
HISTORY AND REORGANIZATION

OUR MILESTONES

We have achieved the following key milestones:

- 1998 Mianyang Xinchun was established and commenced production of light-duty diesel engines.
- 2004 Our research and development center was recognized as a “state certified enterprise technology center” by the NDRC and other government authorities.
- 2007 Our laboratory was accredited by the China National Accreditation Service for Conformity Assessment.
- 2008 Our ZD25TCR light-duty diesel engine was awarded the “Top 10 Chinese Engines” title by China Internal Combustion Engine Industry Association and China Automotive News, with the other nine engines all being gasoline engines.
- 2010 Our “XCE 新晨動力” brand was named as one of the “Top 10 Brands for Diesel Engines” and our 4A13 and 4A15 light-duty gasoline engines were awarded a “2010 Efficient Fuel Consumption Gold Award” by China Internal Combustion Engine Industry Association and China Automotive News.
- 2011 Our D20A light-duty diesel engine was awarded a “2011 Fuel Efficiency Award” by China Internal Combustion Engine Industry Association and China Automotive News.
- 2011 Since the end of 2010, we have been in the process of transitioning all our production lines, equipment and personnel to the new production base located in the Mianyang High-Tech Development Zone, and the construction of the new production facilities is expected to be completed and the production facilities commence full commercial operation by September 30, 2013.

MIANYANG XINCHEN

The history of our Group traces back to March 1998 when our operating subsidiary, Mianyang Xinchun, was jointly established by Southern State and Xinhua Combustion Engine as a Sino-foreign joint venture in the PRC with an initial registered capital of US\$8.6 million. At that time, Mianyang Xinchun was held as to 50% by Southern State and 50% by Xinhua Combustion Engine. Southern State was incorporated in the BVI on September 30, 1997, and its entire issued share capital was acquired by Brilliance China in 1998. Xinhua Combustion Engine was a PRC company incorporated on June 30, 1994. The business scope of Mianyang Xinchun includes the design, manufacture, sales and after-sales services of automotive engines and power machinery.

In September 2003, Mianyang Xinchun increased its registered capital by US\$15.52 million from US\$8.6 million to US\$24.12 million, which was contributed by Southern State and Xinhua Combustion Engine in equal proportion.

HISTORY AND REORGANIZATION

For the purpose of setting up Mianyang Xincheng, a joint venture agreement was entered into between Southern State and Xinhua Combustion Engine on October 25, 1997 and amended on July 10, 2003 (the "JV Agreement"). The key terms of the JV Agreement are as follows:

Principal Terms of the JV Agreement

Number and composition of board of directors of Mianyang Xincheng	<p>The board of directors shall consist of 7 to 15 directors to be appointed by Southern State and Xinhua Combustion Engine.</p> <p>The quorum of a board meeting is 60% of the then number of directors in the board.</p>
Voting rights arrangement	<p>Each of the chairman, vice chairman and the directors shall have one vote during board meetings.</p>
Dispute resolution	<p>If there are disputes as to the interpretation or execution of the JV Agreement, each party shall participate in mediation to resolve the matters.</p>
Management of daily operations of Mianyang Xincheng	<p>The Management Department is responsible for the management and daily operation of Mianyang Xincheng, and execute the decisions of the board of directors of Mianyang Xincheng.</p> <p>The Management Department consists of one general manager, a few deputy general managers and one chief financial officer.</p>
Key terms and obligations of the contracting parties	<p>Each of Southern State and Xinhua Combustion Engine shall contribute 50% of the registered capital of Mianyang Xincheng by cash or assets.</p>
Profit sharing arrangement	<p>Profits will be distributed once a year and such amount is subject to the decision of the board of directors. Each of the joint venture parties is entitled to the profit distribution proportional to its respective capital contribution.</p>
Ownership of intellectual property rights	<p>Mianyang Xincheng is allowed to register for its own trademarks, which shall be decided by the board of directors.</p> <p>Mianyang Xincheng can elect to use the trademarks registered in the PRC under Xinhua Combustion Engine in Mianyang Xincheng's products.</p>
Term	<p>Mianyang Xincheng shall have a term of 50 years from the date of its first business license (i.e. from June 16, 1998), and such term can be extended upon the proposal of extension by either party and the unanimous consensus of the directors.</p>

HISTORY AND REORGANIZATION

Termination clause

Mianyang Xichen shall have a term specified above.

Mianyang Xichen shall be dissolved before the 50-year term upon the occurrence of, among others, the following events:

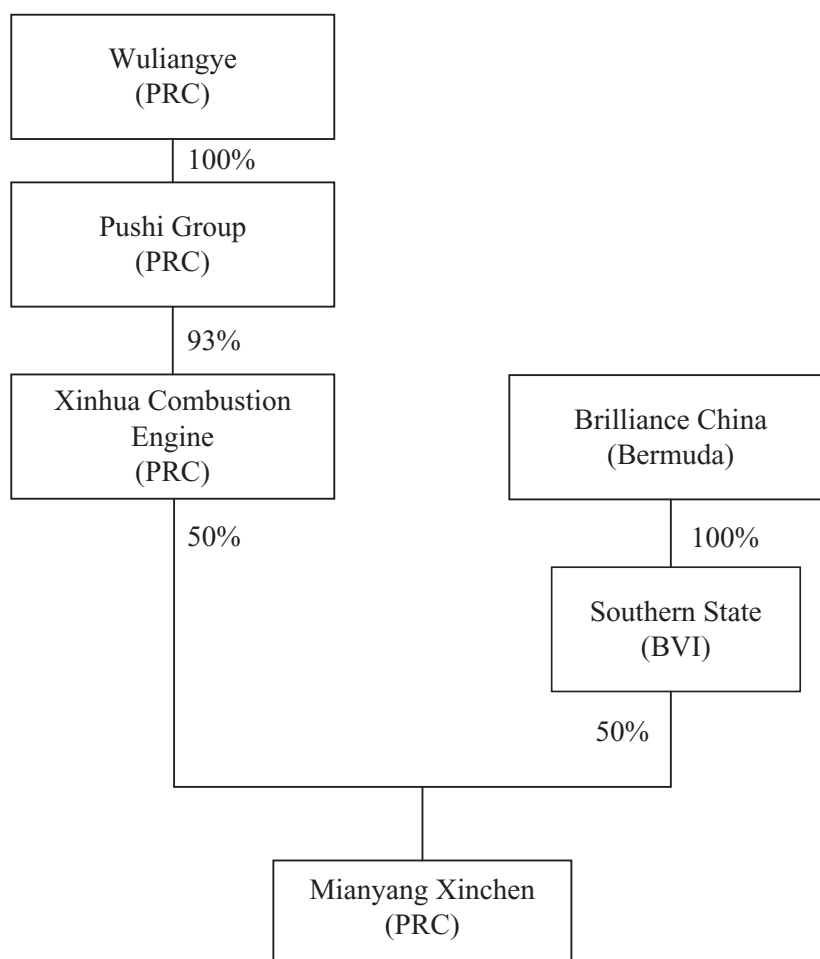
- (i) one of the contracting parties is in breach of the terms and obligations of the JV Agreement for a period exceeding 90 days, which leads to the impracticability of operations of Mianyang Xichen;
- (ii) Mianyang Xichen suffers a serious loss for a consecutive period of three financial years; and
- (iii) Mianyang Xichen is not able to achieve its business objectives and further development is considered infeasible.

The party in breach of the terms of the JV Agreement shall, at the time of the termination of Mianyang Xichen, compensate to the other party and Mianyang Xichen for their damages.

As a result of the Reorganization, Mianyang Xichen became wholly-owned by Southern State. As such, the JV Agreement is no longer effective. For details, please refer to “History and Reorganization — Acquisition of 50% equity interest in Mianyang Xichen from Xinhua Combustion Engine by Southern State” of this prospectus.

HISTORY AND REORGANIZATION

The following chart sets forth our corporate structure immediately before the Reorganization:



REORGANIZATION

In preparation for the Global Offering, we underwent the Reorganization which involves the following:

Incorporation of Brilliance Investment

Brilliance Investment was incorporated in the BVI as a limited liability company on February 28, 2011 with an authorized share capital of US\$50,000 divided into 50,000 ordinary shares of par value of US\$1.0 each. At the time of its incorporation, one share of Brilliance Investment was issued and allotted to Brilliance China. Since then, Brilliance Investment has become a wholly-owned subsidiary of Brilliance China. Brilliance Investment is an investment holding company.

Incorporation of our Company

Our Company was incorporated as an exempted limited liability company in the Cayman Islands on March 10, 2011 with an authorized share capital of HK\$80,000,000 divided into 8,000,000,000 Shares of HK\$0.01 each. At the time of its incorporation, one Share was issued and allotted to the initial subscriber. On March 10, 2011, the initial subscriber transferred that one Share to Brilliance Investment at a consideration of HK\$0.01 and Brilliance Investment subscribed for additional 999 Shares, as a result of which our Company became a wholly-owned subsidiary of Brilliance Investment at that time.

HISTORY AND REORGANIZATION

Incorporation of Xinhua Investment

Xinhua Investment was incorporated in the BVI as a limited liability company on May 19, 2011 with an authorized share capital of US\$50,000 divided into 50,000 ordinary shares of par value of US\$1.0 each. At the time of its incorporation, one share of Xinhua Investment was issued and allotted to Xinhua Combustion Engine. Since then, Xinhua Investment has become a wholly-owned subsidiary of Xinhua Combustion Engine. Xinhua Investment is an investment holding company.

Transfer of the entire issued share capital of Southern State to our Company

Pursuant to a share transfer form executed by Brilliance China and our Company dated July 1, 2011, Brilliance China transferred the entire issued share capital of Southern State to our Company at a consideration of US\$1.0, and as a result, Southern State became our direct wholly-owned subsidiary.

Acquisition of 50% equity interest in Mianyang Xincheng from Xinhua Combustion Engine by Southern State

On July 1, 2011, an equity transfer agreement was entered into between Xinhua Combustion Engine as the transferor and Southern State as the transferee, pursuant to which Southern State agreed to acquire 50% equity interest in Mianyang Xincheng from Xinhua Combustion Engine at a consideration of RMB354,654,500 (the “Consideration”), which was determined based on a valuation report of Mianyang Xincheng prepared by Beijing Zhongqihua Asset Valuation Co., Ltd.* (北京中企華資產評估有限責任公司), an independent valuer (the “Mianyang Xincheng Valuation Report”), through a public auction listed on the Southwest United Equity Exchange Co., Ltd.* (西南聯合產權交易所有限責任公司), as the aforementioned 50% equity interest of Mianyang Xincheng held by Xinhua Combustion Engine was considered state-owned asset (the “Acquisition”). The Acquisition was completed on August 29, 2011. The equity transfer was approved by, and the valuation of the state-owned asset was filed with, the SASAC of Yibin City Government in Sichuan Province. Our PRC legal adviser, Jingtian & Gongcheng, has advised us that the Acquisition complies with all relevant PRC laws and regulations including the Interim Measures for the Management of the Transfer of the State-owned Property Rights of Enterprises (《企業國有產權轉讓管理暫行辦法》).

For the purpose of the Acquisition, on August 24, 2011, a loan agreement (the “Loan Agreement”) was entered into between Xinhua Investment as the lender and our Company as the borrower, pursuant to which Xinhua Investment has agreed to lend to our Company an amount of HK\$433,000,000 (which was equivalent to the Consideration), for the sole purpose of assisting our Company and Southern State to pay for the Acquisition.

Allotment of 50% Shares in our Company to Xinhua Investment

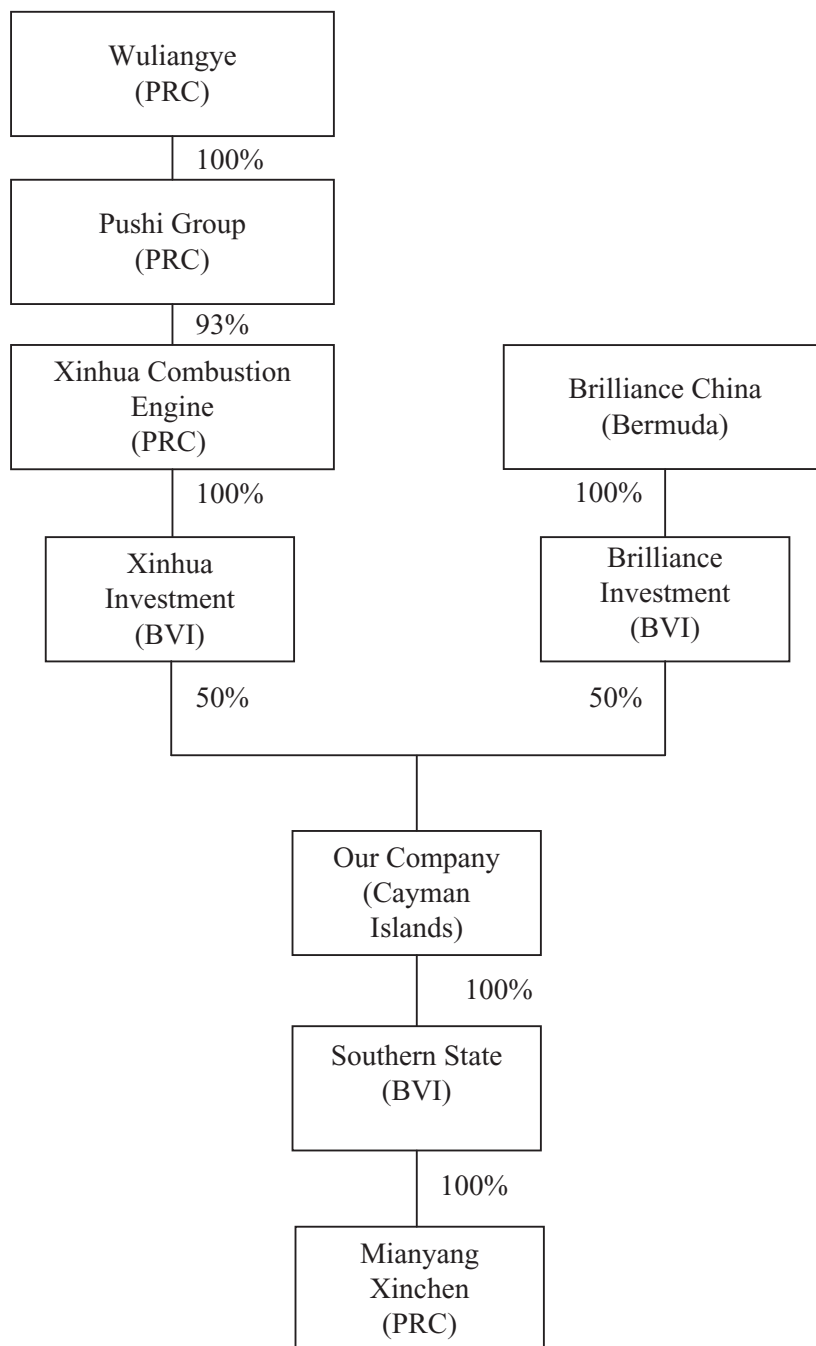
Pursuant to the Loan Agreement, Xinhua Investment was entitled to request our Company to issue 50% of the then issued share capital of our Company to Xinhua Investment. The Loan Agreement stipulates that the loan would be applied, in its entirety, to pay up such Shares in full at par value and upon completion of the said issuance of such Shares, our Company would be released from any liability in relation to the repayment of the loan under the Loan Agreement. At the request of Xinhua Investment, our Company issued and allotted 1,000 Shares, representing 50% of our then issued share capital, to Xinhua Investment on August 29, 2011, and the loan under the Loan Agreement was applied, in its entirety, to pay for such Shares in full. Upon completion of the allotment of the 1,000 Shares, our Company was owned as to 50% by Xinhua Investment and 50% by Brilliance Investment.

HISTORY AND REORGANIZATION

Capitalization Issue

On October 25, 2011, our Company issued and allotted 399,999,000 Shares (the “Capitalization Shares”), credited as fully paid at par value, to each of Brilliance Investment and Xinhua Investment, by way of capitalization of the sum of HK\$7,999,980 (being the amount necessary to pay up the Capitalization Shares at par value) out of the special reserve account of our Company (the “Capitalization Issue”). Upon completion of the Capitalization Issue, each of Brilliance Investment and Xinhua Investment holds 400,000,000 Shares, representing 50% of our then issued share capital.

The following chart sets forth our corporate structure immediately after the Reorganization:



HISTORY AND REORGANIZATION

PRE-IPO INVESTMENT BY DONGFENG MOTORS ENGINEERING

Dongfeng Motors Engineering is a company incorporated in Hong Kong and wholly-owned by Dong Feng Motor Corporation. Dong Feng Motor Corporation is a state-owned company incorporated in the PRC and the ultimate holding company of Dongfeng Group. On October 31, 2011, Dongfeng Motors Engineering and our Company entered into a subscription agreement (the “Subscription Agreement”), as amended and supplemented on December 16, 2012, the terms of which are set out below (the “Pre-IPO Investment”):

Principal Terms of the Subscription Agreement

Name of Pre-IPO investor	Dongfeng Motors Engineering
Date of Subscription Agreement	October 31, 2011
Number of subscribed Shares	46,200,000 Shares, representing approximately 4.914% of the enlarged issued share capital of our Company after the Pre-IPO Investment and the subscription of Shares by Lead In (see below)
Price per Share	HK\$1.0817
Total consideration	HK\$49,975,714.94
Payment date of consideration	October 27, 2011
Basis of determination	The consideration is determined based on the Mianyang Xinchun Valuation Report, which was determined using the asset basis of appraisal
Rights	There are no special rights attached to the Shares
Put right	Dongfeng Motors Engineering may exercise a put right (subject to written consent from the Company) to sell its Shares to the Company on the same terms as its original subscription if the Listing is not completed on or before December 31, 2013 (such term was extended pursuant to the supplemental agreement dated December 16, 2012)
Lock-up	The Shares will not be subject to any lock-up after Listing

The Sole Sponsor has determined that the terms of the Subscription Agreement were under normal commercial terms and confirmed that the Pre-IPO Investment is in compliance with the Interim Guidance on Pre-IPO Investments issued on October 13, 2010 by the Stock Exchange.

Our Company considers that the Pre-IPO Investment by Dongfeng Motors Engineering further strengthened the relationship between our Group and Dongfeng Group. It demonstrates that the customer is confident in our Group’s operation and recognizes the past contribution and performance of our Group. A pre-IPO investment by a strong strategic investor will serve as an endorsement of our Company’s strength and prospects.

As at the Latest Practicable Date, the consideration received from Dongfeng Motors Engineering pursuant to the Pre-IPO Investment had not been utilized.

As Dongfeng Motors Engineering is not a connected person of our Company nor related to any connected persons of our Company, all the Shares subscribed by Dongfeng Motors Engineering

HISTORY AND REORGANIZATION

pursuant to the Pre-IPO Investment shall be counted as part of the public float for the purposes of Rule 8.08 of the Listing Rules.

INCENTIVE SCHEME ESTABLISHED BY LEAD IN

Our Directors consider that our business heavily relies on research and development and the retention of human talents is vital to the success of our Company. As such, we established an incentive scheme (the “Incentive Scheme”) in 2011. The Incentive Scheme was established before the Global Offering to serve as a retention tool, and to align the interests of certain Directors, management, employees and relevant personnel of our Group (the “Beneficiaries”) with that of our Company. Lead In was incorporated for the purpose of holding the Lead In Subscribed Shares (as defined below) on trust for the Beneficiaries pursuant to the Incentive Scheme.

Lead In was incorporated in the BVI on May 18, 2011 and Mr. Wu Xiao An, our chairman and executive Director, was the then sole shareholder and sole director of Lead In. On October 10, 2011, Mr. Wang Yunxian, our chief executive officer and executive Director, became a shareholder and a director of Lead In and, as a result, Mr. Wu Xiao An and Mr. Wang Yunxian hold, and each will continue to hold upon Listing, 50% of the issued share capital of Lead In.

On October 31, 2011, Lead In subscribed for 93,999,794 Shares (i.e. the “Lead In Subscribed Shares”) at a consideration of HK\$101,681,967.73, representing approximately 9.998% of the then issued share capital of our Company after giving effect to the subscription of Shares by Dongfeng Motors Engineering and without giving effect to the completion of the Global Offering, and approximately 7.498% of the issued share capital of our Company upon completion of the Global Offering (assuming the Over-allotment Option is not exercised), and approximately 7.227% of the issued share capital of our Company upon completion of the Global Offering (assuming the Over-allotment Option is fully exercised). The consideration was determined based on the Mianyang Xinchun Valuation Report, and was paid on the same date and funded as described below. Lead In holds the Lead In Subscribed Shares on trust for the Beneficiaries under two separate trust arrangements as set out below.

Discretionary Trust

A trust deed and a supplemental trust deed were entered into among Mr. Wu Xiao An, Mr. Wang Yunxian, each executive Director, and Lead In on October 25, 2011 and February 25, 2013, respectively, pursuant to which Lead In agreed to hold 36,977,960 Shares, representing approximately 3.933% of the then issued share capital of our Company (after giving effect to the subscription of Shares by Dongfeng Motors Engineering and without giving effect to the completion of the Global Offering) on trust for the future benefit of certain Beneficiaries (the “Discretionary Trust Beneficiaries”) to be identified after six months following the Listing (the “Discretionary Trust”). The board of directors of Lead In and the Board of our Company may, at any time during the term of the Discretionary Trust following the date of expiry of the six-month period following the Listing Date, jointly determine the identity of the Discretionary Trust Beneficiaries to whom interests in any of the Lead In Subscribed Shares will be offered. The Discretionary Trust Beneficiaries will be determined on the basis of that Beneficiary’s contribution to the development and growth of our Group or such other factors as the board of directors of Lead In and the Board of our Company may deem appropriate.

The consideration of approximately HK\$40,000,000 paid by Lead In for the Lead In Subscribed Shares held under the Discretionary Trust was lent by our Company to Lead In. This loan was funded from loans to our Company from Brilliance Investment and Xinhua Investment in equal proportions. For details, please refer to “Relationship with our Controlling Shareholders and Huachen — Financial Independence”.

HISTORY AND REORGANIZATION

The entitlement of each Discretionary Trust Beneficiary to his/her interests in the Discretionary Trust will vest and become exercisable in accordance with a two-year vesting period, namely (i) a certain percentage of his/her entitled interests (to be determined by the board of directors of Lead In and the Board of our Company at the time of offer) shall vest on the date following the first anniversary from the date the Discretionary Trust Beneficiaries acquired the Lead In Subscribed Shares, and (ii) the remaining percentage of his/her entitled interests (to be determined by the board of directors of Lead In and the Board of our Company at the time of offer) shall vest on the date following the second anniversary from the date the Discretionary Trust Beneficiaries acquired the Lead In Subscribed Shares. The Discretionary Trust will be terminated on (i) the date which is 10 years from the date of the trust deed; or (ii) the date on which the transfer of all the trust assets to the Discretionary Trust Beneficiaries is completed, whichever is earlier. While the Fixed Trust Beneficiaries (as defined below) and their respective entitlements have been determined prior to Listing, the Discretionary Trust Beneficiaries and their respective entitlements under the Discretionary Trust will be identified and determined no earlier than six months after Listing. Once any of the Discretionary Trust Beneficiaries have been identified and their entitlements have been determined, they will purchase the Lead In Subscribed Shares at the same subscription price per share paid by Lead In based on his/her respective entitlement.

Fixed Trust

A trust deed and a supplemental trust deed were entered into among Mr. Wu Xiao An, Mr. Wang Yunxian, Lead In and 51 Beneficiaries (the “Fixed Trust Beneficiaries”) (consisting of three Directors, namely Mr. Wu Xiao An, Mr. Wang Yunxian and Mr. Li Peiqi, and 48 senior management and employees of our Group) on October 25, 2011 and February 25, 2013, respectively, pursuant to which Lead In agreed to hold 57,021,834 Shares, representing approximately 6.065% of the then issued share capital of our Company (after giving effect to the subscription of Shares by Dongfeng Motors Engineering and without giving effect to the completion of the Global Offering) on trust for the Fixed Trust Beneficiaries (the “Fixed Trust”). Each Fixed Trust Beneficiary has paid the consideration of HK\$1.0817 per Lead In Subscribed Share by himself/herself, which was determined based on the Mianyang Xinchun Valuation Report, to Lead In in cash for the subscription of the Lead In Subscribed Shares held under the Fixed Trust. The total consideration paid by each of the Beneficiaries is calculated based on his/her respective entitlement. For further details, please see “Appendix V — Statutory and General Information — D. Incentive Scheme Established by Lead In” in this prospectus.

The entitlement of each Fixed Trust Beneficiary to his/her interests in the Fixed Trust shall vest and become exercisable in accordance with three phases of vesting period, namely (i) the first 40% of his/her entitled interests shall vest on the date following the expiry date of the six-month period from the Listing Date (the “Lock-up Period”); (ii) the next 40% of his/her entitled interests shall vest on the date following the first anniversary from the expiry date of the Lock-up Period; and (iii) the remaining 20% of his/her entitled interests shall vest on the date following the second anniversary from the expiry date of the Lock-up Period. The Fixed Trust will be terminated on (i) the date which is 10 years from the date of the trust deed; or (ii) the date on which the transfer of all the trust assets to the Fixed Trust Beneficiaries is completed, whichever is earlier.

In the event a Beneficiary under the Fixed Trust or the Discretionary Trust intends to realize his/her entitled shares held by Lead In in accordance with the above vesting periods, Lead In will transfer such Shares to the Beneficiary. As all Lead In Subscribed Shares have been issued and held on trust by Lead In, no new Shares will be issued and there will be no dilution effect on the Shareholders upon Listing.

Lead In will be entitled to exercise all of the voting rights of the Lead In Subscribed Shares. To the extent that Lead In receives any dividends from our Company, Lead In will distribute such

HISTORY AND REORGANIZATION

dividends to the Beneficiaries who are still interested in the relevant Lead In Subscribed Shares with reference to their entitled Lead In Subscribed Shares. In the event that there is any residual dividend or amount retained in the trust, such residual dividend or amount will be used for the sole purpose of future subscriptions of the Shares to award future Beneficiaries.

The Incentive Scheme in respect of the trust arrangements is a share-based payment arrangement. For the Discretionary Trust, share-based payment expense, if any, is recognized upon granting and vesting of the relevant Shares. Once the Discretionary Trust Beneficiaries have been identified and their entitlements have been determined, our Company will recognize the share-based payment expense in accordance with HKFRS 2. For the Fixed Trust, no share-based payment expense will be recognized by our Company as the Shares were issued at fair value to the Fixed Trust Beneficiaries.

The price for the Lead In Subscribed Shares (i.e. HK\$1.0817 per Lead In Subscribed Share) is considered as fair value since it was determined based on the Mianyang Xinchun Valuation Report, which was issued by an independent valuer and it was also used to determine the consideration for the Pre-IPO Investment by Dongfeng Motors Engineering (i.e. HK\$1.0817 per Share), which is an independent third party prior to the Pre-IPO Investment.

There is no Chapter 14A implication under the Listing Rules in respect of the above trust arrangements since the subscription of the Lead In Subscribed Shares by Lead In had been completed prior to the Listing, in which the consideration paid by Lead In was determined based on the Mianyang Xinchun Valuation Report, which reflected the fair value at the time of the valuation.

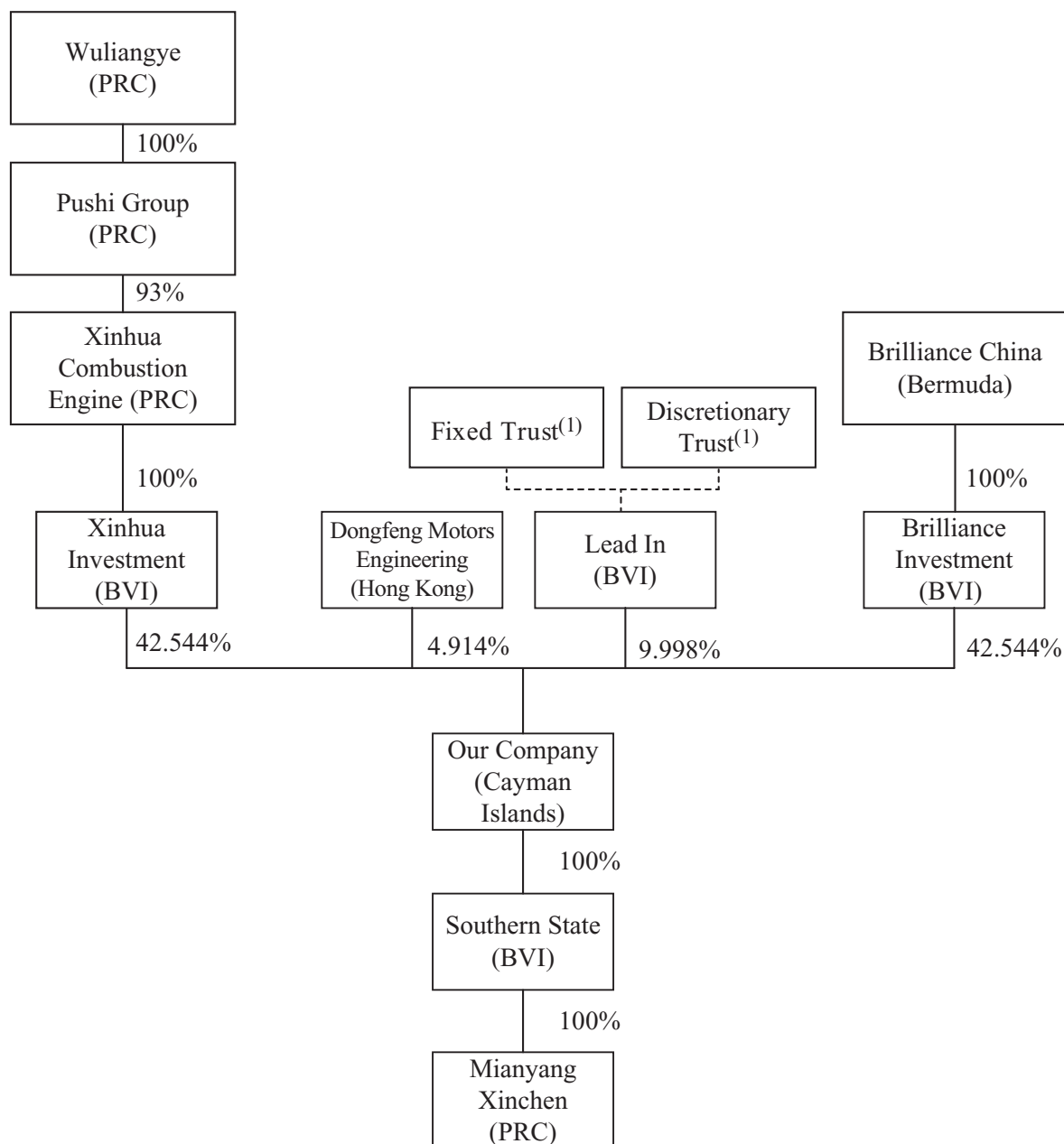
The Incentive Scheme is structured in the form of a pre-IPO investment whereby the Fixed Trust Beneficiaries and Lead In had fully settled the consideration for the Lead In Subscribed Shares prior to the Listing. In addition, our Company has complied with the Interim Guidance on Pre-IPO Investments published by the Stock Exchange on October 13, 2010. Our Company considers that the Incentive Scheme is of a different nature comparing to a share option scheme which involves the granting of options instead of Shares and which will only become effective upon Listing. As such, the Incentive Scheme is not subject to the requirements under Chapter 17 of the Listing Rules and no recording of employee compensation expenses is required during the Track Record Period.

Our Group has obtained the necessary approval or consent for the above arrangement from the Brilliance China Group, Wuliangye Group, Mianyang Municipal Government, Mianyang SAFE, SASAC of Yibin City, SASAC of Liaoning Province, and SASAC of Sichuan Province.

The Sole Sponsor confirmed that the Incentive Scheme is in compliance with the Interim Guidance on Pre-IPO Investments issued on October 13, 2010 by the Stock Exchange.

HISTORY AND REORGANIZATION

The following chart sets forth our corporate structure after the Pre-IPO Investment and the subscription of Shares by Lead In:



(1) Under the Fixed Trust, after the Pre-IPO Investment and the subscription of Shares by Lead In, Lead In held approximately 6.065% of the then issued share capital of our Company on trust for the Fixed Trust Beneficiaries, and under the Discretionary Trust, Lead In held approximately 3.933% of the then issued share capital of our Company on trust for the Discretionary Trust Beneficiaries.

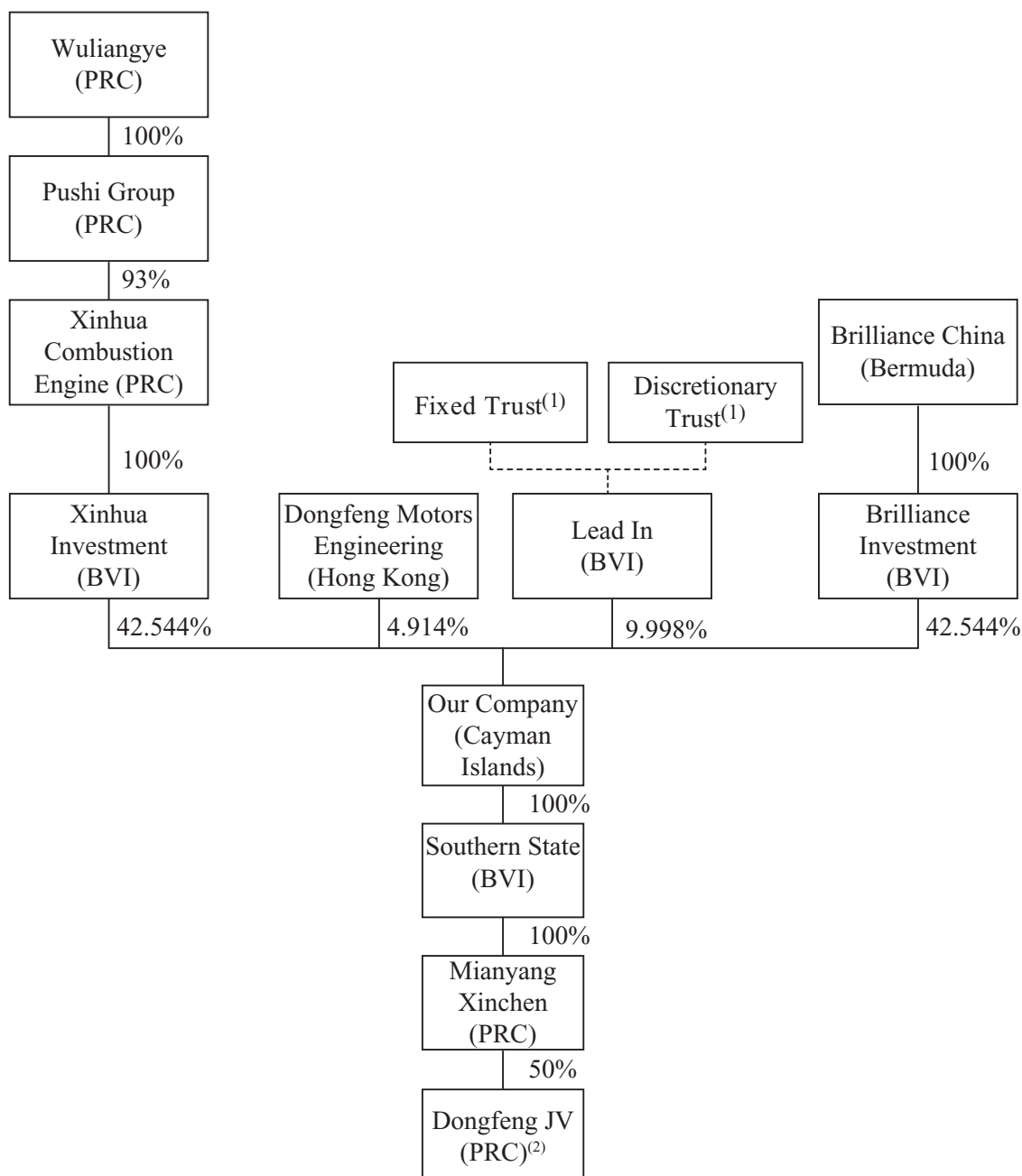
ESTABLISHMENT OF DONGFENG JV

Pursuant to a joint venture agreement entered into between Mianyang Xincheng and Dongfeng in December 2011, Dongfeng JV was established on January 9, 2012 as a joint venture by the two parties and has a term of 20 years. Dongfeng JV is owned as to 50% by Mianyang Xincheng and 50% by Dongfeng. The registered capital of Dongfeng JV is RMB250 million, of which RMB100 million has been paid up by Mianyang Xincheng and Dongfeng in equal proportions. The purpose of establishing

HISTORY AND REORGANIZATION

Dongfeng JV is to construct an engine production facility with an annual production capacity of 200,000 units in Changzhou, Jiangsu Province to manufacture the joint venture branded engines for Dongfeng’s light-duty vehicles. For details of Dongfeng JV, please refer to “Business” section of this prospectus.

The following chart sets forth our corporate structure after the establishment of Dongfeng JV and immediately before the Global Offering:



(1) Under the Fixed Trust, after the establishment of Dongfeng JV and immediately before the Global Offering, Lead In held approximately 6.065% of the then issued share capital of our Company on trust for the Fixed Trust Beneficiaries, and under the Discretionary Trust, Lead In held approximately 3.933% of the then issued share capital of our Company on trust for the Discretionary Trust Beneficiaries.

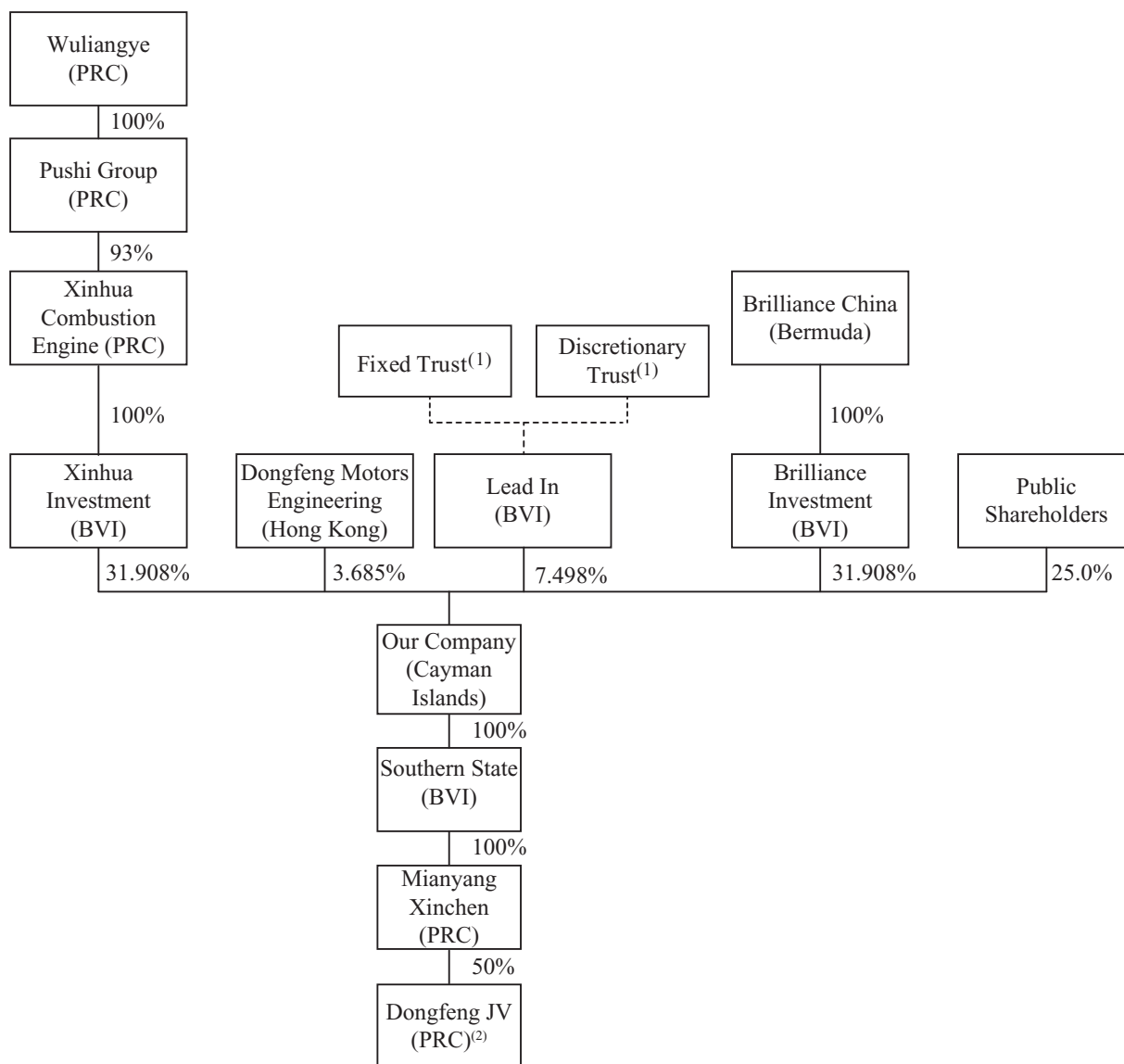
(2) Dongfeng JV is a joint venture incorporated on January 9, 2012 and is owned as to 50% by Mianyang Xinchen and 50% by Dongfeng.

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Immediately after the completion of the Global Offering (assuming the Over-allotment Option is not exercised), the shareholding of the Controlling Shareholders will be diluted and Brilliance China, through its wholly-owned subsidiary, Brilliance Investment, will be interested in approximately 31.908% of the issued share capital of our Company. Accordingly, our Company will not be a subsidiary of Brilliance China.

CORPORATE STRUCTURE

The following chart sets forth our corporate structure upon completion of the Global Offering (assuming the Over-allotment Option is not exercised):

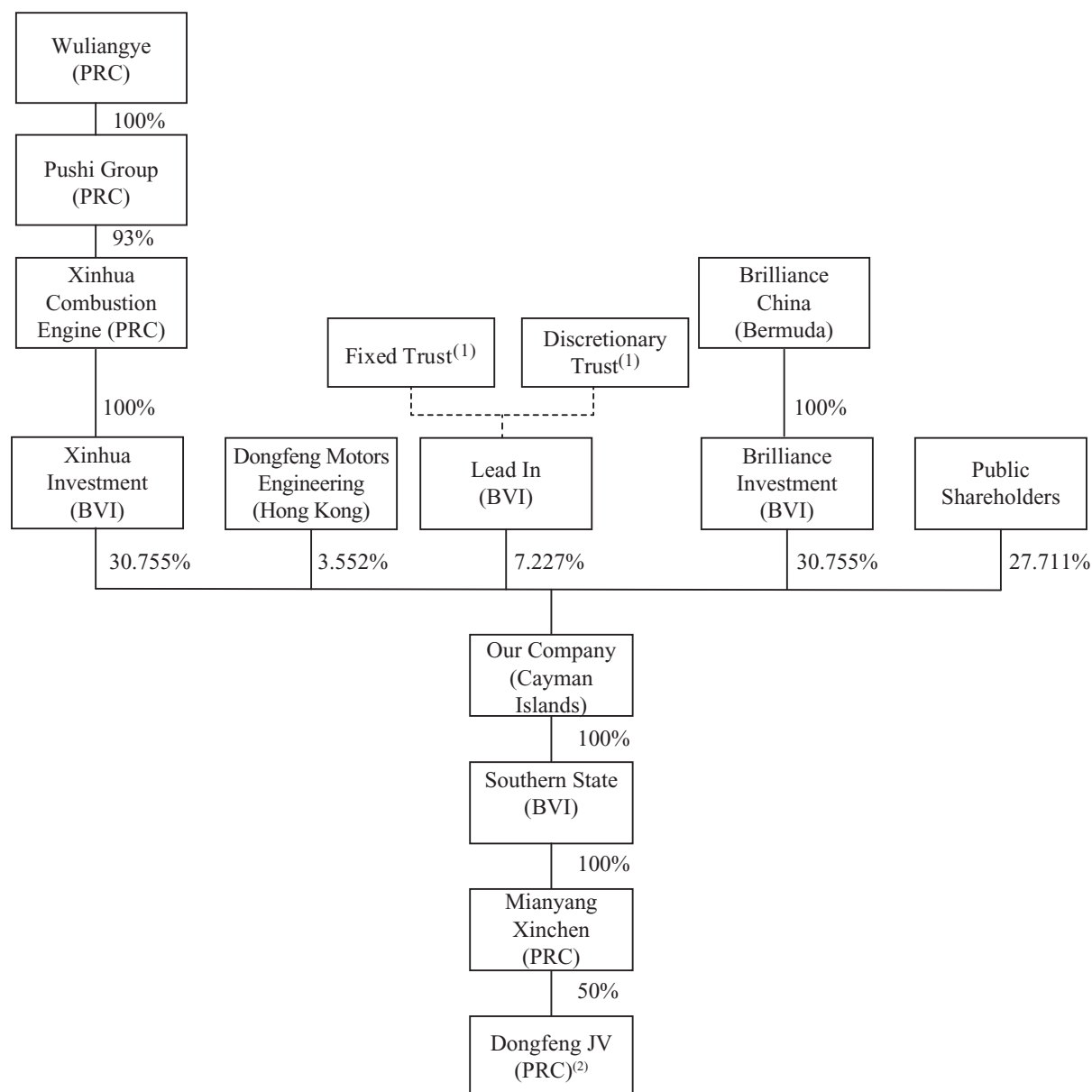


(1) Under the Fixed Trust, upon completion of the Global Offering (assuming the Over-allotment Option is not exercised), Lead In will hold approximately 4.548% of the issued share capital of our Company on trust for the Fixed Trust Beneficiaries, and under the Discretionary Trust, Lead In will hold approximately 2.950% of the issued share capital of our Company on trust for the Discretionary Trust Beneficiaries.

(2) Dongfeng JV is a joint venture incorporated on January 9, 2012 and is owned as to 50% by Mianyang Xinchun and 50% by Dongfeng.

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The following chart sets forth our corporate structure upon completion of the Global Offering (assuming the Over-allotment Option is exercised in full):



- (1) Under the Fixed Trust, upon completion of the Global Offering (assuming the Over-allotment Option is exercised in full), Lead In will hold approximately 4.384% of the issued share capital of our Company on trust for the Fixed Trust Beneficiaries, and under the Discretionary Trust, Lead In will hold approximately 2.843% of the issued share capital of our Company on trust for the Discretionary Trust Beneficiaries.
- (2) Dongfeng JV is a joint venture incorporated on January 9, 2012 and is owned as to 50% by Mianyang Xinchen and 50% by Dongfeng.

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BRILLIANCE CHINA AND XINHUA COMBUSTION ENGINE

Our Company understands from Brilliance China and Xinhua Combustion Engine that:

- (i) Brilliance China and Xinhua Combustion Engine do not have any agreement or understanding (whether formal or informal) to actively cooperate to obtain or consolidate control of our Group;
- (ii) the boards of Brilliance China and Xinhua Combustion Engine operate independently from each other. All investment decisions are evaluated and decided by each group in consideration of its own interests without consulting the other. Pursuant to our Company's Articles of Association, there is no obligation (formal or informal) for them to vote in the same way on any shareholders' resolution and they both exercise their voting rights independently from each other;
- (iii) pursuant to the Company's Articles of Association, there is no obligation (formal or informal) on the Directors who were nominated by Brilliance China and Xinhua Combustion Engine to vote in the same way on any matter approved or to be approved by the Board of Directors of the Company; and
- (iv) each of Huachen, being the controlling shareholder of Brilliance China, and Wuliangye, being the controlling shareholder of Xinhua Combustion Engine, is a state-owned enterprise operated under different PRC provincial government authorities which is subject to the different regulations and requirements from their respective provincial government authorities based on distinctive and unique consideration. There is no agreement or understanding between them to obtain or consolidate control of our Group.

PRC APPROVAL AND REGISTRATION REQUIREMENT

Under the M&A Provisions, the approval of the MOFCOM is required if an offshore special purpose vehicle controlled by PRC domestic companies or PRC resident natural persons acquires the equity interest of an affiliated PRC domestic company for the purpose of listing in an overseas equity market, and the approval of the CSRC is required prior to the listing of such special purpose vehicle in an overseas equity market. As Mianyang Xinchun was established as a Sino-foreign equity joint venture enterprise in 1998, prior to the promulgation date of the M&A Provisions on September 8, 2006, our Company's Reorganization and the Listing do not fall within the regulated activities as set out in the M&A Provisions, the M&A Provisions is not applicable to our Reorganization or the Listing.

Furthermore, registration with SAFE is required pursuant to the Notice on Foreign Exchange Control Issues Relating to Financing and Reverse Investment by Domestic Residents Through Offshore Special Purpose Vehicles (《關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》), or Circular 75, if PRC resident legal or natural persons directly establish or indirectly control an offshore enterprise for the purpose of carrying out offshore equity financing with the assets or equity interests they hold in PRC domestic companies. According to the Official Reply Concerning the Procedures of Offshore Investment-related Foreign Exchange Registration (《關於辦理境外投資外匯登記手續的覆函》(綿匯管[2011]31號)) issued by the Mianyang branch of SAFE ("Mianyang SAFE") on September 16, 2011, as the establishment of Xinhua Investment by Xinhua Combustion Engine has been approved by competent commerce authorities and has obtained the Foreign Exchange Registration Certificate with the registration number 00013702, and the subscription of the issued Shares of the Company by Xinhua Investment is in accordance with its approved business scope, Xinhua Combustion Engine does not need to do the offshore investment-related foreign exchange registration under Circular 75 for its aforesaid

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offshore investment. According to the minutes for the meeting regarding the foreign exchange matters for the Listing (《關於新晨中國動力控股有限公司香港上市有關外匯事宜會議記錄》) held by, among others, Mianyang Municipal Government and Mianyang SAFE dated October 28, 2011, the officials of Mianyang SAFE stated that, as Mr. Wang Yunxian and other individuals who have invested in Lead In did not hold the Shares directly, the investment in Lead In by Mr. Wang Yunxian and those individuals is not subject to the registration requirement under Circular 75.

Based on the above, our PRC legal adviser, Jingtian & Gongcheng, has advised us that the MOFCOM and CSRC approval requirement under the M&A Provisions and the registration requirement under Circular 75 are not applicable in the context of our Reorganization and Global Offering.

In addition, according to the Circular on Further Strengthening the Administration of the Offering and Listing of Shares Outside the PRC (the “Red-Chip Guidance”) issued by the State Council on June 20, 1997, the Company’s PRC legal adviser, Jingtian & Gongcheng, has advised us that as Mianyang Xincheng is held by Brilliance China, a Chinese-funded overseas-listed company, the proposed Listing of our Company, which indirectly wholly-owns Mianyang Xincheng, is not subject to CSRC’s approval under the Red-Chip Guidance. Huachen, as the domestic controlling shareholder of Brilliance China, is required to report the Listing to the CSRC for record purposes after its completion.