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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer or registered institution in securities, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Xincheng China Power Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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POWER XINCHEN

新 晨 动 力

XINCHEN CHINA POWER HOLDINGS LIMITED

新晨中國動力控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1148)

CONNECTED TRANSACTION FINANCIAL ASSISTANCE FROM BBA 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 6 to 17 of this circular. A letter from the Independent Board Committee is set out on pages 18 to 19 of this circular.

A letter from Octal Capital, the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 20 to 41 of this circular.

A notice convening the Extraordinary General Meeting to be held at Pheasant Room, 1st Floor, Mandarin Oriental, Hong Kong, 5 Connaught Road Central, Hong Kong on Monday, 23 August 2021 at 9:00 a.m. is set out on pages 49 to 52 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 the holding of 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.

PRECAUTIONARY MEASURES FOR THE EXTRAORDINARY GENERAL MEETING

In view of the pandemic of COVID-19, the following precautionary measures will be implemented at the Extraordinary General Meeting (or any adjournment thereof) to protect the Shareholders from the risk of infection (please refer to Note 7 to the Notice of Extraordinary General Meeting set out on pages 51 to 52 of this circular for details):

- **compulsory body temperature check and submission of health declaration form**
- **compulsory wearing of surgical face mask**
- **no provision of refreshment and drinks and no distribution of gift**

Any person who does not comply with the precautionary measures or is subject to any Hong Kong Government prescribed quarantine may be denied entry into the meeting venue. Shareholders may appoint the Chairman of the meeting as their proxy to vote on the relevant resolutions at the meeting instead of attending the meeting in person.

30 July 2021

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DEFINITIONS

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

“associate(s)”	has the meaning ascribed thereto in the Listing Rules;
“BBA”	BMW Brilliance Automotive Ltd.* (華晨寶馬汽車有限公司), a sino-foreign equity joint venture company incorporated in the PRC which is owned as to 50% by Shenyang Jinbei Automotive Industry Holdings Co., Ltd.* (瀋陽金杯汽車工業控股有限公司) (an indirect wholly-owned subsidiary of Brilliance China) and 50% by BMW Holdings B.V.;
“BMW AG”	Bayerische Motoren Werke Aktiengesellschaft;
“Board”	the board of Directors;
“Borrowers”	collectively, Mianyang Xinchun, Mianyang Xinchun (Shenyang Branch) and Shenyang Xinchun;
“Brilliance China”	Brilliance China Automotive Holdings Limited (華晨中國汽車控股有限公司*), a company incorporated in Bermuda, whose shares are listed on the Main Board of the Stock Exchange, and a controlling shareholder of the Company;
“Company”	Xinchun China Power Holdings Limited (新晨中國動力控股有限公司), an exempted company incorporated in the Cayman Islands with limited liability, whose shares are listed on the Main Board of the Stock Exchange;
“connected person(s)”	has the meaning ascribed to it in the Listing Rules;

DEFINITIONS

“Connecting Rods Contractual Documents”	the contractual documents in relation to the supply of “B48 Extra 30u Conrod” connecting rods by Mianyang Xinchun (Shenyang Branch) to BBA (including without limitation the BMW Group International Terms and Conditions for the Purchase of Production Materials and Automotive Components, Framework Agreement for Supply to BMW Brilliance Automotive Ltd., Warranty Agreement and Series Orders) executed by Mianyang Xinchun (Shenyang Branch) and BBA dated 4 August 2014;
“controlling shareholder(s)”	has the meaning ascribed thereto in the Listing Rules;
“Director(s)”	the director(s) of the Company;
“Extraordinary General Meeting”	the extraordinary general meeting of the Company to be convened and held at Pheasant Room, 1st Floor, Mandarin Oriental, Hong Kong, 5 Connaught Road Central, Hong Kong on Monday, 23 August 2021 at 9:00 a.m. for considering and, if thought fit, approving, among other things, the Support Agreement, the Mortgage Agreements and the transactions contemplated thereunder, or any adjournment thereof;
“Group”	the Company and its subsidiaries;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“Independent Board Committee”	the independent committee of the Board, comprising Mr. Chi Guohua, Mr. Wang Jun, Mr. Huang Haibo and Mr. Wang Songlin, all of whom are independent non-executive Directors, formed to advise the Independent Shareholders as to the Support Agreement, the Mortgage Agreements and the transactions contemplated thereunder;

DEFINITIONS

“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 the Support Agreement, the Mortgage Agreements and the transactions contemplated thereunder;
“Independent Shareholder(s)”	Shareholder(s) other than Brilliance China, Mr. Wu Xiao An and their respective associates;
“Latest Practicable Date”	26 July 2021, 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;
“Loan”	the secured interest-bearing loan in the principal amount of RMB500 million to be advanced by BBA to the Borrowers;
“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;
“Mianyang Xincheng (Shenyang Branch)”	Mianyang Xincheng Engine Co., Ltd. Shenyang Branch* (綿陽新晨動力機械有限公司瀋陽分公司), the branch company of Mianyang Xincheng established in Shenyang, Liaoning, the PRC;
“Mortgage Agreements”	a set of four mortgage agreements (抵押合同) to be entered into between the Borrowers with BBA, pursuant to which mortgages over the Mortgaged Assets will be created in favour of BBA as security for, among others, the Loan;

DEFINITIONS

“Mortgaged Assets”	the production facilities owned by the Borrowers relating to the production of crankshaft and connecting rod and the land use right and property ownership of buildings owned by Shenyang Xincheng relating to the production of crankshaft and connecting rod;
“Mortgaged Assets Public Listing Process”	the process for the proposed sale of the Mortgaged Assets via asset and equity exchange by public information disclosure;
“MOU”	the memorandum of understanding for asset purchase (資產購買諒解備忘錄) dated 11 May 2021 between BBA and the Borrowers;
“Potential Disposal”	the potential disposal by the Borrowers of the Mortgaged Assets;
“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;
“Purchase Agreement on Finished Crankshafts”	the purchase agreement for finished crankshafts entered into between BBA and Mianyang Xincheng on 21 January 2015, pursuant to which BBA has agreed to purchase and Mianyang Xincheng has agreed to sell finished crankshafts which are to be produced by using the Mortgaged Assets and for the sole purpose of supplying to BBA for its assembly of N20 engines and Bx8 engines, as extended from time to time;
“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;
“Shareholder(s)”	holder(s) of Share(s);

DEFINITIONS

“Shenyang Xincheng”	Xincheng Engine (Shenyang) Co., Limited* (新晨動力機械(瀋陽)有限公司), a company incorporated in the PRC and a wholly-owned subsidiary of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Support Agreement”	the support agreement (支持協議) dated 11 May 2021 between BBA and the Borrowers, as supplemented and revised by a supplemental agreement thereto dated 2 July 2021;
“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 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)

Executive Directors:

Mr. Wu Xiao An

(also known as Mr. Ng Siu On)

(Chairman)

Mr. Wang Yunxian *(Chief Executive Officer)*

Non-executive Directors:

Ms. Ma Nina

Mr. Yang Ming

Independent Non-executive Directors:

Mr. Chi Guohua

Mr. Wang Jun

Mr. Huang Haibo

Mr. Wang Songlin

Registered office

Windward 3

Regatta Office Park

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

30 July 2021

To all Shareholders

Dear Sir/Madam,

**CONNECTED TRANSACTION
FINANCIAL ASSISTANCE FROM BBA**

INTRODUCTION

Reference is made to the announcement of the Company dated 11 May 2021 in relation to, among others, the Support Agreement, the Mortgage Agreements, the MOU and the transactions contemplated thereunder. Reference is also made to the announcement of the Company dated 2 July 2021 in relation to, among others, the change of the proposed use of the proceeds from the Loan.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with, among others, (i) details of the Support Agreement, the Mortgage Agreements and the transactions contemplated thereunder; (ii) the letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in connection with that the Support Agreement, the Mortgage Agreements and the transactions contemplated thereunder; (iii) the letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders in connection with the Support Agreement, the Mortgage Agreements and the transactions contemplated thereunder; and (iv) a notice of the Extraordinary General Meeting.

SUPPORT AGREEMENT

The principal terms of the Support Agreement are set out below:

- Date:** 11 May 2021
- Parties:**
- (1) BBA, as lender
 - (2) Mianyang Xincheng, Mianyang Xincheng (Shenyang Branch) and Shenyang Xincheng, all of which are wholly-owned subsidiaries of the Company, as joint borrowers
- Subject:** the Loan in the principal amount of RMB500 million
- Term:** The term shall be for a period commencing from the day on which BBA releases the proceeds of the Loan in accordance with the Support Agreement and ending on the day on which the Loan shall be repaid in accordance with the Support Agreement. Notwithstanding any other provisions of the Support Agreement, the repayment date of the Loan shall not exceed 190 business days after execution of the Support Agreement, i.e. the Loan together with interest accrued thereon shall be repaid by the Borrowers to BBA no later than 10 business days from the 180th business day after execution of the Support Agreement. The Company expects that should it become necessary, the Borrowers will negotiate with BBA for an extension of the term of the Loan which, in the Directors' view, is in the interest of both the Group and BBA given their close and long-term working relationship.

LETTER FROM THE BOARD

Use: As to approximately RMB400 million for repayment of bank borrowings of the Group as they fall due and as to approximately RMB100 million as working capital of the Group

Interest: 4.6% per annum (unless BBA and the Borrowers otherwise agree in writing), calculated on the basis of the number of days from (and including) the payment date of the Loan to (but excluding) the day on which the term of the Loan ends and on a 360-day basis, and payable in one lump sum upon the end of the Loan.

Penalty interest and misuse interest:

If the Borrowers neither repay the principal amount of the Loan in accordance with the terms of the Support Agreement, nor reach an agreement with BBA on the extension of the term of the Loan, BBA shall have the right to charge penalty interest from the date of overdue on the outstanding principal amount of the Loan based on the penalty interest rate published by the People's Bank of China, which means 30% interest over the ordinary interest rate of 4.6%, until the outstanding principal amount of the Loan and the interest accrued and due are repaid in full. If the Borrowers use the Loan for purposes not provided in the Support Agreement, BBA shall have the right to charge misuse penalty interest of the misused amount based on the misuse penalty interest rate published by the People's Bank of China, which is 50% interest over the ordinary interest rate of 4.6%.

Conditions precedent:

The Loan shall be made subject to satisfaction of the following conditions, unless any of them or any part thereof has been waived by BBA in writing:

- (1) the Borrowers have executed with BBA the Mortgage Agreements as requested by BBA;
- (2) the registration formalities for the mortgages created by the Mortgage Agreements with the competent governmental authorities have been completed and BBA has been registered as the sole mortgagee of the Mortgaged Assets;
- (3) the Borrowers have provided a proposal to BBA regarding the utilisation of the Loan;
- (4) an approval by the board of directors of BBA on the Loan has been obtained;

LETTER FROM THE BOARD

- (5) all necessary internal and external consents, licenses, approvals and waivers in connection with the execution of the Support Agreement and performance of their obligations under the Support Agreement have been obtained by the Borrowers; and
- (6) all the representations and warranties of the Borrowers in the Support Agreement are true and correct in all respects.

Mandatory repayment:

Under any of the following circumstances, BBA may request repayment of the Loan and interest accrued thereon by serving a written notice on the Borrowers, and the Borrowers shall repay to BBA the Loan already made and interest accrued thereon within 10 business days upon receipt of such notice:

- (1) any of the Borrowers becomes insolvent, bankrupt, or a significant part of its assets are ruled to be bankruptcy assets in any bankruptcy proceedings;
- (2) any encumbrance other than, among others, the mortgages created by the Mortgage Agreements is created over the Mortgaged Assets, or the Mortgaged Assets or equity interests of the Borrowers are under seizure or freezing proceedings;
- (3) any of the Mortgage Agreements is terminated, withdrawn, confirmed or ruled to be invalid, illegal or unenforceable at any time;
- (4) any of the business arrangements concerning the Loan and the Potential Disposal under the Support Agreement, which include but are not limited to the use of the proceeds from the Loan, cannot be implemented due to whatsoever reason;
- (5) any of the Borrowers materially breaches its representations, warranties, covenants and obligations under the Support Agreement or other agreements to which it is a party with respect to the arrangement under the Support Agreement;

LETTER FROM THE BOARD

In addition, where the Borrowers intend to transfer the Mortgaged Assets and BBA has the intention to purchase the Mortgaged Assets, BBA may under any of the following circumstances request repayment of the Loan and interest accrued thereon by serving a written notice on the Borrowers, and the Borrowers shall repay to BBA the Loan already made and interest accrued thereon within 10 business days upon receipt of such notice:

- (1) the approval by the Shareholders for all the transactions and matters covered by the Support Agreement (if applicable) is not obtained within 40 business days after the execution of the Support Agreement, or the Borrowers fail to initiate the Mortgaged Assets Public Listing Process within 20 business days after the obtaining of the above approval of the Shareholders;
- (2) BBA is not selected as the winning bidder during the Mortgaged Assets Public Listing Process; and
- (3) the land use right/property right of the Mortgaged Assets is not delivered to BBA within 180 business days after execution of the Support Agreement.

The Mortgaged Assets are important to the business operations of BBA, which rely to a great extent on the supply of finished crankshafts and connecting rods produced by the Borrowers using the Mortgaged Assets. The Company understands that while agreeing to make the Loan to the Borrowers pursuant to the Support Agreement, BBA remains highly cautious that it must be able to obtain the control and possession of the Mortgaged Assets should it become necessary to do so by implementing the security created in the form of mortgage over the Mortgaged Assets as contemplated under the Mortgage Agreements coupled with the mechanism for the Potential Disposal as set out in the Support Agreement (including but not limited to the mandatory repayment provisions mentioned above) and the MOU which is designed to command the highest possible chance of BBA, as permitted under the applicable PRC laws, to succeed in purchasing the Mortgaged Assets during the Mortgaged Assets Public Listing Process. Based on the foregoing, the Company considers that the arrangements concerning the Potential Disposal as contained in the Support Agreement and the MOU, which not only helped to facilitate the decision of BBA to agree to make the Loan to the Borrowers but also are justifiable given the importance of the Mortgaged Assets to BBA's business operations, are in the interest the Company and the Shareholders as a whole.

While the Potential Disposal is a means by which the Borrowers will be able to repay the Loan and interest accrued thereon and at the same time is expected to generate additional capital for the Group to be used as general working capital, the Borrowers will also assess and, if thought appropriate, adopt other options available at the relevant time based on the then prevailing circumstances to raise funds to repay the Loan and interest accrued thereon, including revenue generated from the Group's ordinary and usual course of business and bank and other borrowings, or to negotiate with BBA for an extension of the term of the Loan.

LETTER FROM THE BOARD

Should the Potential Disposal materialise, the Company will comply with all necessary requirements of Chapter 14 and/or Chapter 14A of the Listing Rules, including but not limited to (where applicable) making the transfer of the Mortgaged Assets pursuant to the formal asset purchase agreement to be entered into between the Borrowers and the successful bidder under the Mortgaged Assets Public Listing Process conditional upon the approval of the Shareholders or (as the case may be) the independent Shareholders being obtained.

Termination:

The Support Agreement may be unilaterally terminated by BBA with a ten-day notice under any of the following circumstances:

- (1) the financial status of the Borrowers has significantly improved;
- (2) BBA decides to provide other financial support to the Borrowers; and
- (3) other circumstances as deemed reasonable by BBA to terminate the Support Agreement.

Upon the unilateral termination of the Support Agreement by BBA, the Borrowers shall repay the Loan and the interest accrued within 10 business days and BBA and the Borrowers shall conclude a new agreement in relation to, among others, the deregistration of the mortgages created by the Mortgage Agreements (if necessary).

Security:

The repayment of the Loan by the Borrowers is secured by the mortgages to be created over the Mortgaged Assets under the Mortgage Agreements.

MORTGAGE AGREEMENTS

The principal terms of the Mortgage Agreements are set out below:

- Parties:**
- (1) Mianyang Xinchun, Mianyang Xinchun (Shenyang Branch) and Shenyang Xinchun, as mortgagors
 - (2) BBA, as mortgagee

LETTER FROM THE BOARD

The mortgages created over the Mortgage Assets under the Mortgage Agreements are to secure (a) the repayment of the Loan and the performance of other obligations by the Borrowers pursuant to the Support Agreement, and/or (b) the obligations of Mianyang Xincheng to BBA under the Purchase Agreement on Finished Crankshafts and/or (c) the obligations of Mianyang Xincheng (Shenyang Branch) to BBA under the Connecting Rods Contractual Documents.

As at 31 May 2021, the unaudited total book value of the Mortgaged Assets amounted to approximately RMB829,596,000. The production facilities of crankshaft and connecting rod comprised in the Mortgaged Assets are located in Shenyang, Liaoning, the PRC. The land and buildings, the land use rights and property ownership in respect of which form part of the Mortgaged Assets, are also situated in Shenyang, Liaoning, the PRC.

Since the supply of finished crankshafts and connecting rods by the Borrowers to BBA is vital to the business operations of BBA, the Borrowers upon the request of BBA have agreed that the mortgages created over the Mortgage Assets under the Mortgage Agreements shall also secure the Borrowers' obligations under the Purchase Agreement on Finished Crankshafts and the Connecting Rods Contractual Documents.

MOU

The principal terms of the MOU are set out below:

Date: 11 May 2021

Parties: (1) BBA
(2) Mianyang Xincheng, Mianyang Xincheng (Shenyang Branch) and Shenyang Xincheng, all of which are wholly-owned subsidiaries of the Company

Under the MOU, it is provided, among others:

- (1) if BBA is selected as the purchaser of the Mortgaged Assets during the Mortgaged Assets Public Listing Process, the Borrowers and BBA shall execute the asset transfer agreements in relation to the transfer of the Mortgaged Assets, in the form and substance agreed by them;

LETTER FROM THE BOARD

- (2) upon initiation of the Mortgaged Assets Public Listing Process, the mortgages created over the Mortgaged Assets under the Mortgage Agreements shall not be released and the Borrowers shall request the winning bidder of the Mortgaged Assets to continue to mortgage the Mortgaged Assets to BBA after it wins the bidding for the debts owed by the Borrowers to BBA which are secured by the Mortgage Agreements; and
- (3) if BBA wins the bidding, the Borrowers shall cooperate with BBA to release the mortgages created over the Mortgaged Assets and conduct the formalities to transfer the title to the Mortgaged Assets to BBA. Further, if BBA wins the bidding, the Loan and interest accrued thereon shall be deducted from the final price for the transfer of the Mortgaged Assets agreed between the Borrowers and BBA to the extent feasible. The detailed arrangements shall be set out in the definitive assets purchase agreement or its supplementary agreement. If for any reason, the Loan, together with interest accrued thereon, cannot be deducted from the price for the transfer of the Mortgaged Assets, the Borrowers shall repay the Loan and interest accrued thereon first and then BBA shall be obliged to make payment of the price for the transfer of the Mortgaged Assets.

The MOU may be unilaterally terminated by BBA with a ten-day notice under any of the following circumstances:

- (1) the financial status of the Borrowers has significantly improved and BBA determines that there is no need to purchase the Mortgaged Assets;
- (2) BBA decides to provide other financial support to the Borrowers in lieu of purchasing the Mortgaged Assets from the Borrowers; and
- (3) other circumstances as deemed reasonable by BBA to terminate the MOU.

MATERIAL INTEREST OF DIRECTORS IN THE SUPPORT AGREEMENT AND THE MORTGAGE AGREEMENTS

Mr. Wu Xiao An, an executive Director and chairman of the Company, is also the chairman and an executive director of Brilliance China. Ms. Ma Nina, a non-executive Director, is also an executive director of Brilliance China and a director of Shenyang XingYuanDong Automobile Component Co., Ltd. (a subsidiary of Brilliance China). Accordingly, Mr. Wu Xiao An and Ms. Ma Nina abstained from voting on the Directors resolutions in respect of the Support Agreement, the Mortgage Agreements, the MOU and the transactions contemplated thereunder.

LETTER FROM THE BOARD

The Board confirms that except for Mr. Wu Xiao An and Ms. Ma Nina, none of the Directors has any material interest in the Support Agreement, the Mortgage Agreements and the MOU. Accordingly, none of the Directors (except for Mr. Wu Xiao An and Ms. Ma Nina who abstained as mentioned above) was required to abstain from voting on the Directors resolutions in respect of the Support Agreement, the Mortgage Agreements, the MOU and the transactions contemplated thereunder.

REASONS FOR AND BENEFITS OF ENTERING INTO THE SUPPORT AGREEMENT, THE MORTGAGE AGREEMENTS AND THE MOU

The Borrowers have been suffering from the COVID-19 pandemic and fierce industry competition which led to a loss-making as well as a net current liability position of the Group. For the year ended 31 December 2020, the Group recorded net loss of approximately RMB808.6 million and net current liabilities of approximately RMB619.2 million as at 31 December 2020. Given the above financial position of the Group among other things, the Group is currently unable to obtain any further loans from banks with similar or more favourable terms than those under the Support Agreement. The supportive arrangement from BBA under the Support Agreement is therefore the most feasible option to ensure that the Group has sufficient working capital for its operations in view of the volatile and uncertain automobile industry and for meeting its short-term loan repayment obligations.

Having considered the above and the terms of the Loan (including the interest rate which is comparable to those under the existing loan facilities of the Group), the Directors (excluding the Directors who abstained from voting on the 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 that the Support Agreement, the Mortgage Agreements and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole and on normal commercial terms or better and that the terms of the Support Agreement and the Mortgage Agreements are fair and reasonable.

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.

LETTER FROM THE BOARD

Mianyang Xinchun

Mianyang Xinchun is an indirect wholly-owned subsidiary of the Company, which was established in the PRC with limited liability on 23 March 1998 and 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 the passenger vehicles.

Mianyang Xinchun (Shenyang Branch)

Mianyang Xinchun (Shenyang Branch) is the branch company of Mianyang Xinchun established in Shenyang, Liaoning, the PRC.

Shenyang Xinchun

Shenyang Xinchun is an indirect wholly-owned subsidiary of the Company, which was established in the PRC with limited liability on 22 October 2008 and is principally engaged in the development and manufacture of automotive engines, parts and components.

BBA

BBA is a sino-foreign equity joint venture company incorporated in the PRC and as at the Latest Practicable Date was owned as to 50% by Shenyang Jinbei Automotive Industry Holdings Co., Ltd.* (瀋陽金杯汽車工業控股有限公司), an indirect wholly-owned subsidiary of Brilliance China, and 50% by BMW Holding B.V. To the best knowledge, information and belief of the Directors, BMW Holding B.V. is an indirect subsidiary of BMW AG, a German multinational company which produces automobiles and motorcycles and is listed on the Frankfurt Stock Exchange.

LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, Brilliance China, a controlling shareholder of the Company, was indirectly interested in 50% of the issued share capital of BBA. As BBA is an associate of Brilliance China, it is a connected person of the Company under Chapter 14A of the Listing Rules. Therefore, the making of the Loan as contemplated under the Support Agreement constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio in respect of the Loan is higher than 5% and the principal amount of the Loan exceeds HK\$10 million, the Support Agreement, the Mortgage Agreements and the transactions contemplated thereunder are subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

EXTRAORDINARY GENERAL MEETING

A notice convening the Extraordinary General Meeting at which ordinary resolution will be proposed to consider and, if thought fit, to approve the Support Agreement, the Mortgage Agreements and the transactions contemplated thereunder to be held at Pheasant Room, 1st Floor, Mandarin Oriental, Hong Kong, 5 Connaught Road Central, Hong Kong on Monday, 23 August 2021 at 9:00 a.m., is set out on pages 49 to 52 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 resolution 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 was interested in 400,000,000 Shares, representing approximately 31.20% of the issued share capital of the Company. As at the Latest Practicable Date, Mr. Wu Xiao An, an executive Director and chairman of the Company, was interested and deemed to be interested in an aggregate of 42,313,426 Shares, representing approximately 3.30% of the issued share capital of the Company. Brilliance China, Mr. Wu Xiao An and their respective associates will abstain from voting on the ordinary resolution to be proposed at the Extraordinary General Meeting in respect of the Support Agreement, the Mortgage Agreements and the transactions contemplated thereunder.

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 Support Agreement, the Mortgage Agreements and the transactions contemplated thereunder 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 recommendation set out on pages 18 to 19 of this circular.

LETTER FROM THE BOARD

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 Support Agreement, the Mortgage Agreements and the transactions contemplated thereunder 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 20 to 41 of this circular.

RECOMMENDATION

The Board (excluding Mr. Wu Xiao An and Ms. Ma Nina who abstained from voting on the 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 Support Agreement, the Mortgage Agreements and the transactions contemplated thereunder 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 Mr. Wu Xiao An and Ms. Ma Nina who abstained from voting on the 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 resolution to be proposed at the Extraordinary General Meeting to approve the Support Agreement, the Mortgage Agreements and the transactions contemplated thereunder.

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

* for identification purpose only

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)

30 July 2021

To the Independent Shareholders

Dear Sir or Madam,

**CONNECTED TRANSACTION
FINANCIAL ASSISTANCE FROM BBA**

We refer to the circular issued by the Company to its Shareholders dated 30 July 2021 (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 Support Agreement, the Mortgage Agreements and the transactions contemplated thereunder 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 Support Agreement, the Mortgage Agreements and the transactions contemplated thereunder 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 Support Agreement, the Mortgage Agreements and the transactions contemplated thereunder. 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 Support Agreement and the Mortgage Agreements and taking into account the information contained in the Circular and the advice of Octal Capital, we are of the opinion that the Support Agreement, the Mortgage Agreements and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned, on normal commercial terms or better and not 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 resolution to be put forward at the Extraordinary General Meeting to approve the Support Agreement, the Mortgage Agreements and the transactions contemplated thereunder.

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 full text of the letter from Octal Capital Limited, the Independent Financial Adviser, for the purpose of inclusion in this circular, to the Independent Board Committee and Independent Shareholders regarding the Support Agreement, the Mortgage Agreements and the transactions contemplated thereunder.



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

30 July 2021

*To the Independent Board Committee and
the Independent Shareholders*

Dear Sirs,

CONNECTED TRANSACTION FINANCIAL ASSISTANCE FROM BBA

INTRODUCTION

We refer to our engagement to advise the Independent Board Committee and the Independent Shareholders in respect of the Support Agreement, the Mortgage Agreements and the transactions contemplated thereunder dated 11 May 2021, particulars of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company to the Shareholders dated 30 July 2021 (the “**Circular**”), of which this letter forms part. 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 11 May 2021, Mianyang Xinchun, Mianyang Xinchun (Shenyang Branch) and Shenyang Xinchun, all of which are wholly-owned subsidiaries of the Company, entered into with BBA (i) the Support Agreement, pursuant to which, among others, BBA has conditionally agreed to lend, and Mianyang Xinchun, Mianyang Xinchun (Shenyang Branch) and Shenyang Xinchun have conditionally agreed to borrow, the Loan in the principal amount of RMB500 million at an interest rate of 4.6% per annum; and (ii) the Mortgage Agreements in association of the Mortgage Assets (collectively, the “**Loan Documents**”).

As at the Latest Practicable Date, Brilliance China, a controlling shareholder of the Company, was indirectly interested in 50% of the issued share capital of BBA. As BBA is an associate of Brilliance China, it is a connected person of the Company under Chapter 14A of the Listing Rules. Therefore, the making of the Loan as contemplated under the Support Agreement constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As the highest applicable percentage ratio in respect of the Loan is higher than 5% and the principal amount of the Loan exceeds HK\$10 million, the Support Agreement, the Mortgage Agreements and the transactions contemplated thereunder are subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee (comprising Mr. Chi Guohua, Mr. Wang Jun, Mr. Huang Haibo and Mr. Wang Songlin, all of whom are independent non-executive Directors) has been established to advise and give recommendation to the Independent Shareholders on the Support Agreement, the Mortgage Agreements and the transactions contemplated thereunder. We, Octal Capital Limited, have been appointed as the independent financial adviser with the approval of the Independent Board Committee in accordance with the Listing Rules to advise the Independent Board Committee and the Independent Shareholders in these regards and to give our opinion for the Independent Board Committee's consideration when making their recommendations to the Independent Shareholders.

As at the Latest Practicable Date, we are not connected with the Directors, chief executive and substantial shareholders of the Company, BBA or any of their respective subsidiaries or associates, and do not have any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group. We 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 the continuing connected transactions in relation to the compliance agreement entered into between BBA, the Company and Mianyang Xinchun in relation to the sale and purchase of, among others, engine parts and components and raw materials for manufacturing engines and engine parts and components (as the case may be) and the provision of related services, details of which are set out in the circular of the Company dated 1 November 2019 (the "**Previous Engagement**"). Under the Previous Engagement, we were required to express our opinion on and give recommendation to the Independent Board Committee and the Independent Shareholders in respect of the relevant transaction. 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, substantial shareholders of the Company, BBA or any of their respective subsidiaries or associates that could reasonably be regarded as relevant to our independence.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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 date of the Circular. 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, among other things, (i) the Loan Documents; (ii) the working capital forecast of the Group for the year ending 31 December 2021; (iii) the current loan portfolio of the Group; (iv) the annual reports of the Company for the year ended 31 December 2019 and 31 December 2020; (vi) other information as set out in the Circular; and (vii) relevant market data and information available from public sources, 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, BBA and their respective subsidiaries or associates nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation to the Independent Board Committee and the Independent Shareholders in respect of the Support Agreement, the Mortgage Agreements and the transactions contemplated thereunder, we have taken into account the following principal factors and reasons:

1. Background of and reasons for the Loan

1.1 Background of the parties involved

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

BBA is a sino-foreign equity joint venture company incorporated in the PRC and as at the Latest Practicable Date was owned as to 50% by Shenyang Jinbei Automotive Industry Holdings Co., Ltd.* (瀋陽金杯汽車工業控股有限公司), an indirect wholly-owned subsidiary of Brilliance China, and 50% by BMW Holding B.V.. To the best knowledge, information and belief of the Directors, BMW Holding B.V. is an indirect subsidiary of BMW AG, a German multinational company which produces automobiles and motorcycles and is listed on the Frankfurt Stock Exchange.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Mianyang Xincheng is an indirect wholly-owned subsidiary of the Company, which was established in the PRC with limited liability on 23 March 1998 and 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 the passenger vehicles.

Mianyang Xincheng (Shenyang Branch) is the branch company of Mianyang Xincheng established in Shenyang, Liaoning, the PRC.

Shenyang Xincheng is an indirect wholly-owned subsidiary of the Company, which was established in the PRC with limited liability on 22 October 2008 and is principally engaged in the development and manufacture of automotive engines, parts and components.

1.2 *Financial information of the Group*

Review of financial performance

Set out below is a summary of the consolidated financial information of the Group for each of the three financial years ended 31 December 2018 (“**FY2018**”), 2019 (“**FY2019**”) and 2020 (“**FY2020**”) as extracted from the annual reports of the Company for FY2019 (the “**2019 Annual Report**”) and FY2020 (the “**2020 Annual Report**”):

	For the year ended 31 December		
	2018	2019	2020
	(Audited)	(Audited)	(Audited)
	RMB'000	RMB'000	RMB'000
Total revenue	3,050,522	2,076,173	1,711,955
– Gasoline engines	1,852,848	1,040,724	781,995
– Diesel engines	557,857	396,439	125,096
– Engine components	639,817	639,010	804,864
Profit/(loss) for the year	10,724	6,848	(808,639)
Profit/(loss) for the year attributable to owners of the Company	10,724	6,848	(808,639)

Source: The 2019 Annual Report and the 2020 Annual Report

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

FY2019 versus FY2018

The Group recorded revenue of approximately RMB2,076.2 million for FY2019, representing a decrease of approximately RMB974.3 million or 31.9% as compared to that of FY2018, which was mainly due to (i) the decrease in sales of gasoline engines of approximately RMB812.1 million; and (ii) the decrease in sales of diesel engines of approximately RMB161.4 million.

As disclosed in the 2019 Annual Report, the sales volume of engines decreased by approximately 38.9% from around 209,000 units in FY2018 to around 127,500 units in FY2019. The decrease was mainly due to the decrease in the sales of traditional gasoline engines, diesel engines and prince engines (a type of engine licensed to the Group by BMW AG since June 2015 which may be modified and upgraded by the Group and supplied to approved vehicle manufacturers under the Group's own brand) ("**Prince Engines**") in FY2019 due to lacklustre demand of engines from various automobile manufacturers during the year caused by the slowing economy and trade tensions with the United States.

The profit for the year attributable to owners of the Company decreased from approximately RMB10.7 million for FY2018 to approximately RMB6.8 million for FY2019, which was attributable to (i) the aforementioned decrease in revenue; and (ii) reduction in net loss in other gains and losses from approximately RMB80.6 million in FY2018 to approximately RMB19.9 million in FY2019 due to the decrease in unrealized foreign exchange translation loss and the decrease in net loss arising from receivables measured at fair value through other comprehensive income recognized during FY2019, partially offset by the decrease in cost of sales from approximately RMB2,716.25 million in FY2018 to approximately RMB1,847.4 million in FY2019, which was generally in line with the decrease in revenue.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

FY2020 versus FY2019

The Group recorded revenue of approximately RMB1,712.0 million for FY2020, representing a decrease of approximately RMB364.2 million or 17.5% as compared to that of FY2019, which was mainly due to (i) the decrease in sales of gasoline engines of approximately RMB258.7 million; and (ii) the decrease in sales of diesel engines of approximately RMB271.3 million, partially offset by the increase in sales of engine components of approximately RMB165.9 million.

As disclosed in the 2020 Annual Report, the sales volume of engines decreased by approximately 50.75% from around 127,500 units in 2019 to around 62,800 units in 2020. The decrease was mainly due to the decrease in the sales of traditional gasoline, diesel engines and Prince Engines in FY2020 as a result of the reduction in demand for certain types of vehicles produced by the Group's customers.

The loss attributable to owners of the Company was approximately RMB808.6 million in FY2020, as compared to a net profit of approximately RMB6.8 million for FY2019, which was attributable to (i) the aforementioned decrease in revenue; and (ii) the increase in impairment of trade-related receivables from approximately RMB6.1 million in FY2019 to approximately RMB714.8 million in FY2020 mainly due to an impairment of trade-related receivables based on an expected credit losses assessment performed by an independent qualified professional valuer, partially offset by the decrease in cost of sales from approximately RMB1,847.4 million in FY2019 to approximately RMB1,589.0 million in FY2020, which was due to the decrease in revenue.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Review of financial positions

Set out below is the summary of the audited consolidated statement of financial position of the Group as at 31 December 2019 and 2020 as extracted from the 2020 Annual Report:

	As at 31 December	
	2019	2020
	(Audited)	(Audited)
	<i>RMB '000</i>	<i>RMB '000</i>
Non-current assets	3,375,609	3,155,461
– <i>Property, plant and equipment</i>	2,543,565	2,297,808
Current assets	2,650,071	1,851,291
– <i>Inventories</i>	658,422	634,399
– <i>Amounts due from related companies</i>	1,145,866	333,522
– <i>Bank balances and cash</i>	98,188	55,285
– <i>Pledged/restricted bank deposits</i>	266,068	538,459
Total assets	6,025,680	5,006,752
Non-current liabilities	625,822	352,713
Current liabilities	2,407,938	2,470,489
Total liabilities	3,033,760	2,823,202
Net current assets/(liabilities)	242,133	(619,198)
Net assets	2,991,920	2,183,550
Equity attributable to owners of the Company	2,991,920	2,183,550
Total cash and cash equivalents (<i>Note 1</i>)	364,256	593,744
Borrowings		
– <i>Borrowings due within one year</i>	1,008,088	1,067,468
– <i>Borrowings due after one year</i>	577,723	320,394
Total borrowings	1,585,811	1,387,862
Current ratio (<i>Note 2</i>)	1.10	0.75
Gearing ratio (<i>Note 3</i>)	53.0%	63.6%

Source: The 2020 Annual Report

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Notes:

1. Total cash and cash equivalents represents bank balances and cash and pledged/restricted bank deposits.
2. Current ratio represents total current assets divided by total current liabilities.
3. Gearing ratio represents total borrowings divided by total equity attributable to owners of the Company.

As at 31 December 2019

The Group recorded the total assets of approximately RMB6,025.7 million as at 31 December 2019. The major assets of the Group included inventories, amounts due from related companies, pledged/restricted bank deposits and property, plant and equipment, which together amounted to approximately RMB4,613.9 million, which accounted for approximately 76.6% of the total assets of the Group.

As at 31 December 2019, the Group had current assets of approximately RMB2,650.1 million and current liabilities of approximately RMB2,407.9 million, representing net current assets of approximately RMB242.1 million with current ratio of 1.1 time, indicating that the Group's was financially sound with ability to meet its short-term repayment obligations.

As at 31 December 2019, the Group had outstanding borrowings amounted to approximately RMB1,585.8 million, including borrowings due within one year in the amount of approximately RMB1,008.1 million. The Group's cash and cash equivalents (including bank balances and cash and pledged/restricted bank deposits) amounted to approximately RMB364.3 million, indicating that the Company is facing a challenging cash flow pressure in view of the current liabilities.

The Group's gearing ratios as at 31 December 2019 was approximately 53.0% which represents the Group is highly reliant on debt to support its continuing operations.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As at 31 December 2020

The Group recorded the total assets of approximately RMB5,006.8 million as at 31 December 2020. The major assets of the Group included inventories, amounts due from related companies, pledged/restricted bank deposits and property, plant and equipment, which together amounted to approximately RMB3,804.2 million, which accounted for approximately 71.0% of the total assets of the Group.

As at 31 December 2020, the Group had current assets of approximately RMB1,851.3 million and current liabilities of approximately RMB2,470.5 million, representing net current liabilities of approximately RMB619.2 million with current ratio under 1.0 time, indicating that the Group's was under pressure on meeting its short-term repayment obligations.

As at 31 December 2020, the Group had outstanding borrowings amounted to approximately RMB1,387.9 million, including borrowings due within one year in the amount of approximately RMB1,067.5 million. The Group's cash and cash equivalents (including bank balances and cash and pledged/restricted bank deposits) amounted to approximately RMB593.7 million, indicating that the Company is facing a challenging cash flow pressure in view of the current liabilities.

The Group's gearing ratios as at 31 December 2020 was approximately 63.6% which represents the Group is highly reliant on debt to support its continuing operations.

2. Background and Reasons for entering into the Loan Documents

2.1 Reason for and benefits of the Loan Documents

Financial position of 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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As stated in the Letter from the Board, the Borrowers have been suffering from the COVID-19 pandemic and fierce industry competition which led to a loss-making as well as a net current liability position of the Group. For the year ended 31 December 2020, the Group recorded net loss of approximately RMB808.6 million and net current liabilities of approximately RMB619.2 million as at 31 December 2020. In addition, the current portion of borrowings has amounted to approximately RMB1,067.5 million as at 31 December 2020, as compared to the cash and bank balances of approximately RMB55.3 million. The above financial position indicated that the Company is facing a challenging cashflow pressure in repayment of loans and at the same time sustaining its operation in view of the current liquidity position. In review of the current financial position of the Group and the repayment schedule of the Group's outstanding loans, we concur with the management of the Company that there is a strong imminent need of the Group for new funding in order to reduce its pressure in meeting the Group's short-term loan repayment obligations, and that the Support Agreement is essential for the Group to implement its business plan without substantial outlay of the Group's cash on hand. The supportive arrangement from BBA is to ensure that the Company has sufficient working capital for its operations in view of the volatile and uncertain automobile industry without substantial cash outlay due to the repayment of existing bank loans.

According to the statistics of China Association of Automobile Manufacturers, approximately 25.3 million new vehicles were sold in 2020 in the PRC with an annual decline of approximately 1.9%, marking its third straight annual decline since 2018. The annual decline in sales in the automobile industry in the PRC created a negative impact on the performance of the Group which is driven by the sales of engine and engine components. As disclosed in the 2020 Annual Report, the demand for certain types of vehicles produced by the Group's customers decreased during FY2020, and this affected the sales of both the traditional and Prince Engines of the Group, leading to the substantial increase in net loss attributable to owners of the Company to approximately RMB93.8 million in FY2020 after excluding the one-off effect of the impairment loss of trade-related receivables of approximately RMB714.8 million, as compared to a net profit attributable to owners of the Company of approximately RMB6.85 million for FY2019.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In addition, as advised by the management of the Company, the demand for the materials and automotive components by certain major customers of the Company also declined drastically due to the suspension of certain existing models due to the revision of emission standard into the “Limits and Measurement Methods for Emissions from Light-Duty Vehicles” (《輕型汽車污染物排放限值及測量方法(中國第六階段)》) released on 1 July 2016 and implemented in advance on 1 July 2019 which led to the decline in sales in the Group’s engines in FY2019 and FY2020. The weakened performance in sales of the Group in FY2020 created pressure on the Group’s operating cashflows and its financial position, leading to the net current liabilities of the Group of RMB619.2 million as at 31 December 2020. Therefore, the entering into of the Support Agreement represents an interim measure for the Group to repay its existing bank loans that may fall due in the near term while it can help ease the Group’s pressure on its working capital.

Based on our review of the Loan Documents, we noted that part of the proceeds from the Loan are designated for the repayment of principal and interest of certain term loan facilities amount to RMB400 million. By reviewing the proposed repayment schedule provided by the Company, we noted that the relevant bank loans facilities were used for financing working capital purposes and purchase of equipment, consisted respective aggregate amounts ranging from RMB45 million to RMB254 million with variable interest rates ranging from 3.02% above the London Interbank Offered Rate or at fixed interest rate from 4.4% to 6.0% per annum and the maturity dates ranging from June 2021 to November 2026. Based on our discussion with the management of the Company, we understood that the borrowings of the relevant bank loans facilities of approximately RMB560 million would be matured or required repayment on or before 31 December 2021. As the Company had cash and cash equivalents of approximately RMB55.3 million as at 31 December 2020, it will leave the Company with very limited cashflow should it use all cash to satisfy relevant current borrowings on each respective maturity dates due in 2021. As such, by entering into the Loan Documents, the imminent repayment needs under the loan facilities would be resolved and the liquidity risk of the Group in respect of the repayment of bank borrowings would be reduced in this regard.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

On the other hand, as mentioned in the Letter from the Board, the Company is involved in the automobile industry where its business requires higher requirements for production, circulation and management. The Company, on a continuous basis, must pay for the purchase, maintenance and repair of fixed assets as well as has projects under construction, and therefore incurs relatively high expenditure annually. In order to maintain its competitive edge and sustainable development capabilities, the Company needs to continue to increase investment in research and development and technological improvements. With the steady development of the Company's business, there will be increasing working capital requirements. For our due diligence purpose, we have obtained and reviewed (i) the management accounts of the Group for the period ended 30 June 2021; (ii) the working capital forecast of the Group for the year ending 31 December 2021; and (iii) the proposed repayment schedule of the Group's outstanding loans for the year ending 31 December 2021, we noted that the Company will maintain a positive cash position for the year ending 31 December 2021. Therefore, the entering into of the Support Agreement represents an interim measure for the Group to ease the Group's pressure on its working capital to reallocate its internal resources its operation.

Despite the decline in overall automobile market in 2020, the production and sales of automobiles have risen in contrast to the downturn of the general automobile industry, which has driven the potential demand in the upstream products where the Group is operating in. According to the statistics of China Association of Automobile Manufacturers, the production and sales of automobiles in the PRC reached approximately 6.35 million and 6.48 million units for the three months ended 31 March 2021, which represented an annual increase of approximately 81.7% and 75.6% respectively. The production and sales of automobiles in the PRC in first quarter of 2021 has put back as compared to statistics of the same period of 2019 of approximately 6.34 million and 6.37 million units, where the monthly production and sales in March 2021 of approximately 2.46 million units and 2.53 million units has restored to the pre-pandemic level of approximately 2.59 million and 2.46 million units in November 2019.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

With the recovery of the automobile market following the impact of the COVID-19 pandemic, there have been signs of improvement in the Group's sales of engines and the Group could reallocate its internal resources as additional working capital to enhance the smooth operation of the Group. Based on our review on the operating statistics of the Group and having discussed with the management of the Company, we noted that the sales of engines and components for the first quarter of 2021 has improved as compared to the same period in 2020. Having discussed with the management of the Company on the business prospects of the Group, the management of the Company expects that with the improving sales from its principal businesses, the operating cash inflow will be enhanced and the Company would have more internal resources to fulfill its working capital requirements or repayment obligations, as well as being able to obtain better terms in seeking other debt or equity financing.

The MOU

Upon our enquiry to the management of the Company, we noted that in the case of default events under the Support Agreement, the mortgages created over the Mortgaged Assets under the Mortgage Agreements shall be put forward to the Mortgaged Assets Public Listing Process, where (i) in case BBA wins the bidding, the Borrowers shall cooperate with BBA to release the mortgages created over the Mortgaged Assets and conduct the formalities to transfer the title to the Mortgaged Assets to BBA; or (ii) the mortgages created over the Mortgaged Assets under the Mortgage Agreements shall not be released and the Borrowers shall request the winning bidder of the Mortgaged Assets to continue to mortgage the Mortgaged Assets to BBA after it wins the bidding for the debts owed by the Borrowers to BBA. As stated in the Letter from the Board, the Mortgaged Assets are important to the business operations of BBA, which rely to a great extent on the supply of finished crankshafts and connecting rods produced by the Borrowers using the Mortgaged Assets.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Therefore, as advised by the management of the Company, in view of (i) the net current liabilities and loss-making track record of the Group for the year ended 31 December 2020; and (ii) Huachen Automotive Group Holdings Company Limited* (華晨汽車集團控股有限公司) (the controlling shareholder Brilliance China, which in turn is a controlling shareholder of the Company) is undergoing a restructuring process (the “**Restructuring**”), such financial difficulties of the Group had adversely affected the credit rating of the Group and may affect its stable supply of finished crankshafts and connecting rods to BBA. In order for the Group to facilitate the granting of the Loan by BBA to meet its repayment obligations under the existing bank facilities, the Group agreed to BBA that the Loan must be secured by the Mortgaged Assets. The Mortgaged Assets are important to the business operations of BBA and BBA remains highly cautious that it must be able to obtain the control and possession of the Mortgaged Assets should it become necessary to do so by implementing the security created in the form of mortgage over the Mortgaged Assets as contemplated under the Mortgage Agreements coupled with the mechanism for the Potential Disposal as set out in the Support Agreement (including but not limited to the mandatory repayment provisions mentioned above) and the MOU. Under the Mortgage Agreements, BBA can enforce the mortgage right if the Borrowers dispose of the Mortgaged Assets in whole or in part or if the Borrowers fail to repay the Loan when it becomes due. BBA also has the priority to be repaid from the proceeds received from auction or sale of the Mortgaged Assets or offset the outstanding balance of the Loan with the appraised value of the Mortgaged Assets.

We noted that the security in the Mortgaged Assets is required by BBA in order to reduce their risk exposure and to provide an adequate level of protection against the Company’s default, where the Mortgaged Assets Public Listing Process is necessary under the requirement of State-owned Assets Supervision and Administration Commission of the State Council. On the other hand, in the event that BBA wins the bidding, other forms of financing of the Mortgaged Assets can be considered by the Group including but not limited to the sales and leaseback arrangement of the Mortgaged Assets in order to ensure the continued operation of the production and sales of finished crankshafts and connecting rods of the Group whilst the Group would benefit from reducing the existing bank loans with the proceeds from the Potential Disposal thereby reducing its financing costs.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Having considered that the Mortgaged Assets are state-owned assets and the possible time and procedures required under the Mortgaged Assets Public Listing Process, we are of the view that the entering into of the MOU between the Borrowers and BBA at the same time of entering into of the Support Agreement is fair and reasonable as (i) it serves to stipulate the procedures and conditions precedent for the Potential Disposal as it is possible that the Mortgaged Assets are required to be transferred and realized by the Borrowers for any cash proceeds pursuant to the Mortgage Agreements if the Borrowers defaults on its repayment of the Loan to BBA; (ii) it allows the Group to obtain the best possible price through the Mortgaged Assets Public Listing Process; (iii) the Group could secure a bidder for the Mortgaged Asset Public Listing Process as BBA has indicated its intention in the MOU that it will participate in the Mortgaged Assets Public Listing Process; and (iv) it could facilitate the granting of the Loan by BBA.

Other fund raising methods available to the Company

The Company has been pursuing a number of options as regard to financing by way of equity or debt as an alternative to the Loan, including borrowings from other banks or other financial institutions and private placement for capital raising purpose before entering into the Loan Documents. We are given to understand that, having considered the Restructuring and the net current liabilities and loss-making track record of the Group, the Group is not able to obtain any loan from banks with similar or more favourable terms as compared with those under the Support Agreement nor is the Group able to negotiate with any potential investors willing to participate in private placements of the Shares with favourable terms.

Confidence of BBA and the controlling Shareholder in the long-term development of the Company

As discussed above and with regard to the outbreak of the novel coronavirus pandemic in early 2020 which has caused great impact on the automobile industry, the Company is facing an unprecedented situation with a volatile and uncertain industry prospect. Under the challenging environment of the Group's business, BBA, as an associate of Brilliance China which is the controlling Shareholder and a long time business partner in purchase of engines, engine parts and components, has decided to provide more support to the Company. The provision of the Loan demonstrates the confidence of the controlling Shareholder in the long-term development of the Company and its long standing support of the development of the Company. The Directors believe that the provision of the Loan will thus further enhance the investment value of the Company, which will maximize the interests of the Shareholders and effectively safeguard the interests of the minority Shareholders.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Having considered (i) the competitive business environment in the Group's downstream products; (ii) the capital needs of the Group to supplement its smooth operation of the Group; (iii) the difficulties of the Group to obtain debt financing on favorable terms from commercial banks and/or financial institutions; and (iv) the financial support from BBA, being an associate of a controlling shareholder of the Company and a long time business partner, will be conducive to the confidence in the Shareholders and potential investors of the Company, we are of the view that the entering into the Loan Documents are fair and reasonable and are in the interest of the Company and the Shareholders.

3. Major terms of the Loan Documents

The major terms of the Loan Documents are set out as below:

Parties	:	(i) BBA, as lender
		(ii) Mianyang Xinchun, Mianyang Xinchun (Shenyang Branch) and Shenyang Xinchun, all of which are wholly-owned subsidiaries of the Company, as joint borrowers
Subject	:	The Loan in the principal amount of RMB500 million
Loan term	:	A period commencing from the day on which BBA releases the proceeds of the Loan in accordance with the Support Agreement and ending on the day on which the Loan shall be repaid in accordance with the Support Agreement.

Notwithstanding any other provisions of the Support Agreement, the repayment date of the Loan shall not exceed 190 business days after execution of the Support Agreement, i.e. the Loan together with interest accrued thereon shall be repaid by the Borrowers to BBA no later than 10 business days from the 180th business day after execution of the Support Agreement.

The Company expects that should it become necessary, the Borrowers will negotiate with BBA for an extension of the term of the Loan which, in the Directors' view, is in the interest of both the Group and BBA given their close and long-term working relationship.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- Use of proceeds** : As to approximately RMB400 million for repayment of bank loans of the Group as they fall due and as to approximately RMB100 million for working capital of the Group
- Loan interest** : 4.6% per annum
- Security** : The mortgages to be created over the Mortgaged Assets under the Mortgage Agreements
- Transfer of the Mortgaged Assets** : Where the Borrowers intend to transfer the Mortgaged Assets and BBA has the intention to purchase the Mortgaged Assets, BBA may under any of the following circumstances request repayment of the Loan and interest accrued thereon by serving a written notice on the Borrowers, and the Borrowers shall repay to BBA the Loan already made and interest accrued thereon within 10 business days upon receipt of such notice:
- (1) the approval by the Shareholders for all the transactions and matters covered by the Support Agreement (if applicable) is not obtained within 40 business days after the execution of the Support Agreement, or the Borrowers fail to initiate the Mortgaged Assets Public Listing Process within 20 business days after the obtaining of the above approval of the Shareholders;
 - (2) BBA is not selected as the winning bidder during the Mortgaged Assets Public Listing Process; and
 - (3) the land use right/property right of the Mortgaged Assets is not delivered to BBA within 180 business days after execution of the Support Agreement.

Further details of the Loan Documents are set out in the sections under “Support Agreement”, “Mortgage Agreements” and “MOU” in the Letter from the Board.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Analysis on terms of the Loan Documents

(a) Interest rate

Pursuant to the terms of the Loan Documents, interest will accrue on the loan under the Loan Documents at a fixed rate of 4.6% per annum, calculated on the basis of the number of days from (and including) the payment date of the Loan to (but excluding) the day on which the term of the Loan ends and on a 360-day basis. The principal amount of the Loan along with accrued interest is payable in one lump sum within 10 business days from the 180th business day after execution of the Support Agreement. In determining the fairness and reasonableness of the interest rate, we have obtained and reviewed the existing financing agreements, in particular, with interest-bearing feature, entered into between the Group and independent third party financial institutions in the PRC for conducting comparison with the interest rate pricing mechanism in order to ensure that such interest rate under the Loan Documents is on normal commercial terms and in the interest of the Company and Shareholders as a whole.

Based on the aforesaid documents provided by the Company, which represented an exhaustive list of the existing interest-bearing loan financing agreements entered into between the Group and independent third party financial institutions in the PRC, we noted that the Group currently has 11 existing interest-bearing loan financing agreements (the “**Existing Loan Comparables**”), of which the interest rate of each loan agreement is within the range between 2.20% and 6.00% (assuming the London Interbank Offered Rate of approximately 0.1285%), with average and median of 4.89% and 5.50%, of which 7 out of 11 are being charged equal to or exceeding 4.6%, being the current effective fixed interest rate under the Loan Documents). The interest rate under the Loan Documents is within the range of the same under the Existing Loan Comparables and is lower than the average and median.

On the basis of the above, we are of view that the interest rate under the Loan Documents is no less favourable than those offered by the independent third party financial institutions in accordance with the Existing Loan Comparables.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(b) Loan term

Pursuant to the terms of the Loan Documents, notwithstanding any other provisions of the Support Agreement, the repayment date of the Loan shall not exceed 180 business days after execution of the Support Agreement.

As set out in the 2020 Annual Report, in view of the complexity of the business environment, the Company has taken measure to ally with the policies change and actively carry out technological innovation to ensure compliance with the latest regulations and meet the changes in the market brought about by consumers' demands.

Based on the 2020 Annual Report and from our further inquiry, we noted that the Group is currently working on the projects for certain hybrid engine with various displacements which cater for plug-in hybrid vehicle and range-extended electric vehicles. The Group signed contracts with various customers and commenced vehicle matching work and expects that the industrialization of these engines will be in the second half of 2021 and in 2022. Besides, with the exclusive license of Prince Engine by BMW AG, the Group will continue to enjoy the sales of engine components for production of the car models under the brand name of "BMW".

The Company is optimistic about the outlook that the Chinese automobile market will bottom out in 2021, and the market will restore its positive growth through the development of vehicle electrification, vehicle digitalization, vehicle built-in intelligence and in-car internet in the coming years. The aforesaid anticipation will accelerate the transformation and upgrading of the automotive industry and simultaneously shift the new energy vehicle market from policy-driven to market-driven. The Company expects that, with the prospect of car makers speeding up their production in the second half of 2021, sales would recover after the COVID-19 pandemic stabilizes and the cash resources of the Group would be sufficient for financing its operations and the repayment of the Loan upon its maturity.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

For our due diligence purpose, we have obtained and reviewed (i) the working capital forecast of the Group for the year ending 31 December 2021; (ii) the management accounts of the Group for the period ended 30 June 2021; and (iii) the proposed repayment schedule of the Group's outstanding loans for the year ending 31 December 2021. We have enquired about the measures of the Group to improve its financial position to arrive at its projected cash flow from operations. We were further advised by the management of the Group that with the Loan obtained from BBA, the financial difficulty of the Group can be lessened and it is foreseen that there will be an improvement in the Group's operating cashflows, and at the same time better terms can be obtained in negotiating with banks for refinancing and further lessen the financial difficulties when the financial position of the Group has improved. Therefore, we are of the view that the Loan was provided as an interim measure to alleviate the short-term liquidity pressure of the Group and with the improvement of the financial position and cashflow from operations of the Group during the term of the Loan, we concur with the management of the Group that the Group would have sufficient cash resources for financing its operations and the repayment of the Loan upon its maturity.

As advised by the management of the Group, in the event the Group could not repay the Loan on schedule, part of the Group's receivables from BBA in respect of the sales of finished crankshafts and connecting rods may be settled by setting off the principal of the Loan. Further, as set out in the Letter from the Board, the management of the Group will negotiate with BBA for an extension of the term of the Loan when the Loan falls due which, in the Directors' view, is in the interest of both the Group and BBA given their close and long-term working relationship, and we consider that this could allow the Group to repay the Loan until it is financially feasible to do so, subject to the progress of the Restructuring and the then liquidity position of the Group.

In the event that the Group could not extend the term of the Loan and is required to transfer the Mortgaged Assets to obtain the necessary funding for the repayment of the Loan, the Group has taken into account the time required to go through the public listing process to transfer the Mortgaged Assets. The Group expects that the term of the Loan of 180 business days would be sufficient for the Group to obtain the necessary approval and complete the public listing process for the transfer of the Mortgaged Assets and receive the proceeds for repaying the Loan such that the Borrowers will be able to repay the Loan and interest accrued thereon and at the same time, the Group could apply the remaining proceeds from the Potential Disposal as general working capital and repayment of the outstanding bank loans, thereby reducing financing costs of the Group.

Having considered the above, we are of the view that the Loan's term is fair and reasonable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(c) Security

Pursuant to the Loan Documents, the Loan provided to the Company is secured by the mortgage to be created over the Mortgaged Assets under the Mortgage Agreement. We confirmed with the Company that the inclusion of security in favour of BBA under the Loan Documents is requested by BBA and agreed by the Company after taking into account (i) the favourable terms as set out under the Loan Documents; (ii) the protection given to BBA in order to reduce the default risk assumed by BBA under the Loan Documents; and (iii) the funding difficulty faced by the Group due to current financial position of the Company.

As informed by the management of the Company, the security arrangement under the Support Agreement is in line with market practice to procure a favourable interest rate under the Loan Documents and is required by BBA in order to reduce their risk exposure and to provide an adequate level of protection against the Company's default. We have also discussed with the management of the Company in relation to the value of the Mortgaged Assets compared with the borrowing amount provided from the loan facilities and understand that in the light of the Group's net current liabilities position, loss-making track record due to the significant impairment in FY2020 and the significant amount of existing financing agreements, the Company was not able to obtain bank borrowings with an amount comparable to the valuation amount of the Mortgaged Assets available under the Mortgage Agreement from commercial banks or financial institutions on terms acceptable to the Company.

(d) Transfer of the Mortgaged Assets

As set out in the Letter from the Board, where the Borrowers intend to transfer the Mortgaged Assets and BBA has the intention to purchase the Mortgaged Assets, BBA may request repayment of the Loan and interest accrued thereon by serving a written notice on the Borrowers, and the Borrowers shall repay to BBA the Loan already made and interest accrued thereon within 10 business days upon receipt of such notice.

Pursuant to the Support Agreement, the Mortgaged Assets was pledged as a security under the Support Agreement as a protection to BBA for the granting of the Loan to the Group and the MOU sets out the mechanism for the Potential Disposal in the event the Group intends to transfer the Mortgaged Assets.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Since the Mortgaged Assets are the collateral of the Loan, the repayment of the Loan is a prerequisite in order for BBA to release the security of the Loan. As such, where the Borrowers intend to transfer the Mortgaged Assets and BBA has the intention to purchase the Mortgaged Assets, we are of the view that the subsequent release of the security and request of repayment of loan associated with the Potential Disposal is a normal market practice for secured loans of the same nature. Given the above, we consider that such security arrangement is fair and reasonable and is in the interest of the Shareholders as a whole.

RECOMMENDATION

Having considered the above principal factors and reasons, we consider that although the entering into of the Support Agreement and the Mortgage Agreements is not in the ordinary and usual course of business of the Group, it is on normal commercial terms and is fair and reasonable so far as the Independent Shareholders are concerned and is in the interest of the Company and Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favor of the ordinary resolutions to be proposed at the EGM for approving the resolutions in respect of the Support Agreement and the Mortgage Agreements and the transactions contemplated thereunder.

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 28 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 20 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 (Note 3)
Mr. Wu Xiao An (also known as Mr. Ng Siu On) (Note 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 (Note 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 (Note 6)
Brilliance Investment Holdings Limited ("Brilliance Investment")	Beneficial owner	400,000,000 (L) Ordinary	31.20%
Brilliance China (Note 1)	Interest in a controlled corporation	400,000,000 (L) Ordinary	31.20%
Huachen Automotive Group Holdings Company Limited* (華晨汽車集團控股有限公司) ("Huachen") (Note 2)	Interest in a controlled corporation	400,000,000 (L) Ordinary	31.20%
Xinhua Investment Holdings Limited ("Xinhua Investment")	Beneficial owner	400,000,000 (L) Ordinary	31.20%
Mianyang Xinhua Internal Combustion Engine Joint Stock Company Limited* (綿陽新華內燃機股份有限公司) ("Xinhua Combustion Engine") (Note 3)	Interest in a controlled corporation	400,000,000 (L) Ordinary	31.20%
Sichuan Yibin Pushi Group Co., Ltd. ("Pushi Group") (Note 4)	Interest in a controlled corporation	400,000,000 (L) Ordinary	31.20%
Sichuan Province Yibin Wuliangye Group Co., Ltd.* (四川省宜賓五糧液集團有限公司) ("Wuliangye") (Note 5)	Interest in a controlled corporation	400,000,000 (L) Ordinary	31.20%

Notes:

- (1) 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 beneficially owned as to approximately 30.43% 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 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 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

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. 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 2020, 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 on 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 2020, 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/her respective 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
	Brilliance Investment	Director
Mr. Wang Yunxian	Xinhua Investment	Director
Ms. Ma Nina	Brilliance China	Executive director
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 2020, 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 Support Agreement, the Mortgage Agreements (in agreed form) and the MOU;
- (b) the letter of recommendation from the Independent Board Committee, the text of which is set out on pages 18 to 19 of this circular;
- (c) the letter of advice from Octal Capital, the text of which is set out on pages 20 to 41 of this circular; and
- (d) the written consent from Octal Capital referred to in the paragraph headed “Expert’s Consent and Qualification” in this appendix.

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 動 力

XINCHEN CHINA POWER HOLDINGS LIMITED

新晨中國動力控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1148)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of Xinchen China Power Holdings Limited (the “**Company**”) will be held at Pheasant Room, 1st Floor, Mandarin Oriental, Hong Kong, 5 Connaught Road Central, Hong Kong on Monday, 23 August 2021 at 9:00 a.m., for the purposes of considering and, if thought fit, passing, with or without modification, the following resolution as ordinary resolution of the Company:

ORDINARY RESOLUTION

“**THAT**

- (a) the support agreement (支持協議) (as supplemented and revised by a supplemental agreement thereto dated 2 July 2021, the “**Support Agreement**”) (a copy of which has been produced to this meeting marked “A” and initialled by the chairman of this meeting for the purpose of identification) dated 11 May 2021 entered into between BMW Brilliance Automotive Ltd.* (華晨寶馬汽車有限公司) (“**BBA**”), Mianyang Xinchen Engine Co., Ltd.* (綿陽新晨動力機械有限公司) (an indirect wholly-owned subsidiary of the Company) (“**Mianyang Xinchen**”), Xinchen Engine (Shenyang) Co., Limited* (新晨動力機械(瀋陽)有限公司) (an indirect wholly-owned subsidiary of the Company) (“**Shenyang Xinchen**”) and Mianyang Xinchen Engine Co., Ltd. Shenyang Branch* (綿陽新晨動力機械有限公司瀋陽分公司) (the branch company of Mianyang Xinchen) (“**Mianyang Xinchen (Shenyang Branch)**”, together with Mianyang Xinchen and Shenyang Xinchen, the “**Borrowers**”) in relation to, among others, a secured interest-bearing loan (the “**Loan**”) in the principal amount of RMB500,000,000 to be advanced by BBA to the Borrower as set out in the paragraph headed “Letter from the Board – Support Agreement” contained in the circular of the Company dated 30 July 2021 (the “**Circular**”) (a copy of which has been produced to this meeting marked “B” and initialled by the chairman of this meeting for the purpose of identification), together with the transactions contemplated thereunder, be and are hereby approved;

NOTICE OF THE EXTRAORDINARY GENERAL MEETING

- (b) each of the four mortgage agreements (抵押合同) (the “**Mortgage Agreements**”) (a copy of which has been produced to this meeting marked “C” and initialled by the chairman of this meeting for the purpose of identification) to be entered into between the Borrowers with BBA, pursuant to which mortgages over the Mortgaged Assets (as defined in the Circular) will be created in favour of BBA as security for, among others, the Loan as set out in the paragraph headed “Letter from the Board – Mortgage Agreements” contained in the Circular, together with the transactions contemplated thereunder, be and are hereby approved; and
- (c) any director of the Company (the “**Director**”) be and are hereby authorized, for and on behalf of the Company, to do all such things and exercise all powers which he/she considers necessary or desirable or expedient in connection with the Support Agreement and the Mortgage Agreements or otherwise in connection with the implementation of the transactions contemplated thereunder, including without limitation the execution, amendment, supplement, delivery, waiver, submission and implementation of any of the Support Agreement and the Mortgage Agreements and any further documents or agreements, and any Director and the company secretary of the Company or two Directors be authorized to affix the common seal of the Company (if required) on any document or deed as they consider appropriate.”

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

Hong Kong, 30 July 2021

Registered Office:

Windward 3
Regatta Office Park
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

* *for identification purposes only*

NOTICE OF THE EXTRAORDINARY GENERAL MEETING

Notes:

1. A shareholder entitled to attend and vote at the above meeting may appoint one or more than one proxies to attend and to vote on a poll in his stead. On a poll, votes may be given either personally (or in the case of a shareholder being a corporation, by its duly authorised representative) or by proxy. A proxy need not be a shareholder of the Company.
2. Where there are joint registered holders of any share, any one of such persons may vote at the meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders are present at the meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.
3. In order to be valid, the form of proxy duly completed and signed in accordance with the instructions printed thereon together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy thereof must be delivered to the office of the Company's branch registrar 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 Wednesday, 18 August 2021 to Monday, 23 August 2021, 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 Wednesday, 18 August 2021 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 Tuesday, 17 August 2021.
6. The ordinary resolution set out in this notice of extraordinary general meeting will be put forward to independent shareholders to vote by way of a poll.
7. In view of the pandemic of COVID-19, the following precautionary measures will be implemented at the meeting (or any adjournment thereof) to protect our shareholders from the risk of infection:
 - (i) Compulsory body temperature check will be conducted for all shareholders, proxies and other attendees at the entrance of the meeting venue. Any person with a body temperature above the reference range recommended by the Department of Health of The Government of the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong Government**") from time to time, or is exhibiting flu-like symptoms, may be denied entry into the meeting venue or be required to leave the meeting venue.
 - (ii) Each attendee may be asked to complete and submit a health declaration form prior to entry into the meeting venue. Anyone who responds positively to any of the questions in the health declaration form may be denied entry into the meeting venue or be required to leave the meeting venue.

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(iii) All attendees will be required to wear surgical face mask before they are permitted to attend, and during their attendance of, the meeting. Please note that no masks will be provided at the meeting venue and attendees should bring and wear their own masks.

(iv) No refreshment and drinks will be provided and no gift will be distributed at the meeting.

Any person who does not comply with the precautionary measures or is subject to any Hong Kong Government prescribed quarantine may be denied entry into the meeting venue.

The Company reminds all shareholders that physical attendance in person at the meeting is not necessary for the purpose of exercising voting rights. Shareholders may appoint the Chairman of the meeting as their proxy to vote on the relevant resolutions at the meeting by completing and returning the proxy form instead of attending the meeting in person.

The Company will keep the evolving COVID-19 situation under review and may change the precautionary measures or implement additional measures which it will announce closer to the date of the meeting, if and when necessary.

As at the date of this notice, the board of directors of the Company comprises two executive directors, Mr. Wu Xiao An (also known as Mr. Ng Siu On) (Chairman) and Mr. Wang Yunxian (Chief Executive Officer); two non-executive directors, Ms. Ma Nina and Mr. Yang Ming; and four independent non-executive directors, Mr. Chi Guohua, Mr. Wang Jun, Mr. Huang Haibo and Mr. Wang Songlin.