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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)

**RENEWAL OF CONTINUING CONNECTED TRANSACTIONS
AND
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

Capitalised terms used in this cover have the same meanings as those defined in this circular.

A letter from the Board is set out on pages 7 to 27 of this circular. A letter from the Independent Board Committee is set out on pages 28 to 29 of this circular.

A letter from Octal Capital, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, is set out on pages 30 to 60 of this circular.

A notice convening the Extraordinary General Meeting to be held at Victoria Room, 2/F., Mandarin Oriental, Hong Kong, 5 Connaught Road Central, Hong Kong on Thursday, 13 December 2018 at 9:00 a.m. is set out on pages 68 to 73 of this circular. Whether or not you are able to attend the Extraordinary General Meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the office of the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the Extraordinary General Meeting or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the Extraordinary General Meeting or any adjourned meeting (as the case may be) should you so wish.

23 November 2018

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DEFINITIONS

In this circular, the following expressions shall have the meanings set out below unless the context requires otherwise:

“2015 Announcement”	the announcement dated 13 October 2015 made by the Company in relation to, among others, continuing connected transactions of the Company;
“associate(s)”	has the meaning ascribed thereto in the Listing Rules;
“Board”	the board of Directors;
“Brilliance China”	Brilliance China Automotive Holdings Limited (華晨中國汽車控股有限公司*), a company incorporated in Bermuda, whose shares are listed on the Main Board of the Stock Exchange (stock code: 1114), and a controlling shareholder of the Company;
“Brilliance China Group”	Brilliance China and its subsidiaries;
“Brilliance China Purchase Agreement”	the framework agreement entered into between the Company and Brilliance China on 13 October 2015 in relation to the purchase of engine components from the Brilliance China Group;
“Brilliance China Purchase Agreement 2019-2021”	the framework agreement entered into between the Company and Brilliance China on 18 October 2018 in relation to the purchase of engine components from the Brilliance China Group;
“Brilliance China Sale Agreement”	the framework agreement entered into between the Company and Brilliance China on 13 October 2015 in relation to the sale of engines and engine components to the Brilliance China Group;
“Brilliance China Sale Agreement 2019-2021”	the framework agreement entered into between the Company and Brilliance China on 18 October 2018 in relation to the sale of engines and engine components to the Brilliance China Group;

DEFINITIONS

“Company”	Xinchen China Power Holdings Limited (新晨中國動力控股有限公司), an exempted company incorporated in the Cayman Islands, whose shares are listed on the Main Board of the Stock Exchange;
“connected person(s)”	has the meaning ascribed thereto in the Listing Rules;
“Continuing Connected Transactions”	the transactions between members of the Group and the connected persons of the Company as set out in the paragraph headed “Letter from the Board – Renewal of Continuing Connected Transactions” in this circular;
“Continuing Connected Transactions 2016-2018”	the transactions between members of the Group and the connected persons of the Company as contemplated under the Brilliance China Purchase Agreement, the Huachen Sale Agreement, the Brilliance China Sale Agreement, the Sichuan Pushi Purchase Agreement and the Xinhua Combustion Engine Purchase Agreement;
“controlling shareholder(s)”	has the meaning ascribed thereto in the Listing Rules;
“Director(s)”	the director(s) of the Company;
“Existing Caps”	the existing annual caps of the Continuing Connected Transactions 2016-2018 as stated in the 2015 Announcement;
“Extraordinary General Meeting”	the extraordinary general meeting of the Company to be convened and held at Victoria Room, 2/F., Mandarin Oriental, Hong Kong, 5 Connaught Road Central, Hong Kong on Thursday, 13 December 2018 at 9:00 a.m. for considering and, if thought fit, approving, among other things, (i) the Continuing Connected Transactions; and (ii) the Proposed Caps, or any adjournment thereof;
“Framework Agreements 2019-2021”	the Brilliance China Purchase Agreement 2019-2021, the Huachen Sale Agreement 2019-2021, the Brilliance China Sale Agreement 2019-2021 and the Wuliangye Purchase Agreements 2019-2021;

DEFINITIONS

“Group”	the Company and its subsidiaries;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“Huachen”	Huachen Automotive Group Holdings Company Limited* (華晨汽車集團控股有限公司), a state-owned company incorporated in the PRC and a controlling shareholder of Brilliance China;
“Huachen Group”	Huachen and its subsidiaries;
“Huachen Sale Agreement”	the framework agreement entered into between the Company and Huachen on 13 October 2015 in relation to the sale of engines and engine components to the Huachen Group;
“Huachen Sale Agreement 2019-2021”	the framework agreement entered into between the Company and Huachen on 18 October 2018 in relation to the sale of engines and engine components to the Huachen Group;
“Independent Board Committee”	the independent committee of the Board, comprising Mr. Chi Guohua, Mr. Wang Jun, Mr. Huang Haibo and Mr. Wang Songlin, all of whom are independent non-executive Directors, formed to advise the Independent Shareholders as to (i) the Continuing Connected Transactions; and (ii) the Proposed Caps;
“Independent Financial Adviser” or “Octal Capital”	Octal Capital Limited, a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, which has been appointed to advise the Independent Board Committee and the Independent Shareholders in respect of (i) the Continuing Connected Transactions; and (ii) the Proposed Caps;

DEFINITIONS

“Independent Shareholders”	Shareholder(s) other than Brilliance China, Mr. Wu Xiao An, Mr. Wang Yunxian and their respective associates in respect of the Continuing Connected Transactions between the Group and the Brilliance China Group and those between the Group and the Huachen Group or Shareholder(s) other than Wuliangye, Mr. Wang Yunxian and their respective associates in respect of the Continuing Connected Transactions between the Group and the Wuliangye Group;
“Latest Practicable Date”	19 November 2018, being the latest practicable date prior to the publication of this circular for the purpose of ascertaining certain information contained in this circular;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Mianyang Xincheng”	Mianyang Xincheng Engine Co., Ltd.* (綿陽新晨動力機械有限公司) (including its branches), a company incorporated in the PRC and a wholly-owned subsidiary of the Company;
“PRC”	The People’s Republic of China, which for the purpose of this circular only, excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan;
“Proposed Caps”	the estimated annual monetary value of the Continuing Connected Transactions for the three financial years ending 31 December 2021;
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“Share(s)”	ordinary share(s) in the Company with a nominal value of HK\$0.01 each;

DEFINITIONS

“Shareholder(s)”	holder(s) of Share(s);
“Sichuan Pushi”	Sichuan Yibin Pushi Automotive Components Co., Ltd.* (四川省宜賓普什汽車零部件有限公司), a company established in the PRC and a wholly-owned subsidiary of Wuliangye;
“Sichuan Pushi Purchase Agreement”	the framework agreement entered into between Mianyang Xinchun and Sichuan Pushi on 13 October 2015 in relation to the purchase of engine components from Sichuan Pushi;
“Sichuan Pushi Purchase Agreement 2019-2021”	the framework agreement entered into between Mianyang Xinchun and Sichuan Pushi on 18 October 2018 in relation to the purchase of engine components from Sichuan Pushi;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Wuliangye”	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 and a controlling shareholder of the Company;
“Wuliangye Group”	Wuliangye and its subsidiaries;
“Wuliangye Purchase Agreements 2019-2021”	the Sichuan Pushi Purchase Agreement 2019-2021 and the Xinhua Combustion Engine Purchase Agreement 2019-2021;
“Xinhua Combustion Engine”	Mianyang Xinhua Internal Combustion Engine Joint Stock Company Limited* (綿陽新華內燃機股份有限公司), a joint-stock company established in the PRC and a non wholly-owned subsidiary of Wuliangye;
“Xinhua Combustion Engine Purchase Agreement”	the framework agreement entered into between Mianyang Xinchun and Xinhua Combustion Engine on 13 October 2015 in relation to the purchase of engine components from Xinhua Combustion Engine;

DEFINITIONS

“Xinhua Combustion Engine Purchase Agreement 2019-2021”	the framework agreement entered into between Mianyang Xinchun and Xinhua Combustion Engine on 18 October 2018 in relation to the purchase of engine components from Xinhua Combustion Engine;
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong;
“RMB”	Renminbi, the lawful currency of the PRC; and
“%”	per cent.

* *for identification purposes only*

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)*

Registered office:

Clifton House

75 Fort Street

PO Box 1350

Grand Cayman KY1-1108

Cayman Islands

Non-executive Directors:

Mr. Liu Tongfu

Mr. Yang Ming

Head office and principal place of

business:

Suites 1602-05

Chater House

8 Connaught Road Central

Hong Kong

Independent non-executive Directors:

Mr. Chi Guohua

Mr. Wang Jun

Mr. Huang Haibo

Mr. Wang Songlin

23 November 2018

To the Shareholders,

Dear Sir or Madam,

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

Reference is made to the announcement of the Company dated 18 October 2018.

LETTER FROM THE BOARD

On 18 October 2018, the Company or its subsidiary entered into the Framework Agreements 2019-2021 with Huachen, Brilliance China and certain subsidiaries of Wuliangye, as to the continued conduct of the Continuing Connected Transactions 2016-2018 for the three financial years commencing from 1 January 2019 to 31 December 2021.

The purpose of this circular is to provide you with, among others, information in relation to (i) the Framework Agreements 2019-2021, the transactions contemplated thereunder and the Proposed Caps; (ii) the recommendation from the Independent Board Committee to the Independent Shareholders in relation to the Framework Agreements 2019-2021, the transactions contemplated thereunder and the Proposed Caps; (iii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Framework Agreements 2019-2021, the transactions contemplated thereunder and the Proposed Caps; and (iv) a notice of the Extraordinary General Meeting.

RENEWAL OF THE CONTINUING CONNECTED TRANSACTIONS

1. Purchase of engine components from Brilliance China Group

Background

As stated in the 2015 Announcement, the Company and Brilliance China entered into the Brilliance China Purchase Agreement for the purchase by the Group from the Brilliance China Group of engine components for the production of the Group's products, which is going to expire on 31 December 2018.

Brilliance China Purchase Agreement 2019-2021

Date	:	18 October 2018
Parties	:	(1) The Company, as the purchaser; and (2) Brilliance China, as the seller
Effectiveness	:	The Brilliance China Purchase Agreement 2019-2021 will become effective upon (1) the signing by the parties thereto and (2) the Independent Shareholders having approved the transactions contemplated thereunder in accordance with the requirements of Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

- Term : The Brilliance China Purchase Agreement 2019-2021 shall be for a term of three years commencing on 1 January 2019 and ending on 31 December 2021 (both dates inclusive). Unless terminated prior to its expiry date, the Brilliance China Purchase Agreement 2019-2021 shall be renewable for an additional term of three years subject to fulfillment of all necessary statutory and regulatory requirements including but not limited to any applicable requirement under the Listing Rules.
- Nature of transactions : Pursuant to the agreement, the Group has agreed to purchase various engine components (mainly comprising intake and exhaust camshafts) from the Brilliance China Group.
- Consideration : The price for each purchase of engine components from the Brilliance China Group is determined by reference to the prevailing market price from time to time.

Pricing policy

Prevailing market price means the price at which the same type of products can be obtained from independent third party suppliers on normal commercial terms or better in the ordinary course of business. For the purpose of obtaining market prices, the Group will make reference to the price quotations obtained from other independent third party suppliers for products of comparable quality, quantity and specifications. In any event, the terms of each purchase from the Brilliance China Group will be no less favourable than the terms which can be obtained from independent third party suppliers for purchasing products of comparable quality, quantity and specifications.

LETTER FROM THE BOARD

For the purpose of seeking quotations, the Group provides sketches of the engine components it requires to potential suppliers (including both connected and independent third party suppliers). When the quotations are received, the procurement department of the relevant member of the Group will analyse the quotations with reference to, among others, cost of raw materials, labour cost, manufacturing cost, mould depreciation and logistics cost. Once the quotation has successfully passed the internal review among various departments, the terms of the supply contract will be subject to the Group's approval process involving, among others, the general manager of the relevant member of the Group. Only upon approval by the general manager will the supply contract be signed. The Directors (including the independent non-executive Directors) consider that the above procedures, which apply to both connected and independent third party suppliers alike, represent appropriate and sufficient internal control measures to ensure that purchases of engine components from the Group's connected suppliers are priced fairly and reasonably and in the interests of the Company and the Shareholders as a whole.

2. Sale of engines and engine components to Huachen Group

Background

As stated in the 2015 Announcement, the Company and Huachen entered into the Huachen Sale Agreement for the supply by the Group to the Huachen Group different types of engines and engine components, which is going to expire on 31 December 2018.

Huachen Sale Agreement 2019-2021

Date	:	18 October 2018
Parties	:	(1) The Company, as the seller; and (2) Huachen, as the purchaser
Effectiveness	:	The Huachen Sale Agreement 2019-2021 will become effective upon (1) the signing by the parties thereto and (2) the Independent Shareholders having approved the transactions contemplated thereunder in accordance with the requirements of Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

- Term : The Huachen Sale Agreement 2019-2021 shall be for a term of three years commencing on 1 January 2019 and ending on 31 December 2021 (both dates inclusive). Unless terminated prior to its expiry date, the Huachen Sale Agreement 2019-2021 shall be renewable for an additional term of three years subject to fulfillment of all necessary statutory and regulatory requirements including but not limited to any applicable requirement under the Listing Rules.
- Nature of transactions : Pursuant to the agreement, the Group has agreed to sell engines and engine components (mainly comprising engines for SUV (sport-utility vehicle) and sedan car models and engine components for after-sale car services of those engines sold) to the Huachen Group.
- Consideration : The price for each sale of engines and engine components to the Huachen Group is determined by reference to the prevailing market price from time to time.

Pricing policy

Prevailing market price means the price at which the same type of products can be sold to independent third party customers on normal commercial terms or better in the ordinary course of business. For the purpose of obtaining market prices, the Group will make reference to the price quotations to other independent third party customers for products of comparable quality, quantity and specifications. In any event, the terms of each sale to the Huachen Group will be no less favourable than the terms which can be obtained from independent third party customers for selling products of comparable quality, quantity and specifications.

LETTER FROM THE BOARD

After communications with its potential customer on the products required, the Group will compile a bill of materials. Based on the bill of materials and further discussions with the potential customer, the Group will prepare competitive quotation for internal approval by the sale department and the chief financial officer. The approved quotation will then be provided to the potential customer in writing. After the quotation is confirmed, the relevant member of the Group will sign a sale contract with the customer. These procedures apply equally to both connected and independent third party customers. The Directors (including the independent non-executive Directors) consider that the above procedures, which apply to both connected and independent third party customers alike, represent appropriate and sufficient internal control measures to ensure that sales of engines and engine components to the Group's connected customers are priced fairly and reasonably and in the interests of the Company and the Shareholders as a whole.

3. Sale of engines and engine components to Brilliance China Group

Background

As stated in the 2015 Announcement, the Company and Brilliance China entered into the Brilliance China Sale Agreement for the supply by the Group to the Brilliance China Group various types of engines and engine components, which is going to expire on 31 December 2018.

Brilliance China Sale Agreement 2019-2021

Date	:	18 October 2018
Parties	:	(1) The Company, as the seller; and (2) Brilliance China, as the purchaser
Effectiveness	:	The Brilliance China Sale Agreement 2019-2021 will become effective upon (1) the signing by the parties thereto and (2) the Independent Shareholders having approved the transactions contemplated thereunder in accordance with the requirements of Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

- Term : The Brilliance China Sale Agreement 2019-2021 shall be for a term of three years commencing on 1 January 2019 and ending on 31 December 2021 (both dates inclusive). Unless terminated prior to its expiry date, the Brilliance China Sale Agreement 2019-2021 shall be renewable for an additional term of three years subject to fulfillment of all necessary statutory and regulatory requirements including but not limited to any applicable requirement under the Listing Rules.
- Nature of transactions : Pursuant to the agreement, the Group has agreed to sell engines and engine components (mainly comprising engines for SUV (sport-utility vehicle) and sedan car models and engine components for after-sale car services of those engines sold) to the Brilliance China Group.
- Consideration : The price for each sale of engines and engine components to the Brilliance China Group is determined by reference to the prevailing market price from time to time.

Pricing policy

Prevailing market price means the price at which the same type of products can be sold to independent third party customers on normal commercial terms or better in the ordinary course of business. For the purpose of obtaining market prices, the Group will make reference to the price quotations to other independent third party customers for products of comparable quality, quantity and specifications. In any event, terms of each sale to the Brilliance China Group will be no less favourable than the terms which can be obtained from independent third party customers for selling products of comparable quality, quantity and specification.

The Group adopts the procedures mentioned in the sub-paragraph headed “2. Sale of engines and engine components to Huachen Group” above for determining the sale price of engines and engine components that may be sold under the Brilliance China Sale Agreement 2019-2021.

LETTER FROM THE BOARD

4. Purchase of engine components from Sichuan Pushi and Xinhua Combustion Engine

Background

As stated in the 2015 Announcement, Mianyang Xincheng entered into (a) the Sichuan Pushi Purchase Agreement with Sichuan Pushi; and (b) the Xinhua Combustion Engine Purchase Agreement with Xinhua Combustion Engine, for the purchase from Sichuan Pushi or Xinhua Combustion Engine (as the case may be) of various gasoline and diesel engine components such as crankshafts, exhaust manifolds, cylinder chambers and cylinder heads, both of which are going to expire on 31 December 2018.

(a) Sichuan Pushi Purchase Agreement 2019-2021

Date	:	18 October 2018
Parties	:	(1) Mianyang Xincheng, as the purchaser; and (2) Sichuan Pushi, as the seller
Effectiveness	:	The Sichuan Pushi Purchase Agreement 2019-2021 will become effective upon (1) the signing by the parties thereto and (2) the Independent Shareholders having approved the transactions contemplated thereunder in accordance with the requirements of Chapter 14A of the Listing Rules.
Term	:	The Sichuan Pushi Purchase Agreement 2019-2021 shall be for a term of three years commencing on 1 January 2019 and ending on 31 December 2021 (both dates inclusive). Unless terminated prior to its expiry date, the Sichuan Pushi Purchase Agreement 2019-2021 shall be renewable for an additional term of three years subject to fulfillment of all necessary statutory and regulatory requirements including but not limited to any applicable requirement under the Listing Rules.
Nature of transactions	:	Pursuant to the agreement, Mianyang Xincheng has agreed to purchase various gasoline and diesel engine components such as crankshafts, exhaust manifolds, cylinder chambers and cylinder heads from Sichuan Pushi.

LETTER FROM THE BOARD

Consideration : The price for each purchase of engine components from Sichuan Pushi is determined by reference to the prevailing market price from time to time.

Pricing policy

Prevailing market price means the price at which the same type of products can be obtained from independent third party suppliers on normal commercial terms or better in the ordinary course of business. For the purpose of obtaining market prices, Mianyang Xincheng will make reference to the price quotations obtained from other independent third party suppliers for products of comparable quality, quantity and specifications. In any event, the terms of each purchase from Sichuan Pushi will be no less favourable than the terms which can be obtained from independent third party suppliers for purchasing products of comparable quality, quantity and specifications.

Mianyang Xincheng adopts the procedures mentioned in the sub-paragraph headed “1. Purchase of engine components from Brilliance China Group” above for selecting suppliers for the types of engine components that may be purchased under the Sichuan Pushi Purchase Agreement 2019-2021.

(b) *Xinhua Combustion Engine Purchase Agreement 2019-2021*

Date : 18 October 2018

Parties : (1) Mianyang Xincheng, as the purchaser; and
(2) Xinhua Combustion Engine, as the seller

Effectiveness : The Xinhua Combustion Engine Purchase Agreement 2019-2021 will become effective upon (1) the signing by the parties thereto and (2) the Independent Shareholders having approved the transactions contemplated thereunder in accordance with the requirements of Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

- Term : The Xinhua Combustion Engine Purchase Agreement 2019-2021 shall be for a term of three years commencing on 1 January 2019 and ending on 31 December 2021 (both dates inclusive). Unless terminated prior to its expiry date, the Xinhua Combustion Engine Purchase Agreement 2019-2021 shall be renewable for an additional term of three years subject to fulfillment of all necessary statutory and regulatory requirements including but not limited to any applicable requirement under the Listing Rules.
- Nature of transactions : Pursuant to the agreement, Mianyang Xincheng has agreed to purchase various gasoline and diesel engine components such as crankshafts, exhaust manifolds, cylinder chambers and cylinder heads from Xinhua Combustion Engine.
- Consideration : The price for each purchase of engine components from Xinhua Combustion Engine is determined by reference to the prevailing market price from time to time.

Pricing policy

Prevailing market price means the price at which the same type of products can be obtained from independent third party suppliers on normal commercial terms or better in the ordinary course of business. For the purpose of obtaining market prices, Mianyang Xincheng will make reference to the price quotations obtained from other independent third party suppliers for products of comparable quality, quantity and specifications. In any event, the terms of each purchase from Xinhua Combustion Engine will be no less favourable than the terms which can be obtained from independent third party suppliers for purchasing products of comparable quality, quantity and specifications.

Mianyang Xincheng adopts the procedures mentioned in the sub-paragraph headed “1. Purchase of engine components from Brilliance China Group” above for selecting suppliers for the types of engine components that may be purchased under the Xinhua Combustion Engine Purchase Agreement 2019-2021.

LETTER FROM THE BOARD

PROPOSED CAPS AND HISTORICAL TRANSACTION VALUE

Existing Caps and historical transaction value

The following table sets out (i) the Existing Caps for each of the three financial years ending 31 December 2018; and (ii) the actual sales/purchases of the Continuing Connected Transactions for the two financial years ended 31 December 2017 and the six months ended 30 June 2018:

Continuing Connected Transactions	Major type of products/services	For the financial year ended 31 December 2016		For the financial year ended 31 December 2017		For the financial year ending 31 December 2018	For the six months ended 30 June 2018
		Existing Cap	Actual sales/purchases	Existing Cap	Actual sales/purchases	Existing Cap	Actual sales/purchases
		(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
1. Purchase of engine components from Brilliance China Group	Engine components	55,919	39,400	58,714	42,337	61,650	25,716
2. Sale of engines and engine components to Huachen Group	Engines and engine components	1,374,440	969,004	1,442,263	891,316	2,118,086	411,311
3. Sale of engines and engine components to Brilliance China Group	Engines and engine components	769,997	354,379	808,991	323,029	848,781	221,076
4. (a) Purchase of engine components from Sichuan Pushi	Engine components	28,550	7,737	30,000	11,287	31,500	7,363
(b) Purchase of engine components from Xinhua Combustion Engine	Engine components	180,850	93,675	186,870	93,790	193,180	86,559
	<i>Sub-total of 4(a) and 4(b)</i>	209,400	101,412	216,870	105,077	224,680	93,922

LETTER FROM THE BOARD

The Proposed Caps

The following table sets out the Proposed Caps for the three financial years ending 31 December 2021:

Continuing Connected Transactions	Major type of products/services	For the financial year ending 31 December		
		2019 Proposed Cap (RMB'000)	2020 Proposed Cap (RMB'000)	2021 Proposed Cap (RMB'000)
1. Purchase of engine components from Brilliance China Group	Engine components	46,400	39,100	74,600
2. Sale of engines and engine components to Huachen Group	Engines and engine components	772,800	517,700	510,200
3. Sale of engines and engine components to Brilliance China Group	Engines and engine components	1,754,500	1,775,000	2,600,000
4. (a) Purchase of engine components from Sichuan Pushi	Engine components	18,800	17,200	17,200
(b) Purchase of engine components from Xinhua Combustion Engine	Engine components	194,900	179,500	174,200
	<i>Sub-total of 4(a) and 4(b)</i>	213,700	196,700	191,400
		213,700	196,700	191,400

LETTER FROM THE BOARD

Basis for determining the Proposed Caps

The Proposed Caps are primarily based on the following:

- (i) with respect to the Brilliance China Purchase Agreement 2019-2021: (a) the relevant historical transaction amounts with the Brilliance China Group; (b) the estimated volume of engine components required by the Group based on the estimated demand for the three years ending 31 December 2021 for the Group's engines by product lines and new models (some of which are Euro 6 (or China 6) emission standards compliant, whose demand is expected to increase due to the present PRC government policy to prohibit domestic sale of certain models of vehicles not meeting such emission standards as one of the measures to curb air pollution issues in the PRC) from both connected and independent third party customers; and (c) the estimated unit purchase price of individual engine components of the Brilliance China Group for the three years ending 31 December 2021, taking into account the higher unit prices of engine components for manufacturing Euro 6 (or China 6) emission standards engines than those of engine components for manufacturing engine models complying with lower emission standards;

- (ii) with respect to the Huachen Sale Agreement 2019-2021: (a) the relevant historical transaction amounts with the Huachen Group; and (b) the estimated volume of engines and engine components required by the Huachen Group from the Group for the three years ending 31 December 2021 based on among others the estimated number of vehicles to be produced by the Huachen Group under its existing product lines, having regard to among others the Huachen Group's anticipated decrease in domestic sales of its vehicles, which are at present mostly Euro 5 (or China 5) emission standards compliant, as driven by the present PRC government policy to prohibit domestic sale of certain models of vehicles not meeting Euro 6 (or China 6) emission standards;

LETTER FROM THE BOARD

- (iii) with respect to the Brilliance China Sale Agreement 2019-2021: (a) the relevant historical transaction amounts with the Brilliance China Group; (b) the estimated volume of engines and engine components required by the Brilliance China Group from the Group for the three year ending 31 December 2021 based on among others the estimated number of engines to be assembled and the estimated number of vehicles to be produced by the Brilliance China Group under its existing product lines and new Euro 6 (or China 6) emission standards engine models to be launched by the Brilliance China Group; (c) the combined effect of the gradual phasing out of the Brilliance China Group's existing Euro 5 (or China 5) emission standards compliant vehicles and the expected introduction and focus of its new Euro 6 (or China 6) emission standards engine models; and (d) the estimated unit sale price of individual engines and engine components of the Group for the three years ending 31 December 2021, considering the higher unit prices of Euro 6 (or China 6) emission standards compliant engines and engine components for manufacturing such engines than those of Euro 5 (or China 5) emission standards compliant engines and engine components for manufacturing such engines; and
- (iv) with respect to the Wuliangye Purchase Agreements 2019-2021: (a) the relevant historical transaction amounts with Sichuan Pushi and Xinhua Combustion Engine; (b) the estimated volume of engine components required by the Group based on the estimated demand for the three years ending 31 December 2021 for the Group's engines by product lines and new models (some of which are Euro 6 (or China 6) emission standards compliant) from both connected and independent third party customers; and (c) the estimated unit purchase price of individual engine components of Sichuan Pushi and Xinhua Combustion Engine for the three years ending 31 December 2021, taking into account the higher unit prices of engine components for manufacturing Euro 6 (or China 6) emission standards engines than those of engine components for manufacturing engine models complying with lower emission standards.

LETTER FROM THE BOARD

MATERIAL INTEREST OF DIRECTORS IN THE FRAMEWORK AGREEMENTS 2019-2021

Mr. Wu Xiao An, an executive Director, is also the chairman and an executive director of Brilliance China and a director of Huachen. Mr. Liu Tongfu, a non-executive Director, is also a director of Huachen. Accordingly, Mr. Wu Xiao An and Mr. Liu Tongfu abstained from voting on the Board resolutions in respect of the Continuing Connected Transactions between the Group and the Brilliance China Group and those between the Group and the Huachen Group.

Mr. Wang Yunxian, an executive Director, is also a director of Mianyang Huarui Automotive Company Limited* (綿陽華瑞汽車有限公司) (which is a wholly-owned subsidiary of Huachen) and a director of Xinhua Investment Holdings Limited (which is a wholly-owned subsidiary of Xinhua Combustion Engine). Accordingly, Mr. Wang Yunxian abstained from voting on the Board resolutions in respect of the Continuing Connected Transactions between the Group and the Huachen Group and those between the Group and the Wuliangye Group.

Mr. Yang Ming, a non-executive Director, is also a director of Sichuan Yibin Pushi Group Co., Ltd.* (四川省宜賓普什集團有限公司) (which is a holding company of Xinhua Combustion Engine). Accordingly, Mr. Yang Ming abstained from voting on the Board resolutions in respect of the Continuing Connected Transactions between the Group and the Wuliangye Group.

The Board confirms that (i) except for Mr. Wu Xiao An, Mr. Wang Yunxian and Mr. Liu Tongfu, none of the Directors has any material interest in the Continuing Connected Transactions between the Group and the Huachen Group; (ii) except for Mr. Wu Xiao An and Mr. Liu Tongfu, none of the Directors has any material interest in the Continuing Connected Transactions between the Group and the Brilliance China Group; and (iii) except for Mr. Wang Yunxian and Mr. Yang Ming, none of the Directors has any material interest in the Continuing Connected Transactions between the Group and the Wuliangye Group. Accordingly, none of the Directors (except for Mr. Wu Xiao An, Mr. Wang Yunxian, Mr. Liu Tongfu and Mr. Yang Ming who abstained as mentioned above) was required to abstain from voting on the Board resolutions in relation to the Continuing Connected Transactions.

LETTER FROM THE BOARD

REASONS FOR AND BENEFIT OF THE ENTERING INTO OF THE FRAMEWORK AGREEMENTS 2019-2021

In the ordinary course of business of the Group, the Group purchases various types of engine components from the Brilliance China Group and the Wuliangye Group for production of the Group's engines. The Group sells engines produced by it and also engine components to the Huachen Group and the Brilliance China Group.

The Continuing Connected Transactions are entered into for the following reasons:

- Engine components supplied by certain members of the Brilliance China Group and the Wuliangye Group are produced based on specifications provided by the Group and used for the production of engines of the Group or for sale to customers of the Group for repair and maintenance purposes.
- The Group sells its engines to the Huachen Group for use in manufacturing Zhonghua (中華) autos, a brand of passenger vehicles manufactured under a wholly-owned business operated by the Huachen Group. Such engines are developed and produced according to the specifications required by the Huachen Group.
- The Group sells its engines to the Brilliance China Group for use in manufacturing Jinbei minibuses, which are minibuses under the “Jinbei” brand of commercial vehicles manufactured under a non wholly-owned business operated by the Brilliance China Group. Such engines are developed and produced according to the specifications required by the Brilliance China Group.
- The Group sells N20 engines, prince engines and 1.2L displacement engines to the Brilliance China Group for use in manufacturing new premium MPV (multi-purpose vehicle) and SUV (sport-utility vehicle), which increases the demand for these types of engines.

In the premises, the Directors (excluding Directors who abstained from voting on certain Directors resolutions but including the independent non-executive Directors whose view is set out in the section headed “Letter from the Independent Board Committee” in this circular after taking into consideration the advice of the Independent Financial Adviser) consider the terms of the Framework Agreements 2019-2021 (including the Proposed Caps) to be fair and reasonable and the Continuing Connected Transactions, on normal commercial terms or better and in the ordinary and usual course of business of the Group and to be in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

INFORMATION ON THE PARTIES INVOLVED

The Group

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

The Huachen Group

Huachen

Huachen is a state-owned limited liability company established under the laws of the PRC and is wholly and beneficially owned by the People's Government of Liaoning Province of the PRC. The principal activities of the Huachen Group include but are not limited to investment holding, and manufacture and sale of Zhonghua (中華) branded sedans.

As at the Latest Practicable Date, Huachen owned approximately 42.32% of the issued share capital of Brilliance China and was a deemed connected person of the Company.

The Brilliance China Group

Brilliance China

Brilliance China is a company incorporated in Bermuda, the shares of which are listed on the Stock Exchange. It is an investment holding company.

As at the Latest Practicable Date, Brilliance China, through its wholly-owned subsidiary, owned approximately 31.20% of the issued share capital of the Company and was a connected person of the Company.

LETTER FROM THE BOARD

The Wuliangye Group

Wuliangye

Wuliangye primarily engages in the production and sale of a series of wine. It also engages in a wide range of businesses including industrial packaging, optical glass, logistics, rubber products and pharmacy.

As at the Latest Practicable Date, Wuliangye, through its non wholly-owned subsidiary, owned approximately 31.20% of the issued share capital of the Company and was a connected person of the Company.

Sichuan Pushi

Sichuan Pushi is a wholly-owned subsidiary of Wuliangye and a connected person of the Company. The principal activities of Sichuan Pushi are machinery manufacturing (including automotive components and engine components) and polymer raw materials and deep processing.

Xinhua Combustion Engine

Xinhua Combustion Engine is a joint-stock company established in the PRC and a non wholly-owned subsidiary of Wuliangye and a connected person of the Company. The principal activities of Xinhua Combustion Engine are manufacture and sales of engine components, vehicles sales and provision of ancillary services and logistic services.

LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, Brilliance China and Wuliangye were interested in 400,000,000 and 400,000,000 Shares, representing approximately 31.20% and 31.20% of the issued share capital of the Company, respectively. Accordingly, each of Brilliance China and Wuliangye is a connected person of the Company under Rule 14A.07(1) of the Listing Rules. Huachen, being interested in approximately 42.32% of the issued share capital of Brilliance China, is a controlling shareholder of Brilliance China. It is a deemed connected person of the Company.

As one or more of the applicable percentage ratios under Rule 14.07 of the Listing Rules for the Continuing Connected Transactions are, on an annual basis, over 5%, the Continuing Connected Transactions are subject to reporting, announcement, annual review and Independent Shareholders' approval requirements as set out in Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

EXTRAORDINARY GENERAL MEETING

A notice convening the Extraordinary General Meeting at which ordinary resolutions will be proposed to consider and, if thought fit, to approve the Framework Agreements 2019-2021, the transactions contemplated thereunder and the Proposed Caps to be held at Victoria Room, 2/F., Mandarin Oriental, Hong Kong, 5 Connaught Road Central, Hong Kong on Thursday, 13 December 2018 at 9:00 a.m., is set out on pages 68 to 73 of this circular. Whether or not you are able to attend the Extraordinary General Meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the Extraordinary General Meeting or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the Extraordinary General Meeting or any adjourned meeting (as the case may be) should you so wish.

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

As at the Latest Practicable Date, Brilliance China and Wuliangye were interested in 400,000,000 and 400,000,000 Shares, representing approximately 31.20% and 31.20% of the issued share capital of the Company, respectively. Huachen, being interested in approximately 42.32% of the issued share capital of Brilliance China, is a controlling shareholder of Brilliance China. As at the Latest Practicable Date, (i) Mr. Wu Xiao An, an executive Director and Chairman of the Company, was interested and deemed to be interested in an aggregate of 42,313,426 Shares, representing approximately 3.30% of the issued share capital of the Company; and (ii) Mr. Wang Yunxian, an executive Director and the Chief Executive Officer of the Company, was interested and deemed to be interested in an aggregate of 40,464,528 Shares, representing approximately 3.15% of the issued share capital of the Company. Brilliance China, Mr. Wu Xiao An, Mr. Wang Yunxian and their respective associates will abstain from voting on the ordinary resolutions to be proposed at the Extraordinary General Meeting in respect of the Continuing Connected Transactions between the Group and the Brilliance China Group and those between the Group and the Huachen Group and the Proposed Caps in respect of the Continuing Connected Transactions between the Group and the Brilliance China Group and those between the Group and the Huachen Group, respectively. Wuliangye, Mr. Wang Yunxian and their respective associates will abstain from voting on the ordinary resolution to be proposed at the Extraordinary General Meeting in respect of the Continuing Connected Transactions between the Group and the Wuliangye Group and the Proposed Caps in respect of the Continuing Connected Transactions between the Group and the Wuliangye Group.

LETTER FROM THE BOARD

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising all the independent non-executive Directors, has been formed to advise the Independent Shareholders as to whether the Framework Agreements 2019-2021, the transactions contemplated thereunder and the Proposed Caps are fair and reasonable so far as the Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Your attention is drawn to the letter from the Independent Board Committee containing its advice set out on pages 28 to 29 of this circular.

INDEPENDENT FINANCIAL ADVISER

Octal Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the Framework Agreements 2019-2021, the transactions contemplated thereunder and the Proposed Caps are fair and reasonable so far as the Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. The text of the letter of advice from Octal Capital is set out on pages 30 to 60 of this circular.

RECOMMENDATION

The Board (excluding Directors who abstained from voting on certain Directors resolutions but including the independent non-executive Directors whose view is set out in the section headed “Letter from the Independent Board Committee” in this circular after taking into consideration the advice of the Independent Financial Adviser) believes that the Framework Agreements 2019-2021, the transactions contemplated thereunder and the Proposed Caps are in the interests of the Company and the Shareholders as a whole and are fair and reasonable so far as the Shareholders are concerned. Accordingly, the Board (excluding Directors who abstained from voting on certain Directors resolutions but including the independent non-executive Directors whose view is set out in the section headed “Letter from the Independent Board Committee” in this circular after taking into consideration the advice of the Independent Financial Adviser) recommends the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the Extraordinary General Meeting to approve the Framework Agreements 2019-2021, the transactions contemplated thereunder and the Proposed Caps.

LETTER FROM THE BOARD

ADDITIONAL INFORMATION

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

Yours faithfully,
By 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)

23 November 2018

To the Independent Shareholders,

Dear Sir or Madam,

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

We refer to the circular issued by the Company to its Shareholders dated 23 November 2018 (the “**Circular**”), of which this letter forms part. Terms defined in the Circular shall bear the same meanings when used herein unless the context requires otherwise.

We have been appointed by the Board as the Independent Board Committee to advise you as to whether, in our opinion, the Framework Agreements 2019-2021, the transactions contemplated thereunder and the Proposed Caps are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Details of the Framework Agreements 2019-2021, the transactions contemplated thereunder and the Proposed Caps are set out in the letter from the Board contained in the Circular. Octal Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Framework Agreements 2019-2021, the transactions contemplated thereunder and the Proposed Caps. Details of its advice and the principal factors taken into consideration in arriving at its recommendations are set out in the letter from the Independent Financial Adviser contained in the Circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having considered the terms of the Framework Agreements 2019-2021, the transactions contemplated thereunder and the Proposed Caps and taking into account the information contained in the Circular and the advice of Octal Capital, we are of the opinion that the Framework Agreements 2019-2021, the transactions contemplated thereunder and the Proposed Caps are fair and reasonable so far as the Independent Shareholders are concerned, on normal commercial terms or better and in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be put forward at the Extraordinary General Meeting to approve the Framework Agreements 2019-2021, the transactions contemplated thereunder and the Proposed Caps.

Yours faithfully,

Independent Board Committee

Mr. Chi Guohua

Mr. Wang Jun

Mr. Huang Haibo

Mr. Wang Songlin

Independent non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the text of the letter of advice to the Independent Board Committee and the Independent Shareholders from Octal Capital which has been prepared for inclusion in this circular.



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

23 November 2018

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

RENEWAL OF THE CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our engagement to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Brilliance China Purchase Agreement 2019-2021, the Huachen Sale Agreement 2019-2021, the Brilliance China Sale Agreement 2019-2021, the Sichuan Pushi Purchase Agreement 2019-2021, the Xinhua Combustion Engine Purchase Agreement 2019-2021, the transactions contemplated thereunder (the “**Continuing Connected Transactions**”) and the relevant Proposed 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 23 November 2018 (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 18 October 2018, the Company or its subsidiary entered into the Framework Agreements 2019-2021 with Huachen, Brilliance China and certain subsidiaries of Wuliangye as to the continued conduct of the Continuing Connected Transactions 2016-2018 for the three financial years commencing from 1 January 2019 to 31 December 2021.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As at the Latest Practicable Date, each of Brilliance China and Wuliangye was interested in 400,000,000 and 400,000,000 Shares, representing approximately 31.20% and 31.20% of the issued share capital of the Company, respectively. Accordingly, each of Brilliance China and Wuliangye is a connected person of the Company under Rule 14A.07(1) of the Listing Rules. Huachen is interested in approximately 42.32% of the issued share capital of Brilliance China and is a controlling shareholder of Brilliance China. It is a deemed connected person of the Company. As one or more of the applicable percentage ratios under Rule 14.07 of the Listing Rules for the Continuing Connected Transactions are, on an annual basis, over 5%, the Continuing Connected Transactions and the relevant Proposed Caps are subject to reporting, announcement, annual review and Independent Shareholders' approval requirements as set out in Chapter 14A of the Listing Rules.

The Company will hold the Extraordinary General Meeting for the purpose of considering and approving the Continuing Connected Transactions and the relevant Proposed Caps by the Independent Shareholders, at which ordinary resolutions will be proposed and voting will be conducted by way of poll in accordance with the requirements of the Listing Rules. As at the Latest Practicable Date, (i) Mr. Wu Xiao An, an executive Director who is also the chairman and an executive director of Brilliance China and a director of Huachen, was interested and deemed to be interested in an aggregate of 42,313,426 Shares, representing approximately 3.30% of the issued share capital of the Company; and (ii) Mr. Wang Yunxian, an executive Director who is also a director of Mianyang Huarui Automotive Company Limited (綿陽華瑞汽車有限公司) (which is a wholly-owned subsidiary of Huachen) and a director of Xinhua Investment Holdings Limited (which is a wholly-owned subsidiary of Xinhua Combustion Engine), was interested and deemed to be interested in an aggregate of 40,464,528 Shares, representing approximately 3.15% of the issued share capital of the Company. Brilliance China, Mr. Wu Xiao An, Mr. Wang Yunxian and their respective associates will abstain from voting on the ordinary resolutions to be proposed at the Extraordinary General Meeting in respect of the Continuing Connected Transactions between the Group and the Brilliance China Group and those between the Group and the Huachen Group and the Proposed Caps in respect of the Continuing Connected Transactions between the Group and the Brilliance China Group and those between the Group and the Huachen Group. Wuliangye, Mr. Wang Yunxian and their respective associates will abstain from voting on the ordinary resolution to be proposed at the Extraordinary General Meeting in respect of the Continuing Connected Transactions between the Group and the Wuliangye Group and the Proposed Caps in respect of the Continuing Connected Transactions between the Group and the Wuliangye Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We are not connected with the Directors, chief executive and substantial shareholders of the Company, Huachen, Brilliance China, Wuliangye 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 of which are set out in the circular of the Company dated 27 July 2016), a discloseable and connected transaction (details of which are set out in the circular of the Company dated 12 October 2016), a major and connected transaction (details of which are set out in the circular of the Company dated 26 May 2017) and a discloseable and connected transaction (details of which are set out in the circular of the Company dated 2 November 2017) (collectively, the “**Previous Engagements**”). Under the Previous Engagements, we were required to express our opinion on and give recommendation to the Independent Board Committee and/or 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, Huachen, Brilliance China, Wuliangye or any of their respective subsidiaries or associates.

In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Circular and have assumed that all information and representations made or referred to in the Circular 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 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, Huachen, Brilliance China, Wuliangye and their respective controlling shareholder(s) and associates nor have we carried out any independent verification of the information supplied.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

THE CONTINUING CONNECTED TRANSACTIONS AND THE RELEVANT PROPOSED CAPS

Principal factors and reasons considered

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

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

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

As stated in the 2015 Announcement, (i) the Company and Brilliance China entered into the Brilliance China Purchase Agreement for the purchase of engine components by the Group from the Brilliance China Group; (ii) the Company and Huachen entered into the Huachen Sale Agreement for the supply by the Group to the Huachen Group of different types of engines and engine components; (iii) the Company and Brilliance China entered into the Brilliance China Sale Agreement for the supply by the Group to the Brilliance China Group various types of engines and engine components; and (iv) Mianyang Xincheng entered into (a) the Sichuan Pushi Purchase Agreement with Sichuan Pushi; and (b) the Xinhua Combustion Engine Purchase Agreement with Xinhua Combustion Engine, for the purchase from Sichuan Pushi or Xinhua Combustion Engine (as the case may be) of various gasoline and diesel engine components such as crankshafts, exhaust manifolds, cylinder chambers and cylinder heads. As the above mentioned framework agreements will expire on 31 December 2018 and the parties wish to continue the relevant transactions (i.e. the Continuing Connected Transactions) upon expiry of the relevant framework agreements, the parties entered into the Brilliance China Purchase Agreement 2019-2021, the Huachen Sale Agreement 2019-2021, the Brilliance China Sale Agreement 2019-2021, the Sichuan Pushi Purchase Agreement 2019-2021 and the Xinhua Combustion Engine Purchase Agreement 2019-2021.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As disclosed in the Letter from the Board, in the ordinary course of business of the Group, the Group purchases various types of engine components from, amongst others, the Brilliance China Group, Sichuan Pushi and Xinhua Combustion Engine for production of the Group's engines. The Group sells engines produced by it and also engine components to, amongst others, the Huachen Group and the Brilliance China Group. In particular, the Group sells its engines to the Huachen Group for use in manufacturing Zhonghua (中華) autos, a brand of passenger vehicles manufactured under a wholly-owned business operated by the Huachen Group. Such engines are developed and produced according to the specification required by the Huachen Group. Meanwhile, the Group sells its engines to the Brilliance China Group for use in manufacturing Jinbei minibuses which are minibuses under the "Jinbei" brand of commercial vehicles manufactured under a non wholly-owned business operated by the Brilliance China Group. Such engines are developed and produced according to the specification required by the Brilliance China Group and the Group sells N20 engines, prince engines (which refers to the 1.6L and 1.8L displacement engines of the CE series engine model) and 1.2L displacement engines (which refers to the 1.2L displacement engine of the CE series engine model) to the Brilliance China Group for use in manufacturing new premium MPV (multi-purpose vehicle) and SUV (sport-utility vehicle), which increases the demand for these types of engines.

On the other hand, engine components supplied by the Brilliance China Group and the Wuliangye Group are produced based on specifications provided by the Group and used for the production of engines of the Group or for sale to customers of the Group for repair and maintenance purposes.

The history of the Group can be traced back to 1998 when Mianyang Xinchun, the current operating subsidiary of the Group, was jointly established in the PRC by Sichuan Yibin Pushi Group Co., Ltd. and the Brilliance China Group. Mianyang Xinchun has been principally engaged in the design, manufacture, sales and after-sales services of automotive engines and power machinery since its incorporation. The customers of Mianyang Xinchun include local and foreign-invested automotive manufacturers and automotive components companies in the PRC. Historically, Mianyang Xinchun has been manufacturing and selling automotive engines and engine components to the Huachen Group and the Brilliance China Group whilst procuring engine components from the Wuliangye Group. The Huachen Group and the Brilliance China Group have always been the one of the top five customers of the Group and the aggregate sale accounted for a substantial portion of the total turnover of the Group in the past. Meanwhile, the portion of supply from Brilliance China Group and the Wuliangye Group only accounted for a small portion of the total supply of parts and components of the Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As advised by the Company, due to the fact that Mianyang Xincheng (and even the Group) has been part of the Brilliance China Group and the Huachen Group for many years before listing of the Company and the policies of the PRC government to promote domestic production of core components of automotive components in general, Mianyang Xincheng has been an important supplier of engines and engine components of the Brilliance China Group and the Huachen Group for their vehicles manufactured (namely minibuses, sedans, SUVs and MPVs). Also, in view that the specification of engines and engine components is usually tailor-made for specific brands of vehicles of particular automotive manufacturers and the same model of engine or engine component of an automotive manufacturer would usually be used in various models of vehicles, it is more efficient to produce engines and engine components to suit certain automotive manufacturers' requirements and specification.

Meanwhile, due to the fact that safety is of the utmost importance of a vehicle, an automotive manufacturer would either produce the required engines and engine components on its own or source those engines and engine components from a limited number of selected suppliers. To be enlisted as a selected supplier for automotive components (including engine and engine component), its products will be tested repeatedly and in various ways by the automotive manufacturer to ensure its endurance and its quality meets the requirement and specification. Therefore, it is common for an automotive manufacturer to rely on limited suppliers for its productions and replacement of supplier of engine and engine component is rare and difficult in the industry.

Due to reasons above, it is common for an engine and engine component supplier to build a long term business relationship with particular automotive manufacturer which is mutually reliant in nature.

Based on the above, we consider that it is fair and reasonable and in the interests of the Company and the Shareholders as a whole for the Group to enter into the Brilliance China Purchase Agreement 2019-2021, the Huachen Sale Agreement 2019-2021, the Brilliance China Sale Agreement 2019-2021, the Sichuan Pushi Purchase Agreement 2019-2021 and the Xinhua Combustion Engine Purchase Agreement 2019-2021 in order to continue the ongoing transactions with (i) the Huachen Group and the Brilliance China Group to secure stable customers for the Group and (ii) the Brilliance China Group and the Wuliangye Group to secure a stable supply of engine components for the onward manufacturing of engines of the Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2. Industry overview

According to the statistics of China Association of Automobile Manufacturers (中國汽車工業協會), the unit sales of automobiles in the PRC for the four years ended 31 December 2017 and the eight months ended 31 August 2018 are summarised below:

	Year ended 31 December			2017	Eight months ended 31 August	
	2014	2015	2016		2017	2018
Passenger vehicles ('000)	19,707.7	21,210.3	24,376.9	24,961.9	14,807.4	15,192.6
Growth rate	9.93%	7.62%	14.93%	2.40%	2.23%	2.60%
Commercial vehicles ('000)	3,791.3	3,451.3	3,651.3	4,160.6	2,703.7	2,903.5
Growth rate	-6.54%	-8.97%	5.79%	13.95%	16.91%	8.71%
Total sales volume ('000)	23,499.0	24,661.6	28,028.2	29,122.5	17,511.1	18,096.1
Overall growth rate	6.89%	4.95%	13.65%	3.90%	4.25%	3.53%

Source: China Association of Automobile Manufacturers

Based on the above table, it is noted that the total sales volume of automobiles in the PRC has been on an increasing trend over the last few years and the year-to-year growth rate was in the range of approximately 3.90% to 13.65%. During the eight months ended 31 August 2018, the growth in sales of automotive in the PRC slowed down to approximately 3.53%. In particular, the sales volume of passenger vehicles exhibits an increasing trend during the period from 2014 to 2017.

Meanwhile, according to the statistics of China Association of Automobile Manufacturers, the Huachen Group (which included the Brilliance China Group and affiliated entities of the Huachen Group) was one of the top ten enterprises in terms of sales volume in the PRC for the three years ended 31 December 2017 and the eight months ended 31 August 2018 and the respective sales volume were approximately 856,100 vehicles, 774,400 vehicles, 745,700 vehicles and 494,300 vehicles.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The export and import of automobile parts of the PRC for the four years ended 31 December 2017 and the eight months ended 31 August 2018 are summarised below:

	Year ended 31 December			Eight months ended 31 August		
	2014	2015	2016	2017	2017	2018
Automobile parts <i>(RMB'million)</i>						
Export	302,174	290,450	300,693	336,458	221,628	233,690
Growth rate	7.3%	-3.9%	3.5%	11.9%	11.5%	5.4%
Import	198,168	171,029	197,963	215,588	139,026	153,127
Growth rate	11.2%	-13.7%	15.7%	8.9%	13.5%	10.1%

Source: General Administration of Customs, PRC

Regarding the export and import of automobile parts of the PRC as shown in the above table, it is noted that the export of automobile parts during the four years ended 31 December 2017 and the eight months ended 31 August 2018 have been on an increasing trend in general, except that it has experienced a slight drop in 2015. The import of automobile parts during the four years ended 31 December 2017 and the eight months ended 31 August 2018 have been on an increasing trend in general, except that it has experienced a significant drop in 2015.

Combining the results of the sale volume of automobiles and import and export of automobile parts and the fact that domestic assembly engines are relatively less expensive than imported ones, it is obvious that the automotive manufacturers tend to use domestic assembly engines in most of the vehicles over using imported ones with a view to increase competitiveness. We consider that this would be mainly attributable to the policies that the PRC implemented during the last few years to encourage the use of domestically manufactured components and parts in automobiles manufactured in the PRC. Another attribute to this phenomenon would be the advancement in specification, quality and efficiency of the locally manufactured components and parts (such as engines and engine components) in the recent years as more collaboration between overseas well-established automotive manufacturers and local automotive manufacturers took place during the last two decade where local automotive manufacturers have attained improvements in various aspects such as research and development, quality control, management skills and cost control.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

On 23 December 2016, the Ministry of Ecology and Environment in the PRC announced that from 1 July 2020 the new vehicles should comply with the Euro 6 (or “Limits and measurement methods for emissions from light-duty vehicles (CHINA 6)” (輕型汽車污染物排放限值及測量方法 (中國第六階段)) (“China 6”)) emissions standards and several models of vehicles that Euro 5 (or “Limits and measurement methods for emissions from light-duty vehicles (CHINA 5)” (輕型汽車污染物排放限值及測量方法 (中國第五階段)) (“China 5”)) emissions standards compliant would be prohibited for domestic sales. The prohibition for sale of vehicles that Euro 5 (or China 5) emissions standards compliant would lead to the passenger vehicle enterprises to reduce their production of those vehicles, hence, the number of transactions of engines that are Euro 5 (or China 5) emissions standards compliant would decrease. In order to maintain the profitability, passenger vehicle enterprises would develop and commence production of vehicles that Euro 6 (or China 6) emissions standards compliant and would increase the procurement of engines that are Euro 6 (or China 6) emissions standards compliant.

On 27 September 2017, the PRC Government published the Measures for the Parallel Administration of the Average Fuel Consumption and New Energy Vehicle Credits of Passenger Vehicle Enterprises (乘用車企業平均燃料消耗量與新能源汽車積分並行管理辦法) (the “**Double Credits Policy**”). It was stated that the passenger vehicle enterprise shall submit to the Minister of Industry and Information Technology in the PRC (“MIIT”) a preliminary annual report on its average fuel consumption and new energy vehicle credits each year with effective from 1 April 2018. If the passenger vehicle enterprise with negative credits of average fuel consumption and new energy vehicles, they shall submit a report on the compensation for negative credits of average fuel consumption and new energy vehicles to the MIIT, and complete compensation and zeroing for negative credits within 90 days. The average fuel consumption credit is a measure of the average fuel consumption of the vehicles produced by a passenger vehicle enterprise. For a lower fuel consumption of a vehicle produced by a passenger vehicle enterprise, a higher average fuel consumption credit may be obtained and vice versa. The new energy vehicle credit is a measure of the number of new energy vehicles produced by a passenger vehicle enterprise. The more new energy vehicles a passenger vehicle enterprise produces, a higher new energy vehicle credit may be obtained. In order to obtain a positive credit of average fuel consumption, passenger vehicle enterprises will source for lower fuel consumption engines. Since the new energy vehicle credit is measuring the product mix of a passenger vehicle enterprise, passenger vehicle enterprises have increased their resources in the development of new energy vehicle in order to obtain a positive credit. It is expected that passenger vehicle enterprises would reduce the production of traditional gasoline vehicles, hence, reduce in gasoline engine procurement.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Taking into account the above, particularly the fact that (i) the sales of automobiles in the PRC has been on an increasing trend over the last few years; (ii) the Huachen Group has been one of the top ten automotive manufacturers in the PRC; (iii) the automotive manufacturers have a tendency to use domestic assembly engines in most of the vehicles over using imported ones with a view to increasing competitiveness and reducing overall costs; and (iv) the Government policy on the passenger vehicle industry would result in an increase in demand for lower fuel consumption engines, we consider that the demands for vehicles produced by the Huachen Group (including the Brilliance China Group and affiliated entities of the Huachen Group) to remain significant which would in turn result in a significant demand for engines and engine components from the Group. In order to produce such amount of engines and engine components to cope with the demand from the Huachen Group and other automotive manufacturers, the Group would be required to purchase engine components from the Wuliangye Group, the Brilliance China Group and other suppliers. Accordingly, from the industry-wide perspective, we are of the view that an increasing trend in the engines that are Euro 6 (or China 6) emissions standards compliant is in line with the overall development and expansion trend of the automotive market in the PRC in general.

3. *The Existing Caps and historical transaction amounts*

Based on information provided by the Company, we summarise in the following table (i) the Existing Caps for each of the three financial years ending 31 December 2018; and (ii) the historical transaction amounts for the two years ended 31 December 2017 and the six months ended 30 June 2018.

	For the year ended 31 December 2016		For the year ended 31 December 2017		For the year ending 31 December 2018	For the six months ended 30 June 2018
	Existing Cap (RMB'000)	Actual transaction amounts (RMB'000)	Existing Cap (RMB'000)	Actual transaction amounts (RMB'000)	Existing Cap (RMB'000)	Actual transaction amounts (RMB'000)
Continuing Connected Transactions 2016-2018						
The Brilliance China Purchase Agreement						
Purchase of engine components by the Group from the Brilliance China Group	55,919	39,400	58,714	42,337	61,650	25,716
The Huachen Sale Agreement						
Sale of engines and engine components by the Group to the Huachen Group	1,374,440	969,004	1,442,263	891,316	2,118,086	411,311
The Brilliance China Sale Agreement						
Sale of engines and engine components by the Group to the Brilliance China Group	769,997	354,379	808,991	323,029	848,781	221,076
The Sichuan Pushi Purchase Agreement						
Purchase of engine components by the Group from Sichuan Pushi	28,550	7,737	30,000	11,287	31,500	7,363
The Xinhua Combustion Engine Purchase Agreement						
Purchase of engine components by the Group from Xinhua Combustion Engine	180,850	93,675	186,870	93,790	193,180	86,559

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In view of the above table, the utilization rate of the annual cap for the Brilliance China Purchase Agreement was approximately 70.5% and 72.1% for the two years ended 31 December 2017, respectively. The utilization rate of the annual cap for the Huachen Sale Agreement was approximately 70.5% and 61.8% for the two years ended 31 December 2017, respectively. The utilization rate of the annual cap for the Brilliance China Sale Agreement was approximately 46.0% and 39.9% for the two years ended 31 December 2017, respectively. The utilization rate of the annual cap for the Sichuan Pushi Purchase Agreement was approximately 27.1% and 37.6% for the two years ended 31 December 2017, respectively. The utilization rate of the annual cap for the Xinhua Combustion Engine Purchase Agreement was approximately 51.8% and 50.2% for the two years ended 31 December 2017, respectively.

4. The relevant Proposed Caps

The following table set out the Proposed Caps for the three years ending 31 December 2021:

Continuing Connected Transactions	For the year ending 31 December		
	2019	2020	2021
	Proposed Cap	Proposed Cap	Proposed Cap
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
 The Brilliance China Purchase Agreement 2019-2021			
Purchase of engine components by the Group from the Brilliance China Group	46,400	39,100	74,600
 The Huachen Sale Agreement 2019-2021			
Sale of engines and engine components by the Group to the Huachen Group	772,800	517,700	510,200

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Continuing Connected Transactions	For the year ending 31 December		
	2019	2020	2021
	Proposed Cap (RMB'000)	Proposed Cap (RMB'000)	Proposed Cap (RMB'000)
 The Brilliance China Sale Agreement 2019-2021			
Sale of engines and engine components by the Group to the Brilliance China Group	1,754,500	1,775,000	2,600,000
 The Sichuan Pushi Purchase Agreement 2019-2021			
Purchase of engine components by the Group from Sichuan Pushi	18,800	17,200	17,200
 The Xinhua Combustion Engine Purchase Agreement 2019-2021			
Purchase of engine components by the Group from Xinhua Combustion Engine	194,900	179,500	174,200

The Proposed Caps are determined primarily based on the following:

- (i) with respect to the Brilliance China Purchase Agreement 2019-2021: (a) the relevant historical transaction amounts with the Brilliance China Group; (b) the estimated volume of engine components required by the Group based on the estimated demand for the three years ending 31 December 2021 for the Group's engines by product lines and new models (some of which are Euro 6 (or China 6) emission standards compliant, whose demand is expected to increase due to the present PRC government policy to prohibit domestic sale of certain models of vehicles not meeting such emission standards as one of the measures to curb air pollution issues in the PRC) from both connected and independent third party customers; and (c) the estimated unit purchase price of individual engine components of the Brilliance China Group for the three years ending 31 December 2021, taking into account the higher unit prices of engine components for manufacturing Euro 6 (or China 6) emission standards engines than those of engine components for manufacturing engine models complying with lower emission standards;

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- (ii) with respect to the Huachen Sale Agreement 2019-2021: (a) the relevant historical transaction amounts with the Huachen Group; and (b) the estimated volume of engines and engine components required by the Huachen Group from the Group for the three years ending 31 December 2021 based on among others the estimated number of vehicles to be produced by the Huachen Group under its existing product lines, having regard to among others the Huachen Group's anticipated decrease in domestic sales of its vehicles, which are at present mostly Euro 5 (or China 5) emission standards compliant, as driven by the present PRC government policy to prohibit domestic sale of certain models of vehicles not meeting Euro 6 (or China 6) emission standards;

- (iii) with respect to the Brilliance China Sale Agreement 2019-2021: (a) the relevant historical transaction amounts with the Brilliance China Group; (b) the estimated volume of engines and engine components required by the Brilliance China Group from the Group for the three year ending 31 December 2021 based on among others the estimated number of engines to be assembled and the estimated number of vehicles to be produced by the Brilliance China Group under its existing product lines and new Euro 6 (or China 6) emission standards engine models to be launched by the Brilliance China Group; (c) the combined effect of the gradual phasing out of the Brilliance China Group's existing Euro 5 (or China 5) emission standards compliant vehicles and the expected introduction and focus of its new Euro 6 (or China 6) emission standards engine models; and (d) the estimated unit sale price of individual engines and engine components of the Group for the three years ending 31 December 2021, considering the higher unit prices of Euro 6 (or China 6) emission standards compliant engines and engine components for manufacturing such engines than those of Euro 5 (or China 5) emission standards compliant engines and engine components for manufacturing such engines; and

- (iv) with respect to the Wuliangye Purchase Agreements 2019-2021: (a) the relevant historical transaction amounts with Sichuan Pushi and Xinhua Combustion Engine; (b) the estimated volume of engine components required by the Group based on the estimated demand for the three years ending 31 December 2021 for the Group's engines by product lines and new models (some of which are Euro 6 (or China 6) emission standards compliant) from both connected and independent third party customers; and (c) the estimated unit purchase price of individual engine components of Sichuan Pushi and Xinhua Combustion Engine for the three years ending 31 December 2021, taking into account the higher unit prices of engine components for manufacturing Euro 6 (or China 6) emission standards engines than those of engine components for manufacturing engine models complying with lower emission standards.

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

- *The Proposed Caps for the Brilliance China Purchase Agreement 2019-2021*

Pursuant to the Brilliance China Purchase Agreement 2019-2021, the Brilliance China Purchase Agreement 2019-2021 shall be for a term of three years commencing on 1 January 2019 and ending on 31 December 2021(both dates inclusive). Unless the Brilliance China Purchase Agreement 2019-2021 is terminated prior to its expiry date, it shall be renewable for an additional term of three years subject to fulfillment of all necessary statutory and regulatory requirements including but not limited to any applicable requirement under the Listing Rules. In addition, the Group agreed to purchase various engine components from the Brilliance China Group on terms which are no less favourable than the terms which can be obtained from independent third party suppliers for purchasing products of comparable quality, quantity and specifications.

The price for each purchase of engine components from the Brilliance China Group is determined by reference to the prevailing market price from time to time. Prevailing market price means the price at which the same type of products is obtained from independent third party suppliers on normal commercial terms or better in the ordinary course of business. For the purpose of obtaining market prices, the Group will make reference to the price quotations obtained from other independent third party suppliers for products of comparable quality, quantity and specification.

In order to assess the fairness and the reasonableness of the prices in determining the Proposed Caps, we have reviewed two price quotations on a sample basis from independent third party suppliers for comparable products during the two years ended 31 December 2017 and the six months ended 30 June 2018 and we noted that the quoted price were comparable to the price provided by the Brilliance China Group. Therefore, we are of the view that the quoted price provided by the Brilliance China Group was no less favourable than those obtained from independent third party suppliers under the Brilliance China Purchase Agreement.

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In respect of the Proposed Caps of RMB46,400,000, RMB39,100,000 and RMB74,600,000 to be sought for the purchase of engine components from the Brilliance China Group for each of the three years ending 31 December 2021, respectively, we have obtained from the Company a list of estimated purchase of engine components summing up roughly to the Proposed Caps. We have reviewed the breakdown of purchases for engine components of the Group up to 30 June 2018. We understand from the Company that such lists of estimate were prepared on the basis of multiplying the estimated price per unit of the individual engine component by the estimated quantity of the corresponding engine component. We note that the purchase price per unit of engine component for each of the three years ending 31 December 2021 is expected to remain stable comparing to those actually recorded in the first half of 2018. On the other hand, the estimated quantity of the corresponding components was arrived at after taking into account (i) the estimated number of engines to be produced by the Group under its existing product lines and new models to be launched, based on confirmed orders and discussions between the Group and the customers regarding the plans. The existing products of the Group include various gasoline and diesel engines for passenger vehicles such as sedan, SUVs and MPVs and light duty commercial vehicles such as mid to low end minibuses, pickup trucks and the new models of products of the Group to be launched included several models of engines that are Euro 6 (or China 6) emissions standards compliant; (ii) the anticipated growth in demand of the Group's engine components from both connected and independent third party customers in view that tighter emissions standards will be implemented on 1 July 2020 in the PRC and the new products of the Group can comply with the expected required standards; and (iii) the historical trend of purchases from the Brilliance China Group by the Group during the two years ended 31 December 2017 and the six months ended 30 June 2018. The following table illustrates the historical and forecasted purchase amount of engine components from the Brilliance China Group respectively by the Group during periods indicated:

Year	2016(A)	2017(A)	2018(A) (Note 2)	2019(F)	2020(F)	2021(F)
Total purchase of engine components the Brilliance China Group (in RMB million)	39.4	42.3	25.7	40.3	34.0	64.8

Notes:

1. (A) denotes for the actual transaction amount for the year and (F) denotes for the forecasted transaction amount of the year.
2. The historical amount for the six months ended 30 June 2018.

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We note from the above table that the historical purchase amount of engine components from the Brilliance China Group for the two years ended 31 December 2017 were in the range of around RMB39.4 million to around RMB42.3 million. Upon comparison, we note that the estimated purchase amount from the Brilliance China Group for the years ending 31 December 2020 and 2021 represents decrease of approximately 15.6% and increase of approximately 90.6%, respectively, comparing to the previous year. As advised by the Company, the engine components to be procured from the Brilliance China Group is expected to decrease due to the drop in the purchase amount of the engine components for engines that are Euro 5 (or China 5) emissions standards compliant for the year ending 31 December 2020 as it is expected that the Euro 5 (China 5) emissions standards compliant engine will gradually phase out under the new environment policy by the Ministry of Ecology and Environment in the PRC after 1 July 2020. The significant increase in the expected purchase amount for the year ending 31 December 2021 is mainly attributable to the increase in purchase of engine components for the engines that are Euro 6 (or China 6) emissions standards compliant and the price of which is higher than that for Euro 5 (or China 5) emissions standards compliant.

On the above basis, we consider that the bases on which the relevant Proposed Caps for the Brilliance China Purchase Agreement 2019-2021 were determined are fair and reasonable and in the interests of the Shareholders and the Company as a whole.

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- *The Proposed Caps for the Huachen Sale Agreement 2019-2021*

Pursuant to the Huachen Sale Agreement 2019-2021, the Huachen Sale Agreement 2019-2021 shall be for a term of three years commencing on 1 January 2019 and ending on 31 December 2021 (both dates inclusive). Unless the Huachen Sale Agreement 2019-2021 is terminated prior to its expiry date, the agreement shall be renewable for an additional term of three years subject to fulfillment of all necessary statutory and regulatory requirements including but not limited to any applicable requirement under the Listing Rules. In addition, the Group agreed to sell engines and engine components to the Huachen Group on terms which are no less favourable than the terms which can be obtained by the relevant members of the Group from independent third parties for sale of such products of comparable quality, quantity and specification.

The price for each sale of engines and engine components to the Huachen Group is determined by reference to the prevailing market price. Prevailing market price means the price at which the same type of products can be sold to independent third party customers on normal commercial terms or better in the ordinary course of business. For the purpose of obtaining market prices, the Group will make reference to the price quotations to other independent third party customers for products of comparable quality, quantity and specifications.

In order to assess the fairness and the reasonableness of the prices in determining the Proposed Caps, we have reviewed five invoices of comparable past transactions of the Group of certain engines or engine components sold to independent third party customers, on a sample basis, we note that the pricing for the past transactions with the Huachen Group during the two years ended 31 December 2017 and six months ended 30 June 2018 were comparable to and no less favourable than the pricing the Group offered to independent third party customers for same products.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In respect of the Proposed Caps of RMB772,800,000, RMB517,700,000 and RMB510,200,000 to be sought for the sale of engines and engine components to the Huachen Group for each of the three years ending 31 December 2021, respectively, we have obtained from the Company a list of estimated sales of engines and engine components summing up roughly to the Proposed Caps. We have reviewed the breakdown of sales for engines and engine components of the Group up to 30 June 2018. We understand from the Company that such list of estimate was prepared on the basis of multiplying the estimated price per unit of the individual engine or engine component by the estimated quantity of the corresponding engine or engine component. We note that the selling price per unit of engine or engine component for each of the three years ending 31 December 2021 is expected to remain stable comparing to those actually recorded in the first half of 2018. On the other hand, the estimated quantity of the corresponding components was arrived at after taking into account (i) the estimated number of vehicles to be produced by the Huachen Group under its existing product lines, based on discussions between the Group and the Huachen Group and the Huachen Group's production plans furnished to the Group. The existing products of the Huachen Group include various models of sedans, SUVs and pickup trucks that are Euro 5 (or China 5) emissions standards compliant. The Huachen Group currently plans to produce an aggregate of approximately 34,000 vehicles, approximately 17,000 vehicles and approximately 8,000 vehicles for each of the three years ending 31 December 2021 respectively but the actual production volume may be adjusted subject to the future market condition and other factors; (ii) the anticipated decrease in sales of the Huachen Group's products in domestic markets as a result of the implementation of new environmental policy by the Ministry of Ecology and Environment in the PRC for prohibiting the domestic sales of several models of vehicles that are Euro 5 (or China 5) emissions standards compliant after 30 June 2020; (iii) the historical trend of sales to the Huachen Group during the two years ended 31 December 2017 and the six months ended 30 June 2018; and (iv) the expected decrease in the Huachen Group's demand for the Group's Euro 5 (or China 5) emission standard engine models and the new Euro 6 (or China 6) emission standard engine models that are still in the stage of product development. Taking into account the above and the fact that the new environmental policy has been announced, it is expected that the potential buyer will be more interested in the vehicle that are Euro 6 (or China 6) emissions standards compliant than that are Euro 5 (or China 5) emissions standards compliant. As a result, the demand for the Group's existing engine models that are Euro 5 (or China 5) emissions standards compliant is expected to decrease in the coming years.

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Year	2016(A)	2017(A)	2018(A) <i>(Note 2)</i>	2019(F)	2020(F)	2021(F)
Sale of engines and engine components <i>(in RMB million):</i>						
- Sale of BM15 series engines	932.3	760.4	376.9	589.0	370.0	365.0
- Sale of other existing engines and engine components	36.7	130.9	34.4	83.0	80.2	78.6
Total	969.0	891.3	411.3	672.0	450.2	443.6

Notes:

1. (A) denotes for the actual transaction amount for the year and (F) denotes for the forecasted transaction amount of the year.
2. The historical amount for the six months ended 30 June 2018.

As set out in the above table, it is noted that the revenue of sale of engines and engine components by the Group to the Huachen Group for the two years ended 31 December 2017 were in the range of around RMB891.3 million to around RMB969.0 million. Upon comparison, we note that the estimated sales of the Group's BM15 series engines constituted a majority of the Proposed Caps during each of the three years ending 31 December 2021. Such engine model has achieved a sales quantity to the Huachen Group of approximately 121,412 units, 105,676 units and 46,005 units during the two years ended 31 December 2017 and the six months ended 30 June 2018 respectively. As advised by the Company, the expected decrease in demand for the Group's BM15 series engines is primarily because the BM15 series engines are in Euro 5 (or China 5) emissions standards which will be phased out as a result of the tighter fuel consumption requirements in the PRC and taking into account the passenger vehicle enterprises will adjust their product mix in order to comply with the Double Credits Policy, the Company therefore expects the sales volume of the BM15 series engines will decrease. Accordingly, the Company lowered the Proposed Caps for the Huachen Sale Agreement 2019-2021 in light of the decrease in demand for the BM15 series engines as compared to the Existing Caps for the Huachen Sale Agreement.

Furthermore, based on the analysis in the section headed "The Existing Caps and historical transaction amounts" above, we also note that the utilization rate of Existing Caps of Huachen Sale Agreement was approximately 70.5% and 61.8% for the two years ended 31 December 2017, respectively. As the Existing Caps for the Huachen Sale Agreement were not fully utilized during the two years ended 31 December 2017, the Group reduced the Proposed Caps for the Huachen Sale Agreement 2019-2021.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

On the above basis, we consider that the Board has taken a prudent approach in determining the Proposed Caps for the the Huachen Sale Agreement 2019-2021 and we are of the view that the bases on which the Proposed Caps for the Huachen Sale Agreement 2019-2021 were determined are fair and reasonable and in the interests of the Shareholders and the Company as a whole.

- *The Proposed Caps for the Brilliance China Sale Agreement 2019-2021*

Pursuant to the Brilliance China Sale Agreement 2019-2021, the Brilliance China Sale Agreement 2019-2021 shall be for a term of three years commencing on 1 January 2019 and ending on 31 December 2021 (both dates inclusive). Unless the Brilliance China Sale Agreement 2019-2021 is terminated prior to its expiry date, the agreement shall be renewable for an additional term of three years subject to fulfillment of all necessary statutory and regulatory requirements including but not limited to any applicable requirement under the Listing Rules. In addition, the Group agreed to sell engines and engine components to the Brilliance China Group on terms which are no less favourable than the terms which can be obtained by the relevant members of the Group from independent third parties for sale of such products of comparable quality, quantity and specification.

The price for each sale of engine and engine components to the Brilliance China Group is determined by reference to the prevailing market price. Prevailing market price means the price at which the same type of products can be sold to independent third party customers on normal commercial terms or better in the ordinary course of business. For the purpose of obtaining market prices, the Group will make reference to the price quotations to other independent third party customers for products of comparable quality, quantity and specifications.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In order to assess the fairness and the reasonableness of the prices in determining the Proposed Caps except for the portion of sales of CE series engine, we have reviewed five invoices of comparable past transactions of the Group of certain engines or engine components sold to independent third party customers (except CE series engine and engine component), on a sample basis, we note that the pricing for the past transactions with the Brilliance China Group during the two years ended 31 December 2017 and six months ended 30 June 2018 were comparable to and no less favourable than the pricing of the Group offered to independent third party customers for same products.

As advised by the Company, the CE series engine is intended to be supplied to (i) the Brilliance China Group, which will be processed by the Brilliance China Group and will then be sold to the Huachen Group for installation in the vehicles manufactured by the Huachen Group, and (ii) other independent third party customers from the second half of 2018. Besides, as the CE series engine is Euro 6 (China 6) emission standard compliant, it is expected to have better performance with more advanced technical specifications than the existing engine models sold by the Group. Therefore, as advised by the management of the Company, sales transactions of the existing engine models of the Group were not comparable to the CE series engine to be sold to the Brilliance China Group, thus the unit price of the forecasted sales of CE series engine to the Brilliance China Group for the three years ending 31 December 2021 was determined with reference to the unit price of the agreed sales order quoted to independent third party customers. In accessing the fairness and the reasonableness of the price in determining the Proposed Caps with regard to the portion of sales of CE series engines to the Brilliance China Group, we have reviewed five sales orders before 30 June 2018 and the corresponding sales invoices after 30 June 2018 in respect of the CE series engine sold by the Group to independent third party customers and compared them against the unit price of the forecasted sales of CE series engine to the Brilliance China Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Upon comparison, we noted that the specification of the CE series engine to be sold to the Brilliance China Group included some additional components of the CE series engines as compared to those sold to independent third parties. Such additional components only accounted for approximately 7.5% of the unit price of the CE series engine to be sold to the Brilliance China Group. After deducting the relevant costs of the additional components included in the CE series engine to be sold to the Brilliance China Group, the unit price of the CE series engine to be sold to the Brilliance China Group is comparable to the unit price of the CE series engine sold to independent third parties. Therefore, we are of the view that the unit price of the CE series engine to be sold to the Brilliance China Group is no less favourable to the unit price sold to independent third party customers.

In respect of the Proposed Caps of RMB1,754,500,000, RMB1,775,000,000 and RMB2,600,000,000 to be sought for the sale of engines and engine components to the Brilliance China Group for each of the three years ending 31 December 2021, respectively, we have obtained from the Company a list of estimated sales of engines and engine components summing up roughly to the Proposed Caps. We have reviewed the breakdown of sales for engines and engine components of the Group up to 30 June 2018. We understand from the Company that such list of estimate was prepared on the basis of multiplying the estimated price per unit of the individual engine or engine component by the estimated quantity of the corresponding engine or engine component. We note that the selling price per unit of engine or engine component for each of the three years ending 31 December 2021 is expected to remain largely stable at those actually recorded in the first half of 2018. On the other hand, the estimated quantity of the corresponding components was arrived at after taking into account (i) the estimated number of vehicles to be produced by the Brilliance China Group under its existing product lines and new Euro 6 (or China 6) emission standard engine models to be launched by the Brilliance China Group, based on the estimated market demand of Euro 6 (or China 6) emission standard vehicle. The existing products of the Brilliance China Group include various models of minibuses, MPVs and SUVs; and the new products include Euro 5 (or China 5) and Euro 6 (or China 6) emission standard engine models; (ii) the anticipated growth in sales of the Brilliance China Group's products in domestic and overseas markets as a result of tighter fuel consumption requirements in the PRC and other countries over the next few years and it is expected that there will be a significant demand for the Brilliance China Group's vehicles which would indirectly drive the demand for the engines and engine components of the Group; and (iii) the historical trend of sales of existing products to the Brilliance China Group during the two years ended 31 December 2017 and the six months ended 30 June 2018.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Upon our review of the historical transactions between the Group and the Brilliance China Group in respect of the sale of other existing engines and engine components for the two years ended 31 December 2017 and six months ended 30 June 2018, it is noted that the transactions involved three subsidiaries of Brilliance China, namely Shenyang Brilliance JinBei Automobile Co., Ltd. (瀋陽華晨金杯汽車有限公司) (“**Shenyang Jinbei**”), Shenyang XingYuanDong Automobile Component Co., Ltd. (瀋陽興遠東汽車零部件有限公司) (“**Xing Yuan Dong**”) and Shenyang Chenfa Automotive Components Co., Ltd (瀋陽晨發汽車零部件有限公司) (“**Chenfa**”). The following table illustrates the revenue of sale of CE series and other existing engines and engine components by the Group to Brilliance China Group for the two years ended 31 December 2017 and six months ended 30 June 2018, and the forecasted respective revenue by the Group to Brilliance China Group for the three years ending 31 December 2021:

Year	2016(A)	2017(A)	2018(A) <i>(Note 2)</i>	2019(F)	2020(F)	2021(F)
Sale of engines and engine components <i>(in RMB million):</i>						
- Sale of CE series engines	-	0.8	47.9	1,200.0	1,310.0	2,095.0
- Sale of other existing engines and engine components	354.4	322.2	173.2	325.7	233.2	165.9
Total	354.4	323.0	221.1	1,525.7	1,543.2	2,260.9

Notes:

1. (A) denotes for the actual transaction amount for the year and (F) denotes for the forecasted transaction amount of the year.
2. The historical amount for the six months ended 30 June 2018.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As advised by the Company, the production of CE series engines are in progress and those engines are mostly supplied to Chenfa. The Company expects that along with the tightening of fuel consumption requirements in the PRC, the production of existing product line (i.e. Euro 5 (or China 5) emission standard engine models) will gradually decrease but the demand for CE series engine (i.e. Euro 6 (or China 6) emission standard engine models) will partially offset the decrease in demand for Euro 5 series engine. As advised by the Company, it is expected that the demand (as well as the relevant production) for CE series engine will gradually increase as it edges closer to the implementation of China 6 engine emission standard on 1 July 2020 which was announced by the Ministry of Ecology and Environment of the PRC on 23 December 2016. As a result, the proportion of the revenue generated from Chenfa is expected to account for around 68.4%, 73.8% and 80.6% of the Proposed Caps for the three years ending 31 December 2021 whilst the sales to Xing Yuan Dong would gradually decrease due to the limitation of the sales and use of Euro 5 (or China 5) emission standard engine models. We have reviewed the production plan of the Group and noted that the planned production volume of Euro 5 (or China 5) emission standards engine models has decreased from approximately 26,000 sets in 2019 to 16,000 sets in 2021, while the planned production volume of CE series engines which are Euro 6 (or China 6) emission standards compliant has increased from approximately 60,000 sets in 2019 to 155,000 set in 2021. The decrease in production volume of Euro 5 (or China 5) emission standards engine models and the increase in production volume of CE series engines are in line with the announcement of Ministry of Ecology and Environment in the PRC that Euro 5 (or China 5) emission standard engine models would be phased out and replaced by Euro 6 (or China 6) emission standard engine models.

On the above basis, we are of the view that the bases on which the Proposed Caps relating to the Brilliance China Sale Agreement 2019-2021 were determined are fair and reasonable and in the interests of the Shareholders and the Company as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- *The Proposed Caps for the Wuliangye Purchase Agreement*

The Group entered into purchase agreements with certain subsidiaries of Wuliangye for purchase of engine components. Pursuant to the Sichuan Pushi Purchase Agreement 2019-2021 and the Xinhua Combustion Engine Purchase Agreement 2019-2021 (the “**Wuliangye Purchase Agreement**”), the Wuliangye Purchase Agreement shall be for a term of three years commencing on 1 January 2019 and ending on 31 December 2021 (both dates inclusive). Unless the Wuliangye Purchase Agreement is terminated prior to its expiry date, the agreements shall be renewable for an additional term of three years subject to fulfillment of all necessary statutory and regulatory requirements including but not limited to any applicable requirement under the Listing Rules. In addition, Mianyang Xincheng agreed to purchase various gasoline and diesel engine components such as crankshafts, exhaust manifolds, cylinder chambers and cylinder heads from Sichuan Pushi and Xinhua Combustion Engine on terms which are no less favourable than the terms which can be obtained by the relevant members of the Group from independent third parties for purchase of such products of comparable quality, quantity and specifications.

The price for each purchase of engine components from the Wuliangye Group is determined by reference to the prevailing market price. Prevailing market price means the price at which the same type of products can be obtained from independent third party suppliers on normal commercial terms or better in the ordinary course of business. For the purpose of obtaining market prices, the Group will make reference to the price quotations obtained from other independent third party suppliers for products of comparable quality, quantity and specifications.

In order to review the fairness and the reasonableness of the prices in determining the Proposed Caps, we have obtained four price quotations on a sample basis from independent third party suppliers of the Group for comparable products during the two years ended 31 December 2017 and the six months ended 30 June 2018 and we note that the quoted prices were comparable to the price provided by the Wuliangye Group. Therefore, we are of the view that the quoted price provided by the Wuliangye Group was no less favourable than those obtained from independent third party suppliers under the Wuliangye Purchase Agreement.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In respect of the aggregate Proposed Caps of RMB213,700,000, RMB196,700,000 and RMB191,400,000 to be sought for the purchase of engine components from Sichuan Pushi and Xinhua Combustion Engine for each of the three years ending 31 December 2021, respectively, we have obtained from the Company a list of estimated purchases of engine components summing up roughly to the Proposed Caps. We have reviewed the breakdown of purchases for engine components of the Group up to 30 June 2018. We understand from the Company that such list was prepared on the basis of multiplying the estimated purchase price per unit of the individual engine component by the estimated quantity of the corresponding engine component. We note that the purchase price per unit of engine component for each of the three years ending 31 December 2021 is expected to remain the same comparing to those actually recorded in the first half of 2018. On the other hand, the estimated quantity of the corresponding components was arrived at after taking into account (i) the estimated number of engines to be produced by the Group under its existing product lines and new models to be launched, based on confirmed orders and discussions between the Group and the customers regarding their plans. The existing products of the Group include various gasoline and diesel engines for passenger vehicles and light duty commercial vehicles such as mid to low end minibuses, pickup, SUVs, MPVs and the new models of products of the Group to be launched include several models of engines that are Euro 6 (or China 6) emissions standards compliant and are designed to be used in mid to high end sedans and SUVs; (ii) the anticipated drop in demand of the Group's engines and engine components from both connected and independent customers in view that tighter emissions standards will be implemented in due course in the PRC and certain existing products of the Group cannot comply with the expected required standards; and (iii) the historical trend of purchases from the Wuliangye Group by the Group during the two years ended 31 December 2017 and the six months ended 30 June 2018. The following table illustrates the historical and forecasted purchase amount of engine components from Sichuan Pushi and Xinhua Combustion Engine respectively by the Group during the periods indicated:

Year	2016(A)	2017(A)	2018(A) (Note 2)	2019(F)	2020(F)	2021(F)
Purchase of engine components from Sichuan Pushi (in RMB million)	7.7	11.3	7.4	16.3	14.9	14.9
Purchase of engine components from Xinhua Combustion Engine (in RMB million)	93.7	93.8	86.6	169.4	156.1	151.5
Total	101.4	105.1	94.0	185.8	171.0	166.4

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Notes:

1. (A) denotes for the actual transaction amount for the year and (F) denotes for the forecasted transaction amount of the year.
2. The historical amount for the six months ended 30 June 2018

We note from the above table that the historical purchase amount of engine components from the Wuliangye Group for the two years ended 31 December 2017 was in the range of around RMB101.4 million to around RMB105.1 million. Upon comparison, we note that the estimated purchase amount from the Wuliangye Group for the years ending 31 December 2020 and 2021 represents decrease of approximately 8.0% and 2.7%, respectively, comparing to the previous year. As advised by the Company, due to the decrease in demand of the Euro 5 (or China 5) emission standard engine, most of the engine components currently procured is expected to be phased out except for the TZ model engine components as the TZ engine model complies with the Euro 6 (or China 6) emission standard. The product mix to be procured from the Wuliangye Group would be shifted to the TZ model engine components, for which the purchase amount of currently procured engine components except for TZ model engine components is expected to drop to nil by 2020, however, such decrease is expected to be compensated by the increase of purchase amount of TZ model engine components. The decrease in the expected purchase amount each year is mainly attributable to the decrease in quantity of engine components to be purchased based on the Group's production schedule and the anticipated drop in demand of the Group's engines as above-mentioned.

On the above basis, we consider that the bases on which the relevant Proposed Caps for the Wuliangye Purchase Agreement were determined are fair and reasonable and in the interests of the Shareholders and the Company as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

5. The conditions

As the relevant Proposed Caps exceed HK\$10 million and the relevant applicable ratios under Rule 14.07 of the Listing Rules exceed 5%, the relevant Proposed 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 relevant Proposed Caps subject to the following conditions:

1. The Continuing Connected Transactions will be:
 - (i) entered into by the Group in the ordinary and usual course of its business;
 - (ii) conducted on normal commercial terms or, 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 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 transaction amount under the Brilliance China Purchase Agreement 2019-2021, the Huachen Sale Agreement 2019-2021, the Brilliance China Sale Agreement 2019-2021 and the Wuliangye Purchase Agreement shall not exceed the relevant Proposed Caps (as the case may be); and
3. The Company will comply with all other relevant requirements under the Listing Rules.

As advised by the Company, to ensure the Company's conformity with the terms and the pricing mechanism of continuing connected transaction, the Company has established a series of internal control procedures which are stipulated in Company's internal control policy.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In determining the proposed annual caps in respect of the Continuing Connected Transactions, the sales department of the Group would estimate the production volume of the products in the relevant periods while the purchase department would estimate the volume of the materials required. Also, the sales department and purchase department of the Group will assess the pricing basis by (i) conducting research and analysis of the recent market conditions of their industry; and (ii) comparing the terms of similar products supplied to or procured from other independent third parties to ensure that those contemplated transactions are no less favourable than those supplied to or procured from independent third parties. In addition, the pricing are subject to annual review and may be adjusted by the Company if necessary, with reference to the then market rates to ensure fairness and reasonableness of such prices.

The estimated quantity and price comprising the proposed annual cap is reviewed by the finance department in order to ensure its fairness and reasonableness and it is then submitted for the approval by the Board. Moreover, the finance department regularly monitor the aggregated transaction amount and perform annual review for the total amount of the relevant continuing connected transaction.

In assessing whether the Company has put in place effective internal control procedures for the Continuing Connected Transactions, we have obtained and reviewed the following documents: (i) the internal control policies provided by the Company in order to understand the design of the Company's internal control system; (ii) the documentation of estimated price and quantity for determining the Proposed Caps which have been properly reviewed by the finance department; (iii) the board resolutions concerning the Framework Agreements 2019-2021; (iv) the independent non-executive Directors' report for year 2017 concerning historical connected transactions; and (v) the auditor's report for years 2016 to 2017 concerning the historical connected transactions. We noted that the above documents were prepared in accordance with the internal control policies of the Company and they were in compliance with the relevant requirements under the Listing Rules. Therefore, we are of the view that the Company has put in place effective internal control procedures for the Continuing Connected Transactions.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Taking into account the conditions attached to the Continuing Connected Transactions, in particular (i) the restriction by way of setting the relevant Proposed Caps; and (ii) the compliance with all other relevant requirements under the Listing Rules (which include the annual review and/or confirmation by the independent non-executive Directors and auditors of the Company on the actual execution of the Continuing Connected Transactions), we consider that the Company has taken appropriate 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) it is common for an engine and engine component supplier to build a long term business relationship with particular automotive manufacturer which is mutual reliant in nature;
- (ii) the entering into of the Brilliance China Purchase Agreement 2019-2021, the Huachen Sale Agreement 2019-2021, the Brilliance China Sale Agreement 2019-2021 and the Wuliangye Purchase Agreement would enable the Group to secure (i) the Huachen Group and the Brilliance China Group as stable customers for the Group; and (ii) the Brilliance China Group and the Wuliangye Group as stable suppliers of engine components, for the onward manufacturing of engines and engine components of the Group;
- (iii) the mechanism and measures taken/to be taken by the Group in ensuring the Continuing Connected Transactions are on normal commercial terms; and
- (iv) the restriction by way of setting of the relevant Proposed Caps,

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We are of the opinion that the Continuing Connected Transactions and the relevant Proposed 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 Extraordinary General Meeting for approving the Continuing Connected Transactions and the relevant Proposed 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 24 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions in respect of mergers and acquisitions, connected transactions and transactions subject to the compliance to the Takeovers Code of listed companies in Hong Kong. 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 16 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions in respect of mergers and acquisitions, connected transactions and transactions subject to the compliance to the Takeovers Code of listed companies in Hong Kong.

1. RESPONSIBILITY STATEMENT

This circular for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Interests of Directors and chief executive of the Company

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (i) 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 they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, were as follows:

The Company

Name of Director	Long position/ short position	Nature of interests	Number and class of Shares	Approximate percentage of shareholding ⁽³⁾
Mr. Wu Xiao An (also known as Mr. Ng Siu On) ⁽¹⁾	Long position	Beneficial owner	8,320,041 ordinary	0.65%
	Long position	Trustee and interest in a controlled corporation	33,993,385 ordinary	2.65%
Mr. Wang Yunxian ⁽²⁾	Long position	Beneficial owner	6,471,143 ordinary	0.50%
	Long position	Trustee and interest in a controlled corporation	33,993,385 ordinary	2.65%

Notes:

- (1) Mr. Wu Xiao An is a trustee of the discretionary trust (which holds 33,993,385 Shares for the beneficiaries) under the share incentive scheme established by Lead In Management Limited (“**Lead In**”) in 2011 (the “**Incentive Scheme**”) and holds 50% interests in Lead In. Accordingly, Mr. Wu is deemed or taken to be interested in approximately 2.65% of the issued share capital of the Company.
- (2) Mr. Wang Yunxian is a trustee of the discretionary trust (which holds 33,993,385 Shares for the beneficiaries) under the Incentive Scheme and holds 50% interests in Lead In. Accordingly, Mr. Wang is deemed or taken to be interested in approximately 2.65% of the issued share capital of the Company.
- (3) These percentages are calculated on the basis of 1,282,211,794 Shares in issue as at the Latest Practicable Date.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had or was deemed to have any interests and short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (i) 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 they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers under the Listing Rules.

(b) Interests of substantial shareholders of the Company

So far as is known to the Directors, as at the Latest Practicable Date, each of the following persons (other than a Director or chief executive of the Company) had, or was deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange 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 any class of shares carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Name of Shareholder	Nature of interests	Number and class of Shares	Approximate percentage of shareholding ⁽⁶⁾
Brilliance Investment Holdings Limited	Beneficial owner	400,000,000 (L) ordinary	31.20%
Brilliance China ⁽¹⁾	Interest in a controlled corporation	400,000,000 (L) ordinary	31.20%
Huachen ⁽²⁾	Interest in a controlled corporation	400,000,000 (L) ordinary	31.20%
Xinhua Investment Holdings Limited	Beneficial owner	400,000,000 (L) ordinary	31.20%
Xinhua Combustion Engine ⁽³⁾	Interest in a controlled corporation	400,000,000 (L) ordinary	31.20%
Sichuan Yibin Pushi Group Co., Ltd. ⁽⁴⁾	Interest in a controlled corporation	400,000,000 (L) ordinary	31.20%
Wuliangye ⁽⁵⁾	Interest in a controlled corporation	400,000,000 (L) ordinary	31.20%
JPMorgan Chase & Co.	Beneficial owner	88,806,600 (L) ordinary	6.93%
		185,000 (S) ordinary	0.01%
	Custodian corporation/ approved lending agent	88,436,600 (P) ordinary	6.90%
Templeton Asset Management Ltd.	Investment Manager	89,704,800 (L) ordinary	7.00%

Notes:

- (1) Brilliance Investment Holdings Limited (“**Brilliance Investment**”) is wholly-owned by Brilliance China and Brilliance China is deemed or taken to be interested in approximately 31.20% of the issued share capital of the Company in which Brilliance Investment is interested.
- (2) Brilliance China is owned as to approximately 42.32% by Huachen and Huachen is deemed or taken to be interested in approximately 31.20% of the issued share capital of the Company in which Brilliance Investment is interested.
- (3) Xinhua Investment Holdings Limited (“**Xinhua Investment**”) is a direct wholly-owned subsidiary of Xinhua Combustion Engine and Xinhua Combustion Engine is deemed or taken to be interested in approximately 31.20% of the issued share capital of the Company in which Xinhua Investment is interested.
- (4) Xinhua Combustion Engine is a direct non wholly-owned subsidiary of Sichuan Yibin Pushi Group Co., Ltd. (“**Pushi Group**”) and Pushi Group is deemed or taken to be interested in approximately 31.20% of the issued share capital of the Company in which Xinhua Investment is interested.
- (5) Pushi Group is a direct wholly-owned subsidiary of Wuliangye and Wuliangye is deemed or taken to be interested in approximately 31.20% of the issued share capital of the Company in which Xinhua Investment is interested.
- (6) These percentages are calculated on the basis of 1,282,211,794 Shares in issue as at the Latest Practicable Date.

(L) – Long Position, (S) – Short Position, (P) – Lending Pool

Save as disclosed above, as at the Latest Practicable Date, no other persons (other than a Director and chief executive of the Company) had an interest or short position in the Shares and underlying Shares which would fall to be disclosed 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 any class of shares carrying rights to vote in all circumstances at general meetings of any other member of the Group.

3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts 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. OTHER INTERESTS OF THE DIRECTORS

As at the Latest Practicable Date:

- (a) save as disclosed in this circular, none of the Directors had any direct or indirect interest in any assets which have, since 31 December 2017, being the date of the latest published audited consolidated financial statements of the Group were made up, been acquired or disposed of by, or leased to, or are proposed to be acquired or disposed of by, or leased to any member of the Group; and
- (b) save as disclosed in this circular, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group which contract or arrangement was subsisting as at the Latest Practicable Date and which is significant in relation to the business of the Group as a whole.

5. EXPERT'S CONSENT AND QUALIFICATION

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

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

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

As at the Latest Practicable Date, Octal Capital was not beneficially interested in the share capital of any member of the Group nor did it has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group nor did it have any interest, either direct or indirect, in any assets which have been, since 31 December 2017, being the date to which the latest published audited consolidated financial statements of the Group were made up, acquired, disposed of by, or leased to, or are proposed to be acquired or disposed of by, or leased to any member of the Group.

6. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and his associates was interested directly or indirectly in a business, apart from his interest in the Company, which competes or is likely to compete with the business of the Group.

7. 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 Part XV 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	director
Mr. Wang Yunxian	Xinhua Investment	director
Mr. Liu Tongfu	Huachen	director, executive vice president, and vice general manager of auto business unit
Mr. Yang Ming	Pushi Group	vice president

8. MATERIAL ADVERSE CHANGE

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 2017, being the date to which the latest published audited consolidated financial statements of the Group were made up.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours (other than Saturdays, Sundays and public holidays in Hong Kong) at the principal place of business of the Company at Suites 1602-05, Chater House, 8 Connaught Road Central, Hong Kong from the date of this circular up to and including the date of the Extraordinary General Meeting:

- (a) the letter of recommendation from the Independent Board Committee, the text of which is set out on pages 28 to 29 of this circular;
- (b) the letter of advice from Octal Capital, the text of which is set out on pages 30 to 60 of this circular;
- (c) the written consent from Octal Capital referred to in the paragraph headed “Expert’s Consent and Qualification” in this appendix; and
- (d) the Framework Agreements 2019-2021.

10. MISCELLANEOUS

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

NOTICE OF THE EXTRAORDINARY GENERAL MEETING

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)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of Xinchen China Power Holdings Limited (the “**Company**”) will be held at Victoria Room, 2/F., Mandarin Oriental, Hong Kong, 5 Connaught Road Central, Hong Kong on Thursday, 13 December 2018 at 9:00 a.m., for the purposes of considering and, if thought fit, passing, with or without modifications, the following resolutions of the Company:

ORDINARY RESOLUTIONS

1. “**THAT**

- (a) the entering into of the framework agreement dated 18 October 2018 (the “**Brilliance China Purchase Agreement**”) (copy of which is marked “A” and produced to the meeting and initialled by the Chairman for identification purpose) in respect of the continuing connected transactions to be entered into between the Company and its subsidiaries on the one part and Brilliance China Automotive Holdings Limited and its subsidiaries on the other part for the three financial years ending 31 December 2021 as set out in the paragraph headed “Letter from the Board – Renewal of the Continuing Connected Transactions” contained in the circular of the Company dated 23 November 2018 (the “**Circular**”) be and is hereby approved, confirmed and ratified and the entering into of the relevant continuing connected transactions pursuant to the Brilliance China Purchase Agreement be and are hereby approved; and that any director of the Company be and is hereby authorised to take such actions and to enter into such documents as are necessary to give effect to the abovementioned continuing connected transactions contemplated under the Brilliance China Purchase Agreement; and

NOTICE OF THE EXTRAORDINARY GENERAL MEETING

- (b) the proposed maximum annual monetary value of the continuing connected transactions contemplated under the Brilliance China Purchase Agreement pursuant to paragraph (a) of this Resolution for each of the three financial years ending 31 December 2021 as set out in the paragraph headed “Letter from the Board – The Proposed Caps” contained in the Circular be and are hereby approved.”

2. **“THAT**

- (a) the entering into of the framework agreement dated 18 October 2018 (the “**Huachen Sale Agreement**”) (copy of which is marked “B” and produced to the meeting and initialled by the Chairman for identification purpose) in respect of the continuing connected transactions to be entered into between the Company and its subsidiaries on the one part and Huachen Automotive Group Holdings Company Limited* (華晨汽車集團控股有限公司) and its subsidiaries on the other part for the three financial years ending 31 December 2021 as set out in the paragraph headed “Letter from the Board – Renewal of the Continuing Connected Transactions” contained in the circular of the Company dated 23 November 2018 (the “**Circular**”) be and is hereby approved, confirmed and ratified and the entering into of the relevant continuing connected transactions pursuant to the Huachen Sale Agreement be and are hereby approved; and that any director of the Company be and is hereby authorised to take such actions and to enter into such documents as are necessary to give effect to the abovementioned continuing connected transactions contemplated under the Huachen Sale Agreement; and
- (b) the proposed maximum annual monetary value of the continuing connected transactions contemplated under the Huachen Sale Agreement pursuant to paragraph (a) of this Resolution for each of the three financial years ending 31 December 2021 as set out in the paragraph headed “Letter from the Board – The Proposed Caps” contained in the Circular be and are hereby approved.”

NOTICE OF THE EXTRAORDINARY GENERAL MEETING

3. **“THAT**

- (a) the entering into of the framework agreement dated 18 October 2018 (the **“Brilliance China Sale Agreement”**) (copy of which is marked “C” and produced to the meeting and initialled by the Chairman for identification purpose) in respect of the continuing connected transactions to be entered into between the Company and its subsidiaries on the one part and Brilliance China Automotive Holdings Limited and its subsidiaries on the other part for the three financial years ending 31 December 2021 as set out in the paragraph headed “Letter from the Board – Renewal of the Continuing Connected Transactions” contained in the circular of the Company dated 23 November 2018 (the **“Circular”**) be and is hereby approved, confirmed and ratified and the entering into of the relevant continuing connected transactions pursuant to the Brilliance China Sale Agreement be and are hereby approved; and that any director of the Company be and is hereby authorised to take such actions and to enter into such documents as are necessary to give effect to the abovementioned continuing connected transactions contemplated under the Brilliance China Sale Agreement; and

- (b) the proposed maximum annual monetary value of the continuing connected transactions contemplated under the Brilliance China Sale Agreement pursuant to paragraph (a) of this Resolution for each of the three financial years ending 31 December 2021 as set out in the paragraph headed “Letter from the Board – The Proposed Caps” contained in the Circular be and are hereby approved.”

NOTICE OF THE EXTRAORDINARY GENERAL MEETING

4. “**THAT**

- (a) the entering into of the framework agreement dated 18 October 2018 (the “**Sichuan Pushi Purchase Agreement**”) (copy of which is marked “D” and produced to the meeting and initialled by the Chairman for identification purpose) in respect of the continuing connected transactions to be entered into between Mianyang Xincheng Engine Co., Ltd.* (綿陽新晨動力機械有限公司) (a wholly-owned subsidiary of the Company) (“**Mianyang Xincheng**”) on the one part and Sichuan Yibin Pushi Automotive Components Co., Ltd.* (四川省宜賓普什汽車零部件有限公司) on the other part for the three financial years ending 31 December 2021 as set out in the paragraph headed “Letter from the Board – Renewal of the Continuing Connected Transactions” contained in the circular of the Company dated 23 November 2018 (the “**Circular**”) be and is hereby approved, confirmed and ratified and the entering into of the relevant continuing connected transactions pursuant to the Sichuan Pushi Purchase Agreement be and are hereby approved; and that any director of the Company be and is hereby authorised to take such actions and to enter into such documents as are necessary to give effect to the abovementioned continuing connected transactions contemplated under the Sichuan Pushi Purchase Agreement;
- (b) the proposed maximum annual monetary value of the continuing connected transactions contemplated under the Sichuan Pushi Purchase Agreement pursuant to paragraph (a) of this Resolution for each of the three financial years ending 31 December 2021 as set out in the paragraph headed “Letter from the Board – The Proposed Caps” contained in the Circular be and are hereby approved;

NOTICE OF THE EXTRAORDINARY GENERAL MEETING

- (c) the entering into of the framework agreement dated 18 October 2018 (the “**Xinhua Combustion Engine Purchase Agreement**”) (copy of which is marked “E” and produced to the meeting and initialled by the Chairman for identification purpose) in respect of the continuing connected transactions to be entered into between Mianyang Xincheng on the one part and Mianyang Xinhua Internal Combustion Engine Joint Stock Company Limited* (綿陽新華內燃機股份有限公司) on the other part for the three financial years ending 31 December 2021 as set out in the paragraph headed “Letter from the Board – Renewal of the Continuing Connected Transactions” contained in the Circular be and is hereby approved, confirmed and ratified and the entering into of the relevant continuing connected transactions pursuant to the Xinhua Combustion Engine Purchase Agreement be and are hereby approved; and that any director of the Company be and is hereby authorised to take such actions and to enter into such documents as are necessary to give effect to the abovementioned continuing connected transactions contemplated under the Xinhua Combustion Engine Purchase Agreement; and
- (d) the proposed maximum annual monetary value of the continuing connected transactions contemplated under the Xinhua Combustion Engine Purchase Agreement pursuant to paragraph (c) of this Resolution for each of the three financial years ending 31 December 2021 as set out in the paragraph headed “Letter from the Board – The Proposed Caps” contained in the Circular be and are hereby approved.”

By order of the board of directors
Xincheng China Power Holdings Limited
Ngai Ka Yan
Company Secretary

Hong Kong, 23 November 2018

Registered office:

Clifton House
75 Fort Street
PO Box 1350
Grand Cayman KY1-1108
Cayman Islands

Head office and principal place of business:

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

NOTICE OF THE EXTRAORDINARY GENERAL MEETING

Notes:

1. A shareholder entitled to attend and vote at the meeting may appoint one or more than one proxies to attend and to vote on a poll in his/her/its stead. On a poll, votes may be given either personally (or in the case of a shareholder being a corporation, by its duly authorized representative) or by proxy. A proxy need not be a shareholder of the Company.
2. Where there are joint registered holders of any share, any one of such persons may vote at the meeting, either personally or by proxy, in respect of such share as if he/she were solely entitled thereto; but if more than one of such joint holders are present at the meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.
3. In order to be valid, the form of proxy duly completed and signed in accordance with the instructions printed thereon together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy thereof must be delivered to the office of the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.
4. Completion and return of the form of proxy will not preclude shareholders from attending and voting in person at the meeting if shareholders so wish.
5. The Hong Kong branch register of members of the Company will be closed from Friday, 7 December 2018 to Thursday, 13 December 2018, both days inclusive, during which period no transfer of shares will be registered. Only shareholders of the Company whose names appear on the register of members of the Company on Friday, 7 December 2018 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 share registrar and transfer office 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 Thursday, 6 December 2018.
6. The ordinary resolutions set out in this notice will be put to shareholders to vote by way of a poll.

* *for identification purpose only*