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# Brilliance Auto

华 晨 汽 车

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

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 1114)**

## **CONTINUING CONNECTED TRANSACTIONS**

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

 **金融有限公司**  
**OCTAL Capital Limited**

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A letter from the Board is set out on pages 5 to 35 of this circular. A letter from the independent board committee of Brilliance China Automotive Holdings Limited is set out on page 36 of this circular.

A letter from Octal Capital Limited, the independent financial adviser, containing its advice to the independent board committee and the independent shareholders of Brilliance China Automotive Holdings Limited is set out on pages 37 to 81 of this circular.

A notice convening the Special General Meeting to be held at Tian & Di Function Room, 7th Floor, The Landmark Mandarin Oriental, The Landmark, 15 Queen's Road Central, Central, Hong Kong on Thursday, 21 December 2017 at 9:00 am is set out on pages 87 to 89 of this circular. Whether or not you are able to attend the Special General Meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the office of the branch registrar of Brilliance China Automotive Holdings Limited in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the Special General Meeting (i.e. at or before 9:00 a.m. on Tuesday, 19 December 2017 (Hong Kong time)) or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the Special General Meeting or any adjourned meeting (as the case may be) should you so wish.

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## DEFINITIONS

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

“30%-controlled company(ies)”	has the meaning ascribed thereto in the Listing Rules;
“Approved Caps”	the estimated annual monetary values of the Continuing Connected Transactions for the three financial years ending 31 December 2017 which have been approved by Independent Shareholders in general meetings or announced by the Company (as the case may be);
“associates”	has the meaning ascribed thereto in the Listing Rules;
“Board”	the board of Directors;
“Companies Ordinance”	Companies Ordinance (Chapter 622 of the Laws of Hong Kong);
“Company”	Brilliance China Automotive Holdings Limited (華晨中國汽車控股有限公司*), an exempted company incorporated in Bermuda with limited liability on 9 June 1992, whose securities are listed on the Stock Exchange;
“Completion”	completion of the proposed disposal of the 49% equity interest in Shenyang Automotive by the Group to Renault as disclosed in the circular of the Company dated 18 September 2017;
“connected persons”	has the meaning ascribed thereto in the Listing Rules;
“Continuing Connected Transactions”	the transactions between members of the Group and the connected persons as set out in the paragraph headed “The Continuing Connected Transactions” in this circular;
“Directors”	the directors of the Company;
“Dongxing Automotive”	瀋陽華晨東興汽車零部件有限公司 (Shenyang Brilliance Dongxing Automotive Component Co., Ltd.*), a wholly foreign owned enterprise established in the PRC on 17 March 1999 and a wholly-owned subsidiary of the Company. The principal activities of Dongxing Automotive are the manufacture and trading of automotive components and remodeling minibuses and sedans;
“Group”	the Company and its subsidiaries;

## DEFINITIONS

“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Huachen”	華晨汽車集團控股有限公司 (Huachen Automotive Group Holdings Company Limited*), the controlling shareholder of the Company which as at the Latest Practicable Date was interested in approximately 42.32% of the issued share capital of the Company;
“Huachen Group”	Huachen, its subsidiaries and, for the purpose of this circular, shall include its 30%-controlled companies;
“Independent Board Committee”	the independent committee of Board, comprising Mr. Xu Bingjin, Mr. Song Jian and Mr. Jiang Bo, all of whom are independent non-executive Directors, formed to advise the Independent Shareholders as to (i) the Continuing Connected Transactions; and (ii) the Proposed Caps;
“Independent Financial Adviser”	Octal Capital Limited, the independent financial adviser appointed for the purpose of advising the Independent Board Committee and the Independent Shareholders as to (i) the Continuing Connected Transactions; and (ii) the Proposed Caps;
“Independent Shareholders”	Shareholders other than Huachen and its associates;
“Latest Practicable Date”	1 December 2017, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Mianyang Ruian”	綿陽華晨瑞安汽車零部件有限公司 (Mianyang Brilliance Ruian Automotive Components Co., Ltd.*), a wholly foreign owned enterprise established in the PRC on 3 July 2000 and a wholly-owned subsidiary of the Company. The principal activities of Mianyang Ruian are the manufacture and trading of automotive components;
“Ningbo Ruixing”	寧波華晨瑞興汽車零部件有限公司 (Ningbo Brilliance Ruixing Auto Components Co., Ltd.*), a wholly foreign owned enterprise established in the PRC on 9 June 2000 and a wholly-owned subsidiary of the Company. The principal activities of Ningbo Ruixing are the manufacture and trading of automotive components;

## DEFINITIONS

“Ningbo Yuming”	寧波裕民機械工業有限公司 (Ningbo Yuming Machinery Industrial Co., Ltd.*), a wholly foreign owned joint venture established in the PRC on 14 August 1993. Ningbo Yuming is currently a wholly foreign owned enterprise in the PRC and a wholly-owned subsidiary of the Company. The principal activities of Ningbo Yuming are the manufacture and sale of automotive components in the PRC;
“PRC”	The People’s Republic of China and, for the sole purpose of this circular, shall exclude Hong Kong, Macau Special Administrative Region of the PRC and Taiwan;
“Proposed Caps”	the estimated annual monetary values of the Continuing Connected Transactions for the three financial years ending 31 December 2020;
“Renault”	Renault SAS, a company incorporated under the laws of France;
“RMB”	renminbi, the lawful currency of the PRC;
“SFO”	the Securities and Futures Ordinance (Chapter 571 Laws of Hong Kong), as amended from time to time;
“Shanghai Hidea”	上海漢風汽車設計有限公司 (Shanghai Hidea Auto Design Co., Ltd.*), a sino-foreign equity joint venture established in the PRC on 16 April 2004 and a wholly-owned subsidiary of the Company since 1 November 2017. The principal activity of Shanghai Hidea is the design of automobiles;
“Shareholder(s)”	holder(s) of Shares;
“Shares”	shares at par value of US\$0.01 each in the share capital of the Company;
“Shenyang Automotive”	瀋陽華晨金杯汽車有限公司 (Shenyang Brilliance JinBei Automobile Co., Ltd.*), a sino-foreign equity joint venture established in the PRC on 19 July 1991 and a subsidiary of the Company whose effective equity interests are 100% owned by the Company. The principal activities of Shenyang Automotive are the manufacture, assembly and sale of minibuses and automotive components in the PRC;

## DEFINITIONS

“Shenyang Jindong”	瀋陽金東實業發展有限公司 (Shenyang Jindong Development Co., Ltd.*), an equity joint venture established in the PRC on 18 April 2002 and a wholly-owned subsidiary of the Company since 1 November 2017. The principal activity of Shenyang Jindong is the trading of automotive components;
“Special General Meeting”	the special general meeting of the Company to be convened for the purpose of considering, and if thought fit, approving (i) the Continuing Connected Transactions; and (ii) the Proposed Caps;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“subsidiary”	has the meaning ascribed thereto under the Companies Ordinance;
“US\$”	United States dollars, the lawful currency of the United States of America;
“Xing Yuan Dong”	瀋陽興遠東汽車零部件有限公司 (Shenyang Xing Yuan Dong Automobile Component Co., Ltd.*), a wholly foreign owned enterprise established in the PRC on 12 October 1998 and a wholly-owned subsidiary of the Company. The principal activities of Xing Yuan Dong are the manufacture and trading of automotive components in the PRC; and
“Zhonghua Business”	the business of the manufacture and sale of Zhonghua sedans operated by the Huachen Group.

\* for identification purposes only

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**(華晨中國汽車控股有限公司)\***

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 1114)**

*Executive Directors:*

Mr. Wu Xiao An

(also known as Mr. Ng Siu On) (*Chairman*)

Mr. Qi Yumin (*chief executive officer*)

Mr. Qian Zuming (*chief financial officer*)

Mr. Zhang Wei

*Registered office:*

Canon's Court

22 Victoria Street

Hamilton HM12

Bermuda

*Independent non-executive Directors:*

Mr. Xu Bingjin

Mr. Song Jian

Mr. Jiang Bo

*Head office and principal place  
of business:*

Suites 1602-05

Chater House

8 Connaught Road Central

Hong Kong

5 December 2017

*To the Shareholders*

Dear Sir/Madam,

## CONTINUING CONNECTED TRANSACTIONS

### I. INTRODUCTION

On 15 November 2017, the Board announced that the Group entered into agreements relating to, inter alia, the purchases/sale of automobiles, materials and/or automotive components from/to the Huachen Group and the purchase of services from the Huachen Group.

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

\* for identification purposes only

## LETTER FROM THE BOARD

An Independent Board Committee, comprising Mr. Xu Bingjin, Mr. Song Jian and Mr. Jiang Bo, all of whom are independent non-executive Directors, has been formed to advise the Independent Shareholders as to the Continuing Connected Transactions and the Proposed Caps. The letter from the Independent Board Committee setting out its advice and recommendations to the Independent Shareholders on the Continuing Connected Transactions and the Proposed Caps is set out on page 36 of this circular.

Octal Capital Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Continuing Connected Transactions and the Proposed Caps. The letter from the Independent Financial Adviser setting out its advice and recommendations to the Independent Board Committee and the Independent Shareholders on the Continuing Connected Transactions and the Proposed Caps is set out on pages 37 to 81 of this circular.

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

## II. THE CONTINUING CONNECTED TRANSACTIONS

### Background of the Continuing Connected Transactions

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

### Details of the Continuing Connected Transactions

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

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

Vendor	:	The Group
Purchaser	:	Huachen Group
Agreement	:	On 15 November 2017, the Company and Huachen entered into a framework agreement in relation to the sale of automobiles, materials and/or automotive components by members of the Group including Xing Yuan Dong, Dongxing Automotive, Shenyang Jindong, Mianyang Ruian, Ningbo Yuming, Ningbo Ruixing and Shenyang Automotive to members of the Huachen Group for a period of three financial years commencing from 1 January 2018 to 31 December 2020.



## LETTER FROM THE BOARD

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

- (i) by reference to the prevailing market price; or
- (ii) where (i) above is not appropriate or applicable, at a price to be agreed between the Group and the Huachen Group upon the basis of the principle of “cost plus”.

With regard to pricing term (i), this applies to the sale of automobiles by Shenyang Automotive to the Huachen Group. As the automobiles manufactured by Shenyang Automotive are also for sale to independent third parties, the pricing for each sale of automobiles by Shenyang Automotive to the Huachen Group will be determined by reference to the prevailing market price of the automobiles concerned.

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

## LETTER FROM THE BOARD

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

Cost plus is determined based on the cost for manufacturing the required specification and quantity of the materials or automotive components to be sold to the Huachen Group plus a margin as agreed between the Group and the Huachen Group and the cost is estimated with reference to, where applicable, raw materials, production cost, processing cost, transportation cost, procurement cost, labour, taxation, management fee and the amortisation to the production plant and equipment, etc. In determining the margin to be used, the Group will mainly make reference to the internal target profit margin of the relevant tailor-made products to be sold to the Huachen Group, which profit margin will not be less than that used for independent customers for the relevant tailor-made products, that is expected to be achieved by the Group.

The cost plus pricing method applies to cases where the relevant product of the Group is tailor-made for use by the Huachen Group for further processing or for manufacturing automobiles and thus no prevailing market price of the same product is available. The Board considers that given the procedures adopted by the Group in determining the pricing and major terms of the sale of the relevant materials and automotive components as set out below, and the established internal guidelines for staff of the subsidiaries of the Company to follow in determining the pricing and other major terms of the Continuing Connected Transactions to ensure that all transactions, whether or not contracted with the Huachen Group or independent third parties, will follow the same set of procedures so as to reach consensus on normal commercial terms, the cost plus pricing method is fair and reasonable. Save for the sale of automobiles by Shenyang Automotive where the pricing will be based on prevailing market price, the pricings of all other transactions under this category of the Continuing Connected Transactions will be determined on the cost plus basis.

## LETTER FROM THE BOARD

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

Continuing Connected Transactions	Major type of products	Pricing method	Procedures for determining major terms of the Continuing Connected Transactions
A1 Sale of materials and automotive components by Xing Yuan Dong	Interior trim parts, anti-freezing fluid and presswork	Cost plus	The Product Development Department (in respect of new products) or the Sales Department (in respect of existing products) of Xing Yuan Dong collects from the Planning Department the analysis on the cost data of each product, including costs for raw materials, production cost, labour, transportation fee, packaging cost, management fee, and compiles price quotations by topping up the cost data with a target margin. The final pricing of each order and other major terms of each transaction shall be considered and approved in accordance with Xing Yuan Dong's internal approval guidelines which involve approval from each of the sales manager, the chief financial officer and the general manager of Xing Yuan Dong.
A2 Sale of materials and automotive components by Dongxing Automotive	Press parts, welding parts and complete outsourced parts	Cost plus	The Commerce Department of Dongxing Automotive compiles price quotations based on the cost data of each product received from the Finance Department, including costs for raw materials, production cost, labour, transportation fee, packaging cost, management fee, plus a target margin for internal consideration and approval. The final pricing of each order and other major terms of each transaction shall be considered and approved by each of the head of the Finance Department, the chief financial officer and the general manager of Dongxing Automotive.

## LETTER FROM THE BOARD

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

## LETTER FROM THE BOARD

Continuing Connected Transactions	Major type of products	Pricing method	Procedures for determining major terms of the Continuing Connected Transactions
A5 Sale of materials and automotive components by Ningbo Yuming	Trim strips, triangular windows and sealing bars	Cost plus	<p>The Product Development Department of Ningbo Yuming assesses the final cost of each product in an order based on the product specification received, which will then be passed on to the Business Department for consideration and working out a suggested selling price by topping up the costs with a target margin. After reaching a consensus on the pricing with the customer in accordance with the internal guideline for pricing management of Ningbo Yuming, the Business Department will then pass the final pricing and other major terms of the transaction to the Finance Department for endorsement and to the general manager of Ningbo Yuming for approval.</p>
A6 Sale of materials and automotive components by Ningbo Ruixing	Rear view mirrors	Cost plus	<p>The Product Development Department of Ningbo Ruixing assesses the final cost of each product in an order based on the product specification received, which will then be passed on to the Business Department for consideration and working out a suggested selling price by topping up the costs with a target margin. After reaching a consensus on the pricing with the customer in accordance with the internal guideline for pricing management of Ningbo Ruixing, the Business Department will then pass the final pricing and other major terms of the transaction to the Finance Department for endorsement and to the general manager of Ningbo Ruixing for approval.</p>

## LETTER FROM THE BOARD

Continuing Connected Transactions	Major type of products	Pricing method	Procedures for determining major terms of the Continuing Connected Transactions
A7 Sale of automobiles, materials and automotive components by Shenyang Automotive	Automobiles, engines and spare parts	<p>Sale of automobiles: Prevailing market price</p> <p>Sale of engines and spare parts: Cost plus</p>	<p>In respect of automobiles, the Sales Department of Shenyang Automotive obtains the market price of the automobile by reference to (a) the price that Shenyang Automotive offers to independent customers for the same or comparable model of automobile in response to the invitations to tender made by customers; or (b) if there is no tendering process, the price agreed between Shenyang Automotive and independent customers after arm's length negotiations and on normal commercial terms for the sale of the same or comparable model of automobile. In any event, the terms of each sale to the Huachen Group shall be no more favourable than the terms offered to independent customers for sale of comparable automobiles. The pricing and other major terms of each transaction shall be endorsed by the general manager or the board of directors of Shenyang Automotive.</p> <p>In respect of the sale of engines and spare parts, the Operational Planning and Control Department of Shenyang Automotive collects from the Pricing Department the cost data in respect of the required product and will then based on the components procurement contract price and the type of product, work out a suggested selling price by topping up the costs with a target margin. The Operational Planning and Control Department will work out the estimated costs for the required product with reference to the raw materials, production cost, processing cost, transportation cost, procurement cost, labour, taxation, management fee and the amortisation to the production plant and equipment, etc. The final pricing and major terms of each transaction shall be endorsed by the head of the Operational Planning and Control Department and approved by the chief financial officer of Shenyang Automotive.</p>

## LETTER FROM THE BOARD

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

- Vendor : Huachen Group
- Purchaser : The Group
- Agreement : On 15 November 2017, the Company and Huachen entered into a framework agreement in relation to the purchases of materials and automotive components by members of the Group including Dongxing Automotive, Shenyang Automotive and Shenyang Jindong from members of the Huachen Group for a period of three financial years commencing from 1 January 2018 to 31 December 2020.
- Pricing policy : The pricing for each purchase of the materials or automotive components from the Huachen Group for use in the Group's automobile manufacturing is determined by the relevant members of the Group based on the following terms:
- (i) by reference to the prevailing market price; or
  - (ii) where (i) above is not appropriate or applicable, at a price to be agreed between the Group and the Huachen Group upon the basis of the principle of "cost plus".

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

## LETTER FROM THE BOARD

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

The cost plus pricing method applies to cases where the relevant product is tailor-made by the Huachen Group for use by the Group and thus no prevailing market price of the same product is available.

In the course of production, Shenyang Automotive will first sell engines and spare parts to the Huachen Group who will undergo further processing and sell the processed automotive components (i.e. the power trains and the related processed spare parts) back to Shenyang Automotive for the latter's onward production of minibuses. As the power trains are specially tailor-made for use of Shenyang Automotive's minibuses, the pricing for each purchase of power trains and the related processed spare parts by Shenyang Automotive from the Huachen Group will be determined by reference to the cost plus basis.

In the course of production, Shenyang Jindong will purchase welding press parts and matching components from the Huachen Group for further processing and will sell back the processed welding assemblies to the Huachen Group for the latter's production of Zhonghua sedans. The pricing for each purchase of welding press parts and matching components by Shenyang Jindong from the Huachen Group will be determined by reference to the cost plus basis.

Save for the aforesaid purchases by Shenyang Automotive and Shenyang Jindong from the Huachen Group where the pricing will be based on cost plus basis, the pricings of all other transactions under this category of the Continuing Connected Transactions will be determined based on the prevailing market price.



## LETTER FROM THE BOARD

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

Continuing Connected Transactions	Major type of products	Pricing method	Procedures for determining major terms of the Continuing Connected Transactions
B1 Purchase of materials and automotive components by Dongxing Automotive	Steels	Prevailing market price	The Commerce Department of Dongxing Automotive obtains the prevailing market price of the required steels by reference to the price quotations obtained from other independent suppliers and compares it with the price quoted by the Huachen Group. If the pricing and other major terms offered by the Huachen Group are no less favourable than the terms which can be obtained from independent suppliers, the Commerce Department will arrange for the approval of the proposed terms and pricing by each of the head of the Commerce Department, the chief financial officer and the general manager of Dongxing Automotive.
B2 Purchase of materials and automotive components by Shenyang Automotive	Power trains and spare parts	Purchase of power trains and certain spare parts: Cost plus  Purchase of certain spare parts: Prevailing market price	<p>In respect of the purchase of power trains and certain spare parts, the Huachen Group will provide Shenyang Automotive with the price quotation for the relevant products for consideration. The Supplier Management Department of Shenyang Automotive will be responsible for discussing and negotiating the terms of the transactions with the Huachen Group.</p> <p>In respect of the purchase of certain spare parts, which pricing is determined based on the prevailing market price of comparable type of products obtainable from independent third parties in the same area on normal commercial terms in the ordinary course of business. In determining the prevailing market price of the required products, Shenyang Automotive obtains price quotations from other independent suppliers for comparable products. In any event, the terms of each purchase from the Huachen Group shall be no less favourable than the terms which can be obtained from independent suppliers for purchase of comparable materials or automotive components. The pricing and other terms of each transaction shall be approved by the general manager of Shenyang Automotive.</p>

## LETTER FROM THE BOARD

Continuing Connected Transactions	Major type of products	Pricing method	Procedures for determining major terms of the Continuing Connected Transactions
B3 Purchase of materials and automotive components by Shenyang Jindong	Scrap materials, welding press parts and matching components	<p>Purchase of scrap materials: Prevailing market price</p> <p>Purchase of welding press parts and matching components: Cost plus</p>	<p>In respect of the purchase of scrap materials, the Commerce Department of Shenyang Jindong obtains the prevailing market price of the scrap materials by reference to the price quotations obtained from other independent suppliers and compares it with the price quoted by the Huachen Group. If the pricing and other major terms offered by the Huachen Group are no less favourable than the terms which can be obtained from independent suppliers, the Commerce Department will arrange for the approval of the proposed terms and pricing by each of the head of the Commerce Department, the chief financial officer, the general manager as well as the operational and management committee of Shenyang Jindong.</p> <p>In respect of the purchase of welding press parts and matching components, the Commerce Department of Shenyang Jindong obtains the price quotation from the Huachen Group. The Product Manufacturing Department of Shenyang Jindong then analyses the cost data, including labour cost, production and processing cost, etc. and passes the final cost of each product to the Commerce Department for determining the pricing of each product and other major terms of each transaction. The final pricing and other major terms shall be approved by the chief financial officer and be considered and approved at a meeting of the operation and management committee.</p>

## LETTER FROM THE BOARD

**C. *Comprehensive service agreement in relation to the purchases of services by members of the Group from members of the Huachen Group***

Parties	:	The Company and Huachen
Comprehensive service agreement	:	On 15 November 2017, the Company and Huachen entered into a comprehensive service agreement in relation to the purchases of services by members of the Group from members of the Huachen Group for a period of three financial years commencing from 1 January 2018 to 31 December 2020.
Services to be provided by members of the Huachen Group	:	Services to be provided by members of the Huachen Group to members of the Group mainly include information technology support, research and development, charging services, processing and refitting services and transportation services.
Pricing policy for information technology support services	:	The pricing for information technology support services to be provided by the Huachen Group to the Group is determined at a price to be agreed between the Group and the Huachen Group upon the basis of the principle of “cost plus”.

Cost plus is determined based on the cost for providing the required services to be purchased from the Huachen Group plus a margin as agreed between the Group and the Huachen Group and the cost is estimated with reference to, where applicable, the expenses incurred by the usage of resources such as computers and servers, etc. by the Group on a pro-rata basis with reference to the number of users of the systems, the number of computers provided to the Group, the number of users of the internet services and utility rate or usage amount of the servers, etc.

## LETTER FROM THE BOARD

Pricing policy for research and development services : The pricing for research and development services to be provided by the Huachen Group to the Group is determined at a price to be agreed between the Group and the Huachen Group upon the basis of the principle of “cost plus”.

Cost plus is determined based on the cost for providing the required services to be purchased from the Huachen Group plus a margin as agreed between the Group and the Huachen Group and the cost is estimated with reference to, where applicable, research and development and labour cost, etc.

Pricing policy for charging services : The pricing for charging services to be provided by the Huachen Group to the Group is determined at a price to be agreed between the Group and the Huachen Group upon the basis of the principle of “cost plus”.

Cost plus is determined based on the cost for providing the required services to be purchased from the Huachen Group plus a margin as agreed between the Group and the Huachen Group and the cost is estimated with reference to, where applicable, labour, etc.

Pricing policy for processing and refitting services : The pricing for processing and refitting services to be provided by the Huachen Group to the Group is determined at a price to be agreed between the Group and the Huachen Group upon the basis of the principle of “cost plus”.

Cost plus is determined based on the cost for providing the required services to be purchased from the Huachen Group plus a margin as agreed between the Group and the Huachen Group and the cost is estimated with reference to, where applicable, the labour cost, material cost and the amortization to the equipment and production plant, etc. In determining the margin to be used, the Group will make reference to the internal target profit margin of different models of automobiles of the Group that is expected to be achieved by the Group.

## LETTER FROM THE BOARD

Pricing policy for transportation services : The pricing for transportation services to be provided by the Huachen Group to the Group is determined at a price to be agreed between the Group and the Huachen Group upon the basis of the principle of “cost plus”.

Cost plus is determined based on the cost for providing the required services to be purchased from the Huachen Group plus a margin as agreed between the Group and the Huachen Group and the cost is estimated with reference to, where applicable, the cost of transportation of automobiles, labour cost, storage costs, reasonable wear and tear costs, etc.

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

Continuing Connected Transactions	Major type of products	Pricing method	Procedures for determining major terms of the Continuing Connected Transactions
C1 Purchase of services by Shenyang Automotive	Information technology support services	Cost plus	The Information Department of the Huachen Group provide the price quotation for the services, which shall be approved by the head of the Information Department of Shenyang Automotive. The revised pricing shall be considered and approved by the deputy manager of the Finance Department. If there is an upward adjustment in the pricing, discussion and approval at a meeting of the operational and management committee of Shenyang Automotive is required.
C2 Purchase of services by Shenyang Automotive	Research and development services	Cost plus	The Research and Development Department of Shenyang Automotive analyses the cost data of new projects and will assess the costs for production, amortization of equipment, raw materials and labour, etc. that will be incurred by the supplier. After reaching a cost estimate to be borne by the supplier, the pricing shall be considered and approved by the deputy manager of the Purchase Department. If there is an upward adjustment in the pricing, discussion and approval at a meeting of the operational and management committee of Shenyang Automotive is required.

## LETTER FROM THE BOARD

Continuing Connected Transactions	Major type of products	Pricing method	Procedures for determining major terms of the Continuing Connected Transactions	
C3	Purchase of services by Shenyang Automotive	Charging services	Cost plus	<p>The Logistics Department of Shenyang Automotive will assess the costs for providing the required services, with reference to, labour costs, etc. that will be incurred by the Huachen Group. Shenyang Automotive will discuss with the Huachen Group to agree on the profit margin for the services required. After the general manager of Shenyang Automotive has reviewed and approved the price offered by the Huachen Group, Shenyang Automotive and the Huachen Group shall enter into the relevant purchase order contract to confirm the price.</p>
C4	Purchase of services by Shenyang Automotive	Processing and refitting services	Cost plus	<p>The Huachen Group will provide Shenyang Automotive with the price quotation for the services required. The Supplier Management Department of Shenyang Automotive will assess the costs for providing the required services, with reference to, labour cost, material cost and amortization to the equipment and production plant, etc. that will be incurred by the Huachen Group, and determine the margin to be used by reference to the internal target profit margin of the relevant models of automobiles of Shenyang Automotive that is expected to be achieved by Shenyang Automotive. The Supplier Management Department of Shenyang Automotive will be responsible for discussing and negotiating the price and other major terms of the transactions with the Huachen Group.</p>

## LETTER FROM THE BOARD

Continuing Connected Transactions	Major type of products	Pricing method	Procedures for determining major terms of the Continuing Connected Transactions	
C5	Purchase of services by Shenyang Automotive	Transportation services	Cost plus	<p>The Business Department of Shenyang Automotive shall first determine the technical requirements of the relevant services required and request the Logistics Department of the Huachen Group to provide a price quotation for the relevant services. Upon obtaining the price quotation, the Business Department of Shenyang Automotive will report the relevant purchase of transportation services to the Operation Management Committee of the Sales Department for its review and approval. The Operational Planning Department and the Business Department of Shenyang Automotive will then review and approve the budget and pricing, respectively. After the relevant purchase order contract is approved by the Legal Department of Shenyang Automotive, the Business Department of Shenyang Automotive and the Logistics Department of the Huachen Group will enter into the relevant contract.</p>
C6	Purchase of services by Xing Yuan Dong	Information technology support services	Cost plus	<p>The Information Team of the General Manager's Office of Xing Yuan Dong will make an application for the information technology applications, and if approved by the officer and the chief manager of the General Manager's Office, chief financial officer and general manager, the application will be reported to the Information Department of Xing Yuan Dong for review and approval. After the application has been approved, the Planning and Management Department of Xing Yuan Dong will process the application and review the price proposed by the Huachen Group based on the information technology support services to be provided by the Huachen Group. After the chief financial officer and the general manager has reviewed and approved the price offered by the Huachen Group, Xing Yuan Dong and the Huachen Group shall enter into the relevant purchase order contract.</p>

## LETTER FROM THE BOARD

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

- (a) In respect of the prevailing market price method for determining pricing adopted by the Group, the Group will make reference to the price offered by the Group and agreed by independent customers (in the case of sale) or the price available in the market from independent suppliers (in the case of purchase) to ensure the final pricing will not be less favourable to the Group than the pricing offered or available in the market. This is a safeguarding measure to prevent any possibility that the final pricing offered to the connected person will turn out to be less favourable to the Group than the market price which will inevitably prejudice the interests of the Company and its minority Shareholders;
- (b) In respect of the cost plus method for determining pricing adopted by the Group, the Group will first identify the various cost elements for manufacturing the products concerned and will then assess the cost amount that would likely be incurred for each cost item in order to work out an estimate of the final costs. The target margin to be added on the cost estimate is to be determined on a case-by-case basis in line with the business strategy and the performance target of the relevant subsidiaries and will not be less favourable to the margin for similar products in the market. This cost plus method is to be applied consistently across the Group for products specially designed for use by the Huachen Group to fit-in its unique specifications in accordance with internal pricing guidelines approved by the managements of the subsidiaries. These measures aim to ensure that the pricing of the tailor-made products will be set at a standard that will help achieving the performance targets of the relevant subsidiaries and thus be beneficial to the Company and its Shareholders as a whole; and
- (c) In respect of the procedures adopted by the subsidiaries for determining the pricing and other major terms of the Continuing Connected Transactions, there are established internal guidelines for staff of the subsidiaries to follow. This is to ensure that all transactions, whether or not contracted with independent third parties, will follow the same set of procedures and will be handled by the same well-trained personnel who are equipped with relevant experience so as to reach consensus on normal commercial terms. Besides, there is clear delineation of responsibilities of the various departments involved which are coherent with their own functions. This helps maintaining the efficiency of each step of the procedures for determining the pricing and other major terms of the Continuing Connected Transactions and preventing any single department from the possibility of abusing its powers. The final pricing and other major terms of the Continuing Connected Transactions are



## LETTER FROM THE BOARD

required to be approved by the senior management of the various departments involved as the final check and balance measures to ensure the transactions will be conducted on normal commercial terms and not prejudicial to the interests of the Company and its minority Shareholders.

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

### **Information on Huachen**

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

### **Requirements of the Listing Rules**

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

As at the Latest Practicable Date, Huachen was interested in 2,135,074,988 Shares, representing approximately 42.32% of the entire issued share capital of the Company, and was entitled to exercise control over the voting rights of 2,135,074,988 Shares. Huachen is considered to be interested in the Continuing Connected Transactions between the Group and the Huachen Group. Huachen and its associates will abstain from voting on the ordinary resolution to be proposed at the Special General Meeting in respect of the Continuing Connected Transactions between the Group and the Huachen Group and the Proposed Caps. As at the Latest Practicable Date, none of the associates of Huachen was interested in any Shares.

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

# LETTER FROM THE BOARD

## III. PROPOSED CAPS AND HISTORICAL FIGURES

### Approved Caps and historical figures

Resolution in respect of the Continuing Connected Transactions and the Proposed Caps shall be put forward to the Independent Shareholders at the Special General Meeting seeking their approval for the Proposed Caps set out opposite to each of the relevant 11 Continuing Connected Transactions contained in the following table headed “Proposed Caps”. The Company shall comply with the requirements under the Listing Rules in the event that each of the said 11 Proposed Caps exceeds the monetary value set out in the said table below.

The following table sets out the Approved Caps and the actual sales/purchases of the Continuing Connected Transactions during the three financial years ending 31 December 2017:

Continuing Connected Transactions	Major type of products	For the financial year ended/ending 31 December						
		2015		2016		2017		
		Approved Cap (RMB'000)	Actual sales/ purchases (RMB'000)	Approved Cap (RMB'000)	Actual sales/ purchases (RMB'000)	Approved Cap (RMB'000)	Actual sales/ purchases (RMB'000)	
							<i>(For the nine months ended 30 September 2017)</i>	
<b>A. Sale of automobiles, materials and/or automotive components by members of the Group to members of the Huachen Group</b>								
A1	Sale of materials and automotive components by Xing Yuan Dong	Interior trim parts and anti-freezing fluid	155,300	39,178	186,400	65,972	223,700	33,025
A2	Sale of materials and automotive components by Dongxing Automotive	Press parts, welding parts and complete outsourced parts	724,500	173,409	732,900	277,663	747,600	119,376
A3	Sale of materials and automotive components by Shenyang Jindong	A0 assemblies and matching components	115,400	34,349	126,900	56,265	136,600	35,027
A4	Sale of materials and automotive components by Mianyang Ruian	Camshafts	1,250	386	1,250	84	1,250	–
A5	Sale of materials and automotive components by Ningbo Yuming	Side triangle window assemblies, sun roof assemblies, triangular windows and sealing bars	49,800	9,643	52,300	11,786	54,900	10,634

## LETTER FROM THE BOARD

		For the financial year ended/ending 31 December					
Continuing Connected Transactions	Major type of products	2015		2016		2017	
		Approved Cap (RMB'000)	Actual sales/ purchases (RMB'000)	Approved Cap (RMB'000)	Actual sales/ purchases (RMB'000)	Approved Cap (RMB'000)	Actual sales/ purchases (RMB'000)

*(For the nine months ended 30 September 2017)*

A6	Sale of materials and automotive components by Ningbo Ruixing <i>(Note 1)</i>	Rear view mirrors	170	–	170	–	170	–
A7	Sale of automobiles, materials and automotive components by Shenyang Automotive	Automobiles, chassis, engines and transmissions	2,332,600	669,539	2,983,900	668,125	3,958,500	963,005
A8	Sale of materials and automotive components by Shanghai Hidea <i>(Note 2)</i>	Matching components	2,100	4	2,200	–	2,300	–

*Note:*

1. *Due to the discontinuation of production of certain models of automobile by the Huachen Group, Ningbo Ruixing ceased to sell the relevant materials and automotive components to members of the Huachen Group since 2015.*
2. *Due to the discontinuation of production of certain models of automobile by the Huachen Group, Shanghai Hidea ceased to sell the relevant materials and automotive components to members of the Huachen Group since 2016.*

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

B1	Purchase of materials and automotive components by Dongxing Automotive	Steels	330,700	68,908	378,000	103,168	427,300	56,633
B2	Purchase of materials and automotive components by Shenyang Automotive	Press parts and power trains	1,277,600	509,477	1,405,400	417,224	1,546,000	354,715
B3	Purchase of materials and automotive components by Shanghai Hidea <i>(Note)</i>	Matching components	520	–	520	–	520	–

## LETTER FROM THE BOARD

		For the financial year ended/ending 31 December							
Continuing Connected Transactions	Major type of products	2015		2016		2017			
		Approved Cap (RMB'000)	Actual sales/ purchases (RMB'000)	Approved Cap (RMB'000)	Actual sales/ purchases (RMB'000)	Approved Cap (RMB'000)	Actual sales/ purchases (RMB'000)		
							(For the nine months ended 30 September 2017)		
B4	Purchase of materials and automotive components by Shenyang Jindong		Scrap materials and window materials	390,700	86,205	390,700	99,723	468,700	63,315

*Note: Shanghai Hidea used to purchase certain materials and automotive components for further processing and then sell the processed automotive components back to the Huachen Group. Due to the discontinuation of production of certain models of automobile by the Huachen Group, Shanghai Hidea ceased to purchase the relevant materials and automotive components from members of the Huachen Group since 2015.*

### C. Comprehensive service agreement in relation to the purchase of services by members of the Group from members of the Huachen Group

C1	Purchase of services by members of the Group from members of the Huachen Group (Note)	245,970	28,809	161,770	24,440	206,270	16,013
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*Note: The provision of charging services and transportation services by members of the Huachen Group as referred to in paragraph I.C. above will commence from 1 January 2018 and was/will not be provided during the period from 1 January 2015 to 31 December 2017. Accordingly, the above Approved Caps and the actual purchases do not include such provision of charging services or transportation services.*

Due to various factors such as change in product mix of the Group or the counterparties, change in momentum of the automobile industry, and change in production flow of the Group or the counterparties which triggers a decrease in demand of automotive components, the actual sales/purchases in respect of the continuing connected transactions for the three financial years ending 31 December 2017 were less than the Approval Caps for the three financial years ending 31 December 2017.

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### Proposed Caps

The following table sets out the Proposed Caps of the Continuing Connected Transactions for the three financial years ending 31 December 2020:

Continuing Connected Transactions	Major type of products	For the financial year ended/ending 31 December		
		2018 Proposed Cap (RMB'000)	2019 Proposed Cap (RMB'000)	2020 Proposed Cap (RMB'000)
<b>A. Sale of automobiles, materials and/or automotive components by members of the Group to members of the Huachen Group (Note)</b>				
A1 Sale of materials and automotive components by Xing Yuan Dong	Interior trim parts, anti-freezing fluid and presswork	115,900	128,600	142,900
A2 Sale of materials and automotive components by Dongxing Automotive	Press parts, welding parts and complete outsourced parts	315,000	367,500	420,000
A3 Sale of materials and automotive components by Shenyang Jindong	Matching components and welding assemblies	96,400	113,300	140,300
A4 Sale of materials and automotive components by Mianyang Ruian	Camshafts	520	520	520
A5 Sale of materials and automotive components by Ningbo Yuming	Trim strips, triangular windows and sealing bars	15,800	17,400	19,200
A6 Sale of materials and automotive components by Ningbo Ruixing	Rear view mirrors	170	170	170
A7 Sale of automobiles, materials and automotive components by Shenyang Automotive	Automobiles, engines and spare parts	3,155,100	4,304,400	5,415,500

## LETTER FROM THE BOARD

Continuing Connected Transactions	Major type of products	For the financial year ended/ending		
		31 December		
		2018 Proposed Cap (RMB'000)	2019 Proposed Cap (RMB'000)	2020 Proposed Cap (RMB'000)
<b>B. Purchases of materials and automotive components by members of the Group from members of the Huachen Group (Note)</b>				
B1 Purchase of materials and automotive components by Dongxing Automotive	Steels	210,000	262,500	315,000
B2 Purchase of materials and automotive components by Shenyang Automotive	Power trains and spare parts	1,293,300	2,007,400	3,341,100
B3 Purchase of materials and automotive components by Shenyang Jindong	Scrap materials, welding press parts and matching components	134,900	136,500	180,600
<b>C. Comprehensive service agreement in relation to the purchases of services by members of the Group from members of the Huachen Group (Note)</b>				
C1 Purchases of services by members of the Group from members of the Huachen Group		894,370	1,149,470	1,202,070

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

### **Basis in determining the Proposed Caps**

In determining the Proposed Caps for the Continuing Connected Transactions for the three financial years ending 31 December 2020, the Board has based their estimates on the sales forecast of the relevant financial years. Important and objective assumptions and factors, though not exhaustive but were arrived at after due and careful consideration of data currently in hand, are set out as below:

- the anticipated growth in the China automobile industry in the coming years. A research report on auto manufacturers in the PRC, which provided an analysis on engines, the auto market's latest trends and the positive view on the gross domestic product (GDP), has forecasted the PRC's auto sector's passenger vehicle volumes to grow within a range of 6% to 9% from 2018 to 2020 and at a 6.9% compound annual growth rate (CAGR) in 2018 to 2020, which analysis was based on three factors: 1) replacement demand should support the sector's

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volume growth over the next three years; 2) growing number of female drivers; and 3) consumption upgrade to larger size vehicles. It is also anticipated that new-energy commercial vehicles will grow 37% in 2018, 22% in 2019 and 17% in 2020, respectively;

- the anticipated increase in sales of minibuses by the Group in the coming three financial years ending 31 December 2020, in light of the proposed launch of new or upgraded models of minibuses by the Group and the expected increase in the demand for the Group's minibuses from the Huachen Group;
- the scheduled launch of new models of minibuses, including a 7-seat minibus with 8AT transmission namely S70 that is expected to be launched in the second half of 2018, and new range of automobiles by the Group and the upgrading of the Group's existing minibus and MPV models in the coming three financial years ending 31 December 2020, and consequently the anticipated growth in the sales of the Group's minibuses in the range of approximately 47.9% to 32.5% in 2019 to 2020 and the demand for transportation of minibuses services is expected to increase accordingly;
- Shenyang Automotive has been supplying the Huachen Group with its minibuses for the latter's refitting and processing into special vehicles such as ambulances, wheelchair-equipped vehicles and police cars for Huachen's sales to its customers. As the Huachen Group expects its production and sales volume of special vehicles will gradually increase to meet domestic and overseas demand for special vehicles, which mainly include ambulances, CNG vehicles, refrigerated vehicles, wheelchair-equipped vehicles, it is anticipated that the sale of minibuses by Shenyang Automotive to the Huachen Group for vehicle remodeling purposes will increase, and consequently, the sales of power trains and spare parts are also anticipated to increase correspondingly and the demand for transportation of minibuses services is expected to increase accordingly;
- the historical sales data of clean-energy vehicles published by the China Association of Automotive Manufacturers shows growth in sales of clean-energy vehicles;
- the new policies and measures introduced by the PRC government to promote the use of electric vehicles or other clean-energy vehicle. According to the "Technical Development Planning for Energysaving and New-energy Vehicles" (《節能與新能源汽車技術路線圖》) issued by the PRC government, the planned proportion of new-energy vehicles to total vehicle sales is set at approximately 7%, 15% and 40%, with the estimated sales volume reaching 2.10 million units, 5.25 million units and 15.20 million units in 2020, 2025 and 2030, respectively. On 28 September 2017, a comprehensive set of emission rules and new-energy vehicle credit score program has been released by the PRC government as set out in the "Measures for Calculation of Passenger Vehicles' Corporate Average Fuel Consumption"\* (乘用車企業平均燃料消耗量與新能源汽車積分並行管理辦法), which requires automobile

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manufacturers that produce or import more than 30,000 “traditional” energy vehicles annually in the PRC, to sell a certain number of clean-energy vehicles every year from 2019, those who fail to comply must purchase enough “new-energy vehicle credits” or face fines;

- in response to the regulatory requirements on energy savings and emission reduction, Shenyang Automotive is required to renew and upgrade its products. It is expected that the purchase of research and development service by Shenyang Automotive from the Huachen Group (who has been providing such services to the Group) will increase for the three financial years ending 31 December 2020;
- changes in product mix in response to market demand which will result in changes in the types of materials and automotive components used and the monetary value of the purchases of such materials and automotive components from the connected parties;
- the Huachen Group has been providing research and development services to the Group. Following the Completion and with the cooperation of Renault, it is expected that new high-end light commercial vehicle models and new energy vehicles will be introduced by the new joint venture in the future. Accordingly, it is anticipated that the investment in research and development of new products will increase, leading to an increase in the need for research and development services from the Huachen Group;
- with the expected growth in the production of automobiles as a result of the introduction of new Renault’s new high-end light commercial vehicle models and new energy vehicles, the Group anticipates growth in its demand for transportation services to transport its finished automobiles to the distributors of the Group and charging services for the new energy vehicles;
- the expected increase in demand for materials and automotive components from the Huachen Group in anticipation of new models of Zhonghua sedans to be launched by the Huachen Group and the increase in the sale of Zhonghua sedans in the PRC and overseas in the coming three financial years ending 31 December 2020;
- as the historical actual sales of materials and automotive components by Xing Yuan Dong, Dongxing Automotive, Mianyang Ruian and Ningbo Yuming to members of the Huachen Group are less than the relevant Approved Caps for the corresponding years, downward adjustments have been made to the relevant Proposed Caps to align with the anticipated sale amounts for the three financial years ending 31 December 2020; and



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- as the historical actual purchases of materials and automotive components by Dongxing Automotive and Shenyang Jindong from members of the Huachen Group are less than the relevant Approved Caps for the corresponding years, downward adjustments have been made to the relevant Proposed Caps to align with the anticipated purchase amounts for the three financial years ending 31 December 2020.

#### IV. REASONS FOR THE CONTINUING CONNECTED TRANSACTIONS

##### Reasons for the Continuing Connected Transactions

The Group is engaged in the manufacture and sale of minibuses and automotive components through its major operating subsidiaries. The manufacture and sale of minibuses by the Group is carried out by Shenyang Automotive, which became a wholly-owned subsidiary of the Company with effect from 1 November 2017. The other subsidiaries of the Company are mainly engaged in the manufacture and sale of automotive components in the PRC, and some of such automotive components are sold to Shenyang Automotive or the Huachen Group for use in its assembly process as an automobile manufacturer. All the Continuing Connected Transactions are carried out in the ordinary course of business of the Group and are expected to continue to be carried out in the three financial years ending 31 December 2020. Accordingly, the Board considers it appropriate to seek Independent Shareholders' approval for the Continuing Connected Transactions and the Proposed Caps for each of the three financial years ending 31 December 2020.

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

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

In addition, the Group has been purchasing from the Huachen Group certain core automotive components which are specially tailor-made for the use of Shenyang Automotive's minibuses. Such purchase facilitates the Group to have core automotive components with stable quality, and ensures the technology used in the production of such core automotive components will remain within the control of the Group. It is believed that control over such core automotive components will enable the Group to exercise more effective control over the quality of the automobiles produced by the Group.

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

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

**Centralisation of purchases** – Instead of having each member of the Group purchasing the materials and automotive components required for its own use, the Group centralised the purchases of materials and automotive components which are purchased in batches. This is because the need of an automotive component manufacturer to purchase materials and automotive components depends on the expected demand for automobiles in the market and also the fluctuation in prices for such materials and automotive components. Since it is difficult to predict with any degree of accuracy over a long horizon, in order to achieve efficient inventory planning and to avoid incurring unnecessary costs by ordering excess materials and automotive components, the best practice of the automobile industry advocates shorter, rather than longer supply cycles. In line with industry practice, the Group usually orders materials and automotive components in batches. Centralisation of purchases of materials and automotive parts enables the Group to enjoy better pricing for volume purchases. The Huachen Group has centralized the sourcing of steel. By purchasing steel from the Huachen Group in batches, Dongxing Automotive can enjoy a lower purchase price as the Huachen Group offers Dongxing Automotive a bulk purchase discount such that the price offered by Huachen is more favourable than other suppliers.

**Continuous co-operation** – The Group has been purchasing and will continue to purchase certain raw materials and automotive components from the Huachen Group. In respect of the production of minibuses, Shenyang Automotive has the right to import engines and related spare parts from overseas. However, the current production line of Shenyang Automotive is not compatible for the in-house assembly of engines. Shenyang Brilliance Power Train Machinery Co., Ltd. (a member of the Huachen Group which is experienced in assembling engines into power trains) is located in Shenyang, thus the costs of transportation and storage are relatively lower, it has an advantage in terms of pricing and quality when compared to similar engines of other suppliers. Accordingly, Shenyang Automotive first imports engines from overseas and then engages the Huachen Group to process them into power trains. The completed power trains will then be sold back to Shenyang Automotive by the Huachen Group for installation into the minibuses produced by Shenyang Automotive.

After the Completion, Shenyang Automotive plans to continue to purchase press parts from the Huachen Group, taking into account that Shenyang Automotive does not have its own stamping workshop, and the quality and delivery of press parts from the Huachen Group is stable and guaranteed.

## LETTER FROM THE BOARD

The enterprise resource planning system, corporate electronic mail system, and security management system of Shenyang Automotive and Xing Yuan Dong and the application software were constructed by the Huachen Group, who has also been providing the relevant technical support since the launch of the systems and software. The Group continues to outsource the information technology support services to the Huachen Group, which enables the Group to have continual uninterrupted provision of information technology support services from the Huachen Group who is familiar with the systems and software that they themselves created, and in turn enables the Group to have quality and technology control in its production and operation.

Further, the Group outsources the processing and refitting of special vehicles to the Huachen Group. This enables the Group (i) to reduce costs and enhance efficiency and competitiveness as the Group could not enjoy the benefit of economies of scale by undertaking the tasks of processing and refitting on its own due to limited demand of special vehicles; and (ii) to have quality and technology control over the special vehicles processed by the Huachen Group which processes the necessary qualification or authorisations to manufacture or refit special vehicles such as ambulances and recreational vehicles. On the other hand, Shenyang Automotive sells ordinary automobiles to the Huachen Group for the latter's processing of automobiles into special vehicles. This (i) enhances the sales network of the Group by taking advantage of the established client base of the Huachen Group for sale of special vehicles; and (ii) meets the demand of the Huachen Group for the Group's minibuses as the Huachen Group has continuing demand for the Group's minibuses for its business of refitting and sale of special vehicles.

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

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

Certain welding assemblies (including but not limited to A0 assemblies) are specifically processed by Shenyang Jindong for use of certain models of Zhonghua sedans manufactured by the Huachen Group. The welding assemblies and the related matching components to be purchased by the Huachen Group are tailor-made by Shenyang Jindong and such purchase continues after the completion of the disposal of the Zhonghua Business.

## LETTER FROM THE BOARD

In the premises, all the Directors (including the independent non-executive Directors) consider that the Continuing Connected Transactions are in the interests of the Company and the Shareholders as a whole, on normal commercial terms and in the ordinary and usual course of business of the Group; and that the terms of the framework agreements and the comprehensive service agreement governing the Continuing Connected Transactions to be fair and reasonable.

### V. GENERAL

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

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

### VI. SPECIAL GENERAL MEETING

A notice convening the Special General Meeting of the Company to be held at Tian & Di Function Room, 7th Floor, The Landmark Mandarin Oriental, The Landmark, 15 Queen's Road Central, Central, Hong Kong on Thursday, 21 December 2017 at 9:00 a.m. for the purpose of considering, and if thought fit, the passing of the ordinary resolution set out on pages 87 to 89 of this circular. Any shareholder with a material interest in the transactions will not vote.

There is enclosed a form of proxy for use at the Special General Meeting. Whether or not the Shareholders intend to be present at the Special General Meeting, they are requested to complete the form of proxy and return it to the office of the branch registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong in accordance with the instructions printed thereon not less than 48 hours before the time fixed for holding of the Special General Meeting (i.e. at or before 9:00 a.m. on Tuesday, 19 December 2017 (Hong Kong time)) or any adjourned meeting (as the case may be). Completion and delivery of the form of proxy will not prevent the Shareholders from attending and voting at the Special General Meeting or adjourned meeting (as the case may be) if they so wish.

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

### VII. RECOMMENDATIONS

The text of a letter to the Independent Shareholders from the Independent Board Committee containing its recommendation in relation to each of the Continuing Connected Transactions and the Proposed Caps is set out on page 36 of this circular.

## LETTER FROM THE BOARD

Having considered the advice from the Independent Financial Adviser in relation to each of the Continuing Connected Transactions and the Proposed Caps, which is set out on pages 37 to 81 of this circular, the Independent Board Committee is of the opinion that the terms of each of the Continuing Connected Transactions and the Proposed Caps are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the Special General Meeting.

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

### VIII. ADDITIONAL INFORMATION

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

Yours faithfully,  
For and on behalf of the Board of  
**Brilliance China Automotive Holdings Limited**  
**Wu Xiao An**  
(also known as Ng Siu On)  
*Chairman*

# Brilliance Auto

华 晨 汽 车

## BRILLIANCE CHINA AUTOMOTIVE HOLDINGS LIMITED

(華晨中國汽車控股有限公司)\*

(Incorporated in Bermuda with limited liability)

(Stock Code: 1114)

5 December 2017

*To the Independent Shareholders*

Dear Sir or Madam,

### CONTINUING CONNECTED TRANSACTIONS

We have been appointed as the Independent Board Committee to advise you in connection with the Continuing Connected Transactions and the Proposed Caps, details of which are set out in the Letter from the Board in the circular to Shareholders dated 5 December 2017 (the “**Circular**”), of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

Having taken into account the terms of the Continuing Connected Transactions and the Proposed Caps, the principal factors and reasons considered by the Independent Financial Adviser and its advice in relation thereto as set out on pages 37 to 81 of the Circular, we are of the opinion that the Continuing Connected Transactions and the Proposed Caps are in the interests of the Company and the Shareholders as a whole and that the Continuing Connected Transactions and the Proposed Caps are on normal commercial terms, in the ordinary and usual course of business of the Company and fair and reasonable so far as the Shareholders are concerned. We therefore recommend that you vote in favour of the ordinary resolution to be proposed at the Special General Meeting to approve the Continuing Connected Transactions and the Proposed Caps.

Yours faithfully,

**Xu Bingjin**

*Independent non-executive Director*

**Song Jian**

*Independent non-executive Director*

**Jiang Bo**

*Independent non-executive Director*

\* for identification purposes only

## LETTER FROM OCTAL CAPITAL LIMITED

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



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

5 December 2017

*To the Independent Board Committee and the Independent Shareholders*

Dear Sirs,

### CONTINUING CONNECTED TRANSACTIONS

#### INTRODUCTION

We refer to our engagement to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Continuing Connected Transactions and the Proposed Caps, particulars of which are set out in the letter from the Board (the “**Letter from the Board**”) of the circular issued by the Company to the Shareholders dated 5 December 2017 (the “**Circular**”) and in which this letter is reproduced. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as defined in the Circular.

As set out in the Letter from the Board, on 15 November 2017, the Group entered into relevant framework agreements with members of the Huachen Group so as to continue to conduct the Continuing Connected Transactions for a period of three financial years commencing from 1 January 2018 to 31 December 2020.

As at the date of this circular, Huachen is interested in 2,135,074,988 Shares (representing approximately 42.32% of the entire issued share capital of the Company). Accordingly, Huachen is a connected person of the Company under Chapter 14A of the Listing Rules. Hence, the purchases/sale of automobiles, materials and/or automotive components from/to the Huachen Group and the provision of services to/by the Huachen Group constitute continuing connected transactions under Chapter 14A of the Listing Rules.

An Independent Board Committee comprising all of the independent non-executive Directors has been established to advise the Independent Shareholders as to (i) the Continuing Connected Transactions; and (ii) the Proposed Caps.

We are not connected with the Directors, chief executive and substantial shareholders of the Company or Huachen or any of their respective subsidiaries or associates and are therefore considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders. We were not aware of any relationships or interests between the Group and us during the past two years immediately preceding the Latest Practicable Date, or any other parties that could be reasonably regarded as hindrance to our independence to act as the

## LETTER FROM OCTAL CAPITAL LIMITED

independent financial adviser to the Independent Board Committee and the Independent Shareholders. Besides, apart from the advisory fee and expenses payable to us in connection with our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders, no arrangement exists whereby we shall receive any other fees or benefits from the Group.

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

### PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion regarding the terms of the Continuing Connected Transactions and the Proposed Caps and giving our independent financial advice to the Independent Board Committee and the Independent Shareholders, we have considered the following principal factors and reasons:

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

##### *1.1 Overview*

The Company is a holding company, which was incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange. The Group is principally engaged in the manufacturing and sale of minibuses and automotive components through its major operating subsidiaries in the PRC.

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



## LETTER FROM OCTAL CAPITAL LIMITED

### *1.2 Reasons for the Continuing Connected Transactions and the Proposed Caps*

#### *Overview*

The Group is engaged in the manufacture and sale of minibuses and automotive components through its major operating subsidiaries. The manufacture and sale of minibuses by the Group is carried out by Shenyang Automotive, a wholly-owned subsidiary of the Company. The other subsidiaries of the Company are mainly engaged in the manufacture and sale of automotive components in the PRC, and some of such automotive components are sold to Shenyang Automotive or the Huachen Group for use in its assembly process as an automobile manufacturer. All the Continuing Connected Transactions are carried out in the ordinary course of business of the Group and are expected to continue to be carried out in the three financial years ending 31 December 2020. Accordingly, the Board considers it is appropriate to seek Independent Shareholders' approval for the Continuing Connected Transactions and the Proposed Caps for each of the three financial years ending 31 December 2020.

The Group purchases raw materials and basic automotive components in its ordinary course of business to be used in the manufacturing of automotive components and for processing into core automotive components for use in automobile manufacturing. In addition, the Group also purchases raw materials and some automotive components from Huachen for further processing. After processing the raw materials and the basic automotive components, the Group sells the processed automotive components to Shenyang Automotive or the Huachen Group which, as manufacturer of automobiles or automotive components, will use the processed automotive components in their assembly process.

#### *Reasons for the transactions (A1) to (A7)*

As advised by the Company, the manufacturing facilities of Huachen and those of the Group are both located in Shenyang, the PRC. With the close proximity of the manufacture facilities of the Group and the Huachen Group, it is more cost effective for the Huachen Group to purchase materials and automotive components from the Group in terms of the delivery time and transportation cost when compared with other suppliers. Further, by centralising the purchases of materials and automotive parts, the Group and the Huachen Group can enjoy a better pricing of the materials and components of bulk purchases from each other. In addition, we were advised by the Company that there are only limited independent suppliers who possess the specific production lines for supplying the specific automotive components for the production of the Huachen Group in respect of Zhonghua sedans and it is not feasible or cost effective for the Huachen Group to set up its own plants or production lines for manufacturing all the required automotive components on its own.

As advised by the Company, Xing Yuan Dong plans to provide interior trim parts and anti-freezing fluid to the Huachen Group for its production of Zhonghua sedans whilst Dongxing Automotive will produce press parts, welding parts and complete outsourced parts for the Huachen Group for the production of Zhonghua

## LETTER FROM OCTAL CAPITAL LIMITED

sedans. In addition, it is expected that Shenyang Automotive will first import the relevant engines and spare parts from overseas which will then be passed to the Huachen Group at cost plus an insignificant margin who will undergo further processing and sell the processed automotive components (i.e. the power trains) back to Shenyang Automotive for the latter's onward production of minibuses. The monetary value of the transactions to be carried out between these three companies and the Huachen Group will account for more than 97.3% of the aggregate Proposed Caps for transactions (A1) to (A7) on the basis of the aggregate monetary value of the proposed caps of transactions (A1), (A2) and (A7) as a percentage of the total aggregate monetary value of the Proposed Caps for transactions (A1) to (A7) during each of the three financial years ending 31 December 2020 (the "Review Period"). Moreover, Shenyang Jindong, Mianyang Ruian, Ningbo Yuming and Ningbo Ruixing will each provide the relevant materials and automotive components such as A0 assemblies, camshafts, trim trips, triangular windows, sealing bars, rear view mirrors and matching components to the Huachen Group for its own production. In addition, we were advised by the Company that there are only limited independent suppliers who possess the specific production lines for supplying the specific automotive components for the production of the Huachen Group in respect of Zhonghua sedans and it is not feasible or cost effective for the Huachen Group to set up its own plants or production lines for manufacturing all the required automotive components on its own.

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

### *Reasons for the transactions (B1) to (B3)*

As advised by the Company, the Group and the Huachen Group have collaborated to centralise the purchasing function of raw materials, such as steel, to enjoy bulk purchase discount. Consequently, the Huachen Group imports various materials (such as steels) and automotive components and sells the steels to Dongxing Automotive at market price for their further processing. Dongxing Automotive will sell part of the processed automotive components (namely press parts and welding parts) back to the Huachen Group (which is included as part of the transaction (A2) cited above). As mentioned above, Shenyang Automotive will sell engines and spare parts to the Huachen Group and then purchase from the Huachen Group the processed automotive components (i.e. power trains) for its onward production of minibuses. In addition, after processing the steels into press parts, the Huachen Group will sell some of the press parts to Shenyang Automotive for the latter's production of minibuses. Moreover, Shenyang Jindong will purchase scrap materials from the Huachen Group for external sales. In addition, we were advised by the Company that the relevant products produced by the Huachen Group is tailor-made for use by the Group for further processing or for manufacturing minibuses, and there is a certain difficulty for the Group to acquire the parts from an independent suppliers due to distinctiveness of the products.

## LETTER FROM OCTAL CAPITAL LIMITED

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

### *Reasons for the transaction (C1)*

Transaction (C1) refers to the purchase of services by members of the Group from members of the Huachen Group. As advised by the Company, some of the Group's application software were actually constructed by the Huachen Group, and they have been using by the Group for years. The systems include enterprise resource planning system, corporate electronic mail system and security management system. The Group has also outsourced the information technology support services to the Huachen Group. We believe that this transaction is favorable to the Group due to the familiarity of the system of the Huachen Group, in turn enables the Group to have quality and technology control in its production of automobiles. We also consider the fact that the continuous co-operation between the Group and the Huachen Group can eliminate the unnecessary expense which would be potentially incurred if the Group decides to purchase the technology support service from independent third parties or develop the system by its own.

Meanwhile, as advised by the Company, the Group has been producing and selling special vehicles such as police car, ambulance and postal car, which were modified from the minibuses of the Group, to customers including but not limited to governmental departments in the PRC and certain models of the minibuses. However, due to the small scale of the aforesaid sales of special vehicles, the Group cannot enjoy the benefit of economies of scale by undertaking the processing and refitting of automobiles into special vehicles. Given that certain members of the Huachen Group possess the relevant qualification, expertise and production facilities and authorization and channels to source the specific components to manufacture the automotive components required for transforming ordinary minibuses into special vehicles, the Group decided to outsource the processing and refitting processes of its minibuses to the Huachen Group for achieving the economies of scale. Therefore, it is reasonable for the Group to outsource the processing and refitting processes to the Huachen Group to enhance quality and technology control, and the Company is benefited from obtaining the services from the Huachen Group in terms of costs and efficiency as compared to the case where these processes are undertaken by the Group itself.

## LETTER FROM OCTAL CAPITAL LIMITED

In addition, reference is made to the circular of the Group dated 18 September 2017, the Group entered into a framework cooperation agreement with Renault SAS (“**Renault**”). Upon the Completion of the disposal of 49% equity interest in Shenyang Automotive to Renault, Shenyang Automotive would be jointly managed by the Group and Renault. Shenyang Automotive is principally engaged in the manufacture and sale of minibuses in China and it has been the objective of the parties to enhance its performance by leveraging on Renault’s advanced technologies, products depth and management expertise in the light commercial vehicles (the “**LCV**”) segment. Renault is one of the world’s leading automobile manufacturers, and one of the leaders in the European LCV market. Renault also has strong experience and a proven track record of establishing partnerships with other automotive makers in the LCV segment, such as Nissan, Daimler and General Motors Europe, etc. In terms of new energy vehicles (the “**NEV**”), Renault is also a leading player in the market, capable of bringing new NEV to the Group in order to expand the market. As set out in the Letter from the Board, several new high-end models of LCV and NEV will be introduced following the Completion, it is anticipated that the investment in research and development of new products will increase accordingly. Except for the LCV and NEV models under the co-development with Renault, there are approximately 16 development projects being scheduled to commence in the Review Period. Moreover, as the new models of minibus of the Group are required to fulfill the latest requirements stipulated in the relevant PRC government policies, including the emission and structural engineering requirements, the Company anticipated that more resources will be devoted in the relevant research and development expenses. Given that the Huachen Group possesses relevant qualification, expertise and production facilities for research and development activities while the Group does not, the Group decided to outsource the research and development activities to the Huachen Group. In view of the abovementioned planned development of the new models of minibus under the cooperation with Renault and other new models of minibus under the Group’s brand name, the demand for the research and development services from the Huachen Group is expected to increase in the Review Period.

As mentioned above, the production of minibuses is expected to increase in the Review Period according to the production schedule in respect of minibus provided by the Group, which will in turn increase the demand for transportation of minibus services. Due to (i) the close proximity between the warehouses of the Group and the Huachen Group; (ii) the existing logistics channel for transportation of automotive components; and (iii) the established transportation facilities and distribution network of the Huachen Group, it will be more cost effective for the Company to outsource the transportation of minibuses services to the Huachen Group.

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

## LETTER FROM OCTAL CAPITAL LIMITED

### 2. The Proposed Caps

Based on information provided by the Company, we summarise in the following table the Proposed Caps for the three financial years ending 31 December 2020:

Continuing Connected Transactions	For the financial years ended 31 December		For the nine months ended 30 September	For the financial years ending 31 December		
	2015 Historical figures (RMB'000)	2016 Historical figures (RMB'000)	2017 Historical figures (RMB'000)	2018 Proposed Cap (RMB'000)	2019 Proposed Cap (RMB'000)	2020 Proposed Cap (RMB'000)
<b>A. Sale of automobiles, materials and/or automotive components by members of the Group to members of the Huachen Group</b>						
A1 Sale of materials and automotive components by Xing Yuan Dong	39,178	65,972	33,025	115,900	128,600	142,900
A2 Sale of materials and automotive components by Dongxing Automotive	173,409	277,663	119,376	315,000	367,500	420,000
A3 Sale of materials and automotive components by Shenyang Jindong	34,349	56,265	35,027	96,400	113,300	140,300
A4 Sale of materials and automotive components by Mianyang Ruian	386	84	–	520	520	520
A5 Sale of materials and automotive components by Ningbo Yuming	9,643	11,786	10,634	15,800	17,400	19,200

**LETTER FROM OCTAL CAPITAL LIMITED**

Continuing Connected Transactions	For the financial years ended 31 December		For the nine months ended 30 September	For the financial years ending 31 December		
	2015 Historical figures (RMB'000)	2016 Historical figures (RMB'000)	2017 Historical figures (RMB'000)	2018 Proposed Cap (RMB'000)	2019 Proposed Cap (RMB'000)	2020 Proposed Cap (RMB'000)
A6 Sale of materials and automotive components by Ningbo Ruixing	-	-	-	170	170	170
A7 Sale of automobiles, materials and automotive components by Shenyang Automotive	669,539	668,125	963,005	3,155,100	4,304,400	5,415,500
<b>B. Purchases of materials and automotive components by members of the Group from members of the Huachen Group</b>						
B1 Purchase of materials and automotive components by Dongxing Automotive	68,908	103,168	56,633	210,000	262,500	315,000
B2 Purchase of materials and automotive components by Shenyang Automotive	509,477	417,224	354,715	1,293,300	2,007,400	3,341,100
B3 Purchase of materials and automotive components by Shenyang Jindong	86,205	99,723	63,315	134,900	136,500	180,600

## LETTER FROM OCTAL CAPITAL LIMITED

Continuing Connected Transactions	For the financial years ended 31 December		For the nine months ended 30 September	For the financial years ending 31 December		
	2015	2016	2017	2018	2019	2020
	Historical figures (RMB'000)	Historical figures (RMB'000)	Historical figures (RMB'000)	Proposed Cap (RMB'000)	Proposed Cap (RMB'000)	Proposed Cap (RMB'000)

**C. Comprehensive service agreement in relation to the purchase of services by members of the Group from members of the Huachen Group**

C1 Purchase of services by members of the Group from members of the Huachen Group	28,809	24,440	16,013	894,370	1,149,470	1,202,070
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In determining the Proposed Caps for the three financial years ending 31 December 2020, the Board has based their estimates on the sales forecast of the relevant years. Important and objective assumptions and factors, though not exhaustive but were arrived at after due and careful consideration of data currently in hand, are set out below:

- the anticipated growth in the China automobile industry in the coming years. A research report on auto manufacturers in the PRC, which provided an analysis on engines, the auto market's latest trends and the positive view on the gross domestic product (GDP), has forecasted the PRC's auto sector's passenger vehicle volumes to grow within a range of 6% to 9% from 2018 to 2020 and at a 6.9% compound annual growth rate (CAGR) in 2018 to 2020, which analysis was based on three factors: 1) replacement demand should support the sector's volume growth over the next three years; 2) growing number of female drivers; and 3) consumption upgrade to larger size vehicles. It is also anticipated that new-energy commercial vehicles will grow 37% in 2018, 22% in 2019 and 17% in 2020, respectively;
- the anticipated increase in sales of minibuses by the Group in the coming three financial years ending 31 December 2020, in light of the proposed launch of new or upgraded models of minibuses by the Group and the expected increase in the demand for the Group's minibuses from the Huachen Group;
- the scheduled launch of new models of minibuses, including a 7-seat minibus with 8AT transmission namely S70 that is expected to be launched in the second half of 2018, and new range of automobiles by the Group and the upgrading of the Group's existing minibus and MPV models in the coming three financial years ending 31 December 2020, and consequently the anticipated growth in the sales of the Group's minibuses in the range of approximately 47.9% to 32.5% in 2019 to 2020 and the demand for transportation of minibuses services is expected to increase accordingly;

## LETTER FROM OCTAL CAPITAL LIMITED

- Shenyang Automotive has been supplying the Huachen Group with its minibuses for the latter’s refitting and processing into special vehicles such as ambulances, wheelchair-equipped vehicles and police cars for Huachen’s sales to its customers. As the Huachen Group expects its production and sales volume of special vehicles will gradually increase to meet domestic and overseas demand for special vehicles, which mainly include ambulances, CNG vehicles, refrigerated vehicles, wheelchair-equipped vehicles, it is anticipated that the sale of minibuses by Shenyang Automotive to the Huachen Group for vehicle remodeling purposes will increase, and consequently, the sales of power trains and spare parts are also anticipated to increase correspondingly and the demand for transportation of minibuses services is expected to increase accordingly;
- the historical sales data of clean-energy vehicles published by the China Association of Automotive Manufacturers shows growth in sales of clean-energy vehicles;
- the new policies and measures introduced by the PRC government to promote the use of electric vehicles or other clean-energy vehicle. According to the “Technical Development Planning for Energysaving and New-energy Vehicles” (《節能與新能源汽車技術路線圖》) issued by the PRC government, the planned proportion of new-energy vehicles to total vehicle sales is set at approximately 7%, 15% and 40%, with the estimated sales volume reaching 2.10 million units, 5.25 million units and 15.20 million units in 2020, 2025 and 2030, respectively. On 28 September 2017, a comprehensive set of emission rules and new-energy vehicle credit score program has been released by the PRC government as set out in the “Measures for Calculation of Passenger Vehicles’ Corporate Average Fuel Consumption”\* (乘用車企業平均燃料消耗量與新能源汽車積分並行管理辦法), which requires automobile manufacturers that produce or import more than 30,000 “traditional” energy vehicles annually in the PRC, to sell a certain number of clean-energy vehicles every year from 2019, those who fail to comply must purchase enough “new-energy vehicle credits” or face fines;
- in response to the regulatory requirements on energy savings and emission reduction, Shenyang Automotive is required to renew and upgrade its products. It is expected that the purchase of research and development service by Shenyang Automotive from the Huachen Group (who has been providing such services to the Group) will increase for the three financial years ending 31 December 2020;
- changes in product mix in response to market demand which will result in changes in the types of materials and automotive components used and the monetary value of the purchases of such materials and automotive components from the connected parties;



## LETTER FROM OCTAL CAPITAL LIMITED

- the Huachen Group has been providing research and development services to the Group. Following the Completion and with the cooperation of Renault, it is expected that new high-end light commercial vehicle models and new energy vehicles will be introduced by the new joint venture in the future. Accordingly, it is anticipated that the investment in research and development of new products will increase, leading to an increase in the need for research and development services from the Huachen Group;
- with the expected growth in the production of automobiles as a result of the introduction of new Renault's new high-end light commercial vehicle models and new energy vehicles, the Group anticipates growth in its demand for transportation services to transport its finished automobiles to the distributors of the Group and charging services for the new energy vehicles;
- the expected increase in demand for materials and automotive components from the Huachen Group in anticipation of new models of Zhonghua sedans to be launched by the Huachen Group and the increase in the sale of Zhonghua sedans in the PRC and overseas in the coming three financial years ending 31 December 2020;
- as the historical actual sales of materials and automotive components by Xing Yuan Dong, Dongxing Automotive, Mianyang Ruian and Ningbo Yuming to members of the Huachen Group are less than the relevant Approved Caps for the corresponding years, downward adjustments have been made to the relevant Proposed Caps to align with the anticipated sale amounts for the three financial years ending 31 December 2020; and
- as the historical actual purchases of materials and automotive components by Dongxing Automotive and Shenyang Jindong from members of the Huachen Group are less than the relevant Approved Caps for the corresponding years, downward adjustments have been made to the relevant Proposed Caps to align with the anticipated purchase amounts for the three financial years ending 31 December 2020.

As abovementioned, the Board determined the Proposed Caps based on the above factors. It is expected that the launch of the new models of existing products and new range of products and the anticipated increase in sales of minibuses in the coming three financial years will lead to an increase in production of minibuses and accordingly, an increase in demand for materials and automotive components which is the subject to Continuing Connected Transactions. Materials purchased will be used to produce automotive components and automotive components purchased will be used for further processing into core automotive components. The automotive components will be used in the production of automobiles by Shenyang Automotive. It is also expected that materials and automotive components will be supplied to the Huachen Group to enable Huachen to continue to carry on the Zhonghua Business and the anticipated increase in the sales of Zhonghua sedans and special vehicles produced by the Huachen Group in the coming three financial years will lead to an increase in the demand for automobiles, materials and automotive components from the Group. In addition, with reference to the announcements of the Company dated 23 June 2017

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and 4 July 2017, the Company entered into a framework cooperation agreement with Renault. Under the cooperation, it is expected that new Renault LCV products and new JinBei products will be introduced and manufactured by the Group and development of new NEV products will be commenced by the Group, which in turn will increase the demand for materials and automotive components from the Huachen Group. On the other hand, downward adjustments have been made on some of the Proposed Caps of the Continuing Connected Transactions, including sales of materials and automotive components by Xing Yuan Dong (Transaction (A1)), Dongxing Automotive (Transaction (A2)), Mianyang Ruian (Transaction (A4)) and Ningbo Yuming (Transaction (A5)) to members of the Huachen Group; and purchase of materials and automotive components by Dongxing Automotive (Transaction (B1)) and Shenyang Jindong (Transaction (B3)) from members of the Huachen Group. In view of the historical transacted amounts of the above transactions were less than the corresponding Approved Caps, the Company has taken a prudent approach on setting the Proposed Caps which are at a lower level than the Approved Caps.

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

- *Transaction (A1)*

Pursuant to the relevant framework agreement for transaction (A1), the materials and automotive components (namely, interior trim parts, anti-freezing fluid and presswork) are to be purchased by the Huachen Group from Xing Yuan Dong on terms which are to be agreed between the Group and the Huachen Group on a cost plus basis. The cost plus basis will be determined based on the cost for manufacturing the required specification and quantity of the materials and automotive components to be purchased by the Huachen Group plus a margin as agreed between the Group and the Huachen Group and the cost will be estimated with reference to material cost, production cost, labour cost, transportation fee, packaging cost and management fee, etc. As the materials and automotive components are tailor-made for the Huachen Group, in determining the margin to be used, the Group will make reference to the internal target profit margin of the relevant products sold to the Huachen Group under this transaction.

We have reviewed the breakdown of comparable past transactions between the Group and the Huachen Group and reviewed certain transactions on a sampling basis during the two years ended 31 December 2015 and 2016 and the six months ended 30 June 2017 (the “**Historical Period**”) and compared it against the transaction (A1) during the Review Period. We noted that the estimated price per unit will be determined based on the costs of the respective automotive components plus an internal target profit margin in the range of 0% to 10% for the respective automotive components during the Review Period, which is determined by taking into consideration various factors, including but not limited to cost of material and labour, complexity of production procedures, number of products and production capacity. In addition, as advised by the Group, the profit margin will not be less than that used for independent customers for the relevant tailor-made products, which is expected to be achieved by the Group. Upon review of the internal pricing guidelines of the Group approved by managements of the subsidiaries, we note that the pricing department would regularly review the terms of the continuing connect transactions, and internal pricing guidelines can guide the Group to provide a reasonable and fair price for each relevant tailor-made product. These measures can eventually set a standard to help the

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Group achieve the performance targets of the relevant subsidiaries. Considering the above reasons, we are of the view that the pricing terms are on normal commercial terms and fair and reasonable to the Group. We have reviewed the breakdown of comparable past transactions between Xing Yuan Dong and the Huachen Group. We have also reviewed certain transactions on a sampling basis during the Historical Period and compared it against the transaction (A1) during the Review Period. We noted that the gross profit margin was stable during the Historical Period and also comparable to that during the Review Period. We also noted that the unit price of automotive components during the Review Period is comparable to that during the Historical Period while the estimated unit price of the relevant automotive components in the Review Period is comparable to the actual average unit price during the Historical Period.

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

In respect of the Proposed Caps of RMB115,900,000, RMB128,600,000 and RMB142,900,000 to be sought for the sale of materials and automotive components by Xing Yuan Dong to the Huachen Group for each of the three financial years during the Review Period, we have obtained from the Company a list of estimated annual sales of automotive components summing approximately up to each of the Proposed Caps. We understand from the Company that the estimate of annual sales of materials and components was prepared on the basis of multiplying the estimated unit price (calculated on a cost plus basis) of the individual materials and automotive components by the estimated quantity of the corresponding materials and automotive components. We consider such basis of preparation to be in line with market practice. As advised by the Company, the level of the Proposed Caps for the Review Period was determined after taking into consideration (i) the actual transacted amount under the transaction (A1) during the Historical Period; and (ii) the expected demand of the materials and automotive components based on a production plan provided by the Huachen Group which laid out the expected purchasing amount in the Review Period. We have also reviewed the list of estimated sales of automotive components and noted that the expected transaction amounts of certain components such as the interior trim parts and anti-freezing fluid would account for the majority of the total transaction amount. We also noted that the estimated quantity of the corresponding components was arrived at after taking into account the anticipated growth in the planned procurement volume of the automotive components for the relevant Zhonghua sedans during the Review Period. We were advised by the Company that the Huachen Group will review its procurement volume on a regular basis and it may modify the procurement volume according to the market conditions during the Review Period.

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In addition, as set out in the Letter from the Board, as the historical actual sales of materials and automotive components by Xing Yuan Dong to members of the Huachen Group are far less than the Approved Caps for the corresponding years during the Historical Period, in particular the drop in the actual sales of the interior trim parts and anti-freezing fluid for the Zhonghua sedans, downward adjustments have been made to the Proposed Caps to align with the anticipated sale amounts for the three financial years ending 31 December 2020. We note that the Proposed Caps are less than the corresponding Approved Caps by approximately 31% in average.

Meanwhile, we have also obtained the breakdown of the actual sales of materials and automotive components during the Historical Period and compared them against the Approved Caps during the Historical Period. Upon comparison, we note that the actual transacted amount during the Historical Period was substantially lower than the Approved Caps of transaction (A1). As advised by the Company, during the Historical Period, the actual transacted amount was lower than the Approved Caps because the actual demand for the automotive components of certain models of Zhonghua sedans dropped below the transaction amount estimated by Xing Yuan Dong at the time of compiling the Approved Caps in 2014 due to the demand for the Zhonghua sedans being weaker than the expectation.

According to the statistics of China Association of Automobile Manufacturers (中國汽車工業協會), the unit sales of sedans in the PRC from 2012 to 2016 and the first ten months of 2017 are summarised below:

	Year ended 31 December					Ten months ended	
	2012	2013	2014	2015	2016	30 October 2016	2017
Sales volume ('000)	10,745	12,001	12,377	11,720	12,150	9,612	9,426
Growth (%)	6.15	11.77	3.06	(5.33)	3.44	3.55	(1.39)

From the above table, we note that the year-on-year growth/decline in sales of sedans in the PRC was in the range of -5.33% to 11.77% from 2012 to 2016 and the year-on-year decline was -1.39% for the first ten months of 2017. It appears that there was a growth momentum of sedans in the PRC for the period 2012 to 2014. In 2016, the market of sedans in the PRC has been slightly recovered from the decline in 2015. The restored growth rate in 2016 might represent the consistent demand of sedans in the PRC. We note the Company has taken a prudent approach on setting the Proposed Caps which are at a lower level than the Approved Caps after considering the actual transacted amount during the Historical Period. We consider that the adoption of a prudent approach is appropriate under the steady demand for sedans in the PRC.

As advised by the Company, the Huachen Group will increase marketing and promotion efforts on the new models of Zhonghua sedans and maintain strict control of the production schedule. In view of the launch of new series of Zhonghua sedans, the Huachen Group anticipated that there will be an increase in the demand for the automotive components of certain models of Zhonghua sedans during the Review Period. In addition, Xing Yuan Dong will also increase its effort on the sales of automotive components to the

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new models of the Zhonghua sedans during the Review Period. Despite the weak demand for the relevant components of Zhonghua sedans for the Historical Period and the change of growth momentum of demand for sedans in the PRC, it is expected that the demand for the Group's automotive components will increase under the anticipated growth in sales of the Zhonghua sedans as a result of the introduction of several new models and increase in marketing and promotion effort on the new models for the Review Period. Hence we are of the view that the Group has taken the weak demand for the Historical Period and the anticipated growth in sales of the Zhonghua sedans into consideration, and eventually adjusted the relevant Proposed Caps for transaction (A1) conservatively with the net result of approximately 31% in average less than the corresponding Approved Caps for transaction (A1).

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

- ***Transaction (A2)***

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

We noted that the estimated price per unit will be determined based on the costs of the respective automotive components plus an internal target profit margin in the range of 3% to 5% during the Review Period, which is determined by taking into consideration various factors, including but not limited to cost of material and labour, complexity of production procedures, number of products and production capacity. In addition, as advised by the Group, the profit margin will not be less than that used for independent customers for the relevant tailor-made products, which is expected to be achieved by the Group. Upon review of the internal pricing guidelines of the Group approved by managements of the subsidiaries, we note that the pricing department would regularly review the terms of the continuing connect transactions, and internal pricing guidelines can guide the Group to provide a reasonable and fair price for each relevant tailor-made product. These measures can eventually set a standard to help the Group achieve the performance targets of the relevant subsidiaries. Considering the above reason, we are of the view that the pricing terms are on normal commercial terms and fair and reasonable to the Group. We have reviewed the breakdown of comparable past transactions between Dongxing Automotive and the Huachen Group. We have also reviewed certain transactions on a sampling basis during the Historical Period and compared it against the transaction (A2) during the Review

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Period. We noted that the gross profit margin fluctuated during the Historical Period which is mainly due to an increase in revenue generated from certain press parts with higher gross profit margin in 2016. Except for the higher gross profit margin recorded in 2016, the average gross profit margin during the Historical Period is comparable to that during the Review Period. We also noted that the unit price of press parts during the Review Period is comparable to that during the Historical Period while the estimated unit price of welding parts in the Review Period is comparable to the actual average unit price during the Historical Period.

Further, we were confirmed by the Directors that the materials and automotive components to be purchased by the Huachen Group are tailor-made by Dongxing Automotive. Therefore, there were no comparable purchases transactions with independent third parties for the above automotive components available for our comparison. We were confirmed by the Company that these automotive components are specifically designed and produced to be compatible with the configuration of certain models of sedans produced by the Huachen Group. Only limited independent customers can use these automotive components without further modification or processing. It is difficult to identify other suppliers which can produce the same products in comparable quality and quantity. Furthermore, it would be time-consuming for other suppliers to modify their products for compatibility and safety testing which could disrupt the production and marketing plan of the Huachen Group.

In respect of the Proposed Caps of RMB315,000,000, RMB367,500,000 and RMB420,000,000 to be sought for the sale of materials and automotive components by Dongxing Automotive to the Huachen Group for each of the three financial years ending 31 December 2020. We have obtained from the Company a list of the estimated annual sales of automotive components summing approximately up to each of the Proposed Caps. We understand from the Company that such list of estimate was prepared on the basis of multiplying the estimated unit price of the individual components by the estimated quantity of the corresponding components. The estimated quantity of the corresponding components was arrived at after taking into consideration the anticipated growth in the planned procurement volume of the automotive components for the relevant Zhonghua sedans during the Review Period. We were advised by the Company that the Huachen Group will review its procurement volume on a regular basis and it may modify the procurement volume according to the market conditions during the Review Period. On the other hand, the Huachen Group plans to produce several new models of Zhonghua sedans in the coming years and Dongxing Automotive will supply additional automotive components in terms of type and quantity to the Huachen Group for the production of these new models.

In addition, as set out in the Letter from the Board, as the historical actual sales of materials and automotive components by Dongxing Automotive to members of the Huachen Group are far less than the Approved Caps for the corresponding years during the Historical Period, in particular the drop in the actual sales of the welding parts for the Zhonghua sedans, downward adjustments have been made to the Proposed Caps to align with the anticipated sale amounts for the three financial years ending 31 December 2020. We note that the Proposed Caps are less than the corresponding Approved Caps by approximately 50% in average.

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Meanwhile, we have also obtained the breakdown of the actual sales of materials and automotive components during the Historical Period and compared them against the Approved Caps during the Historical Period. Upon comparison, we note that the actual transacted amount during the Historical Period was substantially lower than the Approved Caps of transaction (A2). As advised by the Company, during the Historical Period, the actual transacted amount was lower than the Approved Caps because the actual demand for the automotive components of certain models of Zhonghua sedans dropped below the transaction amount estimated by Dongxing Automotive at the time of compiling the Approved Caps in 2014 due to, in particular, a shortfall in the production of certain Zhonghua sedans during the Historical Period. Thus, the actual sales of the corresponding automotive components dropped below the estimated level.

According to the statistics of China Association of Automobile Manufacturers (中國汽車工業協會), we note that the year-on-year growth in sales of sedans in the PRC was in the range of -5.33% to 11.77% from 2012 to 2016 and the year-on-year decline was -1.39% for the first ten months of 2017. It appears that there was a growth momentum of sedans in the PRC for the period 2012 to 2014. In 2016, the market of sedans in the PRC has been slightly recovered from the decline in 2015. The restored growth rate in 2016 might represent the consistent demand of sedans in the PRC. We note the Company has taken a prudent approach on setting the Proposed Caps which are at a lower level than the Approved Caps after considering the actual transacted amount during the Historical Period. We consider that the adoption of a prudent approach is appropriate under the steady demand for sedans in the PRC.

As advised by the Company, the Huachen Group will increase marketing and promotion efforts on the new models of Zhonghua sedans and maintain strict control of the production schedule. In view of the launch of new series of Zhonghua sedans, the Huachen Group anticipated that there will be an increase in the demand for the automotive components of certain models of Zhonghua sedans during the Review Period. In addition, Dongxing Automotive will also increase its effort on the sales of automotive components to the new models of the Zhonghua sedans during the Review Period. Despite the weak demand for the relevant components of Zhonghua sedans for the Historical Period and the change of growth momentum of demand for sedans in the PRC, it is expected that the demand for the Group's automotive components will increase under the anticipated growth in sales of the Zhonghua sedans as a result of the introduction of several new models and increase in marketing and promotion effort on the new models for the Review Period. Hence we are of the view that the Group has taken the weak demand for the Historical Period and the anticipated growth in sales of the Zhonghua sedans into consideration, and eventually adjusted the relevant Proposed Caps for transaction (A2) conservatively with the net result of approximately 50% in average less than the corresponding Approved Caps for transaction (A2).

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

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- ***Transaction (A3)***

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

We noted that the estimated price per unit will be determined based on the costs of the respective automotive components plus an internal target profit margin in the range of 8% to 18%, which is determined by taking into consideration various factors, including but not limited to cost of material and labour, complexity of production procedures, number of products and production capacity. In addition, as advised by the Group, the profit margin will not be less than that used for independent customers for the relevant tailor-made products, which is expected to be achieved by the Group. Upon review of the internal pricing guidelines of the Group approved by managements of the subsidiaries, we note that the pricing department would regularly review the terms of the continuing connect transactions, and internal pricing guidelines can guide the Group to provide a reasonable and fair price for each relevant tailor-made product. These measures can eventually set a standard to help the Group achieve the performance targets of the relevant subsidiaries. Considering the above reason, we are of the view that the pricing terms are on normal commercial terms and fair and reasonable to the Group. We have reviewed the breakdown of comparable past transactions between the Group and the Huachen Group and reviewed certain transactions on a sampling basis during the Historical Period and compared it against the transaction (A3) during the Review Period. We noted that the gross profit margin fluctuated during the Historical Period which is mainly due to lower sales order for certain matching components with higher gross profit margin recorded in 2015. Except for the lower gross profit margin in 2015, the average gross profit margin during the Historical Period is comparable to that during the Review Period. We noted that the unit price of the materials and automotive components in the Review Period is comparable to that recorded in the Historical Period.

Further, we were confirmed by the Directors that the materials and automotive components to be purchased by the Huachen Group are tailor-made by Shenyang Jindong. Therefore, there were no comparable purchases transactions with independent third parties for the above automotive components available for our comparison. We were confirmed by the Company that these matching components and the welding assemblies are specifically designed and produced to be compatible with the configuration of certain models of sedans produced by the Huachen Group. Therefore, it is difficult to identify other suppliers which can produce the same products in comparable quality and quantity. Furthermore, it would be



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time-consuming for other suppliers to modify their products for compatibility and safety testing which could disrupt the production and marketing plan of the Huachen Group.

In respect of the Proposed Caps of RMB96,400,000, RMB113,300,000 and RMB140,300,000 to be sought for the sale of materials and automotive components by Shenyang Jindong to the Huachen Group for each of the three financial years ending 31 December 2020. We have obtained from the Company a list of estimated sales of automotive components summing approximately up to the Proposed Caps. We have reviewed the breakdown of actual sales of the Group during the Historical Period. We understand from the Company that such list of estimate was prepared on the basis of multiplying the estimated price per unit of the individual components by the estimated quantity of the corresponding components. The estimated quantity of the corresponding components was arrived at after taking into account the planned procurement volume of the automotive components for the relevant Zhonghua sedans during the Review Period. We were advised by the Company that the Huachen Group will review its procurement volume on a regular basis and it may modify the procurement volume according to the market conditions during the Review Period.

In addition, as set out in the Letter from the Board, as the historical actual sales of materials and automotive components by Shenyang Jindong to members of the Huachen Group are far less than the Approved Caps for the corresponding years during the Historical Period, in particular the drop in the actual sales of the A0 assemblies and the matching components for the Zhonghua sedans, downward adjustments have been made to the Proposed Caps to align with the anticipated sale amounts for the three financial years ending 31 December 2020. We note that the Proposed Caps are less than the corresponding Approved Caps by approximately 8% in average.

Moreover, we have obtained the breakdown of the actual sales of materials and automotive components during the Historical Period and compared them against the Approved Caps during the Historical Period. We have also reviewed the breakdown of actual sales of the automotive components of the Group during the Historical Period. Upon comparison, we note that the actual transacted amount during the Historical Period was substantially lower than the Approved Caps of transaction (A3). We were advised by the Company that, during the Historical Period, the actual transacted amount was lower than the Approved Caps because the actual demand for the corresponding automotive components of certain Zhonghua sedans dropped below the transaction amount estimated by Shenyang Jindong at the time of compiling the Approved Caps in 2014 due to, in particular, a shortfall in the production of the Zhonghua sedans during the Historical Period. Thus, the actual sales of the corresponding automotive components dropped below the estimated level.

As advised by the Company, the Huachen Group will increase marketing and promotion efforts on the new models of Zhonghua sedans and maintain strict control of the production schedule. In view of the launch of new series of Zhonghua sedans, the Huachen Group anticipated that there will be an increase in the demand for the automotive components of certain models of Zhonghua sedans during the Review Period. In addition, Shenyang Jindong will also increase its effort on the sales of matching components to the new models of the Zhonghua sedans during the Review Period. Despite the weak demand for the relevant components of Zhonghua sedans for the Historical Period and the change of growth momentum of demand for sedans in the PRC, it is expected that the demand for the

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Group's automotive components will increase under the anticipated growth in sales of the Zhonghua sedans as a result of the introduction of several new models and increase in marketing and promotion effort on the new models for the Review Period. Hence we are of the view that the Group has taken the weak demand for the Historical Period and the anticipated growth in sales of the Zhonghua sedans into consideration, and eventually adjusted the relevant Proposed Caps for transaction (A3) conservatively with the net result of approximately 8% in average less than the corresponding approved caps for transaction (A3).

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

- ***Transaction (A4)***

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

We noted that the estimated price per unit will be determined based on the costs of the respective automotive components plus an internal target profit margin in the range of 20% to 25%, which is determined by taking into consideration various factors, including but not limited to cost of material and labour, complexity of production procedures, number of products and production capacity. In addition, as advised by the Group, the profit margin will not be less than that used for independent customers for the relevant tailor-made products, which is expected to be achieved by the Group. Upon review of the internal pricing guidelines of the Group approved by managements of the subsidiaries, we note that the pricing department would regularly review the terms of the continuing connect transactions, and internal pricing guidelines can guide the Group to provide a reasonable and fair price for each relevant tailor-made product. These measures can eventually set a standard to help the Group achieve the performance targets of the relevant subsidiaries. Considering the above reason, we are of the view that the pricing terms are on normal commercial terms and fair and reasonable to the Group. On the other hand, we have compared the breakdown of the materials and automotive components under the Approved Caps during the Historical Period and the breakdown of materials and automotive components of the Proposed Caps in the Review Period. We noted that the gross profit margin is stable during the Historical Period and is also comparable to that during the Review Period. We also noted that the unit price of the materials and automotive components in the Review Period is comparable to that recorded in the Historical Period.

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

In respect of the Proposed Caps of approximately RMB520,000, RMB520,000 and RMB520,000 to be sought for the sale of materials and automotive components by Mianyang Ruian to the Huachen Group for each of the three financial years ending 31 December 2020. We have obtained from the Company a list of estimated sales of automotive components approximately summing up to the Proposed Caps. We understand from the Company that such list of estimate was prepared on the basis of multiplying the estimated unit price of the individual automotive components by the estimated quantity of the corresponding components. The estimated quantity of the corresponding components was arrived at after taking into account the planned procurement volume of the automotive components for the relevant Zhonghua sedans during the Review Period. We were advised by the Company that the Huachen Group will review its procurement volume on a regular basis and it may modify the procurement volume according to the market conditions during the Review Period.

In addition, as set out in the Letter from the Board, as the historical actual sales of materials and automotive components by Mianyang Ruian to members of the Huachen Group are far less than the Approved Caps for the corresponding years during the Historical Period, in particular the drop in the actual sales of the camshaft for the Zhonghua sedans, downward adjustments have been made to the Proposed Caps to align with the anticipated sale amounts for the three financial years ending 31 December 2020. We note that the Proposed Caps are less than the corresponding Approved Caps by approximately 58% in average.

We note that the actual transaction amount exhibited a decreasing trend and did not have any transactions during the six months ended 30 June 2017. We noted that each of the Proposed Caps for the Review Period is significantly lower than the Approved Caps for the Historical Period. There has also been a decrease in demand and sale of E2 model of camshafts to the Huachen Group since 2017 as a result of the suspension of production of relevant engine during the Historical Period. Accordingly, it is anticipated that there will be a significant decrease in the sale of camshafts by Mianyang Ruian to the Huachen Group for the three financial years ending 31 December 2020 and the Proposed Caps for transaction (A4) is significantly lower than the Approved Caps under the Historical Period which follows the trend of the actual transaction amounts during the Historical Period.

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

As advised by the Company, the Huachen Group will increase marketing and promotion efforts on the new models of Zhonghua sedans and maintain strict control of the production schedule. In view of the launch of new series of Zhonghua sedans, the Huachen Group anticipated that there will be an increase in the demand for the automotive components of certain models of Zhonghua sedans during the Review Period. In addition, Mianyang Ruian will also increase its effort on the sales of automotive components to the new models of the Zhonghua sedans during the Review Period. Despite the weak demand for the relevant components of Zhonghua sedans for the Historical Period and the change of growth momentum of demand for sedans in the PRC, it is expected that the demand for the Group's automotive components will increase under the anticipated growth in sales of the Zhonghua sedans as a result of the introduction of several new models and increase in marketing and promotion effort on the new models for the Review Period. Hence we are of the view that the Group has taken the weak demand for the Historical Period and the anticipated growth in sales of the Zhonghua sedans into consideration, and eventually adjusted the relevant Proposed Caps for transaction (A4) conservatively with the net result of approximately 58% in average less than the corresponding Approved Caps for transaction (A4).

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

- ***Transaction (A5)***

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

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We noted that the estimated price per unit will be determined based on the costs of the respective automotive components plus an internal target profit margin in the range of 6% to 26%, which is determined by taking into consideration various factors, including but not limited to cost of material and labour, complexity of production procedures, number of products and production capacity. In addition, as advised by the Group, the profit margin will not be less than that used for independent customers for the relevant tailor-made products, which is expected to be achieved by the Group. Upon review of the internal pricing guidelines of the Group approved by managements of the subsidiaries, we note that the pricing department would regularly review the terms of the continuing connect transactions, and internal pricing guidelines can guide the Group to provide a reasonable and fair price for each relevant tailor-made product. These measures can eventually set a standard to help the Group achieve the performance targets of the relevant subsidiaries. Considering the above reason, we are of the view that the pricing terms are on normal commercial terms and fair and reasonable to the Group. We have reviewed the breakdown of comparable past transactions between the Group and the Huachen Group and reviewed certain transactions on a sampling basis during the Historical Period and compared it against the Proposed Caps for the transaction (A5) during the Review Period. We noted that the gross profit margin is stable during the Historical Period and is also comparable to that during the Review Period. We also noted that the unit price of the materials and components in the Review Period is comparable to that applied in the Historical Period.

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

In respect of the Proposed Caps of RMB15,800,000, RMB17,400,000 and RMB19,200,000 to be sought for the sale of materials and automotive components by Ningbo Yuming to the Huachen Group for each of the three financial years ending 31 December 2020. We have obtained from the Company a list of estimated sales of automotive components summing approximately up to the Proposed Caps. We understand from the Company that such list of estimate was prepared on the basis of multiplying the estimated price per unit of the individual automotive components by the estimated quantity of the corresponding components. The estimated quantity of the corresponding components was arrived at after taking into account the planned procurement volume of the automotive components for the relevant Zhonghua sedans during the Review Period. We were advised by the Company that the Huachen Group will review its procurement volume on a regular basis and it may modify the procurement volume according to the market conditions during the Review Period.

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In addition, as set out in the Letter from the Board, as the historical actual sales of materials and automotive components by Ningbo Yuming to members of the Huachen Group are far less than the Approved Caps for the corresponding years during the Historical Period, in particular the drop in the actual sales of sealing bars for the Zhonghua sedans, downward adjustments have been made to the Proposed Caps to align with the anticipated sale amounts for the three financial years ending 31 December 2020. We note that the Proposed Caps are less than the corresponding Approved Caps by approximately 66.7% in average.

According to the statistics of China Association of Automobile Manufacturers (中國汽車工業協會), we note that the year-on-year growth in sales of sedans in the PRC was in the range of -5.33% to 11.77% from 2012 to 2016 and the year-on-year decline was -1.39% for the first ten months of 2017. It appears that there was a growth momentum of sedans in the PRC for the period 2012 to 2014. In 2016, the market of sedans in the PRC has been slightly recovered from the decline in 2015. The restored growth rate in 2016 might represent the consistent demand of sedans in the PRC. We note the Company has taken a prudent approach on setting the Proposed Caps which are at a lower level than the Approved Caps after considering the actual transacted amount during the Historical Period. We consider that the adoption of a prudent approach is appropriate under the steady demand for sedans in the PRC.

As advised by the Company, the Huachen Group will increase marketing and promotion efforts on the new models of Zhonghua sedans and maintain strict control of the production schedule. In view of the launch of new series of Zhonghua sedans, the Huachen Group anticipated that there will be an increase in the demand for the automotive components of certain models of Zhonghua sedans during the Review Period. In addition, Ningbo Yuming will also increase its effort on the sales of automotive components to the new models of the Zhonghua sedans during the Review Period. Despite the weak demand for the relevant components of Zhonghua sedans for the Historical Period and the change of growth momentum of demand for sedans in the PRC, it is expected that the demand for the Group's automotive components will increase under the anticipated growth in sales of the Zhonghua sedans as a result of the introduction of several new models and increase in marketing and promotion effort on the new models for the Review Period. Hence we are of the view that the Group has taken the weak demand for the Historical Period and the anticipated growth in sales of the Zhonghua sedans into consideration, and eventually adjusted the relevant Proposed Caps for transaction (A5) conservatively with the net result of approximately 66.7% in average less than the corresponding Approved Caps for transaction (A5).

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

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- ***Transaction (A6)***

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

We noted that the estimated price per unit will be determined based on the costs of the respective automotive components plus an internal target profit margin in the range of 13% to 18%, which is determined by taking into consideration various factors, including but not limited to cost of material and labour, complexity of production procedures, number of products and production capacity. In addition, as advised by the Group, the profit margin will not be less than that used for independent customers for the relevant tailor-made products, which is expected to be achieved by the Group. Upon review of the internal pricing guidelines of the Group approved by managements of the subsidiaries, we note that the pricing department would regularly review the terms of the continuing connect transactions, and internal pricing guidelines can guide the Group to provide a reasonable and fair price for each relevant tailor-made product. These measures can eventually set a standard to help the Group achieve the performance targets of the relevant subsidiaries. Considering the above reason, we are of the view that the pricing terms are on normal commercial terms and fair and reasonable to the Group.

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

In respect of the Proposed Caps of RMB170,000, RMB170,000 and RMB170,000 to be sought for the sale of materials and automotive components by Ningbo Ruixing to the Huachen Group for each of the three years ending 31 December 2020, we note that the Proposed Caps equal to the corresponding Approved Caps. We have obtained from the Company a list of estimated sales of automotive components summing approximately up to the Proposed Caps. We understand from the Company that such list of estimate was prepared

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on the basis of multiplying the estimated price per unit of the individual automotive components by the estimated quantity of the corresponding components. The estimated quantity of the corresponding components was arrived at after taking into account the planned procurement volume of the automotive components for the relevant Zhonghua sedans during the Review Period. We were advised by the Company that the Huachen Group will review its procurement volume on a regular basis and it may modify the procurement volume according to the market conditions during the Review Period.

Further, we have also compared the breakdown of the materials and automotive components under the Approved Caps during the Historical Period and the breakdown of materials and automotive components of the Proposed Caps in the Review Period. We noted that each of the Proposed Caps for the Review Period is the same as the Approved Cap for the Historical Period. As set out in the Letter from the Board, the historical actual sales of materials and automotive components by Ningbo Ruixing to members of the Huachen Group are zero for the corresponding years. As advised by the Company, there were no transaction under the transaction (A6) during the Historical Period is mainly due to the suspension of relevant models of Zhonghua sedan during the Historical Period. However, based on the production schedule of Zhonghua sedan for the Review Period provided by the Group and further discussion with the Company, we note that relevant models of Zhonghua sedan (i.e. H330) which require the automotive components in the transaction (A6) in the production.

According to the statistics of China Association of Automobile Manufacturers (中國汽車工業協會), we note that the year-on-year growth in sales of sedans in the PRC was in the range of -5.33% to 11.77% from 2012 to 2016 and the year-on-year decline was -1.39% for the first ten months of 2017. It appears that there was a growth momentum of sedans in the PRC for the period 2012 to 2014. In 2016, the market of sedans in the PRC has been slightly recovered from the decline in 2015. The restored growth rate in 2016 might represent the consistent demand of sedans in the PRC. We note the Company has taken a prudent approach on setting the Proposed Caps which are at a same level with the Approved Caps after considering the actual transacted amount during the Historical Period. We consider that the adoption of a prudent approach is appropriate under the steady demand for sedans in the PRC.

We have reviewed the unit price of the automotive components in the transaction (A6) during the Historical Period and compared it against the transaction (A6) during the Review Period. We noted that the unit price of the components in the Review Period is comparable to the unit price applied in the Historical Period.

As advised by the Company, the Huachen Group will increase marketing and promotion efforts on the new models of Zhonghua sedans and maintain strict control of the production schedule. In view of the launch of new series of Zhonghua sedans, the Huachen Group anticipated that there will be an increase in the demand for the automotive components of certain models of Zhonghua sedans during the Review Period. In addition, Ningbo Ruixing will also increase its effort on the sales of automotive components to the new models of the Zhonghua sedans during the Review Period. Despite the weak demand for the relevant components of Zhonghua sedans for the Historical Period and the change of growth momentum of demand for sedans in the PRC, it is expected that the demand for the



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Group's automotive components will increase under the anticipated growth in sales of the Zhonghua sedans as a result of the introduction of several new models and increase in marketing and promotion effort on the new models for the Review Period.

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

- ***Transaction (A7)***

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

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

On the other hand, we note that the major component included in the Proposed Caps is the sale of minibuses to the Huachen Group which represented more than 70% of the Proposed Caps in each of the three years ending 31 December 2020 and we note that the sale of minibuses was commenced in 2013. Besides, certain members of the Huachen Group possess the relevant qualification and expertise, production facilities and the authorization and channels to source the relevant specific components to manufacture the relevant automotive components required for transforming minibuses into special vehicles, such as ambulances and NEV. As further advised by the Company, in view of the fact that certain models of the minibuses of the Group were enlisted in the recognised purchasing lists of these government departments, the Huachen Group and the Company consider that they can

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cooperate and capture such business opportunity by selling those models of minibuses of the Group to the Huachen Group for further transformation into special vehicles in a wider area of usage which will then be sold to the relevant customers of the Huachen Group, including but not limited to overseas customers. By doing so, (i) it would be more cost efficient for the Huachen Group to purchase these models of minibus in large scale from the Group and then further process them into special vehicles on its own; (ii) the selling of minibuses to the Huachen Group can broaden the revenue stream of the Company; and (iii) the Group can enjoy further bulk purchase discount on automotive components after taking into account the minibuses to be sold to the Huachen Group.

Meanwhile, regarding the remaining component included in the Proposed Caps for transaction (A7) including the sale of materials and automotive components (namely engines and spare parts), as the Company anticipated that there will be an increase in the demand for the Group's minibuses with the launching of the new series of the Group's minibuses during the Review Period which will in turn lead to an increase in the demand for the materials and automotive components from the Huachen Group.

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

In respect of the Proposed Caps of RMB3,155,100,000, RMB4,304,400,000 and RMB5,415,500,000 to be sought for the sale of materials and automotive components by Shenyang Automotive to the Huachen Group for each of the three financial years ending 31 December 2020, we note that the Proposed Caps are more than the corresponding Approved Caps by approximately 39% in average. We have obtained from the Company a list of estimated sales of products summing approximately up to the Proposed Caps. We understand from the Company that such list of estimate was prepared on the basis of multiplying the estimated price per unit of the individual products by the estimated quantity of the corresponding products. The estimated quantity of the corresponding products was arrived at after taking into account the sales of the Group's minibuses of over 32,000 units in 2018 with an anticipated growth rate in the range of approximately 47.9% to 32.5% in 2019 to 2020. As advised by the Company, in view of the reasons as discussed above, we noted that (i) several new models of minibuses, including a 7-seat minibus with 8AT transmission namely S70, might be introduced to the market since the second half of 2018; and (ii) new model of special vehicles converted from the Group's minibuses, including ambulances, refrigerated trucks and welfare vehicles might be introduced to the market in the Review Period. Accordingly, the Company anticipated that the sale of the relevant models of minibus, relevant automotive components and materials to the Huachen Group will increase in the Review Period.

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On the other hand, we noted that the estimated price per unit of the minibus will be determined based on the costs of the respective automotive components plus an internal target profit margin in the range of 1% to 15%, depending on the classes of the minibuses, and the estimated price per unit of the minibuses will be determined based on the market price. In addition, as advised by the Group, the profit margin will not be less than that used for independent customers for the relevant tailor-made products, which is expected to be achieved by the Group. Upon review of the internal pricing guidelines of the Group approved by managements of the subsidiaries, we note that the pricing department would regularly review the terms of the continuing connect transactions, and internal pricing guidelines can guide the Group to provide a reasonable and fair price for the transactions. These measures can eventually set a standard to help the Group achieve the performance targets of the relevant subsidiaries. Considering the above reason, we are of the view that the pricing terms are on normal commercial terms and fair and reasonable to the Group. We have reviewed the breakdown of comparable past transactions between Shenyang Automotive and the Huachen Group and reviewed certain transactions on a sampling basis during the Historical Period and compared them against the transaction (A7) during the Review Period.

We noted that the unit price and the gross profit margin of the actual transactions of the automobiles, materials and automotive components in the Historical Period are comparable to that in the Review Period. As mentioned above, those automotive components are specifically designed and produced to be compatible with the configuration of sedans produced by the Huachen Group, there are no comparable transactions with independent customers in respect of automobiles components. With regard to the sale of minibuses to the Huachen Group, we have compared the unit price of the minibuses to the past comparable transactions of Shenyang Automotive with independent customers and noted that the unit price of the automobiles sold to independent customers are within the same price range to that sold to the Huachen Group.

We have obtained the breakdown of the actual sales of minibuses, materials and automotive components during the Historical Period and compared them against the Approved Caps during the Historical Period. Upon comparison, we note that the actual transacted amount during the Historical Period was substantially lower than the Approved Caps of transaction (A7). As advised by the Company, the actual sales of the minibuses were lower than those as planned because of the policy namely article 453 in respect of strict control on the requirements on minibuses and other motor vehicles released by the PRC government on 18 October 2014 as set out in the (Circular on Strengthening the Production and Registration Management of Minibuses, Minibuses and Motorcycles)”《關於加強小型麵包車、摩托車生產和登記管理工作的通知》，which imposes requirements including (i) improvements on safety performance of the minibuses; (ii) improvements on production procedure of minibuses; and (iii) registration requirements of relevant minibuses and other motor vehicles. As a result of this policy, production of relevant minibus models of the Group has been suspended. Accordingly, the corresponding sales of relevant components and minibuses were less than the transaction amount estimated by Shenyang Automotive at the time of compiling the Approved Caps in 2014. Moreover, the product mix of the Group was shifted to production of certain economy minibus model during the Historical Period and their cost components are relatively lower than other models. Therefore, the unit price of the product mix of the materials and automotive components sold by Shenyang Automotive to the Huachen Group was lower than the expected unit price during the

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Historical Period and the number of actual transacted materials and automotive components sold by Shenyang Automotive to the Huachen Group was far below than the estimated numbers in determination of the Approved Caps.

As advised by the Company, the Huachen Group will increase marketing and promotion efforts on the new models of special vehicle and maintain strict control of the production schedule. In view of the launch of new series of special vehicle, the Huachen Group anticipated that there will be an increase in the demand for the automotive components of certain models of minibus during the Review Period. Despite the weak demand for the relevant components of minibus for the Historical Period and the change of growth momentum of demand for minibuses in the PRC, it is expected that the demand for the Group's minibuses and relevant automotive components will increase under the anticipated growth in sales of the special vehicles of the Huachen Group as a result of the introduction of several new models and increase in marketing and promotion effort on the new models for the Review Period. Hence we are of the view that the Group has taken the weak demand for the Historical Period and the anticipated growth in sales of the Group's minibuses and relevant automotive components into consideration, and eventually adjusted the relevant Proposed Caps for transaction (A7) conservatively with the net result of approximately 39% in average more than the corresponding Approved Caps for transaction (A7).

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

- ***Transaction (B1)***

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

Upon review of the comparable past transactions of the Group on a sampling basis, we note that pricing for the past transaction (B1) were comparable to the pricing the Group could obtain from independent third party suppliers for similar materials and automotive components. On the other hand, we note that the price per unit of purchases of the automotive components underlying the list remained relatively stable at the actual level recorded in the first half of 2017. We were advised by the Company that the prices of raw materials are expected to remain fairly stable for the coming three financial years but it will be difficult for the Company to obtain a large volume of the relevant raw materials from independent suppliers with the same quality. Moreover, as the Huachen Group has

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centralized the sourcing of steel, by conducting transaction (B1), Dongxing Automotive can enjoy lower purchase price due to the Huachen Group's bulk purchase discount. Thereafter, these steel purchased from the Huachen Group will be further processed by Dongxing Automotive and turn into the appropriate press parts and welding parts, part of which will be sold to the Huachen Group for production under transactions (A2).

In respect of the Proposed Caps of RMB210,000,000, RMB262,500,000 and RMB315,000,000 to be sought for the purchases by Dongxing Automotive from the Huachen Group each of the three financial years ending 31 December 2020. We have obtained from the Company a list of estimated purchases of automotive components summing approximately up to the Proposed Caps. We understand from the Company that such list of estimate was prepared on the basis of multiplying the estimated price per unit of the individual components by the estimated quantity of the corresponding components. The estimated quantity of the corresponding components was arrived at after taking into account the historical transaction amounts during the Historical Period and the planned procurement volume of the processed automotive components (i.e. press parts and welding parts) from the steels for the relevant Zhonghua sedans during the Review Period. We were advised by the Company that the Huachen Group will review its procurement volume on a regular basis and it may modify the procurement volume according to the market conditions during the Review Period. Due to the unique business model and the relationship between the transaction (A2) and the transaction (B1), the purchase of steel by Dongxing Automotive from the Huachen Group in order to produce the relevant automotive components required under transaction (A2) are inter-related. As advised by the Company, the actual transacted amount was lower than the Approved Caps because the production volume of the Zhonghua sedans of the Huachen Group was lower than the estimated volume and thus the actual sales of the press parts and welding parts (which are processed from steel) to the Huachen Group by Dongxing Automotive were lower than expected in the Historical Period. Moreover, the price of steel was lower than the expected level, leading to a lower historical monetary amount in respect of purchase of steels from the Huachen Group. During the Historical Period, the actual demand from the Huachen Group for the corresponding automotive components of certain Zhonghua sedans dropped below the transaction amount as estimated by Dongxing Automotive at the time of compiling the Approved Caps in 2014, in particular, there was a shortfall in the production of certain models of the Zhonghua sedans in the Historical Period and thus the purchase of the corresponding steels for certain models dropped below the estimated level.

In addition, as set out in the Letter from the Board, as the historical actual purchases of materials and automotive components by Dongxing Automotive from members of the Huachen Group are far less than the Approved Caps for the corresponding years during the Historical Period, in particular the drop in the actual sales of the steel parts for the Zhonghua sedans, downward adjustments have been made to the Proposed Caps to align with the anticipated purchases amounts for the three financial years ending 31 December 2020. We note that the Proposed Caps are less than the corresponding Approved Caps by approximately 31.1% in average.

According to the statistics of China Association of Automobile Manufacturers (中國汽車工業協會), we note that the year-on-year growth in sales of sedans in the PRC was in the range of -5.33% to 11.77% from 2012 to 2016 and the year-on-year decline was -1.39%

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for the first ten months of 2017. It appears that there was a growth momentum of sedans in the PRC for the period 2012 to 2014. In 2016, the market of sedans in the PRC has been slightly recovered from the decline in 2015. The restored growth rate in 2016 might represent the consistent demand of sedans in the PRC. We note the Company has taken a prudent approach on setting the Proposed Caps which are at a lower level than the Approved Caps after considering the actual transacted amount during the Historical Period. We consider that the adoption of a prudent approach is appropriate under the steady demand for sedans in the PRC.

As advised by the Company, the Huachen Group will increase marketing and promotion efforts on the new models of Zhonghua sedans and maintain strict control of the production schedule. In view of the launch of new series of Zhonghua sedans, the Huachen Group anticipated that there will be an increase in the demand for the automotive components of certain models of Zhonghua sedans during the Review Period. In addition, Dongxing Automotive will also increase its effort on the sales of automotive components to the new models of the Zhonghua sedans during the Review Period. Despite the weak demand for the relevant components of Zhonghua sedans for the Historical Period and the change of growth momentum of demand for sedans in the PRC, it is expected that the demand for the relevant components from the Group for its processing will increase under the anticipated growth in sales of the Zhonghua sedans as a result of the introduction of several new models and increase in marketing and promotion effort on the new models for the Review Period. Thus, Dongxing Automotive has a need of purchasing steels from the Huachen Group for further processing into automotive components for the Huachen Group's sedans. Hence we are of the view that the Group has taken the weak demand for the Historical Period and the anticipated growth in sales of the Zhonghua sedans into consideration, and eventually adjusted the relevant Proposed Caps for transaction (B1) conservatively with the net result of approximately 31.1% in average less than the corresponding Approved Caps for transaction (B1).

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

- ***Transaction (B2)***

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

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In the course of production, Shenyang Automotive will first sell engines and spare parts to the Huachen Group who will undergo further processing and sell the processed automotive components (i.e. the power trains and the related processed spare parts) back to Shenyang Automotive for the installation into the minibuses produced by Shenyang Automotive. As the power trains are specially tailor-made for use of Shenyang Automotive's minibuses, the pricing for each purchase of power trains and the related processed spare parts by Shenyang Automotive from the Huachen Group will be determined by reference to the cost plus basis.

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

Apart from the power trains and the related processed spare parts, the unit price of certain automotive components, including chassis and spare parts, will be determined by their prevailing market price. Market price means the price at which the same or comparable type of products is provided by independent third parties in the same area on normal commercial terms in the ordinary course of business. Market price may be determined by reference to the price that the Group purchased from independent suppliers for comparable products in response to the quotations made by the Group. In any event, terms of each purchase from the Huachen Group shall be no less favourable than the terms purchased from independent suppliers. We have reviewed certain automotive components including chassis and spare parts on a sampling basis during the Review Period and compared them against the quotations of comparable products provided by the Group. We noted that the unit price of the relevant automotive components in the Review Period is comparable to unit price of the comparable products from independent suppliers.

In respect of the Proposed Caps of RMB1,293,300,000, RMB2,007,400,000 and RMB3,341,100,000 to be sought for the purchases by Shenyang Automotive from the Huachen Group for each of the three financial years ending 31 December 2020, we have obtained from the Company a list of estimated purchases of automotive components summing approximately up to the Proposed Caps. We understand from the Company that such list of estimate was prepared on the basis of multiplying the estimated price per unit of the individual components by the estimated quantity of the corresponding automotive components. The estimated quantity of the corresponding automotive components was arrived at after taking into account the actual sales up to 30 June 2017 and the estimated sales of the Group's minibuses of over 32,000 units in 2018 with an anticipated growth rate in the range of approximately 47.9% to 32.5% in 2019 to 2020. As advised by the Company, in view of the reasons as discussed above, we noted that (i) several new models of minibuses, including a 7-seat minibus with 8AT transmission namely S70, might be introduced to the market since the second half of 2018; and (ii) new model of special vehicles converted from the Group's minibuses, including ambulances, refrigerated trucks and welfare vehicles might be introduced to the market in the Review Period. Accordingly, the Company anticipated that the purchase of the relevant automotive components and materials from the Huachen Group will increase in the Review Period. On the other hand, we

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noted that the estimated price per unit will be determined based on target cost basis, as such the Group can achieve an internal target profit margin by negotiating with the Huachen Group to determine the estimated price of each automotive component for relevant models of minibus.

As advised by the Company, the actual transacted amount was lower than the Approved Caps because the actual sales of the Group's minibuses dropped below the planned production volume during the Historical Period due to the policy namely article 453 in respect of strict control on the requirements of minibuses and other motor vehicles released by the PRC government on 18 October 2014 as set out in the (Circular on Strengthening the Production and Registration Management of Minibuses, Minibuses and Motorcycles)"《關於加強小微型麵包車、摩托車生產和登記管理工作的通知》, which imposes requirements including (i) improvements on safety performance of the minibuses; (ii) improvements on production procedure of minibuses; and (iii) registration requirements of relevant minibuses and other motor vehicles. As a result of this policy, production of relevant minibus models of the Group has been suspended. Accordingly, the corresponding purchases of relevant components were less than the transaction amount estimated by Shenyang Automotive at the time of compiling the Approved Caps in 2014. However, according to the production schedule provided by the Company, several new models of minibuses which fulfill the requirements of the policy are scheduled to be launched in 2018 in order to catch up the drop of sales of minibuses during the Historical Period.

Moreover, in view of the launch of new series of minibuses (namely S70 series) Shenyang Automotive anticipated that there will be an increase in the demand for automotive components provided by the Huachen Group during the Review Period and thus leading to the increase in the estimated purchases of power trains and spare parts from the Huachen Group. Despite the weak demand for the relevant components of minibuses for the Historical Period and the PRC government policies in respect of certain minibuses, it is expected that the demand for the relevant components from the Huachen Group will increase under the anticipated growth in sales of the minibuses as a result of the introduction of several new models and increase in marketing and promotion effort on the new models for the Review Period.

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

- ***Transaction (B3)***

Pursuant to the relevant framework agreement for transaction (B3), the materials and automotive components are to be purchased by Shenyang Jindong from the Huachen Group based on the prevailing market price of the materials and automotive components. Market price means the price at which the same or comparable type of products is obtained from independent third parties in the same area on normal commercial terms in the ordinary course of business. For the purpose of obtaining market prices, the Group will make reference to the price quotations obtained from other independent suppliers for comparable products in determining the market price. In any event, terms of each purchase from the Huachen Group shall be no less favourable than the terms which can be obtained from independent suppliers for purchase of comparable materials or automotive components.



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In the course of production, Shenyang Jindong will purchase press parts and matching components from the Huachen Group for further processing and will sell back the processed welding assemblies to the Huachen Group for the latter's production of Zhonghua sedans (Transaction (A3)). The pricing for each purchase of press parts and matching components by Shenyang Jindong from the Huachen Group will be determined by reference to the cost plus basis.

Upon review of the comparable past transactions of the Group on a sampling basis, we note that pricing for the past transaction (B3) was comparable to the pricing of the materials and automotive components in the Review Period. On the other hand, we note that the price per unit of the component purchases underlying the list is expected to remain relatively stable at the actual level recorded in the Historical Period. We were advised by the Company that the prices of raw materials are expected to remain fairly stable for the coming three financial years but it will be difficult for the Company to obtain a large volume of the relevant raw materials from independent suppliers with the same quality.

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

As advised by the Company, Shenyang Jindong is the sole agent for the collection and recycling of the scrap materials for the Group and the Huachen Group since 2012. We were informed by the Company that Shenyang Jindong did not purchase scrap materials from independent third parties. Thus, there were no comparable transactions with independent third parties for the purchase of scrap materials available for our comparison. As advised by the Company, due to the substantial amount and nature of scrap materials produced by the Huachen Group and the need of aligning the collection of scrap materials with the manufacturing processes to maintain the production efficiency of the Huachen Group, it is difficult to identify other competent companies. Furthermore, as Shenyang Jindong has been engaged in the trading of scrap materials from automotive manufacturing processes, the Company believes that scrap materials can be sold at more competitive prices and more efficiently.

On the other hand, we note that the price of the scrap materials will be determined mainly according to its type and with reference to the market price of relevant scrap materials as quoted by an independent third parties in the recycling industry which is expected to remain relatively stable at those levels currently transacted amongst other independent waste collectors as quoted by the Company. As such, we have obtained and reviewed the quotation of similar scrap materials provided by an independent third party in the recycling industry. We have also reviewed the past transactions on a sampling basis. Upon comparison, we noted that the pricings for the scrap materials amongst other independent third parties are similar to the pricing of the scrap materials offered by the

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Huachen Group to Shenyang Jindong in the past transactions which is in line with the pricing policy. We were advised by the Company that the workflow under the transaction (B3) will enable Shenyang Jindong to reuse and recycle the scrap materials from production which is in line with the global trend of pursuing a more environmental-friendly production process with a view to save cost and preserve resources. In addition, due to the close proximity of the production plants of the Huachen Group and the Group in general, time and transportation cost can be saved in collecting the scrap materials.

In respect of the Proposed Caps of RMB134,900,000, RMB136,500,000 and RMB180,600,000 respectively to be sought for the purchase of automotive components by Shenyang Jindong from the Huachen Group for each of the three financial years ending 31 December 2020, we were advised by the Company that the Proposed Caps are determined with reference to (i) the expected amount of scrap materials to be produced by the Huachen Group; (ii) the type of scrap materials to be produced by the Huachen Group; (iii) demand of matching components by Huachen (transaction (A3)); and (iv) the prevailing market price of scrap materials. According to the breakdown of the Proposed Caps in the transaction (B3), the substantial increase of the Proposed Caps in 2020 of approximately 32.3% is mainly attributable to an increase of purchasing of scrap materials in the corresponding year. Based on our discussion with the Company, such expected increase of purchase of scrap materials in 2020 is to accommodate the increase in production of Zhonghua sedans. Based on the production schedule, we note that the increase of purchase of scrap materials is in line with the increase in the production of Zhonghua sedans for the corresponding period.

We were confirmed by the Company that based on their experience, those scrap materials comprise substantially steel and other metals which could be further processed into matching components or resold for a profit rather than being disposed. We were further advised by the Company that it is difficult to predict the prices of scrap materials between 2018 and 2020 precisely as the scrap materials are not yet produced and the Company has prudently assumed that the price will remain roughly stable at the current price level of the relevant waste metals as quoted by the Company from other independent waste collectors.

As advised by the Company, the amount of scrap materials is generally proportional to the amount of raw materials and components purchased and therefore the expected transaction amounts for the scrap materials are determined after taking into account the production volume of sedans by the Huachen Group for the Review Period. As advised by the Company, the actual transacted amount was lower than the Approved Caps because the actual production volume of Zhonghua sedans dropped below the planned production volume during the Historical Period due to the reasons as set out above. This in turn reduced the supply of scrap materials by the Huachen Group and the demand of Shenyang Jindong for the scrap materials supplied by the Huachen Group. Furthermore, in determining the Proposed Caps, the Company expected that the effect of the PRC government policy on the promotion of environmental friendliness and the reduction of the PRC government's spending will persist during the Review Period. The Group has taken into account the abovementioned PRC government policy in determining the Proposed Caps.

According to the statistics of China Association of Automobile Manufacturers (中國汽車工業協會), we note that the year-on-year growth in sales of sedans in the PRC was in the range of -5.33% to 11.77% from 2012 to 2016 and the year-on-year decline was -1.39% for the first ten months of 2017. It appears that there was a growth momentum of sedans in the PRC for the period 2012 to 2014. In 2016, the market of sedans in the PRC has been slightly recovered from the decline in 2015. The restored growth rate in 2016 might

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represent the consistent demand of sedans in the PRC. We note the Company has taken a prudent approach on setting the Proposed Caps which are at a same level with the Approved Caps after considering the actual transacted amount during the Historical Period. We consider that the adoption of a prudent approach is appropriate under the steady demand for sedans in the PRC.

As advised by the Company, in view of (i) the expected increase in marketing and promotion efforts on the new models of Zhonghua sedans by the Huachen Group; (ii) strict control of the production schedule to be maintained by the Huachen Group; and (iii) the expected launch of new series of Zhonghua sedans and the Group's minibus models during the Review Period, the demand for the relevant parts of the relevant Zhonghua sedans and the Group's minibuses will increase. On the other hand, the Group also anticipated that the production volume of the minibuses will reach more than 32,000 units in 2018 with an anticipated growth rate in the range of approximately 47.9% to 32.5% in 2019 to 2020. As the scrap materials are resulted from the production of press parts for the use of the Zhonghua sedans and the Group's minibuses during the Review Period, this will lead to the increase in the estimated purchases of scrap materials by Shenyang Jindong. Despite the weak demand for the relevant components of Zhonghua sedans and the Group's minibuses for the Historical Period and the change of growth momentum of demand for sedans in the PRC, it is expected that the demand for the relevant components from the Huachen Group will increase under the anticipated growth in sales of the Zhonghua sedans and the Group's minibuses as a result of the introduction of several new models and increase in marketing and promotion effort on the new models for the Review Period.

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

- ***Transaction (C1)***

Pursuant to the relevant framework agreement for transaction (C1), the services to be provided by members of the Huachen Group to members of the Group mainly include information technology support services, research and development services, charging services, processing and refitting services and transportation services on a cost plus basis. Set out below is the pricing policy of the services:

- (i) Information technology support services:*

The pricing for information technology support services to be provided by the Huachen Group to the Group is determined at a price to be agreed between the Group and the Huachen Group upon the basis of the principle of "cost plus".

Cost plus will be determined based on the cost for providing the required services to be purchased from the Huachen Group plus a margin as agreed between the Group and the Huachen Group and the cost is estimated with reference to, where applicable, the expenses incurred by the usage of resources such as computers and servers, etc. by the Group on a pro-rata basis with reference to the number of users of the systems, the number of the computers provided to the Group, the number of users of the internet services, and utility rate or usage amount of the servers, etc.;

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*(ii) Research and development services:*

The pricing for research and development services to be provided by the Huachen Group to the Group is determined at a price to be agreed between the Group and the Huachen Group upon the basis of the principle of “cost plus”.

Cost plus is determined based on the cost for providing the required services to be purchased from the Huachen Group plus a margin as agreed between the Group and the Huachen Group and the cost is estimated with reference to, where applicable, research and development and labour, etc.;

*(iii) Charging services:*

The pricing policy for charging services to be provided by the Huachen Group to the Group is determined at a price to be agreed between the Group and the Huachen Group upon the basis of the principle of “cost plus”.

Cost plus is determined based on the cost for providing the required services to be purchased from the Huachen Group plus a margin as agreed between the Group and the Huachen Group and the cost is estimated with reference to, where applicable, labour, etc.

*(iv) Processing and refitting services:*

The pricing for processing and refitting services to be provided by the Huachen Group to the Group is determined at a price to be agreed between the Group and the Huachen Group upon the basis of the principle of “cost plus”.

Cost plus is determined based on the cost for providing the required services to be purchased from the Huachen Group plus a margin as agreed between the Group and the Huachen Group and the cost is estimated with reference to, where applicable, the labour cost, material cost and the amortization to the equipment and production plant, etc. In determining the margin to be used, the Group will make reference to the internal target profit margin of different models of automobiles of the Group that is expected to be achieved by the Group.

*(v) Transportation services:*

The pricing for transportation services to be provided by the Huachen Group to the Group is determined at a price to be agreed between the Group and the Huachen Group upon the basis of the principle of “cost plus”.

Cost plus is determined based on the cost for providing the required services to be purchased from the Huachen Group plus a margin as agreed between the Group and the Huachen Group and the cost is estimated with reference to, where applicable, the costs of transportation of automobiles, labour cost, storage cost, reasonable wear and tear costs, etc.

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After discussing with the Group, we note that the margin mentioned above represents the margin to the Huachen Group, and the decisions of the each term represent the consensus between the management team of the Group and the Huachen Group. In addition, the margin has been implied in the quotation as the Group receives it. Each department will then further follow their guidelines and procedures to access the terms and decide whether to accept or reject. Because of the above reason, margin varies by each transaction and it does not have a fixed range.

Set out below is the breakdown of the Proposed Caps of the transaction (C1):

<b>Services</b>	<b>For the financial year ending 31 December</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
	<b>Proposed</b>	<b>Proposed</b>	<b>Proposed</b>
	<b>Cap</b>	<b>Cap</b>	<b>Cap</b>
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Information technology support services	14,170	14,670	14,670
Research and development services	562,000	637,500	460,500
Charging services	1,100	1,100	1,100
Processing and refitting services	42,000	58,800	85,800
Transportation services	275,100	437,400	640,000
<b>Total</b>	<b>894,370</b>	<b>1,149,470</b>	<b>1,202,070</b>

From the above table, we note that the research and development services and transportation services aggregately accounted for approximately 93.6%, 93.5% and 91.6% of the total Proposed Caps of the transaction (C1) respectively. Having considered the research and development services and transportation services being major components of the Proposed Caps of the transaction (C1), we would focus on them to assess the Proposed Caps of the transaction (C1).

As set out in the Letter from the Board, the Huachen Group has been providing research and development services to the Group. Following the Completion and with the cooperation of Renault, it is expected that new high-end LCV models and NEV will be introduced by the new joint venture. Accordingly, it is anticipated that the investment in research and development of new products will increase, leading to the increase in the need for the research and development services from the Huachen Group. Moreover, in response to the regulatory requirements on energy savings and emission reduction, Shenyang Automotive is required to renew and upgrade its products. As at the Latest Practicable Date, there are approximately 16 development projects being scheduled to commence in the Review Period. It is expected that the purchase of research and development service by Shenyang Automotive from the Huachen Group (who has been providing such services to the Group) will increase for the three financial years ending 31 December 2020.

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With reference to the circular of the Company dated 18 September 2017, the Company and Renault entered into a framework cooperation agreement, pursuant to which Renault has agreed to acquire, and the Company has agreed to dispose of, 49% equity interest in Shenyang Automotive. The objective of entering into of the framework cooperation agreement is to enhance the Group's performance by leveraging on Renault's advanced technologies, products depth and management expertise in the LCV segment. In particular, the Company plans to enrich the Shenyang Automotive's product line up by introducing new models from Renault's product pipeline (including NEV) and to jointly develop new vehicle models or to adapt existing products for the Chinese market. In anticipating new LCV and NEV products to be introduced in the coming years, the Directors consider that it is necessary for the Group to devote more resources to research and development on the new LEV and NEV products in order to gain their competitive advantage in the market. On the other hand, in anticipating the expected growth of the vehicle production of the Group as a result of the introduction of new models of Renault's LCV and NEV, the Group has foreseen the potential growth on the demand of transportation services by the Group to transport its finished cars to the distributors of the Group.

Upon enquiry, we were advised by the Company that the research and development services to be provided by the Huachen Group were designed to match the then Group's operational needs. The majority of the research and development budget for the Review Period will be used for the development of two new models of minibuses (namely F50 and F70), while the F50 model and the F70 model will be introduced in 2018 and 2019 respectively. Moreover, in view of the PRC government policies, including the article 453 in respect of suspension of certain minibus and other regulatory requirements on energy savings and emission reduction, the Group will devote more resources into research and development to enhance the design and technology of minibuses.

In respect to the pricing policy, as advised by the Group, the Research and Development Department first analyses the cost data of new projects and will assess the costs for production, amortization of equipment, raw materials and labour, etc. that will be incurred by the supplier. After reaching a cost estimate to be borne by the supplier, the pricing shall be considered and approved by the deputy manager of the Purchase Department. If there is an upward adjustment in the pricing, discussion and approval at a meeting of the operational and management committee of Shenyang Automotive is required. Upon review the above procedures, cost estimation, and the relevant services agreements of the past projects, we are of the view that the department has been following a comprehensive guideline and estimating the cost fairly to the interest of the Group.

In view of the advanced technology and expertise owned by the Huachen Group, the Directors consider that it is in the interest of the Company that the relevant services should be provided by the Huachen Group instead of third party service providers.

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As mentioned above, the expected production of minibus is expected to increase in the Review Period according to the production schedule provided by the Group, the demand for transportation of minibuses services is expected to increase accordingly. Due to (i) the close proximity between the warehouses of the Group and the Huachen Group; (ii) the existing logistics channel for transportation of automotive components; and (iii) the established transportation facilities and distribution network of the Huachen Group, it will be more cost effective for the Company to outsource the transportation of and minibuses services to the Huachen Group. We have also reviewed the quotation obtained by the Group from the independent third parties for carrying out transportation services similar to those to be carried out by the Huachen Group under the Continuing Connected Transactions. Upon comparison of the pricing to be charged by the Huachen Group and the quotation from the independent third parties, we note that the pricing for each necessary transportation services to be carried out by the Huachen Group is comparable to that the Group can obtain from independent third parties.

In respect of the Proposed Caps of RMB894,370,000, RMB1,149,470,000 and RMB1,202,070,000 respectively to be sought for the purchase of services by members of the Group from members of the Huachen Group for each of the three financial years ending 31 December 2020, we note that the Proposed Caps are more than the corresponding Approved Caps by approximately 452.3% in average. We were advised by the Company that the Proposed Caps, in particular the research and development services and the transportation services, are determined with reference to (i) the actual transacted amount under the transaction (C1) during the Historical Period; (ii) the expected number of minibus to be produced in the Review Period according to the production schedule; (iii) the number of new models of minibus to be introduced and the certain requirements of specification according to the PRC government policies; and (iv) the prevailing market price of transporting services of each minibus.

According to the China Association of Automotive Manufacturers, sales of clean-energy vehicles have shown tangible growth for the two years ended 31 December 2015 and 2016 and for the ten months ended 31 October 2017 which amounted to approximately 330,100 units, 409,000 units and 490,000 units respectively, representing an increase of approximately 340.00%, 65.10% and 45.9%, respectively, as compared to the preceding year or period. According to the “Technical Development Planning for Energysaving and New-energy Vehicles” (《節能與新能源汽車技術路線圖》) issued by the PRC government, the planned proportion of new-energy vehicles to total vehicle sales at approximately 7%, 15% and 40%, and the estimated sales volume reaching 2.10 million units, 5.25 million units and 15.20 million units in 2020, 2025 and 2030, respectively. On 28 September 2017, a comprehensive set of emission rules and new-energy vehicle credit score program has been released by the PRC government as set out in the “Measures for Calculation of Passenger Vehicles’ Corporate Average Fuel Consumption”\* (乘用車企業平均燃料消耗量與新能源汽車積分並行管理辦法), which requires automobile manufacturers that produce or import more than 30,000 “traditional” energy vehicles annually in China, to sell a certain number of clean-energy vehicles every year from 2019, those who fail to comply must purchase enough “new-energy vehicle credits”

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or face fines. It is expected that new policies and measures in relation to fostering the adoption of electric vehicles or other clean-energy vehicle will gradually be adopted in China in the future.

In assessing the fairness and the reasonableness of the Proposed Caps of the research and development expenses, we have researched relevant research and development expenses of the listed companies with similar business nature of the Company in the website of the Stock Exchange. In view of positive relationship between research and development expenses and the size of the scale of business, hence we consider that it is appropriate to compare the research and development expenses to total assets of the comparable listed companies with that of the Group as in the Proposed Caps. Given the Group being principally engaged in the manufacture and sale of automotive components and minibuses in the PRC through its subsidiaries, we have attempted to identify comparable companies in which the issuers are listed on the Stock Exchange. To the best of our knowledge and endeavour, we have identified 6 comparable companies (the “**Comparables**”) in the table below:

Stock code	Company	Research and development expenses (RMB' 000) <sup>1</sup>	Total Assets (RMB' 000) <sup>2</sup>	Research and development expenses/ Total Assets (%)
175	Geely Automobile Holdings Limited	211,531	67,774,249	0.31
2238	Guangzhou Automobile Group Company Limited	393,899	89,613,092	0.44
2333	Great Wall Motor Company Limited	3,180,236	77,232,621	4.12
1211	BYD Company Limited	3,171,694	153,734,972	2.06
489	Dongfeng Motor Group Co. Ltd.	3,004,000	195,056,000	1.54
1958	BAIC Motor Corporation Limited	2,800,000	167,376,356	1.67
			Max	4.12
			Min	0.31
			Mean	1.69
			Median	1.61
1114	The Company	553,333 <sup>3</sup>	35,529,866	1.56



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*Note:*

1. The research and development expenses of the Comparables and the Company are set out in their latest fiscal year financial reports.
2. The total assets of the Comparables and the Company are set out in their latest interim financial reports.
3. The research and development expenses of the Company is the average of the research and development expenses under the Proposed Caps.

As shown in the above table, the research and development expenses to total assets ratio of the Comparables range from approximately 0.31% to 4.12%, with an average of approximately 1.69% and a median of approximately 1.61%. We note that the research and development expenses under the Proposed Caps to the Group's total assets is approximately 1.56% which is comparable to the mean and median of the Comparables.

As regard the transportation services being the other major component in the Proposed Caps of the transaction (C1), we have obtained from the Company a list of transportation services and understood from the Company that such list of estimate was prepared on the basis of multiplying the estimated transportation fee per finished cars by the estimated number of finished cars to be produced. The estimated number of finished cars expected to be produced as estimated by the Company during the coming three years is based on the production schedule of the existing model of minibuses and the new models of LCV and NEV as agreed between the Group and Renault. Upon comparison of the pricing to be charged by the Huachen Group and the quotation from the independent third parties in relation to the transportation services, we note that the pricing for each necessary processing procedure to be carried out by the Huachen Group is comparable to that the Group can obtain from independent third parties. Hence we are of the view that the Group has considered mainly the factors of anticipated increase in research and development expenses and the anticipated growth in production cars. The Group eventually adjusted the relevant Proposed Caps for transactions C1 with the net effect of approximately 452.3% in average more than the corresponding Approved Caps for transaction C1.

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

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

**3. Internal Control Policy**

In regard to the internal control on the continuing connected transactions, we have reviewed the Group's policy on disclosure controls and procedures and noted that the Group has been undertaking regular reviews of the proposed or approved continuing connected transactions, including monthly review on the utilizations of the approved annual caps for each continuing connected transaction by the chief financial officer of the relevant subsidiary of the Group.

We also noted that the Group has adopted a comprehensive pricing policy in both (i) prevailing market pricing method; and (ii) cost-plus pricing method, the corresponding procedures are also stated in the disclosure controls and procedures.

Upon review the disclosure controls and procedures, we are of the view that the Group has a list of comprehensive and in-depth procedure to ensure the relevant transactions and the terms are on normal commercial terms and are fair and reasonable.

**4. The conditions**

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

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

1. The Continuing Connected Transactions will be:
  - (i) entered into by the Group in the ordinary and usual course of its business;
  - (ii) conducted on normal commercial terms or better; and
  - (iii) entered into in accordance with the terms of the relevant framework agreements and comprehensive service agreement governing the Continuing Connected Transactions that are fair and reasonable and in the interests of the Shareholders of the Company as a whole;
2. The transacted amount of the transactions under the Continuing Connected Transactions shall not exceed the Proposed Caps; and
3. The Company will comply with all other relevant requirements under the Listing Rules.

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

### RECOMMENDATION

Taking into consideration the abovementioned principal factors and reasons, we consider that the terms of the Continuing Connected Transactions and the Proposed Caps are on normal commercial terms, in the ordinary and usual course of business of the Group, fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders, and we advise the Independent Shareholders, to vote in favour of the ordinary resolution to be proposed at the Special General Meeting for approving the terms of the Continuing Connected Transactions and the Proposed Caps.

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

*Note: Mr. Alan Fung has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities since 2003. Mr. Fung has more than 24 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions in respect of mergers and acquisitions, connected transactions and transactions subject to the compliance to the Takeovers Code of listed companies in Hong Kong. Mr. Louis Chan has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities since 2008. Mr. Chan has more than 16 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions in respect of mergers and acquisitions, connected transactions and transactions subject to the compliance to the Takeovers Code of listed companies in Hong Kong.*

## 1. RESPONSIBILITY STATEMENT

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

## 2. DISCLOSURE OF INTERESTS

### Interests of Directors and Chief Executives of the Company

As at the Latest Practicable Date, the interests and short positions of each Director, chief executive and their respective close associates in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO); or were required pursuant to Section 352 of the SFO to be entered in the register referred to therein; or were required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange, are set out below:

#### The Company

Name of Directors/chief executives	Type of interests	Number and class of Shares held		Approximate shareholding percentage (Note)	Number of share options granted (Percentage of the Company's issued share capital)
		Long Position	Short Position		
Mr. Wu Xiao An (also known as Mr. Ng Siu On)	Personal	6,200,000 ordinary	–	0.12%	–
Mr. Qi Yumin	Personal	4,500,000 ordinary	–	0.09%	–
Mr. Qian Zuming	Personal	600,000 ordinary	–	0.01%	–

#### Notes:

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

## Associated Corporation of the Company

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

## Notes:

- (1) The percentage of shareholding is calculated on the basis of 1,282,211,794 ordinary shares in issue of Power Xinchen as at the Latest Practicable Date.
- (2) As at the Latest Practicable Date, Power Xinchen was indirectly held as to approximately 31.20% by the Company. The 33,993,385 shares in long position are interests of a discretionary trust under an incentive scheme of Power Xinchen. The said trust held 33,993,385 shares of Power Xinchen. Mr. Wu Xiao An is one of the trustees of the aforementioned trust. Mr. Wu also held 50% interests in Lead In Management Limited which is also a trustee of the said trust. Accordingly, Mr. Wu was deemed or taken to be interested in the 33,993,385 shares of Power Xinchen, representing approximately 2.65% of its issued share capital as at the Latest Practicable Date.
- (3) Mr. Wu Xiao An held 8,320,041 shares of Power Xinchen in the capacity of beneficial owner, representing approximately 0.65% of its issued share capital as at the Latest Practicable Date.

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

**Interests of Substantial Shareholders**

As at the Latest Practicable Date, so far as it is known to the Directors and chief executives of the Company, the following persons, other than a Director or chief executive of the Company had an interest or a short position in the Shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name of Shareholders	Long Position	Number and class of Shares held/Approximate shareholding percentage ( <i>Note 1</i> )				Lending Pool	%
		%	Short Position	%			
Huachen ( <i>Note 2</i> )	2,135,074,988	43.32	–	–	–	–	
J.P. Morgan Chase & Co. ( <i>Note 3</i> )	401,218,781	7.95	13,229,029	0.26	313,858,660	6.22	
Templeton Asset Management Ltd. ( <i>Note 4</i> )	345,983,276	6.86	–	–	–	–	

*Notes:*

- (1) The percentage of shareholding is calculated on the basis of 5,045,269,388 Shares in issue of the Company as at the Latest Practicable Date.
- (2) The 2,135,074,988 Shares in long position were held in the capacity as beneficial owner.
- (3) The 401,218,781 Shares in long position were held as to 19,880,898 Shares in the capacity as beneficial owner, as to 67,450,173 Shares in the capacity as investment manager, as to 29,050 Shares in the capacity as trustee and as to 313,858,660 Shares in the capacity as custodian corporation/approved lending agent. The 13,229,029 Shares in short position were held in the capacity as beneficial owner.
- (4) The 345,983,276 Shares in long position were held in the capacity as investment manager.

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

### 3. DIRECTORS' INTERESTS IN ASSETS AND/OR ARRANGEMENT

As at the Latest Practicable Date:

- (a) none of the Directors or the chief executives of the Company had any direct or indirect interests in any assets which have been, since 31 December 2016, being the date to which the latest published audited consolidated financial statements of the Group were made up, acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group; and
- (b) none of the Directors or the chief executives of the Company was materially interested, either directly or indirectly, in any subsisting contract or arrangement that was significant in relation to the business of the Group.

### 4. DIRECTORS' SERVICE CONTRACTS

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

### 5. EXPERT AND CONSENT

The following is the qualifications of the expert who has given opinion or advice contained in this circular:

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

The Independent Financial Adviser has given and has not withdrawn its written consent to the issue of this circular with a copy of its letter and/or the reference to its name and its advice included in this circular in the form and context in which it respectively appears. A letter from the Independent Financial Adviser, dated the date of this circular, has been issued for the purpose of incorporation herein.

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

As at the Latest Practicable Date, the Independent Financial adviser had no direct or indirect interests in any assets which had since 31 December 2016 (being the date to which the latest published audited financial statements of the Group were made up) been acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group.

**6. NO MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors confirmed that they were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2016, being the date to which the latest published audited consolidated financial statements of the Group were made up.

**7. COMPETING INTEREST**

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

**8. DOCUMENTS AVAILABLE FOR INSPECTION**

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

- (a) the letter from the Board dated 5 December 2017, the text of which is set out on pages 5 to 35 of this circular;
- (b) the written consent from the Independent Financial Adviser referred to in the paragraph headed "Expert and Consent" in this Appendix to this circular;
- (c) the letter of recommendation from the Independent Board Committee, the text of which is set out on page 36 of this circular;
- (d) the letter from the Independent Financial Adviser, the text of which is set out on pages 37 to 81 of this circular; and
- (e) the framework agreements and the comprehensive service agreement setting out the terms of the respective Continuing Connected Transactions.

**9. MISCELLANEOUS**

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



# Brilliance Auto

華 晨 汽 車

## BRILLIANCE CHINA AUTOMOTIVE HOLDINGS LIMITED

(華晨中國汽車控股有限公司)\*

*(Incorporated in Bermuda with limited liability)*

(Stock Code: 1114)

NOTICE IS HEREBY GIVEN that a special general meeting of Brilliance China Automotive Holdings Limited (the “**Company**”) will be held at Tian & Di Function Room, 7th Floor, The Landmark Mandarin Oriental, The Landmark, 15 Queen’s Road Central, Central, Hong Kong on Thursday, 21 December 2017 at 9:00 a.m., for the purposes of considering and, if thought fit, passing, with or without modification, the following resolution as an ordinary resolution of the Company:

### ORDINARY RESOLUTION

“**THAT**

- (a) the entering into of the framework agreements and the comprehensive service agreement dated 15 November 2017 (collectively, the “**Framework Agreements and Comprehensive Service Agreement**”) (copies of which are marked “A” and produced to the meeting and signed by the Chairman for identification purposes) in respect of the continuing connected transactions to be entered into between the Company on the one part and 華晨汽車集團控股有限公司 (Huachen Automotive Group Holdings Company Limited\*) (“**Huachen**”) on the other part for the three financial years ending 31 December 2020 falling within paragraphs II.A (sale of automobiles, materials and/or automotive components to Huachen, its subsidiaries and 30%-controlled companies (the “**Huachen Group**”), II.B (purchases of materials and automotive components from the Huachen Group) and II.C (purchases of services from the Huachen Group) as set out in the paragraph headed “The Continuing Connected Transactions” in the Letter from the Board contained in the circular of the Company dated 5 December 2017 (the “**Circular**”) be and are hereby approved, confirmed and ratified and the entering into of the relevant continuing connected transactions falling within the said paragraphs II.A, II.B and II.C pursuant to the Framework Agreements and Comprehensive Service Agreement be and are hereby approved; and that the directors of the Company be and are hereby authorised to take such actions and to enter into such documents as are necessary to give effect to the abovementioned continuing connected transactions contemplated under the Framework Agreements and Comprehensive Service Agreement; and

\* for identification purposes only

## NOTICE OF SPECIAL GENERAL MEETING

- (b) the proposed maximum annual monetary value of the continuing connected transactions contemplated under the Framework Agreements and Comprehensive Service Agreement approved pursuant to paragraph (a) of this Resolution for each of the three financial years ending 31 December 2020 as set out in the paragraph headed “Proposed Caps” in the Letter from the Board contained in the Circular be and are hereby approved.”

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

Hong Kong, 5 December 2017

*Registered office:*

Canon's Court  
22 Victoria Street  
Hamilton HM12  
Bermuda

*Head office and principal place of business:*

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

*Notes:*

1. A shareholder entitled to attend and vote at the above meeting may appoint one or more than one proxies to attend and to vote on a poll in his stead. On a poll, votes may be given either personally (or in the case of a shareholder being a corporation, by its duly authorized representative) or by proxy. A proxy need not be a shareholder of the Company.
2. Where there are joint registered holders of any share, any one of such persons may vote at the meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders are present at the meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.
3. In order to be valid, the form of proxy duly completed and signed in accordance with the instructions printed thereon together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy thereof must be delivered to the office of the Company's branch registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting (i.e. at or before 9:00 a.m. on Tuesday, 19 December 2017 (Hong Kong time)) or any adjournment thereof.

## NOTICE OF SPECIAL GENERAL MEETING

4. Completion and return of the form of proxy will not preclude shareholders from attending and voting in person at the meeting if shareholders so wish and in such event, the form of proxy will be deemed revoked.
5. The ordinary resolution set out in this notice of special general meeting will be put to shareholders to vote taken by way of a poll.

*As at the date of this notice, the board of Directors comprises four executive Directors, Mr. Wu Xiao An (also known as Mr. Ng Siu On) (Chairman), Mr. Qi Yumin (Chief Executive Officer), Mr. Qian Zuming (Chief Financial Officer) and Mr. Zhang Wei; and three independent non-executive Directors, Mr. Xu Bingjin, Mr. Song Jian and Mr. Jiang Bo.*