than the annual growth rate of total sales of sedan in the PRC. Therefore, we consider that the demand of sedans, in particular German sedans, in the PRC remains strong.

As advised by the Group, the finished connection rods, finished crankshafts and N20 engines will be mainly applied to the BMW vehicles. As such, we have reviewed the result announcement of Brilliance China for the financial year ended 31 December 2013 and noted that BBA has achieved sales of 206,729 BMW vehicles, representing an increase of approximately 28.5% as compared to that for the year ended 31 December 2012. Based on the above, we consider that market demand of

¹ *China Association of Automobile Manufacturers (中國汽車工業協會) of the PRC is a non-profit making social organization established to facilitate the interactions between the PRC government and market participants in the automobile industry and protect and promote the automobile industry in the PRC and an independent third party not connected with the substantial shareholders, chief executive and directors of the Company.*

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BMW vehicles is growing rapidly and it may drive the demand of finished connection rods, finished crankshafts and N20 engines to be supplied by the Group. As advised by the Group, supply of N20 engines to BBA will facilitate the business relationship between the Group and Brilliance China as well as to enhance the revenue stream and diversify the product mix of the Group. Given the above, we consider there is a solid ground for the Group to carry out the Continuing Connected Transactions with BBA.

2. *Revision of Annual Caps for the Continuing Connected Transactions with BBA*

As disclosed in the circular of the Company dated 28 May 2014, the existing annual caps in relation to the sale and/or purchase of engines, engine parts and components (including connection rod roughcasts and finished connecting rods), raw materials for manufacturing engines, engine parts and components, and the provision of related services under the BBA Compliance Agreement for each of the two years ending 31 December 2016 that previously approved by the then Independent Shareholders amounted to a purchase caps of RMB1,247,388,395 (equivalent to approximately HK\$1,541,772,056) and RMB1,405,570,122 (equivalent to approximately HK\$1,737,284,671) and a supply caps of RMB1,261,489,369 (equivalent to approximately HK\$1,559,200,860) and RMB1,321,661,349 (equivalent to approximately HK\$1,633,573,427) (the “**Approved Annual Caps**”) respectively.

Upon completion of the Asset Transfer Agreement, the Group will procure raw materials from BBA pursuant to the Raw Materials Supply Agreement and the consultancy service and technical support for the production of crankshafts from BBA pursuant to the Consulting Service and Technical Support Agreement for production of crankshafts and supply the finished crankshafts to BBA pursuant to the Purchase Agreement on Finished Crankshaft. As such, the Group expects the existing annual caps in relation to the transactions contemplated under the BBA Compliance Agreement for the two financial years ending 31 December 2016 will be exceeded. For that reason, the Group purpose to revise the annual caps and to increase the aforesaid annual purchase caps for the two years ending 31 December 2016 to RMB1,646,970,239 (equivalent to approximately HK\$2,035,655,215) and RMB1,525,467,133 (equivalent to approximately HK\$1,885,477,376) (collectively, the “**Purchase Caps**”) and supply caps to RMB1,646,872,071 (equivalent to approximately HK\$2,035,533,880) and RMB1,743,150,632 (equivalent to approximately HK\$2,154,534,181) (collectively, the “**Supply Caps**”) respectively. The revision from the Approved Annual Caps to the Revised Annual Caps is mainly to account for the transactions to be conducted under the Raw Materials Supply Agreement, the Consulting Service and Technical Support Agreement and the Purchase Agreement on Finished Crankshaft.

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Based on the information provided by the Group, we summarise in the following table the (i) the actual historical transaction amount for the 11 months ended 30 November 2014; (ii) the existing annual caps approved by the then Independent Shareholders for each of the three years ending 31 December 2016, as stated in the circular of the Company dated 28 May 2014; and (iii) the expected transaction amount for each of the two financial years ending 31 December 2016, in respect of engines, engine parts and components (including the connection rod roughcasts, finished connecting rods, the crankshafts roughcasts and finished crankshafts) and consulting services and technical support between the Group and BBA:

Details of the Continuing Connected Transactions	Actual amounts <i>(Note)</i>	The Approved Annual Caps			The Revised Annual Caps	
	2014 up to November	For the financial year ending 31 December			For the financial year ending 31 December	
		2014	2015	2016	2015	2016
	<i>(RMB '000)</i>	<i>(RMB '000)</i>	<i>(RMB '000)</i>	<i>(RMB '000)</i>	<i>(RMB '000)</i>	<i>(RMB '000)</i>
(1) Purchase by the Group						
– Sale of engine parts and components and raw materials for manufacturing engine parts and components and the provision of the related consulting and advisory services by BBA or its subsidiaries to the Group	218,748	51,432	63,040	50,690	68,403	51,280
– Sale of engine parts and components and raw materials for manufacturing engines and the provision of the related consulting and advisory services by BBA or its subsidiaries to the Group	42,767	355,819	1,070,949	1,227,100	1,280,943	1,090,092
– Sale of engine parts and components and raw materials for manufacturing engine parts and components by BBA or its subsidiaries to the Group pursuant to the Raw Materials Supply Agreement	–	–	–	–	94,792	155,939
– Provision of consulting services and technical support by BBA or its subsidiaries to the Group pursuant to the Consulting Service and Technical Support Agreement	–	–	–	–	53,107	89,477
The Purchase Caps <i>(after taking into a buffer)</i>	261,515 <i>(equivalent to approximately HK\$323,232,499)</i>	447,976 <i>(equivalent to approximately HK\$553,698,928)</i>	1,247,388 <i>(equivalent to approximately HK\$1,541,772,056)</i>	1,405,570 <i>(equivalent to approximately HK\$1,737,284,671)</i>	1,646,970 <i>(equivalent to approximately HK\$2,035,655,215)</i>	1,525,467 <i>(equivalent to approximately HK\$1,885,477,376)</i>

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Details of the Continuing Connected Transactions	Actual amounts <i>(Note)</i>	The Approved Annual Caps			The Revised Annual Caps	
	2014 up to November	For the financial year ending 31 December			For the financial year ending 31 December	
		2014	2015	2016	2015	2016
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
(2) Supply by the Group						
– Sale of engine parts and components and raw materials for manufacturing engines and engine parts and components by the Group to BBA or its subsidiaries	206,372	232,006	249,809	155,010	279,171	170,016
– Sale of engines by the Group to BBA or its subsidiaries	165,452	239,200	897,000	1,046,500	946,657	961,380
– Sale of engine parts and components and raw materials for manufacturing engines and engine parts and components by the Group to BBA or its subsidiaries pursuant to the Purchase Agreement on Finished Crankshaft	–	–	–	–	271,328	453,286
The Supply Caps <i>(after taking into a buffer)</i>	371,824 (equivalent to approximately HK\$459,574,528)	518,327 (equivalent to approximately HK\$640,651,812)	1,261,489 (equivalent to approximately HK\$1,559,200,860)	1,321,661 (equivalent to approximately HK\$1,633,573,427)	1,646,872 (equivalent to approximately HK\$2,035,533,880)	1,743,151 (equivalent to approximately HK\$2,154,534,181)

Note: The actual figures include the historical transaction amounts in respect of purchase of engine parts and components and raw materials for manufacturing engines and engine parts and components directly and indirectly (via Huachen) from BBA and the sale of N20 engines and/or finished connection rods directly and indirectly (via Huachen) to BBA.

The Purchase Caps and the Supply Caps for each of the two years ending 31 December 2016 were determined by the Directors by reference to the followings:

- (i) the estimated volume of engines, engine parts and components and raw materials for manufacturing the engines and engine parts and components required by the Group and by BBA with reference to the expected market demand for products of BBA and Shenyang Automotive;
- (ii) the designed annual production capacity of the Group and the planned upgrade of and expansion in the production capacity of the Crankshaft Production Line;

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- (iii) the expected unit prices for the engines, engine parts and components and raw materials for manufacturing the engines and their respective engine parts and components; and
- (iv) the estimated total consultancy fees and shared service fees payable to BBA.

The Group proposes to revise the annual caps primarily for the following reasons (i) the Group will supply finished crankshaft to BBA upon completion of the acquisition of the Crankshaft Production Line in April 2015, which will increase the transaction amounts between the Group and BBA; (ii) the increase in transaction amounts is expected to be higher in 2016 as the Crankshaft Production Line will have its first full year contribution in 2016; and (iii) the Group expects that there will be an increase in the expected demand for N20 engines in 2015 based on the latest figures provided by the Group's customers. The Group expects a decrease in unit prices of raw materials and finished products of N20 engines but an increase in the unit prices of raw materials and finished products of connection rods, based on the latest prices agreed by the parties. The latest prices were determined with reference to the latest raw materials costs provided by BBA, historical production costs incurred by the Group and anticipated profit margin from the sale of relevant products. The expected unit prices of the N20 engines and the engine parts and components and raw materials for manufacturing the N20 engines, connection rods and crankshaft are anticipated to be relatively stable, while the Group anticipates that expected unit prices of the connection rods and crankshafts will gradually decrease from 2015 to 2016. The expected prices are estimated with reference to the expected procurement costs of raw materials from BBA, production costs to be incurred by the Group and anticipated profit margin from the sale of relevant products.

As regards the Revised Annual Caps to be sought, we have obtained from the Company a list of estimated purchase of roughcasts and related parts and parts and components of N20 and/or Bx8 engines summing roughly up to the Purchase Caps and the estimated supply of N20 engines, finished connection rods and finished crankshafts summing roughly up to the Supply Caps. We understand from the Directors that such list of estimate was prepared on the basis of multiplying (i) the expected quantity of engines, engine parts and components and raw materials to be purchased from or sold to BBA for each of the two financial years ending 31 December 2016 with (ii) the estimated unit price of engines, engine parts and components and raw materials; and adding (iii) the buffer catering for, among others, the fluctuation in foreign exchange rate and uncertainty of change in transaction volume, unit purchase cost and type of products to be transacted. We also understand from the Directors that the estimated total consultancy fees and shared service fees payable to

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BBA was prepared on the basis of multiplying (i) the applicable charging rates of BBA's production associates and consultants with (ii) the number of months/working days the production associates and consultants are expected to work for the Group; and adding the expected cost of sharing certain function, facilities and services of BBA; and adding (iii) the buffer catering for, among others, uncertainty of change in number of personnel of BBA being assigned to work for the Group, change in charging rates and scope of services.

In order to assess the fairness and reasonableness of the estimated quantity and estimated price of the Revised Annual Caps, we have performed the following analysis:

I. Regarding the estimated quantity of the transactions

Engine parts and components for N20 engines assembly, connection rods roughcasts and finished connection rods

As advised by the Group, the expected quantity of the engine parts and components for N20 engines assembly and connection rod roughcasts to be purchased from BBA by the Group is determined based on the number of N20 engines that BBA and Shenyang Automotive will demand from the Group and number of engine parts and components that BBA will demand from the Group for each of the two financial years ending 31 December 2016. As the engine parts and components and finished connection rods are the key components for engines and will be exclusively assembled to the N20 engines, we have enquired the Group and were advised by the Group that the estimated demand of engine parts and components, connection rod roughcast and finished connection rods for each of the two years ending 31 December 2016 is derived from the forecasted market demand and production plan of the relevant vehicles of BBA and Shenyang Automotive with N20 engines installed. We were further advised by the Group that the connection rod roughcasts are the forged parts and subject to further processes such as piercing, trimming and assembly before being ready to be assembled in N20 engines, and each unit of connection rod roughcast will be processed into the finished connection rod respectively. We noted that the estimated demand of BBA for finished connection rods is the same as the total quantities of connection rod roughcasts to be purchased from BBA by the Group, except that the Group will require additional spare connection rod roughcasts from BBA. As advised by the Group, such

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additional purchase will be mainly for (i) maintaining inventory with reference to lead time of supply products; and (ii) replacement of the worn roughcasts during processing for each of the two years ending 31 December 2016. We understand from the Group that the extra quantity of roughcasts (for worn parts replacement) for each of the two years ending 31 December 2016 is determined with reference to historical operational record.

We noted from the abovementioned that the estimated demand of finished connection rods for N20 engines by BBA for the financial year ending 31 December 2016 will decrease by approximately 25.0% as compared with that for the financial year ending 31 December 2015. As advised by the Group, such decrease in estimated demand of finished connection rods is primarily due to the expectation of BBA that the target sale of vehicles (with N20 engines installed) will decrease in 2016 as N20 engines will be gradually replaced by the Bx8 engines. We consider that the expected transaction quantities of parts and components for N20 engine assembly, connection rod roughcasts and finished connection rods, which corresponds to the projected sale quantity of vehicles with N20 engines installed, are reasonable.

Crankshaft roughcasts and finished crankshaft for N20 and Bx8 engines

We were advised by the Group that the estimated quantity of crankshaft roughcasts for the Group to process into finished crankshafts that goes into the N20 and Bx8 engines, to be purchased by the Group from BBA is determined by the expected demand of N20 engine and/or Bx8 engines to be installed in the vehicles corresponding to the target production volume of BBA and Shenyang Automotive for each of the two years ending 31 December 2016. As advised by the Group, the N20 engines will be installed in the vehicles of BBA and the new premium MPV of Shenyang Automotive, and the new Bx8 engines will gradually replace the N20 engines for some of the BMW models of BBA starting from 2016.

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We noted that the expected demand of N20 finished crankshaft for the year ending 31 December 2016 is approximately 25% higher than that of the year ending 31 December 2015. It is because the Group expects to take over the operation of the Crankshaft Production Line on 30 April 2015, being the expected completion date of the Assets Transfer Agreement during the year ending 31 December 2015. In addition, the Group expects to supply Bx8 finished crankshaft to BBA since 2016. As such, we noted that the total demand for finished crankshaft is expected to increase by approximately 86.8% from the year ending 31 December 2015 to 2016. We also noted that the expected quantity of crankshaft roughcasts to be purchased by the Groups is equal to the expected quantity of finished crankshafts to be sold to BBA during the two years ending 31 December 2016 and certain additional quantity of crankshaft roughcasts from BBA as buffer stock.

Based on the target production plan of vehicles of BBA and Shenyang Automotive with N20 and/or Bx8 engines equipped and the annual processing and assembly estimates provided by the Group, we consider that the expected transaction quantities of crankshaft roughcasts and finished crankshaft are reasonable.

Consulting service, technical support and shared services

As advised by the Group, in order to ensure a smooth transition after acquiring the Crankshaft Production Line from BBA, it is necessary for BBA to provide trainings, consulting services, and technical support to the Group. We have noted that the quantity or the amount of consulting services and technical support to be paid by the Group is determined by production output level of the Group and it is calculated based on the number of employees including foreign experts, local managers, local employees and operators provided by BBA to the Group and the number of working days such staff are expected to provide consultancy service during a year.

For the year ending 31 December 2016, the expected number of staff and the number of working days are expected to increase by approximately 28.8% and 49.7% respectively. We were advised by the Group that the Group expects to take over the operation of the Crankshaft Production Line on 30 April 2015. In addition, with the estimated combined demand for finished crankshafts for N20 engines and the new Bx8 engines in year 2016, the estimated finished crankshaft production volume are expected to increase in the year ending 31 December 2016. As a result of the above mentioned, the Crankshaft Production

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Line will require more staff to perform more hours of trainings, supervising, technical support, maintenance, operational consultancy in order to achieve the higher production volume. The higher number of working days in the year ending 31 December 2016 is also due to the fact that the Crankshaft Production Line is expected to operate for eight months in 2015 whilst in 2016 it will operate year-round for a full 12 months. Given the above, we consider that the quantity in determining the fees payable by the Group for the consulting service and technical support is reasonable.

II. Regarding the estimated price of the transactions

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

The Group adopts a cost plus pricing model in relation to the sales and purchases of engines, engine parts and components and raw materials for manufacturing engines and engine parts and components between the Group and BBA. As set out in the Letter from the Board, the prices for the mutual supplies and purchases between the Group and BBA are negotiated on a holistic and arm's length basis, taking into account each party's overall cost of production and anticipated reasonable profits.

Engine parts and components for N20 engines assembly, N20 engines, connection rod roughcasts and finished connection rods

In connection with the supply of N20 engines and the finished N20 connection rods, the Group will purchase exclusively from BBA the raw materials and engine parts and components, including the connection rod roughcasts, for manufacturing the N20 finished products to be sold to BBA in order to ensure a stable and quality supply. BBA will purchase the engine parts and components and raw materials for manufacturing the N20 engines and engine parts and components from its suppliers and then process (if necessary) and on-sell them to Mianyang Xincheng.

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In respect of the purchase prices of N20 engine parts and components for assembling the N20 engines, the Group will assess the reasonableness of the purchase prices as a proportion of the total production costs, which is expected to be comparable to the historical production costs structure of engines sold by the Group (including engines sold to independent third parties) in the latest financial year. We have enquired the Group as to the expected production costs for assembly and processing the N20 engine parts and components to a N20 engine and obtained the breakdown of total production cost incurred for producing all engines by the Group during the year ended 31 December 2013. We have also reviewed the prospectus of the Company dated 28 February 2013 in respect of the percentage of cost of materials (including engine components) over the total production costs for the past few years and noted that such percentage has been around 90% and we note that the relevant percentages for 2014 is consistent with such trend. Upon comparison of material costs for engines produced in the past with the N20 engines, we noted that the percentage represented by the purchase price of the engine parts and components for N20 engines assembly over the relevant production costs is comparable to that for engines produced by the Group during the past few years and we consider it is an appropriate proxy to assess the fairness and reasonableness of the relevant purchase cost. The Group assesses the reasonableness of the purchase prices of the connection rod roughcasts and related parts by making reference to the market prices of similar products produced in the PRC, difference in production costs of PRC and overseas suppliers, the quality and specification of connection rod roughcasts and related parts to be procured from BBA, the transportation costs and other related transaction costs. We have obtained and reviewed two independent price quotations in relation to the purchase of connection rod roughcasts and related parts for the production of finished connection rods. We were advised by the Group that the quality and specification of such connection rod roughcast and related parts are better than those of the existing engine models of the Group. We noted that the unit prices of connection rod roughcast and related parts set out in the quotations (after taking into account the labour cost, transportation cost and other relevant production cost as estimated by the Group) are comparable to expected unit purchase prices of connection rod roughcasts and related parts to be supplied by BBA.

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The Group adopts a cost plus pricing model in respect of the selling prices of engines and the engine parts and components to BBA. The Group will price the N20 engines and the engine parts and components (including the connection rods) to be sold to BBA by reference to the raw material costs provided by BBA, production costs to be incurred by the Group and the anticipated reasonable profit margin. The margin to be charged on the N20 engines and finished connection rods by the Group is expected to be comparable with the level of profits derived from the sale of gasoline engines to independent third parties in the latest financial year but it may vary depending on factors such as the expected quantity, quality and specifications of the products to be sold, market competition from other supplier(s) of BBA and strategic collaboration relationship with BBA. In addition, since the Group will only sell the N20 engines and finished N20 connection rods to BBA and/or Shenyang Automotive, which are both connected persons of the Company, we are advised that prices of comparable transactions with independent third parties are unavailable. Since the N20 engines employ advanced technologies and both the N20 engines and the engine parts and components to be supplied by the Group to BBA are used exclusively in vehicles approved by BMW, there are very few comparables of these engines and engine parts and components in the PRC and the prices of these comparables are not readily available. As advised by the Group, the sourcing of engines for BBA's vehicles in the PRC region is only through the Group insofar. Accordingly, Mianyang Xincheng is not in a position to compare the prices of these engines, engine parts and components (including the finished connection rods) and the raw materials for manufacturing the engines and their parts and components against the prevailing market prices in the PRC directly. However, as all the operational agreements and purchase orders in relation to the sale of engines, engine parts and components and raw materials for manufacturing engines and engine parts and components from the Group to BBA will be subject to the general terms and conditions of BMW which apply to its independent suppliers on a worldwide basis, we concur with the view of the Directors that the terms of these operational agreements and purchase orders are fair and reasonable.

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We noted that the Group has purchased engine parts and components for N20 engines and connection rod roughcasts and related parts from BBA and supplied the N20 engines and finished connection rods to BBA since 2014. We have obtained, on sample basis, the invoices of these historical transactions in 2014 and the relevant actual cost breakdown. We noted that the pricing of N20 engines and finished connection rods was determined according to the aforesaid cost plus basis and the actual historical pricing was consistent with the existing annual caps previously approved by the then Independent Shareholders. Given the foregoing, we are of the view that the price for the N20 engines, engine parts and components for N20 engine assembly, finished connection rods and connection rod roughcasts are fair and reasonable and in the interests of the Group and the Independent Shareholders as a whole.

Crankshaft roughcasts and finished crankshafts for N20 and Bx8 engines

In connection with the supply of crankshafts for N20 and Bx8 engines, the Group will purchase exclusively from BBA the N20 and Bx8 crankshaft roughcasts, for manufacturing the finished products with the Crankshaft Production Line to be sold to BBA while BBA will purchase the raw materials for manufacturing the crankshafts from its suppliers and on-sell them to the Group.

In respect of the purchase prices of crankshaft roughcast from BBA, since the acquisition of the Crankshaft Production Line is yet to complete and the Group was not engaged in the production of crankshaft products before, the Group will assess the reasonableness of the purchase prices of crankshaft roughcast by making reference to the market prices of similar products produced in the PRC, difference in production costs of PRC and overseas suppliers (if applicable), the quality and specification of crankshaft roughcasts to be procured from BBA, the transportation costs and other related transactions costs. We have obtained and reviewed third party quotations of crankshaft roughcasts from two local suppliers. We were advised by the Group that the quality and specification of the crankshaft roughcasts provided by BBA employ a higher standard and we note that the prices of the third party quotations, after certain adjustments for the quality and specification differences, are comparable to the expected purchase price from BBA for each of the two years ending 31 December 2016. We also note from the Group's list of estimated purchase that

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the unit purchase price of crankshaft roughcast is expected to remain at the same level during the two years ending 31 December 2016. Given the above, we consider the transaction prices of the crankshaft roughcasts for N20 and Bx8 engines are reasonable.

In respect of the selling prices of finished crankshafts to BBA, similar to the supply of finished connection rods and N20 engines, the Group adopts a cost plus pricing model in relation to the sales of finished crankshafts. The margin to be charged by the Group is expected to be comparable with the level of profits derived from the sale of gasoline engines to independent third parties in the latest financial year and it may vary depending on factors such as the expected quantity, quality and specifications of the products to be sold, market competition from other supplier(s) of BBA and strategic collaboration with BBA.

Since the finished crankshafts for N20 engines and for Bx8 engines are new products of the Group, we were advised by the Group that there is no historical sales information available for comparison on the profit level of crankshafts. As such, price of crankshafts will be determined by the Group with reference to the level of profits derived from the sale of gasoline engines to independent third parties. We have calculated the average gross profit margin of gasoline engines sold by the Group to independent third parties and noted that it is comparable to the expected gross profit margin of crankshafts.

In light of the abovementioned, we consider that the estimated level of unit selling price of finished crankshafts for each of the two financial years ending 31 December 2016 is reasonable.

Consulting service, technical support and shared services

The consulting and technical support service fee to be charged by BBA will be primarily determined with reference to the applicable chargeable rates of the production associates and consultants involved as set out in the Consulting Service and Technical Support Agreement and the time spent on the provision of the technical consulting and advisory services. We note that BBA will prepare a staff plan and the Group will assess the reasonableness of the plan taking into account various factors including the number of workers the Group considers is needed for the operation of the Crankshaft Production Line compared with the manpower plan proposed by BBA. The charging rates for production associates and consultants are subject to change, but the current applicable rate is approximately RMB10,000 per month for operators and

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between RMB1,000 to RMB14,000 per day for local specialists, local managers and other overseas consultants. The Group will make reference to, among other things, internal remuneration guidance for the Group's employees, academic background and technical knowledge of BBA's production associates and consultants and difference in remuneration package for PRC-based company and international company, to assess the reasonableness of the applicable charging rate of BBA's production associates and consultants. We also note that the applicable charging rates for production associates and consultants for the year ending 31 December 2016 represent a 10% increase from that of 2015 as a result of the inflation rate and given the foregoing we consider that the applicable charging rates for the production associates and consultants are reasonable.

We understand that the total service fees payable to BBA further comprise estimated amount to be charged by BBA by sharing BBA's certain function, facilities and services, such as laboratory related testing, general administrative costs, based on actual costs to be incurred by BBA and allocation of actual costs based on appropriate sharing functions under the Consulting Service and Technical Support Agreement. We note that the production related third party services, such as maintenance of spare parts, shuttle bus services, consumable and other services are shared with the Group primarily according to the engine plant routing time or the actual time costs incurred. We have obtained and reviewed a third party quotation in relation to metrology and calibration services and we note that the service cost is in line with the Group's estimation which is based on information provided by BBA. Other administration relating services, where most of which are provided by BBA itself, such as training facilities, information technology system support and insurance costs, are shared with the Group primarily according to the indirect headcount. BBA will prepare an invoice setting out the above details and the Group will review the invoice and check whether the costs will be shared with BBA based on the aforementioned methods. The total service fees payable to BBA will further take into account a 5% reasonable profit margin to be received by BBA for providing the services to the Group. We are of the view that by sharing BBA's existing facilities and services, the Group is able to obviate the need to incur additional costs and efforts in obtaining such facilities and services from third parties and thus is beneficial to the Group. Accordingly, after reviewing the computation of the shared services cost to be paid by the Group, we consider that the pricing mechanism and the 5% profit margin under the Consulting Service and Technical Support Agreement is fair and reasonable.

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We noted that the Group has also taken into account a buffer of 10% of the expected transaction amounts under the Continuing Connected Transactions in determining the amount of the Purchase Caps and the Supply Caps. As advised by the Group, the purposes for including the buffer are to cater for the fluctuation in foreign exchange rate and uncertainty of change in transaction volume, transaction price and type of products to be transacted. We were also advised by the Group that raw materials of automotive parts and components are normally imported from Europe therefore their price are subject to the fluctuation in the exchange rate between Renminbi and Euro Dollar. As such, we have reviewed the currency exchange rate published by the People's Bank of China and noted that Renminbi has been appreciating against Euro Dollars at a compound annual growth rate of approximately 1% since 2011. On the other hand, as labour cost is one of the key factors affecting both purchase prices of the N20 engine components, connection rod roughcasts, crankshaft roughcasts, and the selling prices of N20 engines, finished connection rods and finished crankshafts, we have reviewed the latest available statistics on the website of National Bureau of Statistics of China and noted that the average salary per person in manufacturing industry has been increasing over the past few years. Given the above, we consider that the 10% buffer is acceptable.

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

3. *The conditions*

As the Revised Annual Caps exceed HK\$10 million and the relevant applicable ratios under Rule 14.07 of the Listing Rules exceed 5%, the Revised Annual Caps are subject to reporting, announcement, annual review and the requirement of seeking approval from the Independent Shareholders under the Listing Rules.

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

1. The Continuing Connected Transactions will be:
 - (i) entered into by the Group in the ordinary and usual course of its business;

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- (ii) conducted on normal commercial terms or, if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available to or from independent third parties; and
 - (iii) entered into in accordance with the terms of the relevant framework agreements and comprehensive services agreement governing the Continuing Connected Transactions that are fair and reasonable and in the interests of the Shareholders of the Company as a whole;
2. The transacted amount of the transactions under the BBA Compliance Agreement shall not exceed the Revised Annual Caps;
 3. The Company will comply with all other relevant requirements under the Listing Rules.

Taking into account the conditions attached to the Continuing Connected Transactions, in particular (i) the restriction by way of setting the Revised Annual Caps; and (ii) the compliance with all other relevant requirements under the Listing Rules (which include the annual review and/or confirmation by the independent non-executive Directors and auditors of the Company on the actual execution of the Continuing Connected Transactions), we consider that the Company has taken appropriate and adequate measures to govern the Group in carrying out the Continuing Connected Transactions, thereby safeguarding the interests of the Shareholders thereunder.

RECOMMENDATION

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

- (i) the Continuing Connected Transactions under the BBA Compliance Agreement will broaden the revenue from sales of finished connection rods and the N20 engines;
- (ii) upon completion of the Asset Transfer Agreement, the Group will supply finished crankshafts to BBA for the N20 engines and the new Bx8 engines which will further broaden the revenue streams of the Group as well as strengthen the collaboration between the Group and BBA;

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- (iii) the production technology as well as the management capabilities and levels of the Group can be improved through the cooperation with BBA and BMW;
- (iv) the mechanism and measures taken/to be taken by the Group in ensuring the Continuing Connected Transactions are on normal commercial terms; and
- (v) the restriction by way of setting of the Purchase Caps and the Supply Caps,

we are of the opinion that (i) the Continuing Connected Transactions under the BBA Compliance Agreement are in the ordinary and usual course of business of the Group; and (ii) the terms of the Continuing Connected Transactions under the BBA Compliance Agreement and the Revised Annual Caps are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders, and we advise the Independent Shareholders, to vote in favour of the ordinary resolutions to be proposed at the EGM for approving the Continuing Connected Transactions under the BBA Compliance Agreement and the Revised Annual Caps.

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

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

FINANCIAL INFORMATION OF THE COMPANY

Details of the financial information of the Group for the year ended 31 December 2011 has been set out in the Company's prospectus dated 28 February 2013 (from pages I-1 to I-57).

Details of the financial information of the Group for the years ended 31 December 2012 and 31 December 2013 have been set out in the Company's annual reports for the years ended 31 December 2012 (from pages 34 to 92) and 31 December 2013 (from pages 43 to 100) respectively.

Details of the financial information of the Group for the six months ended 30 June 2014 is set out in the unaudited condensed consolidated financial statements in the interim report of the Company for the six months ended 30 June 2014 (from pages 1 to 20).

All annual reports and interim reports of the Company have been posted on the website of the Company at www.xinchenpower.com. Please visit the Company's website for more details.

INDEBTEDNESS

As at 31 December 2014, which is the latest practicable date for the purpose of determining the amount of indebtedness, the Group had outstanding interest-bearing balance of short-term and long-term bank unguaranteed borrowings in the total amount of approximately RMB587.64 million of which RMB38.5 million are secured by certain property, plant and equipment of the Group.

A total amount of approximately RMB424.31 million bank deposits were pledged to banks to secure bills payable issued to suppliers of the Group as at 31 December 2014.

Certain bills receivable were either endorsed for the settlement of trade and other payables or discounted to banks for raising of cash that were regarded as contingent liabilities to the Group. The maximum exposure to the Group that may result from the default of these endorsed and discounted bills receivable as at 31 December 2014 approximated to RMB554.46 million.

Save as disclosed above and otherwise mentioned in this circular, except and apart from intragroup liabilities, the Group did not have any debt securities issued and outstanding or agreed to be issued, bank borrowings or other similar indebtedness, liabilities under acceptances (other than normal trade bills), acceptance credits, debentures, mortgages, charges, finance leases or hire purchase commitments, guarantees or other material contingent liabilities as at 31 December 2014.

FINANCIAL AND TRADING PROSPECTS

According to the China Association of Automobile Manufacturers, China's automobile industry continued to grow steadily in 2014. The Group has been supplying gasoline and diesel engines for the local-branded auto manufacturers for over 20 years. Considering increasing uncertainties in this business segment, such as foreign branded auto manufacturers continue to outperform the local-branded auto manufacturers and implementation of stringent regulatory requirement on fuel efficiency and emission standards in the PRC from time to time, the Group strives to tap into the premium automobile segment by establishing stable business relationship with BBA in order to optimize the Group's product portfolio, shifting from medium to low-end products to high-end products, and providing more stable return to its shareholders after the Company's listing in Hong Kong.

As mentioned above, the business environment for local-branded auto manufacturers remains challenging, sale performance of the Group's local-branded customers is affected under such unfavorable operating environment, which in turn affects the Group's sale of traditional gasoline and diesel engines. Local-branded auto manufacturers are in the midst of upgrading their production capabilities and products and improving their distribution system so as to strengthen their competitiveness and improve their sales performance. As such, the Directors believe that the sale performance of the traditional gasoline and diesel engines will likely be volatile in the near terms and will become relatively stable in the medium and long terms. Premium engines and engine parts and components segment has become the primary focus of the Group's development strategy. The Group is in the transition from medium to low-end engines supplier to high-end engines and engine part and components suppliers. The Group started to supply different products, namely N20 engines and connection rods, to BBA. The Group expects that the premium engines and engine parts and components segment will make increasing contribution to the Group's overall financial performance in the future.

WORKING CAPITAL

The Directors are of the opinion that, after taking into account (1) the financial resources currently available to the Group including its internally generated funds and banking facilities, and (2) the effect of the proposed acquisition of the Acquired Assets, the Transferred Contracts and the Call Option, in the absence of unforeseeable circumstance, the Group will have sufficient working capital for its present requirements that is for at least the next twelve months following the date of this circular.

**INDEPENDENT REPORTING ACCOUNTANT’S ASSURANCE REPORT ON
THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION**

To the Directors of Xincheng China Power Holdings Limited

We have completed our assurance engagement to report on the compilation of pro forma financial information of Xincheng China Power Holdings Limited (the “**Company**”) and its subsidiaries (hereinafter collectively referred to as the “**Group**”) by the directors of the Company (the “**Directors**”) for illustrative purposes only. The pro forma financial information consists of the pro forma consolidated statement of assets and liabilities as at 30 June 2014 and related notes as set out on pages 82 to 85 of the circular issued by the Company dated 18 February 2015 (the “**Circular**”). The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described on pages 84 to 85 of the Circular.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed acquisition Acquired Assets and Transferred Contracts as set out in the Assets Transfer Agreement from BMW Brilliance Automotive Ltd. (“**BBA**”) and the Call Option to BBA (the “**Transaction**”) on the Group’s financial position as at 30 June 2014 as if the Transaction had taken place at 30 June 2014. As part of this process, information about the Group’s consolidated statement of assets and liabilities has been extracted by the Directors from the Group’s unaudited condensed consolidated financial statements for the six months ended 30 June 2014, on which a review report has been published.

Directors’ Responsibilities for the Pro Forma Financial Information

The Directors are responsible for compiling the pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and with reference to Accounting Guideline 7 Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars (“**AG 7**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”).

Reporting Accountant’s Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus issued by the HKICPA. This standard requires that the reporting accountant comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 30 June 2014 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- (a) the pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Deloitte Touche Tohmatsu*Certified Public Accountants*

Hong Kong

1. UNAUDITED PRO FORMA FINANCIAL INFORMATION**Introduction**

The following is a summary of an illustrative and unaudited pro forma consolidated statement of assets and liabilities (the “**Unaudited Pro Forma Financial Information**”) of the Group, which have been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the proposed acquisition of the Acquired Assets and Transferred Contracts entered into between the Group and BBA and the Call Option to BBA (the “**Transaction**”) as set out in the Asset Transfer Agreement upon completion, as if the Transaction was completed on 30 June 2014 for the unaudited pro forma consolidated statement of financial position.

The Unaudited Pro Forma Financial Information of the Group has been prepared by the Directors for illustrative purposes only, based on their judgments, estimations and assumptions, and because of its hypothetical nature, it may not give a true picture of the assets and liabilities of the Group as at 30 June 2014 or at any future date following the completion of the Transaction.

The Unaudited Pro Forma Financial Information of the Group should be read in conjunction with the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2014 as disclosed in the 2014 interim report of the Company and other financial information included elsewhere in the Circular.

The Unaudited Pro Forma Financial Information of the Group has been prepared based on the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2014, which has been extracted from the interim report of the Company for the six months then ended after making pro forma adjustments that reflect the Transaction is assumed to be completed as at 30 June 2014.

APPENDIX II**UNAUDITED PRO FORMA STATEMENT OF
ASSETS AND LIABILITIES OF THE GROUP****UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES***As at 30 June 2014*

	The Group as at 30 June 2014 RMB'000 (unaudited)	Pro forma Adjustments RMB'000 Note		Pro forma Total as at 30 June 2014 RMB'000 (unaudited)
NON-CURRENT ASSETS				
Property, plant and equipment	877,565	316,604	1	1,194,169
Prepaid lease payments	58,721			58,721
Intangible assets	221,799			221,799
Investment in a joint venture	49,429			49,429
Deferred tax assets	151			151
Deposits for acquisition of property, plant and equipment and land use rights	11,654			11,654
	<u>1,219,319</u>			<u>1,535,923</u>
CURRENT ASSETS				
Inventories	319,906	17,950	1	337,856
Prepaid lease payments	1,434			1,434
Trade and other receivables	770,782	56,874	1	827,656
Amounts due from related companies	1,304,044			1,304,044
Loan to a shareholder	29,281			29,281
Pledged bank deposits	322,156		2	322,156
Bank balances and cash	1,055,241	(391,428)	1, 2	663,813
	<u>3,802,844</u>			<u>3,486,240</u>
TOTAL ASSETS	<u><u>5,022,163</u></u>			<u><u>5,022,163</u></u>

APPENDIX II**UNAUDITED PRO FORMA STATEMENT OF
ASSETS AND LIABILITIES OF THE GROUP**

	The Group as at 30 June 2014 RMB'000 (unaudited)	Pro forma Adjustments RMB'000	<i>Note</i>	Pro forma Total as at 30 June 2014 RMB'000 (unaudited)
CURRENT LIABILITIES				
Trade and other payables	1,742,459			1,742,459
Amounts due to related companies	187,336			187,336
Bank borrowings – due within one year	702,150			702,150
Income tax payables	19,772			19,772
	<u>2,651,717</u>			<u>2,651,717</u>
NET CURRENT ASSETS	<u>1,151,127</u>			<u>834,523</u>
TOTAL ASSETS LESS CURRENT LIABILITIES				
	<u>2,370,446</u>			<u>2,370,446</u>
NON-CURRENT LIABILITIES				
Deferred income	38,281			38,281
	<u>38,281</u>			<u>38,281</u>
NET ASSETS	<u><u>2,332,165</u></u>			<u><u>2,332,165</u></u>

Notes:

1. The adjustment represents the acquisition of the Acquired Assets and Transferred Contracts at 30 June 2014 at fair value with an estimated consideration of approximately RMB391,428,000 based on the following assumptions:
 - a. Fair value of property, plant and equipment is assumed to be the estimated contract price comprising (i) its unaudited book value at 31 December 2014 amounting to approximately RMB288,864,000 provided by BBA as shown in the Assets Transfer Agreement; (ii) custom duties of approximately RMB12,664,000 that may be incurred by BBA which is estimated by the Directors based on consultation with local custom; and (iii) 5% margin on (i) and (ii) as stipulated in the Assets Transfer Agreement;

- b. Fair value of spare parts is assumed to be the estimated contract price comprising (i) its unaudited book value of approximately RMB17,095,000 at 31 October 2014 provided by BBA; and (ii) 5% margin on (i);
- c. Fair value of Transferred Contracts is assumed to be nil as its unaudited book value is nil represented by the Directors based on discussion with BBA; and
- d. Consideration payable for the Transaction is assumed to be the same as the assumed aggregate fair value of the Acquired Assets and Transferred Contracts set out in items (a) to (c) above as the consideration stipulated in the Assets Transfer Agreement shall not be higher than the unaudited book value of the Acquired Assets and the Transferred Contracts and custom duties plus a 5% margin.

In addition, a pro forma adjustment is made to in relation to the payment of value added tax of approximately RMB56,870,000 to be borne by the Group as stipulated in the Assets Transfer Agreement, which is estimated based on 17% of items (a) and (b).

In the opinion of the Directors, the above acquisition constitutes a business combination in accordance with HKFRS 3 “Business Combination” and as such, the acquisition has been accounted for as an acquisition of a business.

The fair value of the Acquired Assets, Transferred Contracts and the related consideration payable will have to be reassessed and subject to change since identification and measurement of the fair value of the identifiable assets and/or liabilities, if any, and consideration payable at the actual completion date of acquisition will be different from the assumed fair value used in the preparation of the Unaudited Pro Forma Financial Information. The financial effect will be based on the total consideration and the fair value of identifiable assets or liabilities being transferred upon the completion of acquisition, and will be different from the above presentation.

- 2. As one of condition precedents in completion of the acquisition set out in the Assets Transfer Agreement, Mianyang Xincheng is required to provide BBA a bank guarantee with the guarantee amount of RMB424,000,000 in favor of BBA for 2015. A certain amount of deposit may be required by a bank for issuance of the bank guarantee and the bank balance may be reduced and matched by an increase in corresponding amount of pledged bank deposits. No pro forma adjustment is made as the financial effect cannot be determined until placement of deposit to a bank.
- 3. Pursuant to the Assets Transfer Agreement, upon occurrence of certain triggering events as disclosed in the Circular, BBA has the Call Option, i.e. right to give Mianyang Xincheng a notice in writing requiring to buy back all or any part of the Acquired Assets together with related contracts in connection with the Transferred Contracts and the equipment, facilities and related services resulting from the implementation of the Expansion Plan and Investment Plan. No pro forma adjustment is made for the Call Option, assuming the acquisition had taken place on 30 June 2014, as the Directors are of the view that the fair value of the Call Option is minimal as the likelihood that occurrence of triggering events for exercise of the Call Option is considered as remote.
- 4. In preparation of the Unaudited Pro Forma Financial Information of the Group, the Directors estimated the professional fee directly attributable to the acquisition would be insignificant and therefore no pro forma adjustment is made. The actual amount will be different and therefore subject to change upon completion of the acquisition.

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, there are no other matters the omission of which would make any statement herein or in this circular misleading.

2. DISCLOSURE OF INTERESTS

Directors and chief executives of the Company

Save as disclosed below, as at the Latest Practicable Date, none of the Directors and chief executives of the Company and their respective associates had interests and short positions in the Shares, the underlying Shares and/or the debentures (as the case may be) of the Company or any associated corporations (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 any such Director or chief executive is taken or deemed to have under such provisions of the SFO) or which were required to be entered into the register required to be kept by the Company under section 352 of the SFO or which were otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in the Listing Rules:

Name of Director	Long position/ short position	Nature of interest	Number and class of Shares	Approximate percentage of shareholding ⁽⁴⁾
Mr. Wu Xiao An (also known as Mr. Ng Siu On) ⁽¹⁾⁽³⁾	Long position	Beneficial owner	6,656,032 ordinary	0.52%
	Long position	Trustee and interest in a controlled corporation	48,382,386 ordinary	3.76%
Mr. Wang Yunxian ⁽²⁾⁽³⁾	Long position	Beneficial owner	5,176,914 ordinary	0.40%
	Long position	Trustee and interest in a controlled corporation	48,382,386 ordinary	3.76%

Notes:

- (1) Mr. Wu Xiao An is a trustee of the fixed trust and the discretionary trust (which in aggregate hold 48,382,386 Shares for the beneficiaries) under the Incentive Scheme and holds 50% interests in Lead In. Accordingly, Mr. Wu is deemed or taken to be interested in approximately 3.76% of the issued share capital of the Company. Mr. Wu is entitled to 1,664,009 Shares as a beneficiary under the fixed trust.
- (2) Mr. Wang Yunxian is a trustee of the fixed trust and the discretionary trust (which in aggregate hold 48,382,386 Shares for the beneficiaries) under the Incentive Scheme and holds 50% interest in Lead In. Accordingly, Mr. Wang is deemed or taken to be interested in approximately 3.76% of the issued share capital of the Company. Mr. Wang is entitled to 1,294,229 Shares as a beneficiary under the fixed trust.
- (3) The beneficiaries of the fixed trust comprise certain Directors including Mr. Wu Xiao An and Mr. Wang Yunxian, 48 senior management and employees of the Group. The above Directors are taken or deemed to be interested in their entitlement in the Shares held by Lead In.
- (4) These percentages are calculated on the basis of 1,287,407,794 Shares in issue as at the Latest Practicable Date.

Interests of Substantial Shareholders

As at the Latest Practicable Date, so far as known to the Directors and chief executives of the Company, each of the following persons (other than a Director or chief executive of the Company) had an interest or a short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or were directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Company and were recorded in the register to be kept under section 336 of the SFO:

Name of Shareholder	Nature of interest	Number and class of Shares	Approximate percentage of shareholding ⁽⁷⁾
Brilliance Investment Holdings Limited	Beneficial owner	400,000,000 ordinary	31.07%
Brilliance China ⁽¹⁾	Interest in a controlled corporation	400,000,000 ordinary	31.07%

Name of Shareholder	Nature of interest	Number and class of Shares	Approximate percentage of shareholding ⁽⁷⁾
Huachen ⁽²⁾	Interest in a controlled corporation	400,000,000 ordinary	31.07%
Xinhua Investment Holdings Limited	Beneficial owner	400,000,000 ordinary	31.07%
Mianyang Xinhua Internal Combustion Engine Joint-stock Company Limited ⁽³⁾	Interest in a controlled corporation	400,000,000 ordinary	31.07%
Sichuan Yibin Pushi Group Co., Ltd. ⁽⁴⁾	Interest in a controlled corporation	400,000,000 ordinary	31.07%
Yibin Wuliangye ⁽⁵⁾	Interest in a controlled corporation	400,000,000 ordinary	31.07%
Lead In ⁽⁶⁾	Trustee	48,382,386 ordinary	3.76%

Notes:

- (1) Brilliance Investment Holdings Limited is wholly-owned by Brilliance China as at the Latest Practicable Date and Brilliance China is deemed or taken to be interested in approximately 31.07% of the issued share capital of the Company in which Brilliance Investment Holdings Limited is interested.
- (2) Brilliance China is owned as to approximately 42.48% by Huachen as at the Latest Practicable Date and Huachen is deemed or taken to be interested in approximately 31.07% of the issued share capital of the Company in which Brilliance Investment Holdings Limited is interested.

- (3) Xinhua Investment Holdings Limited is a direct wholly-owned subsidiary of Mianyang Xinhua Internal Combustion Engine Joint-stock Company Limited as at the Latest Practicable Date and Mianyang Xinhua Internal Combustion Engine Joint-stock Company Limited is deemed or taken to be interested in approximately 31.07% of the issued share capital of the Company in which Xinhua Investment Holdings Limited is interested.
- (4) Mianyang Xinhua Internal Combustion Engine Joint-stock Company Limited is a direct non wholly-owned subsidiary of Sichuan Yibin Pushi Group Co., Ltd as at the Latest Practicable Date and Sichuan Yibin Pushi Group Co., Ltd is deemed or taken to be interested in approximately 31.07% of the issued share capital of the Company in which Xinhua Investment Holdings Limited is interested.
- (5) Sichuan Yibin Pushi Group Co., Ltd is a direct wholly-owned subsidiary of Yibin Wuliangye as at the Latest Practicable Date and Yibin Wuliangye is deemed or taken to be interested in approximately 31.07% of the issued share capital of the Company in which Xinhua Investment Holdings Limited is interested.
- (6) Lead In is a trustee of the fixed trust and discretionary trust under the Incentive Scheme and is deemed or taken to be interested in approximately 3.76% of the issued share capital of the Company.
- (7) These percentages are calculated on the basis of 1,287,407,794 Shares in issue as at the Latest Practicable Date.

Save as disclosed above, as at the Latest Practicable Date, there was no other person (other than a Director or chief executive of the Company or a member of the Group) who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

3. DIRECTORS' SERVICE AGREEMENTS

Each of the executive Directors has entered into a service agreement with the Company on 26 February 2013 (as supplemented by a second service agreement on 1 April 2013) for a term of three years commencing from 13 March 2013, and such service agreement shall be terminated in accordance with the terms of the service agreements.

Each of the non-executive and independent non-executive Directors (except for Mr. Tang) was appointed to the Board pursuant to their respective letters of appointment dated 26 February 2013, for an initial term of three years commencing from 13 March 2013, and such appointment shall be terminated in accordance with the terms of the letters of appointment. Mr. Tang was appointed by the Board on 4 September 2014 pursuant to his letter of appointment, for an initial term of three years commencing from 4 September 2014, and such appointment shall be terminated in accordance with the terms of the letter of appointment.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the Company within one year without payment of compensation (other than statutory compensation)).

4. DIRECTORS' INTERESTS IN ASSETS AND CONTRACTS OF SIGNIFICANCE

As at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any asset which have been since 31 December 2013, being the date to which the latest published audited financial statements of the Group were made up, acquired by or disposed of or leased to any member of the Group or are proposed to be acquired by or disposed of or leased to any member of the Group.

Save as disclosed in this circular, as at the Latest Practicable Date, none of the Directors were materially interested in any contract or arrangement entered into by any member of the Group since 31 December 2013, being the date to which the latest published audited financial statements of the Group were made up, and which was significant in relation to the business of the Group.

5. DIRECTORS' COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and their respective associates have any interest in businesses which are considered to compete or are likely to compete, either directly or indirectly, with the businesses of the Group.

6. DIRECTORSHIP AND EMPLOYMENT OF DIRECTORS AND CHIEF EXECUTIVE IN SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, save as disclosed below, none of the Directors were a director or employee of a company which had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of the SFO:

Name of Director	Name of company which had such discloseable interest or short position	Position within such company
Mr. Wu Xiao An (also known as Mr. Ng Siu On)	Brilliance China	chairman and executive director
	Huachen	director
	Brilliance Investment Holdings Limited	director
Mr. Wang Yunxian	Xinhua Investment Holdings Limited	director
Mr. Qi Yumin	Brilliance China	chief executive officer, president and executive director
	Huachen	chairman, president and executive director
Mr. Tang Qiao	Yibin Wuliangye	vice secretary of the party committee, director and president.
	Sichuan Yibin Pushi Group Co., Ltd.	director and president

7. MATERIAL ADVERSE CHANGES

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2013, being the date to which the latest published audited financial statements of the Group were made up.

8. EXPERTS

- (a) The following sets out the qualifications of the experts who have given their opinions or advice as contained in this circular:

Name	Qualifications
Deloitte	certified public accountants
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, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the transactions contemplated under the Transaction Agreements

- (b) As at the Latest Practicable Date, each of the above experts does not have any shareholding, direct or indirect, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.
- (c) As at the Latest Practicable Date, each of the above experts does not have any interest, direct or indirect, in any asset which have been since 31 December 2013, being the date to which the latest published audited financial statements of the Group were made up, acquired by or disposed of or leased to any member of the Group or are proposed to be acquired by or disposed of or leased to any member of the Group.
- (d) Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter, statement or advice and references to its name in the form and context in which they are included.
- (e) The letter and recommendation given by Octal Capital Limited is given as of the date of this circular for incorporation herein.

9. LITIGATION

As at the Latest Practicable Date, none of the members of the Group were engaged in any litigation or claims of material importance known by the Directors to be pending or threatened against any member of the Group.

10. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) are or may be material and have been entered into by the Group within the two years preceding the date of this circular:

1. the deed of indemnity dated 25 February 2013 given by Brilliance Investment Holdings Limited, Brilliance China, Xinhua Investment Holdings Limited, Mianyang Xinhua Internal Combustion Engine Joint-stock Company Limited, Sichuan Yibin Pushi Group Co., Ltd. and Yibin Wuliangye in favour of the Company in respect of taxation and property matters;
2. the deed of non-competition dated 25 February 2013 given by Brilliance Investment Holdings Limited, Brilliance China, Xinhua Investment Holdings Limited, Mianyang Xinhua Internal Combustion Engine Joint-stock Company Limited, Sichuan Yibin Pushi Group Co., Ltd., Yibin Wuliangye and Huachen in favour of the Company;
3. the first undertaking dated 25 February 2013 given by Huachen and Brilliance China in favour of the Company;
4. the second undertaking dated 25 February 2013 given by Huachen and Brilliance China in favour of the Company;
5. the Hong Kong share registrar agreement dated 25 February 2013 entered into between the Company and Computershare Hong Kong Investor Limited;
6. the electronic initial public offering agreement dated 26 February 2013 entered into between the Company and the Hong Kong Securities Clearing Company Limited;
7. the underwriting agreement dated 27 February 2013 relating to the Hong Kong public offering and entered into by, among others, Merrill Lynch International, Merrill Lynch Far East Limited, Deutsche Bank AG, Hong Kong Branch, CMB International Capital Limited, GF Securities (Hong Kong) Brokerage Limited and the Company;

8. the placing agreement dated 6 March 2013 in relation to the international placing of the Company's international placing shares and entered into by the Company, Merrill Lynch International, Deutsche Bank AG, Hong Kong Branch and DBS Asia Capital Limited;
9. the price determination agreement dated 6 March 2013 in relation to the pricing of the public offering of the Company's shares and entered into by the Company, Merrill Lynch International and Deutsche Bank AG, Hong Kong Branch;
10. the acquisition agreement dated 25 November 2013 between Huachen and Mianyang Xincheng in relation to the E3 engine production lines and the connection rod production lines in the E2 factory located in No. 12, the 8 Road, Economic and Technological Development Zone, Shenyang, the PRC and related assets and other inventories;
11. the acquisition agreement dated 23 June 2014 entered into between Mianyang Xincheng, CMT International Logistics Group Co., Ltd and CMT Dalian Co., Ltd. in respect of the proposed acquisition of the entire equity interest in CMT International Logistics Group Shenyang Co., Ltd.;
12. the supplemental sales and installation agreement dated 24 June 2014 entered into between Huachen, Alfing Kessler Sondermaschinen GmbH and Mianyang Xincheng;
13. the payment transfer agreement dated 24 June 2014 entered into between Huachen and Mianyang Xincheng for the purpose of stipulating the parties' payment obligation under the supplemental sales and installation agreement as stated in point 12 above;
14. the assets transfer agreement dated 24 June 2014 entered into between Huachen and Mianyang Xincheng pursuant to which Huachen agreed to transfer the relevant assets relating to the connection rod production line to Mianyang Xincheng;
15. the facility letter dated 28 October 2014 entered into between the Company, Mianyang Xincheng and the Bank of China for a term loan facility of up to US\$60,000,000; and
16. the Assets Transfer Agreement.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the principal place of business in Hong Kong of the Company at Suites 1602-05, Chater House, 8 Connaught Road Central, Hong Kong during normal business hours from the date of this circular up to and including 24 March 2015:

1. the memorandum and articles of association of the Company;
2. the service contracts referred to in the paragraph headed “Directors’ Service Agreements” in this Appendix;
3. the material contracts referred to in paragraph headed “Material Contracts” in this Appendix;
4. the Assets Transfer Agreement;
5. the Raw Materials Supply Agreement;
6. the Consulting Service and Technical Support Agreement;
7. the Purchase Agreement on Finished Crankshaft;
8. the accountants’ report from Deloitte in respect of the unaudited pro forma statement of assets and liabilities of the Group as set out in Appendix II of this circular;
9. the letter from the Board, the text of which is set out on pages 9 to 35 of this circular;
10. the letter from the Independent Board Committee, the text of which is set out on pages 36 to 37 of this circular;
11. the letter from the Independent Financial Adviser, the text of which is set out on pages 38 to 76 of this circular;

12. the written consents of Deloitte and the Independent Financial Adviser referred to in the paragraph headed “Experts” above;
13. copies of the Company’s annual reports for the years ended 31 December 2012 and 31 December 2013;
14. a copy of the Company’s interim report for the six months ended 30 June 2014; and
15. copies of each circular issued pursuant to Chapters 14 and/or 14A of the Listing Rules which have been issued since the date of the latest published audited accounts.

12. MISCELLANEOUS

- (1) The company secretary of the Company is Ms. Fung Sam Ming. Ms. Fung is an associate of The Institute of Chartered Secretaries and Administrators.
- (2) The registered office of the Company is Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman KY1-1108, Cayman Islands.
- (3) The branch share registrar of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong.
- (4) In case of any inconsistency, the English text of this circular shall prevail over its Chinese text.

NOTICE OF EGM

POWER XINCHEN

新 晨 動 力

XINCHEN CHINA POWER HOLDINGS LIMITED

新 晨 中 國 動 力 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1148)

NOTICE IS HEREBY GIVEN that the extraordinary general meeting (the “**EGM**”) of Xincheng China Power Holdings Limited (the “**Company**”) will be held at Gloucester Room, 2/F., Mandarin Oriental Hotel, 5 Connaught Road Central, Hong Kong on Wednesday, 25 March 2015 at 9:00 a.m. for the following purposes:

ORDINARY RESOLUTIONS

To consider and, and if thought fit, pass the following resolutions as ordinary resolutions of the Company:

1. “**THAT:**
 - (a) the Assets Transfer Agreement, the Raw Materials Supply Agreement, the Consulting Service and Technical Support Agreement and the Purchase Agreement on Finished Crankshaft (the “**Transaction Agreements**”) (a copy of each which has been produced to the EGM marked “A” and initialled by the chairman of the EGM for the purpose of identification) dated 21 January 2015 entered into between Mianyang Xincheng Engine Co., Ltd.* (綿陽新晨動力機械有限公司) (including its branches) (an indirect wholly-owned subsidiary of the Company) (“**Mianyang Xincheng**”) and BMW Brilliance Automotive Ltd. (華晨寶馬汽車有限公司*) (an associate of Brilliance China Automotive Holdings Limited (華晨中國汽車控股有限公司*) which is a controlling shareholder of the Company) (“**BBA**”) including the revised annual caps for continuing connected transactions between Mianyang Xincheng and BBA and all transactions (including the Call Option pursuant to the Assets Transfer Agreement) contemplated thereunder be and hereby approved, ratified and confirmed; and

NOTICE OF EGM

- (b) any director of the Company (the “**Director**”) be and are hereby authorized to, for and on behalf of the Company to do all such things and exercise all powers which he considers necessary or desirable or expedient in connection with the Transaction Agreements and otherwise in connection with the implementation of the transactions contemplated thereunder, including without limitation the execution, amendment, supplement, delivery, waiver, submission and implementation of any further documents or agreements, and any Director and the company secretary of the Company or two Directors be authorized to affix the common seal of the Company (if required) on any document or deed as they consider appropriate.”
2. “**THAT** Mr. Tang Qiao be and is hereby re-elected as a Non-executive Director of the Company and the Board be authorised to fix the remuneration of Mr. Tang Qiao.”

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

Hong Kong, 18 February 2015

Notes:

- (1) The Hong Kong branch register of members of the Company will be closed from Monday, 23 March 2015 to Wednesday, 25 March 2015, both days inclusive, during which period no transfer of shares will be registered. Only Shareholders whose names appear on the register of members of the Company on Wednesday, 25 March 2015 or their proxies or duly authorised corporate representatives are entitled to attend the meeting. In order to qualify for attending the meeting, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company’s branch registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, 20 March 2015.
- (2) Any member entitled to attend and vote at the above meeting is entitled to appoint a proxy to attend and on a poll, vote instead of him in accordance with the memorandum and articles of association of the Company. A proxy need not be a member of the Company.
- (3) To be valid, the form of proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, must be completed and deposited at the Company’s branch share 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 for holding the meeting or any adjourned meeting thereof (as the case may be) at which the person named in such instrument proposes to vote.
- (4) A form of proxy for use at the EGM is enclosed herewith.

* *for identification purposes only*