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If you are in doubt as to any aspect of this circular or as to the action you should take, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountants or other professional adviser.

If you have sold or transferred all your shares in BAIC Motor Corporation Limited, you should at once hand this circular and the accompanying proxy form to the purchaser(s) or transferee(s) or to the bank, stockbroker or other agent through whom the sale or the transfer was effected for transmission to the purchaser(s) or transferee(s).



北京汽车
BAIC MOTOR

北京汽車股份有限公司

BAIC MOTOR CORPORATION LIMITED*

(A joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 1958)

Renewal of Continuing Connected Transactions with BAIC Group
Appointment of Non-executive Directors of the Company
Appointment of Supervisor of the Company

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



中泰國際
ZHONGTAI INTERNATIONAL

A letter from the Board is set out on pages 5 to 38 of this circular.

The notice convening the EGM to be held at 9:30 a.m. on Wednesday, December 28, 2016 at Multi-purpose Hall, 1st Floor, the South Tower of Beijing Automotive Industry R&D Base, No. 99 Shuanghe Road, Shunyi District, Beijing, the PRC is set out on pages 70 to 71 of this circular. The forms of proxy for use at the EGM are also enclosed. Such form of proxy is also published on the website of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk).

Whether or not you propose to attend the EGM, holders of H Shares of the Company are requested to complete and return the enclosed form of proxy in accordance with the instruction printed thereon and return it to the Hong Kong share registrar of the Company, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, and for holders of Domestic Shares, the form of proxy shall be returned to the Board of Directors' Office of the Company at 9th Floor, Peng Long Building, No. 10 Hua Wei Li, Chaoyang District, Beijing, the PRC as soon as possible but in any event not less than 24 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude the Shareholders from attending and voting in person at the EGM or any adjournment thereof if they so wish.

In the event that you attend or appoint a proxy to attend the EGM and/or Shareholders Class Meeting(s) in person, you are requested to complete and return the enclosed reply slip in accordance with the instruction printed thereon and return it to the Hong Kong H share registrar of the Company, Computershare Hong Kong Investor Services Limited (for holders of H shares), or to the Board of Directors' Office of the Company at 9th Floor, Peng Long Building, No. 10 Hua Wei Li, Chaoyang District, Beijing, the PRC (for holders of domestic Shares), on or before Thursday, December 8, 2016.

* *For identification purpose only*

November 12, 2016

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DEFINITIONS

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

“Articles of Association”	the articles of association of our Company, as amended from time to time
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“BAG Finance”	BAIC Group Finance Co., Ltd. (北京汽車集團財務有限公司), a company incorporated in the PRC, a subsidiary of BAIC Group
“BAIC Group”	Beijing Automotive Group Co., Ltd. (北京汽車集團有限公司), a state-owned enterprise incorporated in the PRC, the sole controlling shareholder of the Company
“Beijing Benz”	Beijing Benz Automotive Co., Ltd. (北京奔馳汽車有限公司) (previously known as Beijing Jeep Motor Co., Ltd. and Beijing Benz-Daimler Chrysler Automotive Co., Ltd.), a company incorporated in the PRC on July 1, 1983, a subsidiary of our Company with 51.0% equity interest owned by our Company, 38.665% owned by Daimler AG and 10.335% owned by Daimler Greater China
“Beijing Motor”	our proprietary brand passenger (the Beijing brand) vehicles under Senova, BJ and Wevan
“Board”	the board of directors of our Company
“Board of Supervisors”	the board of supervisors of our Company
“CBRC”	China Banking Regulatory Commission
“Company” or “our Company” or “we”	BAIC Motor Corporation Limited
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“connected transaction”	has the meaning ascribed to it under the Listing Rules

DEFINITIONS

“Continuing Connected Transaction Agreements”	the renewed financial services framework agreement, the products and services purchasing framework agreement and the provision of products and services framework agreement entered into by our Company with BAIC Group
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“Daimler AG”	Daimler AG, a company established in Germany in 1886 which is a Shareholder and a connected person of our Company
“Director(s)”	the director(s) of our Company
“EGM”	the first extraordinary general meeting of 2016 of BAIC Motor Corporation Limited to be convened and held
“Foton”	Beiqi Foton Motor Co., Ltd., an A share listed company (stock code: 600166.SH) incorporated in the PRC on August 28, 1996. According to the 2016 third quarter report of Foton, approximately 27.07% equity interest of Foton was owned by BAIC Group
“Group”	our Company and its subsidiaries
“H Share(s)”	overseas listed foreign shares in the ordinary share capital of our Company with a nominal value of RMB1.00 each, to be subscribed for and traded in HK dollars and listed on the Stock Exchange
“Hong Kong Dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	a committee under the Board of our Company comprising of our independent non-executive Directors for the consideration of and providing an opinion to the Board and Independent Shareholders in respect of the Non-exempt Transactions
“Independent Shareholders”	the shareholders of our Company other than the controlling shareholders and their associates of Company
“Latest Practicable Date”	November 10, 2016, being the latest practicable date prior to ascertaining certain information contained in this circular

DEFINITIONS

“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Non-exempt Annual Caps”	the respective annual caps of each Non-exempt Transactions for each of the three years ending December 31, 2017, 2018 and 2019
“Non-exempt Transactions”	the continuing connected transactions that are subject to the approval of Independent Shareholders which include the following: deposit transactions between our Group and BAG Finance under financial services framework agreement; products purchasing transactions and services purchasing transactions between our Group and BAIC Group and its associates under the products and services purchasing framework agreement; and provision of products transactions between our Group and BAIC Group and its associates under the provision of products and services framework agreement
“PBOC”	The People’s Bank of China, the central bank in the PRC
“PRC”	The People’s Republic of China, for the purpose of this announcement, excluding the Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan
“Renewed CCTs”	the continuing connected transactions contemplated under the renewed trademark licensing agreement, property and facility leasing agreement, financial services framework agreement and provision of products and services framework agreement as well as the arrangement with Daimler AG in respect of the sales of vehicles by Beijing Benz to Daimler AG and its associates
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholder(s)”	the shareholder(s) of our Company
“Share(s)”	Domestic Shares and H Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

DEFINITIONS

“Subsidiary” or “Subsidiaries”	has the meaning ascribed to it under the Listing Rules
“Supervisor(s)”	the supervisor(s) of our Company
“ZTIC”	Zhongtai International Capital Limited, a licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
“%”	percentage

LETTER FROM THE BOARD



北京汽车
BAIC MOTOR

北京汽车股份有限公司
BAIC MOTOR CORPORATION LIMITED*

(A joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 1958)

Directors:

Name	Position
Mr. Xu Heyi	Chairman of the Board and non-executive Director
Mr. Zhang Xiyong	Non-executive Director
Mr. Li Zhili	Non-executive Director
Mr. Li Feng	Executive Director and President
Mr. Ma Chuanqi	Non-executive Director
Mr. Qiu Yinfu	Non-executive Director
Mr. Hubertus Troska	Non-executive Director
Mr. Bodo Uebber	Non-executive Director
Ms. Wang Jing	Non-executive Director
Mr. Yang Shi	Non-executive Director
Mr. Fu Yuwu	Independent non-executive Director
Mr. Wong Lung Tak Patrick	Independent non-executive Director
Mr. Bao Robert Xiaochen	Independent non-executive Director
Mr. Zhao Fuquan	Independent non-executive Director
Mr. Liu Kaixiang	Independent non-executive Director

Registered Address:

The fifth building
Block 25 Shuntong Road
Shunyi District
Beijing 101300, China

Principal place of business

in Hong Kong:
36/F, Tower Two
Times Square
1 Matheson Street
Causeway Bay
Hong Kong

November 12, 2016

To the Shareholders

**Renewal of Continuing Connected Transactions
with BAIC Group
Appointment of Non-executive Directors of the Company
Appointment of Supervisor of the Company**

I. INTRODUCTION

Our Company intends to hold the EGM at 9:30 a.m. on Wednesday, December 28, 2016 at Multi-purpose Hall, 1st Floor, the South Tower of Beijing Automotive Industry R&D Base, No.99 Shuanghe Road, Shunyi District, Beijing, the PRC. The notice to convene the EGM has been dispatched on November 12, 2016, and is set out on pages 70 to 71 of this circular.

* *For identification purpose only*

LETTER FROM THE BOARD

The purpose of this circular is to provide you with details of the resolutions to be proposed by the Board and the Shareholders for them to consider and approve as ordinary resolution or special resolution, as the case may be, at the EGM provide all the information reasonably required to enable you to make an informed decision on whether to vote for or against or abstain from voting at those resolutions. Such resolutions and details are set out in the letter from the Board.

II. THE RENEWAL OF CONTINUING CONNECTED TRANSACTIONS WITH BAIC GROUP

1. Background

Reference is made to the announcement dated October 20, 2016 in respect of, among others, the renewal of continuing connected transactions between the Company and BAIC Group.

As the highest applicable ratios for each of the following transactions as contemplated in their respective agreements exceed 5% as defined by the Listing Rules, such connected transactions contemplated under the respective agreements and the relevant annual caps are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules:

- A. deposit transactions between our Group and BAG Finance under Financial Services Framework Agreement;
- B. products purchasing transactions and services purchasing transactions between our Group and BAIC Group and its associates under the Products and Services Purchasing Framework Agreement; and
- C. provision of products transactions between our Group and BAIC Group and its associates under the Provision of Products and Services Framework Agreement.

LETTER FROM THE BOARD

2. Details of the Continuing Connected Transactions

A. Financial Services Framework Agreement

Details of the Agreement

The below sets forth the details of the Financial Services Framework Agreement between our Company and BAG Finance.

Parties: BAG Finance; and
Our Company

Principal Terms: We renewed the existing financial services framework agreement on October 20, 2016 with BAG Finance (the “**Financial Services Framework Agreement**”), pursuant to which BAG Finance will provide financial services to us, and such financial services primarily include (i) deposits; (ii) loans and entrusted loan; (iii) other Financial Services including discounted notes and acceptance service, finance lease, settlement and entrusted loan agency (“**Financial Services**”); and (iv) other services subject to obtaining relevant approvals from CBRC.

The term of the Financial Services Framework Agreement will commence on January 1, 2017 and end on December 31, 2019, subject to renewal through mutual consents by the parties.

Pricing Policy: The Financial Services Framework Agreement provides for the following pricing principles:

- (a) *Deposit services.* Interest rates for the deposits placed by our Group with BAG Finance will not be lower than: (i) the minimum interest rate published by the PBOC for deposits of a similar type for the same period; (ii) the interest rate for deposits of a similar type for the same period placed by the subsidiaries of BAIC Group other than our Group; or (iii) the interest rate for deposits of a similar type for the same period offered by independent commercial banks to us and our subsidiaries.
- (b) *Loans services.* Interest rates on the loans to be advanced by BAG Finance to our Group will not be higher than: (i) the maximum loan interest rate, if any, published by the PBOC for loans of a similar type for the same period; (ii) the interest rate for comparable loans offered by BAG Finance to other subsidiaries of BAIC Group other than our Group; or (iii) the interest rate for loans of a similar type offered for the same period by independent commercial banks to us and our subsidiaries.

LETTER FROM THE BOARD

- (c) *Other Financial Services.* The interest rates or services fees will be: (i) subject to the benchmark fee (if applicable) for similar types of financial services published by PBOC or CBRC from time to time; (ii) comparable to, or no less favorable to our Group than, the interest rates or fees charged by independent commercial banks or financial institutions for similar types of financial services; and (iii) comparable to, or no less favorable to our Group than, fees charged by BAG Finance to the subsidiaries of BAIC Group other than our Group for similar financial services.

**Reasons and Benefits
of the Transactions:**

The main reasons for our Company to enter into the Financial Services Framework Agreement with BAG Finance are as follows:

- (a) as all members of the BAIC Group and our Group are entitled to utilize deposit services, loan services and other Financial Services, the Financial Services Framework Agreement would allow for the provision of intra-group loans amongst members of our Group, thus opening another channel for our Group to raise loans and providing our Group with an alternative to raising loans from other financial institutions, which would in turn promote funding liquidity among our Group, enhance the overall ability of our Group to repay debts, and assist with monitoring and controlling financial risks;
- (b) the use of BAG Finance as a platform to manage the funds of our Group would facilitate a more efficient deployment of funds of our Group;
- (c) the interest rates on the deposit services and loan services offered, and the service fees in connection with the other Financial Services charged by BAG Finance to our Group will be no less favorable than, on a case-by-case basis, those offered to our Group by any Independent Third Party;
- (d) as BAG Finance only provides financial services to members of the BAIC Group, it has acquired extensive knowledge of our industry for several years. At the same time, BAG Finance is familiar with our capital structure, business operations, funding needs and cash flow patterns, which enables it to better anticipate our business needs. BAG Finance is well-positioned in providing us with customized services;
- (e) the arrangements under the Financial Services Framework Agreement would save financial costs, and accordingly increase the profitability of our Group accordingly;

LETTER FROM THE BOARD

- (f) the arrangements under the Financial Services Framework Agreement would allow our Group to centralize our deposited funds to a certain degree (limited by the proposed deposit annual caps), which would expedite the monitoring of the use and application of funds within our Group, and would provide our Group with higher bargaining power (than when the deposited sum was split between financial institutions) with regard to the terms and interest rates of the deposit services;
- (g) by virtue of our Company's indirect equity interests in BAG Finance, the expansion of the business of BAG Finance will bring economic benefits to our Company; This is because the principal businesses of BAG finance include corporate finance, automotive finance, investment business and intermediate business. As BAG Finance is held as to 20% by our Company, the growth of net profit BAG Finance will contribute investment gains in accordance to International Accounting Standards to our Company. The automotive finance business is experiencing rapid development in China, market share and relevant business penetration continues to improve, based on the medium-to-long-term planning of BAG Finance, BAG Finance will expand its automotive finance business between 2017 and 2019 and the substantial growth of net profit derived therefrom will increase the Group's investment gains from BAG Finance; and
- (h) BAG Finance is regulated by PBOC and CBRC, and as such its services provided must be in accordance with and in compliance with the rules and operational requirements of such regulatory authorities.

Taking into account that our Group enjoys no less favorable interest rates and other commercial benefits, our Company is of the view that the continuation of provision of financial services by BAG Finance is beneficial to our Group and our Shareholders as a whole.

LETTER FROM THE BOARD

Historical Figures and the Proposed Annual Caps

Historical Figures:

	Historical figures for the year ended December 31, (RMB/Million)		Historical figures for the six months ended June 30, (RMB/Million)	Historical figures for the nine months ended September 30, (RMB/Million)
	2014	2015	2016	2016
	Deposit transactions maximum daily balance of deposits placed by our Group with BAG Finance	9,193.0	4,031.0	8,427.4
Interest income from deposits placed by our Group with BAG Finance	88.4	76.3	36.4	71.2

Proposed Annual Caps:

	Proposed annual cap for the year ending December 31, (RMB/Million)		
	2017	2018	2019
Deposit transactions maximum daily balance of deposits placed by our Group with BAG Finance	12,500	12,500	12,500
Interest income from deposits placed by our Group with BAG Finance	193.2	193.2	193.2

Basis of annual caps:

In determining the above proposed caps for the deposit transactions under the Financial Services Framework Agreement, we have made reference to: (i) historical and expected sales revenues from Beijing Motor; (ii) historical and expected sales revenues from Beijing Benz; (iii) historical maximum daily balance deposited with BAG Finance as a percentage of sales revenue from Beijing Motor; and (iv) historical maximum daily balance deposited with BAG Finance as a percentage of sales revenue from Beijing Benz.

Part of the sales revenues received by our Group are generally reflected in the deposits placed by our Company with banks and BAG Finance. The growth in sales revenues will directly affect our balance deposited with banks and BAG Finance.

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In terms of sales revenue from Beijing Motor, an increase of 43.6% was recorded in 2015 as compared with 2014 and an increase of 60.1% was recorded in the first half 2016 as compared with the corresponding period in 2015; in terms of sales revenue from Beijing Benz, an increase of 50.8% was recorded in 2015 as compared with 2014 and an increase of 27.8% was recorded in the first half 2016 as compared with the corresponding period in 2015. Based on the medium-to-long-term planning of our Group, the sales revenues from Beijing Motor and Beijing Benz will sustain stable growth between 2017 and 2019.

Although our Group expects substantial growth in future sales revenues, our Group pays attention to the control of deposit size placed with BAG Finance to avoid potential risks in connection with over-concentration of capital. The proposed cap between 2017 and 2019 for the deposits placed by our Group with BAG Finance is RMB12,500 million, which is an increase of 13.6% as compared with RMB11,000 million in 2016 and lower than the growth rate of sales revenues.

Exempted Transactions under the Financial Services Framework Agreement

Since the loans service provided by BAG Finance to our Group are on normal commercial terms and on terms that are no less favourable to us than those offered by independent third parties for comparable services in the PRC, and that no security over the assets of our Group would be granted in respect of the loans service, loans service transactions are exempt from reporting, announcement and Independent Shareholders' approval requirements under Rule 14A.90 of the Listing Rules.

As all applicable ratios for the annual caps in respect of the Financial Services provided by BAG Finance to the Group are expected to be less than 0.1%, according to the relevant requirements under the Listing Rules, the Financial Services transactions are exempted from the reporting, announcement and Independent Shareholders' approval requirements.

Internal Control and Corporate Governance Measures Targeted for Transactions under the Financial Services Framework Agreement

Although there is no limit on the percentage of our total liquid and/or surplus funds to be deposited or loaned to BAG Finance, we consider that for the reasons explained above, the following measures are in the interests of our Shareholders as a whole. Our Company has put in place targeted internal control and corporate governance measures for transactions under the Financial Services Framework Agreement in order to further safeguard the interests of our Independent Shareholders:

(1) Independent financial system

Our Group has established a comprehensive financial management system for the management of financial services which targets (A) capital financing management (B) specialized budget management and (C) specialized capital management.

LETTER FROM THE BOARD

- (A) our Group has set up relevant system for capital financing management, including the management of bank accounts, cash and bank deposits and debt financing, to ensure independent capital operation and maximize capital efficiency, and is in the interests of the Shareholders as a whole.

- (B) our Group has set up a specialized budget management department, with enterprise development strategies as the start, with reaching target profit as the aim, with future sales as the preparation basis, to prepare annual budgets for operation and investment, determine annual financing plan and formulate financing proposals based on such annual budgets.

- (C) our Group has established a specialized capital management team for exercising daily capital and loan management, setting up specialized positions for daily deposit supervision and conducting comparison of the deposit rates among various financial institutions, to ensure that the total deposits of our Group would not exceed the annual cap and the deposit rates are in line with the requirement under the Financial Services Framework Agreement.

Our Group has also set up a stringent and efficient audit system. The independent internal audit team established by our Company is composed of members with years of experience in auditing and finance. The internal audit team conducts internal audit work on our Company's capital position on an regular basis every year as well as independent and objective supervision and evaluation on our Company's capital management.

The audit team consists of 18 members, of whom 1 is audit department chief, 1 is deputy department chief and 2 are section chives. Most of the members have over 5 years of experience in auditing, including experience of auditing in accounting firms and enterprises. 2 of the members performed audit work in big four CPA. In addition to seniority, the selection of members for the audit team also considers their industry background. Most of the members have relevant experience in automotive industry, which facilitate better understanding of various business of our Group and thus providing high-quality audit results. In order to ensure diversification of industry background of the team, some of the members also have industry background in finance/sales/information system/manufacturing etc., which facilitate multi-angle and omni-directional examination on the potential risks of our Group.

In the meantime, our Company's Audit Committee is mainly responsible for handling external auditing matters, supervising our Company's internal audit system and implementation, conducting audit on our Company's financial information, reviewing and supervising our Company's financial reports, risk management and effectiveness of the internal control system. It is also responsible for evaluating the effectiveness of our Company's internal control and the reliability of financial reports in an independent, fair and effective way and report to the Board of Directors and general meeting.

LETTER FROM THE BOARD

We also maintain accounts with independent banks. BAIC Group does not share any bank account with us nor does it control the use of any of our bank accounts. We have independent tax registrations and have paid tax independently pursuant to applicable PRC laws and regulations.

(2) Risk management measures

BAG Finance and BAIC Group will provide sufficient information including various financial indicators (as well as annual and interim financial statements) at the end of every quarter to enable us to monitor and review the financial condition of BAG Finance and BAIC Group. BAG Finance and BAIC Group shall notify us, subject to compliance with applicable laws and regulations, should any of them be subject to any judicial, legal or regulatory proceedings or investigations which are reasonably likely to have a material impact on the financial condition of any of them. If we consider that there is any material adverse change in the financial condition of any of the BAG Finance and BAIC Group, we will take appropriate measures (including early withdrawal of deposits and a moratorium on further deposits) to protect our financial position.

In addition to our internal monitoring, BAG Finance is also required to monitor the maximum daily balance of the deposits and loans on a daily basis to ensure that the aggregate outstanding amounts do not exceed the applicable annual caps. BAG Finance will provide us with a periodic report on the status of our deposits and loans so as to enable us to monitor and ensure the relevant annual caps under the Financial Services Framework Agreement have not been exceeded. Should the balance at the end of any day exceed the maximum daily balance of deposits and interest income prevailing at that time, the excess funds will be transferred to our designated bank accounts with an independent commercial bank. We shall also be notified immediately once the daily balance exceeds the maximum daily balance limit.

We will, from time to time, at our sole discretion, request that the deposits with BAG Finance be withdrawn or terminated early (either in full or in part) to assess and ensure the liquidity and safety of our deposits.

(3) Internal control measures

We have adopted internal control policies which are implemented by our finance center. All cash inflow and outflow of our Group should be considered in light of a unified budget. In addition, the vice president of our Company in charge of finance and his/her team will be responsible for closely monitoring such ongoing and continuing connected transactions.

LETTER FROM THE BOARD

To ensure that the pricing terms of transactions under Financial Services Framework Agreement are on normal commercial terms, our Company has applied and fully implemented the internal control policies for each transaction. In accordance with the policies of the People's Bank of China, various banks and BAG Finance, our Group's capital management team will update the statement of deposit rates of various financial institutions monthly and prioritize the institutions with the most favorable rate for deposit. In addition, according to relevant internal control requirements, our Group's capital management team, the financial department, audit department, legal department and other relevant departments will conduct review based on the transaction type and corresponding approved amount of each transaction to ensure that the pricing terms of transactions under Financial Services Framework Agreement are on normal commercial terms.

Our Group's capital management team compile statistics of the daily balance deposited with BAG Finance to ensure compliance with regulatory requirements. In additions, the capital management team conducts analysis and produce monthly reports on the deposits placed with various financial report various financial institutions.

Our management will prepare periodic risk assessment reports of the funds deposited with BAG Finance. The contents of such risk assessment reports will include the maximum daily balance of the deposits for the reporting period and the deposits with BAG Finance during the reporting period.

Our independent non-executive Directors will independently scrutinize the implementation and enforcement of the transactions under the Financial Services Framework Agreement on an annual basis. If the independent non-executive Directors consider that it would be in our interests to reduce the level of deposits with BAG Finance, we will take appropriate measures to implement the decision of our independent non-executive Directors. Any material findings in the risk assessment reports, the views of our independent non-executive Directors on the deposits under the Financial Services Framework Agreement (including their views on how the terms of the Financial Services Framework Agreement have been complied with), and their decisions on any matters in relation thereto, will be disclosed in our annual and interim reports.

During our annual audit, we will engage our auditors to review connected transactions between us and BAIC Group to ensure that the transactions under the Financial Services Framework Agreement have been conducted in accordance with the Listing Rules and have fulfilled the relevant disclosure requirements. Since our listing, as confirmed by our auditor, we have conducted all continuing connected transactions in compliance with the applicable Listing Rules.

LETTER FROM THE BOARD

B. Products and Services Purchasing Framework Agreement

Details of the Agreement

The below sets forth the details of the Products and Services Purchasing Framework Agreement between BAIC Group and Beijing Benz.

Parties: BAIC Group (as the provider); and
Our Company (as the buyer).

Principal Terms: We renewed the existing products and services purchasing framework agreement (the “**Products and Services Purchasing Framework Agreement**”) with BAIC Group on October 20, 2016, pursuant to which, BAIC Group and/or its associates will provide several types of products and services to our Company and/or our subsidiaries. These products will include automobile equipments, raw materials, components and parts and complete vehicles, and these services will include labor services, logistics services, transportation services and consultancy services (“**Purchase of Products and General Services**”).

The term of the Products and Services Purchasing Framework Agreement will commence on January 1, 2017 and end on December 31, 2019, and is subject to the renewal through mutual consent by the parties.

Pricing Policy: *General policy.* In order to ensure that the terms of individual transaction in respect of the purchase of products and general services by our Group from BAIC Group are fair and reasonable and in line with market practices, our Group has adopted the following measures:

- (i) to have regular contact with the suppliers of our Group (including the BAIC Group) to keep abreast of market developments and the price trend of general services;
- (ii) before placing an individual purchase order, to invite certain number of suppliers (including BAIC Group) from the approved list of suppliers of our Group to submit quotations or proposals; and

LETTER FROM THE BOARD

- (iii) to have the suppliers and pricing of products and general services determined by the collective decision of our Company's tender assessment board according to our Company's administrative measures for market quotations. Members of the tender assessment board include representatives from the components and parts development department, supplies management department, research and development department, compliance and supervision department, finance center and audit department. Procurement engineers, product engineers and supplier quality management engineers will also participate in the assessment to review and compare the quotations or proposals received and assess the same based on various factors such as pricing, flexibility, quality and after-sales service.

Where there are other independent suppliers, our Company and our subsidiaries will obtain quotations for comparable products or services that may be available from other independent suppliers in order to determine whether viable alternatives of comparable quality can be obtained in a timely manner and at the most competitive price. If alternatives are available, our Company and our subsidiaries will conduct a tender process before selecting suppliers for such alternatives. In such a tender process, the connected persons and their associates are treated no differently from any other independent suppliers. Consequently, the purchase of products and general services by our Company and our subsidiaries from our connected persons and their associates would not be made if our Company and our subsidiaries could obtain better terms from any other suppliers.

LETTER FROM THE BOARD

Raw materials and automobile parts and components

Raw materials (including steel and rubber) and automobile parts and components have historically been, and will continue to be, priced with reference to a combination of factors, including costs of materials, labor costs and employee benefit expenses, electricity and other utility costs, depreciation, machinery maintenance costs and selling and administrative expenses which are attributable to the procurement or production of such raw materials and components as well as automotive part products. Based on the above factors, each raw material, or finished automotive part product is ascribed a unit cost.

BAIC Group would then charge us a profit margin within the pre-agreed arm's length range over such unit cost. The prices of raw materials and automobile parts and components provided by BAIC Group and/or its associates are determined with reference to actual costs or reasonable costs (whichever is lower) incurred plus a profit margin within the pre-agreed arm's length range determined in the following order: (i) at prices not higher than the market prices; and (ii) if no comparable market price, at prices with reference to actual costs or reasonable costs (whichever is lower) incurred plus a profit margin within the pre-agreed arm's length range.

To monitor that the prices charged by BAIC Group are fair and reasonable, we have historically requested, prior to entering into individual supply agreements with BAIC Group, and will continue to request that BAIC Group provide a schedule of the costs being incurred by BAIC Group in respect of the raw materials and automotive parts and components being supplied by BAIC Group. Once such schedule is received, we have historically and will continue to (i) assess independently whether the costs incurred are fair and reasonable; (ii) request clarification and supporting documents from BAIC Group if we are of the view that the cost of items stated by BAIC Group are materially different from the costs that were quoted by BAIC Group historically; and (iii) verify that the profit margin on the total costs incurred by BAIC Group falls within the pre-agreed range of profit margins. To ensure that the price offered by BAIC Group and its subsidiaries will not be less favorable than those offered by independent service suppliers, we will seek for and refer to not less than two independent third-party suppliers after the arms-length negotiation. In addition, The purchasing department will also monitor automotive part and component prices and global commodity prices regularly to ensure that the price of automotive parts and components and raw materials purchased are fair and reasonable and in the interests of our Group and the Shareholders as a whole.

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Automotive modules

Automotive modules such as modules for dashboards and chassis are customized products. Similar price determination process to raw materials and automobile parts and components as disclosed above is used for automotive modules. However, to ensure that the prices quoted by BAIC Group is fair and reasonable, similar to the case for raw materials and automobile parts and components, we have historically been and will continue to request for a schedule of costs for assessment of its reasonableness. In addition, we will also compare the prices against those prices charged by independent suppliers of customized automobile modules to ensure that the prices quoted by BAIC Group are no less favorable.

Logistics services

Logistics services provided to us by BAIC Group include transportation and storage services. The fees of logistics services are charged on the basis of the value of the complete vehicles, components and parts, custodial requirements, size and level of inventories, delivery and handling requirements and the number of vehicles. When determining the prices, the procurement department of our Group has made reference to the market prices charged for logistics services by other comparable automotive enterprises based on its extensive expertise and experience. We periodically ask for quotations from at least two independent third party logistic companies which provide the same services in the same area as Zhongdu Logistics Co., Ltd. (中都物流有限公司) (“**Zhongdu Logistics**”), a subsidiary of BAIC Group, to ensure prices quoted by Zhongdu Logistics are fair and reasonable. In the event that the quoted prices are lower than the existing prices for logistic services provided by Zhongdu Logistics, the Group will request Zhongdu Logistics to adjust the prices to a market reasonable level.

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Other services fees

Other services offered by BAIC Group and its associates mainly include advertisement and marketing, back-office support and training. The services fees for these services charged by BAIC Group and/or its associates are determined by arm's length negotiations between the relevant parties. Our Group will make reference to the historical fees of such general services and will also refer to the comparable market prices, to ensure that the terms of services provided by BAIC Group are fair and reasonable to our Group. Comparable market prices are generally obtained through quotations provided by independent suppliers offering similar services. Please refer to our stringent market price inquiry system disclosed under "Internal Control Procedures for the Implementation of Continuing Connected Transactions" of this circular for details on the mechanism. In the event that the service prices charged by BAIC Group are higher than the prices quoted by independent third parties, we will request BAIC Group to adjust the prices of connect transactions to a reasonable level.

Reasons and Benefits of the Transactions:

In the ordinary and usual course of our business, our Group purchases products and services from BAIC Group and/or its associates. We have been using the products and services provided by BAIC Group and/or its associates for several years. BAIC Group has been providing us with a long-term stable supply. As a result, BAIC Group and its associates understand our business and operational requirements well. It is crucial to maintain a stable and quality supply of products and general services for our existing and future production and operation. With reference to our previous purchasing experience with BAIC Group and its associates, BAIC Group can efficiently fulfill our requirements with stable and quality supply of products and general services.

Automobile parts and components and raw materials

Our Group is capable of carrying on its business independently of BAIC Group as it can procure the parts and components and raw materials supplied by BAIC Group and its associates from independent third parties.

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The purchases of automobile parts, components and raw materials from BAIC Group and its associates would benefit our Group for the following reasons:

- (i) the purchases from BAIC Group and its associates will be at competitive prices not less favorable than those that our Group can obtain from independent third parties;
- (ii) BAIC Group and its associates are familiar with our Group's specifications, standards and requirements on automobile parts and components and raw materials; and
- (iii) it is crucial for our Group to maintain the stability in supply and quality of automobile parts and components and raw materials for our existing and future production needs. In view of our product purchasing experience with BAIC Group and its associates, our Directors are of the view that BAIC Group and its associates can effectively fulfill our requirements in supply stability as well as quality.

Automotive modules

We source certain automotive module systems, including systems for dashboards and chassis, from several subsidiaries of BAIC Group. Our Group is capable of manufacturing automotive modules independently. In order to utilize our own resources more efficiently and focus on our core business, we have outsourced the production of automotive modules to BAIC Group and/or its associates. Our Group will continue this arrangement for the following reasons:

- (i) the production lines of these automotive module systems are specifically designed for a number of our products, meeting the specific production requirements of such products of our Group;
- (ii) BAIC Group has been providing us with a long-term stable supply and it is familiar with our products and requirements;

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- (iii) meanwhile, due to the geographical proximity between the subsidiaries of BAIC Group, which produce automotive modules for our Group, the transportation costs of products are low. The close cooperation with BAIC Group also facilitates our quality control and management; and
- (iv) subsidiaries of BAIC Group produce high quality automotive modules for our Group and provide complete after-sales services for further improving the automotive module production lines based on our feedback.

Transportation services

Zhongdu Logistics provides logistics services for our whole vehicles, parts and components, including transportation and storage services.

The purchase of logistics services from BAIC Group and its associates would benefit our Group for the following reasons:

- (i) Zhongdu Logistics has been providing us with long-term stable supply and consistent quality services, being familiar with our special requirements on the transportation of complete vehicles and automobile parts and components;
- (ii) meanwhile, warehouse centers of Zhongdu Logistics are in geographical proximity to our production plant, which facilitates the transportation of complete vehicles and parts and components, thereby lowering our logistics costs and shortening transportation time; and
- (iii) the transportation service fees charged by Zhongdu Logistics are no less favorable than the fees charged to us by independent third parties.

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Back-office services

The purchases of ancillary administrative and back-office services from BAIC Group and/or its associates would benefit our Group for the following reasons:

- (i) BAIC Group and/or its associates have been providing us with long-term stable ancillary administrative and back-office services for certain office premises of our Group in Beijing, the PRC, including meeting facilities and services, catering services and information technology services;
- (ii) as the relevant services are of consistent quality, cost efficiency and localization convenience, it is in our best interests to continue to procure such services from BAIC Group and/or its associates; and
- (iii) the relevant back-office service fees charged by BAIC Group and/or its associates are no less favorable than the fees charged to us by independent third parties.

Historical Figures and the Proposed Annual Caps

Historical Figures:

	Historical figures for the		Historical figures for the	
	year ended		six months ended	nine months ended
	December 31,		June 30,	September 30,
	<i>(RMB/Million)</i>		<i>(RMB/Million)</i>	
	2014	2015	2016	2016
Purchase of products	5,995.8	14,988.4	10,042.5	16,509.8
Purchase of services	2,831.6	2,083.1	1,024.0	1,686.7

Proposed Annual Caps:

	Proposed annual cap for		
	the year ending December 31,		
	<i>(RMB/Million)</i>		
	2017	2018	2019
Purchase of products	41,532.7	61,954.4	72,821.3
Purchase of services	7,755.0	8,265.5	8,632.2

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Basis of annual caps:

The above proposed annual caps are made with reference to the following factors:

- (i) unit purchase cost for each vehicle model of our Group in 2016 and the expected market condition and general cost inflation for the relevant period;
- (ii) the estimated sales volume of passenger vehicles with steady growth by taking into account, among others, macroeconomic conditions as well as the development strategies and business expansion plan of our Group;
- (iii) the expected annual value of the connected transactions between Beijing Benz and BAIC Group and its associates;
- (iv) the expected increase of our total costs and expenses, which is ultimately driven by the business expansion plan of our Group. Our Group (including Beijing Benz) plans to launch and manufacture various new models in the next three years, which is expected to result in significant increases in our total costs and expenses for such years. In addition, the expected sales volume of existing models will continue to rise driven by the continued demand growth in their respective segments, which will also result in the increase of our total costs and expenses (cost of sales, selling and distribution expenses, and general and administrative expenses); and
- (v) the expected demand for higher quality premium new products will require the purchase of better and more sophisticated new raw materials, automotive modules, automotive parts and components from BAIC Group and/or its associates which will be comparatively more expensive than the costs of existing raw materials, automotive modules, automotive parts and components purchased from BAIC and/or its associates for existing products. As a result, it is expected that the total procurement costs for these raw materials, automotive modules, automotive parts and components for the production of new premium products will be increased.

The amounts of purchase of products and services are highly related to the expected production and sales volumes of the Group in the future. The sales volume of BAIC Motor increased by 8.9% from 2014 to 2015 and 36.7% from the first half of 2015 to the first half of 2016; the sales volume of Beijing Benz increased by 72.0% from 2014 to 2015 and 39.2% from the first half of 2015 to the first half of 2016. According to the Company's plan, it is expected that the sales volume of BAIC Motor and Beijing Benz will maintain steady growth in 2017.

In addition to production and sales volumes, the amounts of purchase of products and services are also related to product mix. The increase in proportion of sales volume of SUV products and high-end passenger vehicle products with relatively higher costs will drive the further increase in the amounts of purchase of products and services. We expect the growth of demand for passenger vehicles will slow down, and the major demand-growing sector will be SUV. Among BAIC Motor's vehicle models expected to be sold

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in 2017, the proportion of sales volume of high-value SUV vehicles and new energy vehicles will increase, and the same will go with the high-value SUV vehicles of Beijing Benz such as GLC. In addition, with the increasing demand arising from the consumption upgrade in the PRC market, the proportion of sales volume of Beijing Benz's new E-class models is expected to further increase. The Group expected that the proportion of sales volume of SUV products and premium passenger vehicles will be over 60% from 2017 to 2019. With the increase in proportion of sales volume of SUV and premium passenger vehicles, the amounts of purchase of products and services by the Group will further increase.

Meanwhile, Beijing Benz's localization rate of materials used for production of vehicles has been increasing gradually. Beijing Benz's localization rate increased steadily from 2014 to the first half of 2016, and is expected to further increase by 2019. With the increasing localization rate of materials used for production of vehicles of Beijing Benz, certain products and services used to be purchased from overseas suppliers will be purchased from local suppliers. Subject to normal commercial terms, certain newly-added domestic purchase amounts will be purchased from BAIC Group and its subsidiaries, which accordingly increase the 2017 annual cap for purchase of products.

We expect that the size of global vehicle market will continue to expand in the future with most significant increase to be seen in the PRC, India and the ASEAN. The PRC vehicle market will experience steady growth, and the composition of vehicle models will change. In particular, the sales volume of SUV will continue to grow rapidly. The market share of passenger vehicles will decrease, while the total number of passenger vehicles will increase. The upgrade and new demand for vehicles will contribute to the development of vehicle market. On the other hand, with the new energy vehicles entering the growing stage, China Association of Automobile Manufacturing expected that the market size will also grow in the future.

The future model upgrade, intelligence development and increasing customized demand of passenger vehicle in the PRC, together with the upgrade of family cars and increasing demand of premium passenger vehicles, are the important factors that contribute to the increase of costs associated in the manufacturing of such products.

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C. Provision of Products and Services Framework Agreement

Details of the Agreement

The below sets forth the details of the Provision of Products and Services Framework Agreement between BAIC Group and our Company:

Parties: BAIC Group (as the buyer); and
Our Company (as the provider)

Principal Terms: We renewed the existing provision of products and services framework agreement with BAIC Group on October 20, 2016 (the “**Provision of Products and Services Framework Agreement**”), pursuant to which BAIC Group and/or its associates will purchase the following types of products (including facilities, raw materials, components and part and complete vehicles etc.) and services (including sales agency, processing agency, labour, logistic, transportation and consultancy etc.) from our Company and/or our subsidiaries (“**Provision of Products and General Services**”). We expect that our Group will mainly sell complete vehicles and provide relevant automotive parts and components to BAIC Group.

The term of the Provision of Products and Services Framework Agreement will commence on January 1, 2017 and end on December 31, 2019, and is subject to renewal through mutual consents by the parties.

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Pricing Policy:

General policy. To ensure that the terms of the transactions contemplated under the Provision of Products and Services Framework Agreement are on terms no less favorable than those entered into between our Group and independent third parties, the Provision of Products and Services Framework Agreement specifically provides that terms of transactions contemplated thereunder are to be on terms no less favorable than those entered into between our Company and independent third parties.

The service fees charged to BAIC Group by us are to be determined on the basis of arm's length negotiations between the relevant parties. We will make reference to the applicable historical prices of products and services and will base such on the principle of cost plus a reasonable margin, to ensure that the terms of supplying products and services to BAIC Group are fair and reasonable.

Complete vehicles: Our Group formulates various selling prices based on factors such as depreciation of raw materials and equipment for producing different vehicle models, technology amortization, employee compensation as well as water and electricity costs, and also formulates various promotions level based on the popularization of various vehicle models, and updates the promotion levels in accordance with the latest market situation in a timely manner. The complete vehicle price is determined by the selling price and promotion level together. For both connected person customers and independent third-party customers, our Group apply the above pricing policies when selling completing vehicles. In such case, both connected person customers and independent third-party customers enjoy the same price when purchasing completing vehicles; connected person customers will not be offered any price that is more favorable than the price of other customers.

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Automobile parts and components and raw materials: Our Group formulates selling prices on a profit margin within the pre-agreed arm's length range over the unit cost of automobile parts and components and raw materials. The unit cost mainly refers to the factors including depreciation of consumed materials and equipment for production and staff wages. For both connected person customers and independent third-party customers, same pricing rule shall apply. In such case, both connected person customers and independent third-party customers enjoy the same price when purchasing automobile parts and components and raw materials; connected person customers will not be offered any price that is more favorable than the price of other customers.

Services: The services provided by us to BAIC Group and its associates are mainly customized services or individualized services which mainly include complete vehicles technology consulting service and research and development service which are sensitive in nature. Market prices of such are not readily available. In determining the prices of these services, we adopt a cost-plus profit method. Costs taken into account include depreciation, salary, costs of raw materials and management fees. On this basis, we obtain a profit in the range of approximately 10 to 15%. To ensure that the prices charged by us are fair and reasonable, we will also make reference to the profit margin of transactions where we offered similar services to independent third parties.

**Reasons and Benefits
of the Transactions:**

In the ordinary and usual course of our business, our Group provides various products and general services to BAIC Group and/or its associates. Our Directors consider that the Provision of Products and General Services to BAIC Group would benefit our Group for the following reasons:

- (i) BAIC Group and/or its associates can benefit from our professional sales team which has a solid understanding of China's automobile market and diversified sales channels thereby reducing their sales cost;

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- (ii) subsidiaries of BAIC Group operating dealership outlets purchase vehicles manufactured and assembled by Beijing Benz and vehicles under our proprietary brand for resale in its dealership outlets. Our Company and those subsidiaries of BAIC Group have established a long-term relationship and understand the business plan, quality control and other special requirements of each other;
- (iii) BAIC Group and/or its associates purchase automobile components, such as automobile engines, from our subsidiary, BAIC Motor Powertrain Co., Ltd. (北京汽車動力總成有限公司), for their daily production; and
- (iv) prices and terms for the products and general services provided by us to BAIC Group are not less favorable than those offered to independent third parties.

Historical Figures and the Proposed Annual Caps

Historical Figures:

	Historical figures for the		Historical figures for the	
	year ended		six months ended	nine months ended
	December 31,		June 30,	September 30,
	<i>(RMB/Million)</i>		<i>(RMB/Million)</i>	
	2014	2015	2016	2016
Provision of products	1,902.6	6,410.6	5,215.5	9,855.8

Proposed Annual Caps:

	Proposed annual cap for		
	the year ending December 31,		
	<i>(RMB/Million)</i>		
	2017	2018	2019
Provision of products	32,473.3	43,017.6	46,445.6

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Basis of annual caps:

The above proposed annual caps are estimated on the basis of:

- (i) the steady growth on future sales of complete vehicles to be manufactured and assembled by Beijing Benz and Beijing Motor by taking into account, among others, macroeconomic conditions as well as the development strategies and business expansion plan of our Group;
- (ii) the percentage of our sales to the dealership outlets operated by the associates of BAIC Group in the future, which is determined with reference to the historical percentage of our sales of complete vehicles manufactured and assembled by Beijing Benz and Beijing Motor to the dealership outlets operated by the associates of BAIC Group;
- (iii) the expected annual value of the connected transactions between Beijing Benz and BAIC Group and its associates; and
- (iv) expected increase of our revenues, which is ultimately driven by our business expansion plan.

The annual caps for the provision of products by the Company to the BAIC Group and its associates are mainly affected by sales volume and unit price.

The sales volume of BAIC Motor increased by 8.9% from 2014 to 2015 and 36.7% from the first half of 2015 to the first half of 2016; the sales volume of Beijing Benz increased by 72.0% from 2014 to 2015 and 39.2% from the first half of 2015 to the first half of 2016. According to the Company's plan, it is expected that the sales volume of BAIC Motor and Beijing Benz will maintain steady growth in 2017.

In addition to production and sales volumes, the amounts of provision of products and services are also related to product mix. The increase in proportion of sales volume of SUV products and high-end passenger vehicle products with relatively higher unit selling prices will drive the further increase in the amounts of provision of products and services.

Among BAIC Motor's vehicle models expected to be sold in 2017, the proportion of sales volume of high-value SUV vehicles and new energy vehicles will increase, and the same will go with the high-value SUV vehicles of Beijing Benz such as GLC. In addition, with the increasing demand arising from the consumption upgrade in the PRC market, the proportion of sales volume of Beijing Benz's new E-class models is expected to further increase.

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On the other hand, with the growth of the PRC vehicle market, it is expected that BAIC Group and its associates will establish more dealership outlets which will be included in the sales network of BAIC Motor and Beijing Benz. The Group will provide products to the newly established dealership outlets of the connect persons according to the standard sales and pricing policy, which will also increase the amount of provision of products to BAIC Group and its associates.

Exempted Transactions under the Provision of Products and Services Framework Agreement

As all applicable ratios for the annual caps in respect of the provision of services transactions provided by our Group to BAIC Group exceed 0.1% but are below 5%, according to the relevant requirements under the Listing Rules, the provision of services transactions are exempt from the Independent Shareholders' requirement. For detailed information, please refer to the announcement dated October 20, 2016 of our Company.

INTERNAL CONTROL PROCEDURES FOR THE IMPLEMENTATION OF CONTINUING CONNECTED TRANSACTIONS

Our Company has adopted the following internal control procedures to ensure that the Renewed CCTs are fair and reasonable and on normal commercial terms:

- our Company has adopted and implemented a management system on connected transactions. Under this system, our finance center is responsible for conducting reviews; on compliance with relevant laws, regulations, company policies and Listing Rules in respect of the Renewed CCTs. In addition, the finance center, procurement center, legal affairs department and other relevant operation departments of our Company are jointly responsible for evaluating the transaction terms under the agreements for Renewed CCTs, in particular, the fairness of the pricing terms under each agreement; and
- our independent non-executive Directors have also reviewed and will continue to review the agreements for Renewed CCTs to ensure such agreements, where available, are entered into on normal commercial terms, are fair and reasonable, and are carried out pursuant to the terms of such agreements. The auditor of our Company will also conduct an annual review on the pricing and annual caps of such agreements.

When determining the actual prices of products and services to be supplied to our Company, the corresponding vendor will provide our Company with a proposed price. As mentioned above, in order to ensure that the pricing terms under the agreements for Renewed CCTs are fair and reasonable, our Company's finance center and other relevant operation departments will review the proposed price provided by the vendor in the following manner:

- if a comparable market price is available, the proposed price will be compared with the market price to ensure that such proposed price is not higher than the selling price of the part or product with similar specifications, technology and quality requirements provided by any other manufacturers in the market;

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- our Company has established a stringent market price inquiry system.
 - i For selection of potential suppliers, our Group has developed standards for selection of suppliers based on different purchase needs. Such standards include, but not limit to, the scale of business, industry recognition, experience of supplying same types of products and services, technological level, financial conditions etc. Same standards are applicable to both connected person and independent third-party suppliers. We do not give preferential treatment to connected persons for the selection of potential suppliers. The selection of suppliers shall be determined by the collective decision of a tender assessment board with members from the components and parts development department, suppliers management department, research and development department, compliance and supervision department, finance center and audit department as well as procurement engineers, product engineers and suppliers' quality management engineers. Tenders will be sought from various suppliers and assessed internally over several rounds before a decision is made on the basis of pricing, quality, technology, product risks and after-sales services;
 - ii For price inquiry procedures, we require at least three potential suppliers participating in the same purchase and there shall be at least two independent third-party suppliers. Price inquiry procedures that fails to meet the above requirements will be void. Price inquiry procedures are conducted in strict accordance with the above model and the entire process is under the supervision of financial department, audit department and discipline inspection department. Any violations of those measures will be recorded. The result of price inquiry will undergo a final review by our management. The winner of the price inquiry procedure will enter into a written agreement with us. If there is any evidence of frauds or irregularities of the supplier during the procedure, we will terminate cooperation and pursue legal responsibility, regardless of whether such supplier is our connected person. All of the written documents involved in the price inquiry procedure shall be kept for at least ten years. In case the parties involving in the price inquiry procedure have any reasonable doubt about the result of price inquiry, they may check relevant documents upon our approval.
- if no comparable market price is available, the fairness and reasonableness of the proposed price will be determined with reference to the total cost of the part or product, which is estimated with reference to (i) the market price of the raw materials or semi-finished products forming the part or product; and (ii) the cost estimated to be required for manufacturing such part or product with reference to requirements in relation to its nature, functionality, technology and quality standards etc., plus a profit margin of not more than the maximum profit margin level as stipulated under the relevant agreement, depending on the complexity of technologies and quality control procedures involved; and
- the proposed price will be reviewed to ensure that it is in line with the pricing terms of the relevant agreement and that the terms provided to our Company are no less favorable than those offered by the supplier to independent third parties.

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LISTING RULES IMPLICATIONS

BAIC Group is the sole controlling shareholder of our Company. BAIC Group owns approximately 44.98% of the total issued share capital of our Company. According to the Listing Rules, BAIC Group is a connected person of the Company. The transactions between our Company and BAIC Group constitute continuing connected transactions of our Company under the Listing Rules.

As BAIC Group holds 56.00% of the equity interest of BAG Finance, BAG Finance is an associate of BAIC Group, and BAIC Group is the sole controlling shareholder of our Company. According to the Listing Rules, BAG Finance is a connected person of our Company. The transactions between our Company and BAG Finance constitute continuing connected transactions of our Company under the Listing Rules.

As the highest applicable ratios for each of the following transactions as contemplated in their respective agreements exceed 5% as defined by the Listing Rules, such connected transactions contemplated under the respective agreements and the relevant annual caps shall be subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules:

- A. deposit transactions between our Group and BAG Finance under Financial Services Framework Agreement;
- B. products purchasing transactions and services purchasing transactions between our Group and BAIC Group and its associates under the Products and Services Purchasing Framework Agreement; and
- C. provision of products transactions between our Group and BAIC Group and its associates under the Provision of Products and Services Framework Agreement.

Our Company has formed an Independent Board Committee comprising of the independent non-executive Directors to provide advice to the Independent Shareholders regarding the fairness and reasonableness of the terms of the Non-exempt Transactions. ZTIC has been appointed as the independent financial advisor of our Company to provide advice on such matters to the Independent Board Committee and the Independent Shareholders.

The Board has considered and approved the resolutions in relation to the Non-exempt Transactions. As Xu Heyi, Zhang Xiyong, Li Zhili, Li Feng and Ma Chuanqi, the Directors of our Company, are also the directors of BAIC Group, they are deemed to have material interests in the transactions between our Group and BAIC Group. They have abstained from voting on the resolutions in respect of all the Non-exempt Transactions.

Pursuant to Rule 2.15 of the Listing Rules, BAIC Group and its associates are considered to have a material interest in the Non-exempt Transactions, as such, they are required to abstain from voting on the resolutions relating to the Non-exempt Transaction and Non-exempt Annual Caps.

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CONFIRMATION OF THE BOARD

The Non-exempt Transactions are and will be conducted in the ordinary and usual course of business of our Company. The Non-exempt Transactions are agreed on an arm's length basis with terms that are fair and reasonable to our Company. Due to the long-term relationship between our Group and BAIC Group and between our Group and BAG Finance, our Directors (including our independent non-executive Directors) consider that: (a) it is beneficial to our Company to continue to enter into such transactions as these transactions have facilitated and will continue to facilitate the operation and growth of our Company's business; (b) such transactions have been conducted on normal commercial terms or on terms no less favourable than those available to our Company from independent third parties, under prevailing local market conditions, and are entered into in the ordinary and usual course of business of our Company, are fair and reasonable and in the interests of our Company and the Shareholders as a whole, and that the proposed annual caps are fair and reasonable and are in the interests of our Company and the Shareholders as a whole.

GENERAL INFORMATION

The Company

The Company is a leading manufacturer of passenger vehicles in China. It is engaged in the design, research and development, manufacture and sale of an extensive and diversified portfolio of passenger vehicle models, and the provision of related services on China. It offers a variety of passenger vehicle models, including mid- to large-size sedan, mid-size sedan, compact sedan, small-size sedan, SUV, MPV and CUV products to satisfy customer demands for different types of vehicles.

BAIC Group

BAIC Group is a state-owned enterprise established on 30 June 1994 with a registered capital of approximately RMB17.13 billion. Its principal businesses include manufacturing, sale, import and export of vehicles and spare parts, operation and management of state-owned assets, investment and investment management, technology development, service and consultancy, and real property development and sales.

BAG Finance

BAG Finance is a non-taking financial institution incorporated in November 2011 in the PRC with a registered capital RMB1,500 million. BAG Finance is 56.00% owned by BAIC Group, 20.00% owned by BAIC Investment Co., Ltd., 14.00% owned by Beijing Foton Motor Co., Ltd., and 10.00% owned by Beijing Hainachuan Automotive Arts Co., Ltd.. It is subject to the Administrative measures on Financial Companies of Group Enterprises (《企業集團財務公司管理辦法》) and other relevant regulations promulgated by the PBOC and CBRC. Its establishment was approved by the CBRC and its operation is subject to the ongoing supervision of the CBRC and the applicable regulations related to interest rates issued by the PBOC and CBRC.

LETTER FROM THE BOARD

III. APPOINTMENT OF NON-EXECUTIVE DIRECTORS OF THE COMPANY

Reference is made to the announcement dated July 25, 2016 in respect of the proposed change of directors. As Mr. Li Zhili and Mr. Ma Chuanqi, both being non-executive directors of the Company, have reached the retirement age, and as proposed by BAIC Group, the controlling shareholder, the Board proposed to appoint Mr. Zhang Jianyong and Ms. Shang Yuanxian as Directors for a term commencing from the date of approval by the Shareholders at the general meeting until expiration of the term of this session of the Board. With effect from the date of appointment of the Newly Appointed Directors, Mr. Li Zhili and Mr. Ma Chuanqi will cease to serve as Directors of the Company. Mr. Zhang Jianyong and Ms. Shang Yuanxian will be non-executive Directors of the Company, as they do not hold any position (other than director) in the Company, and are expected to participate in formulating the business plans and strategies of the Company through the Board of directors upon their appointment.

Each of Mr. Li Zhili and Mr. Ma Chuanqi confirms that he has no disagreement in any respect with the Board and there is no matter relating to his resignation that should be brought to the attention of the Shareholders or the Stock Exchange.

The biographical details of Mr. Zhang Jianyong and Ms. Shang Yuanxian (collectively, the “**Newly Appointed Directors**”) which are discloseable pursuant to Rule 13.51(2) of the Listing Rules are as follows:

Mr. Zhang Jianyong, aged 39, holds a doctoral degree in management science and engineering and is a senior accountant. At present, he is the deputy general manager of BAIC Group, a director of Foton, an executive director and secretary of the Communist Party of China (CPC) committee of BAIC Group Industrial Investment Co., Ltd. (北京汽車集團產業投資有限公司), a director of Shandong Binzhou Bohai Piston Co., Ltd. and the chairman and secretary of the Communist Party of China (CPC) committee of BAIC Group Finance Co., Ltd..

Mr. Zhang Jianyong has about 15 years of experience in finance and management. He served in various positions, including as the chief accountant of the finance and asset department of the State Electric Power Research Institute from July 2001 to December 2003, served as the assistant manager of asset and finance department, deputy manager of finance department and manager of finance department of Beijing Automotive Industry Holding Co., Ltd. from December 2003 to December 2010, served as the head of finance department and deputy chief financial officer and concurrently the head of finance department of BAIC Group from December 2010 to May 2015, and deputy general manager of BAIC International Development Co. Ltd. from April 2013 to June 2014.

Ms. Shang Yuanxian, aged 50, holds a bachelor degree in Commercial Enterprise Management and is a senior accountant and a certified public accountant. At present, she is the secretary of the board of directors of BAIC Group and the director of the office under the board of directors, the director of Foton and Jiangxi Changhe Motor Co., Ltd. as well as the director of Shandong Binzhou Bohai Piston Co., Ltd.. Ms. Shang Yuanxian has about 30 years of experience in financial, auditing, capital operation and management and she has consecutively

LETTER FROM THE BOARD

held many posts. Specifically, from August 1988 to December 1999, she was the member of the Auditing Bureau of Shizuishan City of Ningxia as well as the director and deputy head of the Auditing Department of the bureau; from December 1999 to December 2001, she served as the manager of the Auditing Department of SHINEWING CPA Limited; from December 2001 to May 2005, she consecutively served as the deputy manager and manager of the Auditing Department and the manager of the Financial Department of China Huan Dao (Group) Ltd. (中國寰島(集團)公司); from May 2005 to December 2010, she worked as the deputy manager and the head of the Department of the Management of State-owned Assets in Beijing Automotive Industry Holding Co., Ltd.; from December 2010 to December 2015, she was the head of the Department of Management of State-owned Assets, the supervisor of capital operation and the head of the Department of Capital Operation of BAIC Group.

If the resolutions regarding the appointment of the Newly Appointed Directors are passed at the EGM, then the Company will enter into a service contract with each of the Newly Appointed Directors as soon as possible after their term of office becomes effective. Currently, Mr. Zhang Jianyong and Ms. Shang Yuanxian will not receive any remuneration from the Company as they do not hold any position (other than director) in the Company.

Save as disclosed above, each of the Newly Appointed Directors confirmed that (i) he/she is not connected with the Directors, Supervisors, senior management, substantial shareholders or Controlling Shareholder; (ii) he/she does not hold any equity interest in the Company as defined in Part XV of the SFO; (iii) he/she is not in possession of any information that is required to be disclosed pursuant to Rule 13.51(2)(h) to Rule 13.51(2)(v) of the Listing Rules, nor is he/she being involved or has been involved in any activity that shall be disclosed pursuant to Rule 13.51(2)(h) to Rule 13.51(2)(v) of the Listing Rules. Save as disclosed in the biographical details, each of the Newly Appointed Directors confirmed that he/she does not hold any directorship in other listed companies in the last three years, nor is he/she holding any positions in any members of the Group.

IV. APPOINTMENT OF SUPERVISOR OF THE COMPANY

Due to work arrangement, as proposed by BAIC Group, the controlling shareholder, the Board of Supervisors proposed to appoint Mr. Wang Min as Supervisor and with effect from the date of appointment of Mr. Wang Min, Mr. Yin Weijie will cease to serve as Supervisor of the Company. The term of office of commencing Mr. Wang Min will commence from the date of approval by the Shareholders at the EGM until expiration of the term of this session of the Board of Supervisors.

Mr. Yin Weijie confirms that he has no disagreement in any respect with the Board and the Board of Supervisors and there is no matter relating to his resignation that should be brought to the attention of the Shareholders or the Stock Exchange.

LETTER FROM THE BOARD

The biographical details of Mr. Wang Min are as follows:

Mr. Wong Min, aged 50, holds a master degree in industrial engineering from the University of Science and Technology Beijing and is a senior accountant. At present, he is the designated full-time supervisor of BAIC Group. Mr. Wang Min has about 30 years of experience in financial management and business management. He served in various positions, including consecutively served as the price officer of profit division, cost officer of cost division, responsible officer and department head of capital division and deputy department head of profits tax division of finance department of Shougang's Beigang Company(北鋼公司) from August 1989 to November 1995, served as the profit tax administrator (deputy chief level), office head assistant (chief level) and deputy office head of price and tax office of audit and finance department of Shougang's headquarter from November 1995 to October 1999, served as the chief accountant of Beijing Shougang Company Limited from October 1999 to December 2010, consecutively served as the vice president and committee member of the party committee of the Company from December 2010 to December 2013, served as the party secretary of the party committee and general manager of Beijing Rocar Automotive Trading Co., Ltd. (北京鵬龍行汽車貿易有限公司) ("**Rocar**") from December 2013 to December 2014, simultaneously served as the party secretary of the party committee and general manager of Rocar and BAIC Rocar Automobile Services & Trade Co.Ltd. ("**BAIC Rocar**") from December 2014 to December 2015 and simultaneously served as the joint party secretary of the party committee of BAIC Rocar Services & Trade (北汽鵬龍服務貿易) and general manager of BAIC Rocar and Rocar from December 2015 to April 2016.

Save as disclosed above, Mr. Wang Min confirmed that (i) he is not connected with the Directors, Supervisors, senior management, substantial shareholders or Controlling Shareholder; (ii) he does not hold any equity interest in the Company as defined in Part XV of the SFO; (iii) he is not in possession of any information that is required to be disclosed pursuant to Rule 13.51(2)(h) to Rule 13.51(2)(v) of the Listing Rules, nor is he being involved or has been involved in any activity that shall be disclosed pursuant to Rule 13.51(2)(h) to Rule 13.51(2)(v) of the Listing Rules. Save as disclosed in the biographical details, Mr. Wang Min confirmed that he does not hold any directorship in other listed companies in the last three years, nor is he holding any positions in any members of the Group.

If the appointment of Mr. Wang Min is passed at the EGM, then the Company will enter into a service contract with Mr. Wang Min as soon as possible after his term of office becomes effective. Mr. Wang Min will not receive any remuneration from the Company for serving as Supervisor.

V. POLL PROCEDURE

Pursuant to Rules 13.39(4) of the Listing Rules, any vote of Shareholders at a general meeting must be taken by poll. Therefore, all the resolutions set out in the notice of the EGM shall be voted by poll. Votes may be given either personally or by proxy.

LETTER FROM THE BOARD

VI. RECOMMENDATION

The Board considers that the above-mentioned resolutions are in the interests of our Company and the Shareholders as a whole, and thereby recommends the Shareholders to vote in favor of the resolutions at the EGM.

VII. THE EGM

The notice convening the EGM to be held at 9:30 a.m. on Wednesday, December 28, 2016 at Multi-purpose Hall, 1st Floor, the South Tower of Beijing Automotive Industry R&D Base, No. 99 Shuanghe Road, Shunyi District, Beijing, the PRC is set out on pages 70 to 71 of this circular. The form of proxy for use at the EGM is also enclosed. Such form of proxy is also published on the websites of the Stock Exchange and our Company.

If you wish to attend the EGM (in person or by proxy), please complete and return the enclosed reply slip to the Hong Kong H share registrar of our Company, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for holders of H Shares), or the Board of Director's office of our Company at 9th Floor, Peng Long Building, No. 10 Hua Wei Li, Chaoyang District, Beijing, the PRC (for holders of Domestic Shares) on or before Thursday, December 8, 2016. Our Company will convene a general meeting if members intending to attend the meeting hold shares with voting rights exceeding half of the total number of shares with voting rights in the Company. If not, our Company will convene the meeting by informing the shareholders once again of the matters to be examined at the meeting as well as the date and place of the meeting in the form of a public announcement or other forms prescribed by the Articles of Association within five days.

Whether or not you propose to attend the EGM, holders of H Shares of our Company are requested to complete and return the enclosed form of proxy in accordance with the instruction printed thereon and return it to the Hong Kong H share registrar of our Company, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, and for holders of Domestic Shares, the form of proxy shall be returned to the Board of Directors' office of the Company at 9th Floor, Peng Long Building, No. 10 Hua Wei Li, Chaoyang District, Beijing, the PRC as soon as possible but in any event not less than 24 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude the Shareholders from attending and voting in person at the EGM or any adjournment thereof if they so wish.

LETTER FROM THE BOARD

VIII. CLOSURE OF REGISTER OF MEMBERS

In order to ascertain the entitlements of the Shareholders to attend the EGM, the register of members of the Company will be closed from Monday, November 28, 2016 to Wednesday, December 28, 2016 (both days inclusive), during which period no transfer of Shares of the Company will be effected. To be eligible to attend and vote at the EGM, all transfer documents must be lodged with the H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for holders of H Shares no later than 4:30 p.m. on Friday, November 25, 2016 or China Securities Depository and Clearing Corporation Limited at No. 17 Tai Ping Qiao Street, Xicheng District, Beijing, the PRC for holders of Domestic Shares no later than 4:00 p.m. on Friday, November 25, 2016.

By order of the Board
BAIC Motor Corporation Limited
Xu Heyi
Chairman



北京汽车
BAIC MOTOR

北京汽車股份有限公司

BAIC MOTOR CORPORATION LIMITED*

(A joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 1958)

November 12, 2016

To the Independent Shareholders

Dear Sir or Madam,

**RENEWAL OF CONTINUING CONNECTED TRANSACTIONS
WITH BAIC GROUP**

We refer to the circular issued by our Company to Shareholders dated November 12, 2016 of which this letter forms part. Terms defined in the circular shall have the same meanings when used in this letter unless the context otherwise requires.

We have been appointed by the Board to advise the Independent Shareholders as to whether the Non-exempt Transactions and Non-exempt Annual Caps are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, and is in the interests of the Company and the Shareholders as a whole.

Zhongtai International Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders as to whether Non-exempt Transactions and Non-exempt Annual Caps are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. The text of the letter of advice from Zhongtai International Capital Limited containing their recommendations and the principal factors they have taken into account in arriving at their recommendations is set out from pages 41 to 64 of this circular.

Independent Shareholders are recommended to read the letter of advice from the Independent Financial Adviser, the letter from the Board contained in this circular as well as the additional information set out in the Appendix I to this circular.

* *For identification purpose only*

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having considered the Non-exempt Transactions and Non-exempt Annual Caps, and the advice of Zhongtai International Capital Limited, we are of the opinion that the Non-exempt Transactions and Non-exempt Annual Caps are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, and are in the interests of the Company and the Shareholders as a whole. We therefore recommend the Independent Shareholders to vote in favor of the relevant resolutions to be proposed at the EGM to approve the Non-exempt Transactions and Non-exempt Annual Caps.

Yours faithfully,
For and on behalf of
Independent Board Committee

Mr. Fu Yuwu
Independent
non-executive Director

Mr. Wang Lung Tak Patrick
Independent
non-executive Director

Mr. Bao Robert Xiaochen
Independent
non-executive Director

Mr. Zhao Fuquan
Independent
non-executive Director

Mr. Liu Kaixiang
Independent
non-executive Director

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of a letter from ZTIC setting out the advice to the Independent Board Committee and the Independent Shareholders in respect of the Renewed Annual Caps, which has been prepared for the purpose of inclusion in the circular of the Company dated 12 November 2016 (the “Circular”).



*To the Independent Board Committee and
the Independent Shareholders of*

BAIC Motor Corporation Limited
5th Floor,
No. 99 Shuanghe Street,
Shunyi District,
Beijing, China

12 November 2016

Dear Sir or Madam,

RENEWAL OF ANNUAL CAPS FOR CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the continuing connected transactions including (i) the deposit transactions under the Financial Services Framework Agreement; (ii) the transactions under the Products and Services Purchasing Framework Agreement; and (iii) the provision of products transactions under the Provision of Products and Services Framework Agreement (collectively, the “**Continuing Connected Transactions**”) and the respective renewal of annual caps for each of the three years ending 31 December 2017, 2018 and 2019 (the “**Renewed Annual Caps**”), details of which are set out in the “Letter from the Board” contained in the circular of the Company dated 12 November 2016 (the “**Circular**”) and the announcement of the Company dated 20 October 2016, of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

Beijing Automotive Group Co., Ltd. (“BAIC Group”) owns approximately 44.98% of the total issued share capital of the Company and is the sole controlling shareholder of the Company. BAIC Group Finance Co., Ltd. (“BAG Finance”) is an associate of BAIC Group and BAIC Group is the sole controlling shareholder of the Company. Therefore, BAIC Group and BAG Finance are connected persons of the Company according to Chapter 14A of the Listing

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Rules. The transactions between the Company and BAIC Group and BAG Finance constitute connected transactions of the Company. As the highest applicable ratios of the transactions contemplated under the Financial Services Framework Agreement, the Products and Services Purchasing Framework Agreement and the Provision of Products and Services Framework Agreement exceed 5% as defined by the Listing Rules, the Continuing Connected Transactions shall be subject to the reporting, annual review, announcement and independent shareholders' under Chapter 14A of the Listing Rules. Pursuant to Rule 14A.36 of the Listing Rules, BAIC Group and its associates, which have material interests in the Continuing Connected Transactions, will be required to abstain from voting at the EGM.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprised of all the independent non-executive Directors of the Company, has been established to advise the Independent Shareholders in relation to the Continuing Connected Transactions. As the independent financial adviser to the Independent Board Committee and the Independent Shareholders, our scope of work under this engagement is to give an independent opinion to the Independent Board Committee and the Independent Shareholders as to (i) whether or not the Continuing Connected Transactions and the Renewed Annual Caps are on normal commercial terms, entered into in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole; and (ii) whether or not the Continuing Connected Transactions and the Renewed Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned. It is not within our scope of work to opine on any other aspects of the Continuing Connected Transactions. In addition, it is not within our terms of reference to comment on the commercial merits of the Continuing Connected Transactions which is the responsibility of the Directors.

As at the Latest Practicable Date, ZTIC did not have any relationships or interests with the Company or any other parties that could reasonably be regarded as relevant to the independence of ZTIC. In the last two years, ZTIC has acted as the independent financial adviser to the independent board committee and independent shareholders of the Company in relation to the continuing connected transactions of the Company (details of which were set out in the circular of the Company dated 15 May 2015). Apart from normal professional fees paid to us in connection with such appointment described above, no arrangements exist whereby we had received any fees or benefits from the Company or any other parties. Therefore we consider such relationship would not affect our independence.

BASIS OF OUR ADVICE

In formulating our opinion, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and/or provided to us by the Company, the Directors and the management of the Company. We have assumed that all statements, information, opinions and representations contained or referred to in the Circular and/or provided to us were true, accurate and complete at the time they were made and continued to be so as at the date of the Circular.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have no reason to believe that any statements, information, opinions or representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the statements, information, opinions or representations provided to us untrue, inaccurate or misleading. We have assumed that all the statements, information, opinions and representations for matters relating to the Group contained or referred to in the Circular and/or provided to us by the Company, the Directors and the management of the Company have been reasonably made after due and careful enquiry. We have relied on such statements, information, opinions and representations and have not conducted any independent investigation into the business, financial conditions and affairs or the future prospects of the Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion to the Independent Board Committee and the Independent Shareholders in respect of the Continuing Connected Transactions, we have taken the following principal factors and reasons into consideration.

1. Background information of the Company, BAIC Group and BAG Finance

The Company is a leading manufacturer of passenger vehicles in China. It is engaged in the design, research and development, manufacture and sale of an extensive and diversified portfolio of passenger vehicle models, and the provision of related services in China. It offers a variety of passenger vehicle models, including mid-to large-size sedan, mid-size sedan, compact sedan, small-size sedan, sports utility vehicle (“SUV”), multi-purpose passenger vehicle (“MPV”) and cross-over utility vehicle (“CUV”) products to satisfy customer demands for different types of vehicles.

BAIC Group is a state-owned enterprise established on 30 June 1994 with a registered capital of approximately RMB17.13 billion. Its principal businesses include manufacturing, sale, import and export of vehicles and spare parts, operation and management of state-owned assets, investment and investment management, technology development, service and consultancy, and real property development and sales.

BAG Finance is a non-banking financial institution incorporated in November 2011 in the PRC with a registered capital of RMB1,500 million. BAG Finance is 56% owned by BAIC Group, 20% owned by BAIC Investment Co., Ltd., 14% owned by Beijing Foton Motor Co., Ltd. and 10% owned by Beijing Hainachuan Automotive Arts Co., Ltd. It is subject to the Administrative measures on Financial Companies of Group Enterprises (《企業集團財務公司管理辦法》) and other relevant regulations promulgated by the People’s Bank of China (“PBOC”) and China Banking Regulatory Commission (“CBRC”). Its establishment was approved by the CBRC and its operation is subject to the ongoing supervision of the CBRC and the applicable regulations related to interest rates issued by the PBOC and CBRC.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2. Rationale for determining the Renewed Annual Caps

2.1 *The Financial Services Framework Agreement*

(A) Reasons for entering into the Financial Services Framework Agreement

We understand from the management of the Company that in order to match financial services requirement for the rapid expansion of the business of the Company, the Company entered into the Financial Services Framework Agreement. Since (i) BAG Finance only provides financial services to members of the BAIC Group, BAG Finance is familiar with the capital structure, industry condition, business operations, funding needs and cash flow patterns of the Company; (ii) the interest rates on the deposit services will be no less favorable than those offered to our Group by any Independent Third Party, and (iii) BAG Finance has better understanding of the business needs of the Company and are more well-positioned in providing us with customized services. As such, BAG Finance acts as a platform for the Company to manage and facilitate a more efficient deployment of the extra idle funds of the Group. The arrangements under the Financial Services Framework Agreement would allow our Group to centralize the deposited funds of the Company to a certain degree which would expedite the monitoring of the use and application of funds within the Group and provide the Group with higher bargaining power (than when the deposited sum was split between financial institutions) with regard to the terms and interest rates of the deposit services.

Having considered (i) the business nature of the Group and BAG Finance; and (ii) the reasons mentioned above, we are of the view that the entering into of the Financial Services Framework Agreement are in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole.

(B) Terms of the Financial Services Framework Agreement

As set out in the Letter from the Board, the pricing policy of interest rates for the deposits placed by the Group with BAG Finance will not be lower than: (i) the interest rate published by the PBOC for deposits of a similar type for the same period; (ii) the interest rate for deposits of a similar type for the same period placed by the subsidiaries of BAIC Group other than the Group; or (iii) the interest rate for deposits of a similar type for the same period offered by independent commercial banks to the Company and its subsidiaries.

We have checked to samples of the terms of deposit entered into by the Company with BAG Finance. The samples are fixed term deposit from 2 days to 3 months placed by the Group with BAG Finance with interest rate varying from 0.385% to 2.86%. We have checked to the website of the People's Bank of China (www.pbc.gov.cn) for the announcements published on 24 October 2015 in respect of the benchmark deposit rates allowed by the PBOC in different historical years. We noted that the interest rate of the samples are not less favorable than the interest rate published by the PBOC for deposits

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

of similar type for the same period in the corresponding historical years. Based on the above, we are of the view that the pricing policy of the interest rate regarding the deposits services under the Financial Services Framework Agreement is on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

(C) The Renewed Annual Caps of the Financial Services Framework Agreement

As set out in the Letter from the Board, the Renewed Annual Caps and actual amount of deposit service of the Financial Services Framework Agreement for each of the three years ending 31 December 2019 are as follows:

	For the years ended 31 December,			For the year ending 31 December,		
	2014	2015	2016	2017	2018	2019
	Historical figures (RMB million)	Historical figures (RMB million)	Historical figures (RMB million)	Renewed Annual Cap (RMB million)	Renewed Annual Cap (RMB million)	Renewed Annual Cap (RMB million)
<u>Highest daily deposit balance</u>						
<u>of deposits placed by the</u>						
<u>Group with BAG Finance</u>						
– Annual cap	14,733.1	9,800.0	11,000.0	12,500.0	12,500.0	12,500.0
– Actual amount	9,193.0	4,031.0	9,260.6 ⁽¹⁾	N/A	N/A	N/A
<u>Interest income from deposits</u>						
<u>placed by the Group with</u>						
<u>BAG Finance</u>						
– Annual cap	N/A	110	170	193.2	193.2	193.2
– Actual amount	88.4	76.3	71.2 ⁽²⁾	N/A	N/A	N/A

Note 1: Actual amount of highest daily deposit balance of deposits placed by the Group with BAG Finance for the period ended 30 September 2016

Note 2: Actual amount of interest income from deposits placed by the Group with BAG Finance for the period ended 30 September 2016

We note that the Renewed Annual Cap for highest daily deposit balance of deposits placed by the Group with BAG Finance of 2019 represents a compound annual growth rate of approximately 4.35% compared to the annual cap of 2016. As stated in the Letter from the Board, the Renewed Annual Caps for deposits placed by the Group with BAG Finance (maximum daily balance and interest income) are determined with reference to: (i) historical and expected sales revenues from Beijing Motor; (ii) historical and expected sales revenues from Beijing Benz; (iii) historical maximum daily balance deposited with BAG Finance as a percentage of sales revenue from Beijing Motor; and (iv) historical maximum daily balance deposited with BAG Finance as a percentage of sales revenue from Beijing Benz.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We understand from the management of the Company that the growth of the Renewed Annual Cap of highest daily deposit balance of deposits placed by the Group with BAG Finance is mainly driven by the growth of the sales revenue of Beijing Motor and Beijing Benz. In this regards, we have considered the following factors (**Details of which can be referred to the paragraph “2.3(C) The Renewed Annual Caps of the Provision of Products and Services Framework Agreement”**).

- According to the China Association of Automobile Manufacturers, China was the only country that reported sales volume of over 10 million units in the global market and maintained dominant position of the largest market for passenger vehicles in the world. It is expected that the automobile industry will grow at a compound annual growth rate of 4% from 2016 to 2020 and we are of the view that the revenue, in particular the revenue from Beijing Motor and Beijing Benz will grow in line with the industry trend;
- the Company will launch a variety of brand new products into the SUV automobile market and new energy vehicles market during the second half of 2016. The demand of Beijing Brand had a very strong demand and is expected to continue to grow rapidly while the brand new product of Beijing Benz is focusing on premium passenger vehicle market. According to HIS Markit, the growth of SUV products remain strong and will continue to grow at a compound annual growth rate of approximately 9.05% from 2017-2019. According to the target made by the China government, it is stated that the target sale of new energy vehicles in China should increase from 0.5 million units to 5 million units from 2015 to 2020, which represent a compound annual growth rate of approximately 58.5%. Therefore, we are of the view that the launch of new product into SUV and new energy vehicle market will drive the revenue of Beijing Motor and Beijing Benz;
- We understand from the management of the Company that the Company will continue to adjust its products structure by increasing sales of SUV products, new energy vehicles and premium passenger vehicles as stated in the 2016 Interim Result Announcement. The price of the SUV product and Beijing Benz series is generally higher than other brand of passenger vehicles sold by the Company. In line with the launch of several new products as mentioned in the previous paragraph, it is expected that the Company will continue to further improve its product mix with more weight on SUV and premium passenger vehicles. As disclosed in the 2016 Interim Results Announcement Presentation, the proportion of sales of SUV products under the Beijing Brand and Beijing Benz is continuously increasing from 11.5% and 39% in mid-2015 to 55.7% and 51% in mid-2016 respectively and we understand from the management of the Company that the proportion will continue to grow in view of the growing demand of SUV vehicle products in China. Having considered the past record and the expected strong growth in the SUV vehicle market in China as stated above, we are of the view that the optimization of product mix will continue to drive the revenue of the Company, in particular the revenue from Beijing Brand and Beijing Benz, from 2017 to 2019.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Having considered the above, we are of the view that the continuing connected transactions and the Renewed Annual Caps in respect of deposit services under the Financial Services Framework Agreement are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

Internal Control and Corporate Governance Measures Targeted for Transactions under the Financial Services Framework Agreement

As set out in the Circular, the Company has adopted the following measures with respect to the transactions under the Financial Services Framework Agreement in order to further safeguard the interests of the Independent Shareholders:

(1) *Independent financial system:*

The Group has established a comprehensive financial management system for the management of financial services which targets (A) capital financing management (B) specialized budget management and (C) specialised capital management.

- (A) The Group has set up relevant system for capital financing management, including the management of bank accounts, cash and bank deposits and debt financing, to ensure independent capital operation and maximize capital efficiency, and is it in the interests of the Shareholders as a whole.
- (B) The Group has set up a specialized budget management department, with enterprise development strategies as the start, with reaching target profit as the aim, with future sales as the preparation basis, to prepare annual budgets for operation and investment, determine annual financing plan and formulate financing proposals based on such annual budgets.
- (C) The Group has established a specialized capital management team for exercising daily capital and loan management, setting up specialized positions for daily deposits supervision and conducting comparison of the deposit rates among various financial institutions, to ensure that the total deposits of our Group would not exceed the annual cap and deposit rates are in line with the requirement under the Financial Services Framework Agreement.

The Group has also set up a stringent and efficient audit system. The independent internal audit team established by the Company is composed of members with years of experience in auditing and finance. The internal audit team conducts internal audit work on the Company's capital position on a regular basis every year as well as independent and objective supervision and evaluation on the Company's capital management.

The audit team consists of 18 members, of whom 1 is audit department chief, 1 is deputy department chief and 2 are section chives. Most of the members have over 5 years of experience in auditing, including experience of auditing in accounting firms and enterprises. 2

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

of the members performed audit work in big four CPA. In addition to seniority, the selection of members for the audit team also considers their industry background. Most of the members have relevant experience in automotive industry, which facilitate better understanding of various business of the Group and thus providing high-quality audit results. In order to ensure diversification of industry background of the team, some of the members also have industry background in finance/sales/information system/manufacturing etc., which facilitate multi-angle and omni-directional examination on the potential risks of the Group.

In the meantime, the Company's Audit Committee is mainly responsible for handling external auditing matters, supervising the Company's internal audit system and implementation, conducting audit on the Company's financial information, reviewing and supervising the Company's financial reports, risk management and effectiveness of the internal control system. It is also responsible for evaluating the effectiveness of the Company's internal control and the reliability of financial reports in an independent, fair and effective way and report to the Board of Directors and general meeting.

The Company also maintain accounts with independent banks. BAIC Group does not share any bank account with the Company nor does it control the use of any of the Company's bank accounts. The Company has independent tax registrations and has paid tax independently pursuant to applicable PRC laws and regulations.

(2) Risk management measures

- BAG Finance and BAIC Group will provide sufficient information including various financial indicators (as well as annual and interim financial statements) at the end of every quarter to enable the Company to monitor and review the financial condition of BAG Finance and BAIC Group. BAG Finance and BAIC Group shall notify the Company, subject to compliance with applicable laws and regulations, should any of them be subject to any judicial, legal or regulatory proceedings or investigations which are reasonably likely to have a material impact on the financial condition of any of them. If the Company consider that there is any material adverse change in the financial condition of any of the BAG Finance and BAIC Group, the Company will take appropriate measures (including early withdrawal of deposits and a moratorium on further deposits) to protect our financial position.
- In addition to our internal monitoring, BAG Finance is also required to monitor the maximum daily balance of the deposits and loans on a daily basis to ensure that the aggregate outstanding amounts do not exceed the applicable annual caps. BAG Finance will provide the Company with a periodic report on the status of our deposits and loans so as to enable us to monitor and ensure the relevant annual caps under the Financial Services Framework Agreement have not been exceeded. Should the balance at the end of any day exceed the maximum daily balance of deposits and interest income prevailing at that time, the excess funds will be transferred to our designated bank accounts with an independent commercial bank. We shall also be notified immediately once the daily balance exceeds the maximum daily balance limit.

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- The Company will, from time to time, at its sole discretion, request that the deposits with BAG Finance be withdrawn or terminated early (either in full or in part) to assess and ensure the liquidity and safety of its deposits.

(3) *Internal control measures*

- The Company has adopted internal control policies which are implemented by our finance center. All cash inflow and outflow of the Group should be considered in light of a unified budget. In addition, the vice president of our Company in charge of finance and his/her team will be responsible for closely monitoring such ongoing and continuing connected transactions.
- The Company's management will prepare periodic risk assessment reports of the funds deposited with BAG Finance. The contents of such risk assessment reports will include the maximum daily balance of the deposits for the reporting period and the deposits with BAG Finance during the reporting period.
- To ensure that the pricing terms of transactions under Financial Services Framework Agreement are on normal commercial terms, our Company has applied and fully implemented the internal control policies for each transaction. In accordance with the policies of the People's Bank of China, various banks and BAG Finance, the Group's capital management team will update the statement of deposit rates of various financial institutions monthly and prioritize the institutions with the most favorable rate for deposit.
- In addition, according to relevant internal control requirements, the financial department, audit department, legal department and other relevant departments of our Group's capital management team will conduct audit based on the transaction type and corresponding approved amount of each transaction to ensure that the pricing terms of transaction under Financial Services Framework Agreement are on normal commercial terms.
- The Group's capital management team compile statistics of the daily balance deposited with BAG Finance to ensure compliance with regulatory requirements. In additions, the capital management team conducts analysis and produce monthly reports on the deposits placed with various financial report various financial institutions.
- The independent non-executive Directors of the Company will independently scrutinize the implementation and enforcement of the transactions under the Financial Services Framework Agreement on an annual basis. If the independent non-executive Directors consider that it would be in the interests of the Company to reduce the level of deposits with BAG Finance, the Company will take appropriate measures to implement the decision of our independent non-executive Directors. Any material findings in the risk assessment reports, the views of the independent

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non-executive Directors on the deposits under the Financial Services Framework Agreement (including their views on how the terms of the Financial Services Framework Agreement have been complied with), and their decisions on any matters in relation thereto, will be disclosed in the Company's annual and interim reports.

- During the annual audit of the Company, we will engage our auditors to review connected transactions between us and BAIC Group to ensure that the transactions under the Financial Services Framework Agreement have been conducted in accordance with the Listing Rules and have fulfilled the relevant disclosure requirements.

Based on our understanding of the internal control measures, we are of the view that the adoption of the above measures promote good corporate governance and can safeguards the interests of Independent Shareholders.

2.2 Products and Services Purchasing Framework Agreement

(A) Reasons for entering into the Products and Services Purchasing Framework Agreement

As stated in the "Letter from the Board" in the Circular, the entering into of the Products and Services Purchasing Framework Agreement can bring the following benefits to the Company:

1. It helps maintain a stable and quality supply of products and general services for the existing and future production and operation of the Company;
2. The Company has used the products and services provided by BAIC Group and/or its associates for several years. BAIC Group and its associates understand the business and operational requirements of the Company well;
3. Due to the geographical proximity between the Company and BAIC Group and/or its associates, the transportation costs of products are lower. The close cooperation with BAIC Group helps the Company to facilitate the quality control and management.

We concur with the view of the management of the Company that it is necessary to maintain a stable and high quality supply of products and services through a cost efficient channel to the operation of the Company, in particular with the business expansion plan of the Group and the expected launch of several brand new products in the premium passenger vehicles and new energy vehicles market as mentioned in the paragraph "2.3(C) The Renewed Annual Caps of the Provision of Products and Services Framework Agreement" below.

Having considered (i) the business nature of the Group and BAIC Group; and (ii) the reasons mentioned above, we are of the view that the entering into of the Products and Services Purchasing Framework Agreement are in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole.

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(B) Terms of the Products and Services Purchasing Framework Agreement

We understand from the management of the Company that the terms of pricing of the Products and Services Purchasing Framework Agreement are fair and reasonable through the following measures:

1. regular contact will be kept with suppliers in the market to keep abreast of the market developments and the price trend;
2. the Company will obtain quotations for comparable products or services that may be available from other independent suppliers and conduct a tender process before selecting suppliers (including BAIC Group and/or its associates) before placing a purchase order. The quotation and pricing mechanisms for different products are conducted through the same tender process mechanism;
3. the quotations will be collectively reviewed and assessed by the Company's tender assessment board according to the Company's administrative measures for market quotations. No purchase order with the connected persons and associates of the Company would be made if the Company could obtain better terms from any other independent suppliers.

In particular, for raw materials (including steel and muffler) and automobile parts and components, BAIC Group would charge the Company (i) at prices not higher than the market prices; and (ii) if no comparable market price, at prices with reference to the actual cost incurred plus a profit margin within the pre-agreed arm's length range. We understand that the Company will, prior to entering into agreements with BAIC Group, request a schedule of the costs incurred by the BAIC Group in respect of the raw materials, automotive modules and automotive parts and components. The management of the Company will then (i) assess independently whether the costs incurred are fair and reasonable; (ii) request clarification and supporting documents from BAIC Group; and (iii) verify that the profit margin on the total costs incurred by BAIC Group falls within the pre-agreed range of profit margins.

Regarding the above pricing policy, we have obtained and reviewed sample of documents for the tender process of selecting supplier. We have reviewed the tender terms of the products submitted by the independent third parties and the BAIC Group and the collective assessment result by the Company's tender assessment board for the tender terms of each of the independent third parties and BAIC Group. We noted that the major terms of the samples of the purchase order made from BAIC Group and/or its associates are not less favorable than any independent suppliers of the same samples. As such, we consider that the terms of the Products and Services Purchasing Framework Agreement are no less favorable than terms available to independent third parties.

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We also understand from the management of the Company that payment arrangement will be negotiated by the Company and the counter parties and in any case the payment terms with the BAIC Group are not less favorable than that of the independent third parties. In this regards, we have checked to samples of the purchase agreements between the Company with the BAIC Group and that with the independent third parties. We noted that both payment terms with BAIC Group and independent third parties are the same and are be settled in cash within the same pre-agreed credit period. We are of the view that the settlement terms are on normal commercial terms, and fair and reasonable and in the interest of the Company and its Independent Shareholder.

Having considered the above factors, we are of the view that the pricing policy of Products and Services Purchasing Framework Agreement is on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned.

(C) The Renewed Annual Caps of the Products and Services Purchasing Framework Agreement

As set out in the Letter from the Board, the Renewed Annual Caps and actual amount of product procurement and service procurement of the Products and Services Purchasing Framework Agreement for each of the three years ending 31 December 2019 are as follows:

	For the years ended 31 December,			For the year ending 31 December,		
	2014	2015	2016	2017	2018	2019
	Historical figures (RMB million)	Historical figures (RMB million)	Historical figures (RMB million)	Renewed Annual Cap (RMB million)	Renewed Annual Cap (RMB million)	Renewed Annual Cap (RMB million)
<u>Product procurement</u>						
– Annual cap	9,789.1	17,020.1	26,458.6	41,532.7	61,954.4	72,821.3
– Actual amount	5,995.8	14,988.4	16,509.8 ⁽¹⁾	N/A	N/A	N/A
<u>Service procurement</u>						
– Annual cap	3,651.0	5,571.8	7,687.0	7,755.0	8,265.5	8,632.2
– Actual amount	2,831.6	2,083.1	1,686.7 ⁽¹⁾	N/A	N/A	N/A

Note 1: Actual amount of product and service procurement of the Company for the period ended 30 September 2016

We note that the Renewed Annual Cap for product procurement of 2019 represents a compound annual growth rate of approximately 40.14% compared to the annual cap of 2016. As to the Renewed Annual Cap for service procurement of 2019, it represents a compound annual growth rate of approximately 3.94% compared to the approved annual cap of 2016.

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In determining the Renewed Annual Caps of the Products and Services Purchasing Framework Agreement for each of the three years ending 31 December 2019, we understand from the management of the Company that they have made references to the following factors:

- (i) unit purchase cost for each vehicle model of our Group in 2016 and the expected market condition and general cost inflation for the relevant period;
- (ii) the estimated growth of sales volume of passenger vehicles from 2017 to 2019 and the development strategies and business expansion plan of our Group;
- (iii) the expected annual value of the connected transactions between Beijing Benz and BAIC Group and its associates;
- (iv) the expected increase of our total costs and expenses, which is ultimately driven by the business expansion plan of our Group;
- (v) the expected demand for higher quality premium products which require the purchase of more sophisticated and more expensive raw materials, automotive modules, automotive parts and components from BAIC Group and/or its associates.

In assessing the fairness and reasonableness of the Renewed Annual Caps for the Products and Services Purchasing Framework Agreement, we have obtained and reviewed a list of estimated procurement amounts of products and services with BAIC Group and its associates for each of the three years ending 31 December 2019 provided by the management of the Company and discussed with the management of the Company the basis and assumptions made by the Company. In particular, we understand the following factors from the management of the Company that **(Details of which can be referred to the paragraph “2.3(C) The Renewed Annual Caps of the Provision of Products and Services Framework Agreement”)**:

- (i) the estimated procurement amount was prepared on the basis of multiplying the estimated unit price of the products and services by the estimated procurement quantities of the corresponding components. According to the inflation forecast of China made by International Monetary Fund in August 2016, it is expected that the inflation of China grows by 6.6% in 2016 and slow down to 6.0% in 2018 and 2019. As such, we expect that the unit purchase cost for each vehicle model will increase in line with the inflation of China from 2017 to 2019;
- (ii) the Company will launch a variety of brand new products into the SUV automobile market and new energy vehicles market during the second half of 2016. The demand of Beijing Brand had a very strong demand and is expected to continue to grow rapidly while the brand new product of Beijing Benz is focusing on premium passenger vehicle market. According to HIS Markit, the

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growth of SUV products remain strong and will continue to grow at a compound annual growth rate of approximately 9.05% from 2017-2019. According to the target made by the China government, it is stated that the target sale of new energy vehicles in China should increase from 0.5 million units to 5 million units from 2015 to 2020, which represent a compound annual growth rate of approximately 58.5%. Therefore, we are of the view that the launch of new product into SUV and new energy vehicle market will drive the revenue of Beijing Motor and Beijing Benz; and

- (iii) We understand from the management of the Company that the Company will continue to adjust its products structure by increasing sales of SUV products, new energy vehicles and premium passenger vehicles as stated in the 2016 Interim Result Announcement. In line with the launch of several new products as mentioned in the previous paragraph, it is expected that the Company will continue to further improve its product mix with more weight on SUV and premium passenger vehicles. As disclosed in the 2016 Interim Results Announcement Presentation, the proportion of sales of SUV products under the Beijing Brand and Beijing Benz is continuously increasing from 11.5% and 39% in mid-2015 to 55.7% and 51% in mid-2016 respectively and we understand from the management of the Company that the proportion will continue to grow in view of the growing demand of SUV vehicle products in China. We understand from the management of the Company that SUV products, new energy vehicles and premium passenger vehicles require the purchase of more sophisticated and more expensive raw material. Having considered the factors above, we are of the view that the optimization of product mix will continue to drive the product procurement of the Company from BAIC Group from 2017 to 2019.

Having said that, Independent Shareholders should note that the aforesaid projected purchase figures estimated by the management of the Company may vary depending on numerous factors such as increase in population and economic development throughout the duration of the Products and Services Purchasing Framework Agreement. Accordingly, Independent Shareholders should not regard the aforesaid projected figures as the projection of the cost of sales of the Group for each of the three years ending 31 December 2019.

Having considered the above, we are of the view that the continuing connected transactions and the Renewed Annual Caps in respect of product procurement and service procurement under the Products and Services Purchasing Framework Agreement are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

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Internal Control and Corporate Governance Measures Targeted for Transactions under the Products and Services Purchasing Framework Agreement

As set out in the Circular, the Company has adopted the following measures with respect to the transactions under the Products and Services Purchasing Framework Agreement in order to further safeguard the interests of the Independent Shareholders:

- The Company has adopted and implemented a management system on connected transactions. Under this system, the finance center of the Company is responsible for conducting reviews; on compliance with relevant laws, regulations, company policies and Listing Rules in respect of the Renewed CCTs. In addition, the finance center, procurement center, legal affairs department and other relevant operation departments of the Company are jointly responsible for evaluating the transaction terms under the agreements for Renewed CCTs, in particular, the fairness of the pricing terms under each agreement; and
- The independent non-executive Directors of the Company have also reviewed and will continue to review the agreements for Renewed CCTs to ensure such agreements, where available, are entered into on normal commercial terms, are fair and reasonable, and are carried out pursuant to the terms of such agreements. The auditor of the Company will also conduct an annual review on the pricing and annual caps of such agreements.

When determining the actual prices of products and services to be supplied to the Company, the corresponding vendor will provide the Company with a proposed price. As mentioned above, in order to ensure that the pricing terms under the agreements for Renewed CCTs are fair and reasonable, the Company's finance center and other relevant operation departments will review the proposed price provided by the vendor in the following manner:

- if a comparable market price is available, the proposed price will be compared with the market price to ensure that such proposed price is not higher than the selling price of the part or product with similar specifications, technology and quality requirements provided by any other manufacturers in the market;
- the Company has established a stringent market price inquiry system.
 - (i) For selection of potential suppliers, the Group has developed standards for selection of suppliers based on different purchase needs. Such standards include, but not limit to, the scale of business, industry recognition, experience of supplying same types of products and services, technological level, financial conditions etc. Same standards are applicable to both connected person and independent third-party suppliers. The Company does not give preferential treatment to connected persons for the selection of potential suppliers. The selection of suppliers shall be determined by the collective decision of a tender assessment board with members from the components and parts development

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department, suppliers management department, research and development department, compliance and supervision department, finance center and audit department as well as procurement engineers, product engineers and suppliers' quality management engineers. Tenders will be sought from various suppliers and assessed internally over several rounds before a decision is made on the basis of pricing, quality, technology, product risks and after-sales services;

- (ii) For price inquiry procedures, the Company requires at least three potential suppliers participating in the same purchase and there shall be at least two independent third-party suppliers. Price inquiry procedures that fails to meet the above requirements will be void. Price inquiry procedures are conducted in strict accordance with the above model and the entire process is under the supervision of financial department, audit department and discipline inspection department. Any violations of those measures will be recorded. The result of price inquiry will undergo a final review by the management of the Group. The winner of the price inquiry procedure will enter into a written agreement with the Group. If there is any evidence of frauds or irregularities of the supplier during the procedure, the Group will terminate cooperation and pursue legal responsibility, regardless of whether such supplier is a connected person of the Group. All of the written documents involved in the price inquiry procedure shall be kept for at least ten years. In case the parties involving in the price inquiry procedure have any reasonable doubt about the result of price inquiry, they may check relevant documents upon approval of the Group;
- if no comparable market price is available, the fairness and reasonableness of the proposed price will be determined with reference to the total cost of the part or product, which is estimated with reference to (i) the market price of the raw materials or semi-finished products forming the part or product; and (ii) the cost estimated to be required for manufacturing such part or product with reference to requirements in relation to its nature, functionality, technology and quality standards etc., plus a profit margin of not more than the maximum profit margin level as stipulated under the relevant agreement, depending on the complexity of technologies and quality control procedures involved; and
- the proposed price will be reviewed to ensure that it is in line with the pricing terms of the relevant agreement and that the terms provided to our Company are no less favorable than those offered by the supplier to independent third parties.

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Based on our understanding of the internal control measures, we are of the view that the adoption of the above measures promote good corporate governance and can safeguards the interests of Independent Shareholders.

2.3 Provision of Products and Services Framework Agreement

(A) Reasons for entering into the Provision of Products and Services Framework Agreement

As stated in the “Letter from the Board” in the Circular, the entering into of the Provision of Products and Services Framework Agreement can bring the following benefits to the Group:

- (i) BAIC Group and/or its associates can benefit from the Group’s professional sales team which has a solid understanding of China’s automobile market and diversified sales channels thereby reducing their sales cost;
- (ii) subsidiaries of BAIC Group operating dealership outlets purchase vehicles manufactured and assembled by Beijing Benz and vehicles under our proprietary brand for resale in its dealership outlets. Our Company and those subsidiaries of BAIC Group have established a long-term relationship and understand the business plan, quality control and other special requirements of each other;
- (iii) BAIC Group and/or its associates purchase automobile components, such as automobile engines, from our subsidiary, BAIC Motor Powertrain Co., Ltd. (北京汽車動力總成有限公司), for their daily production; and
- (iv) prices and terms for the products and general services provided by us to BAIC Group are not less favorable than those offered to independent third parties.

We understand from the management of the Company that the Company and those subsidiaries of BAIC Group have established a long-term relationship and understand the business plan, quality control and other special requirements of each other well. Moreover, under the business expansion plan of the Group and the expected launch of several brand new products in the premium passenger vehicles and new energy vehicles market as mentioned in the paragraph “2.3(C) The Renewed Annual Caps of the Provision of Products and Services Framework Agreement” below, the entering into of the Provision of Products and Services Framework Agreement can help the Company provide an additional and stable source of income as subsidiaries of BAIC Group operate dealership outlets and purchase automobile components from the Company.

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Having considered (i) the business nature of the Group and BAIC Group; and (ii) the reasons mentioned above, we are of the view that the entering into of the Provision of Products and Services Framework Agreement are in the ordinary and usual course of business of the Group and are in the interest of the Company and the Shareholders as a whole.

(B) Terms of the Provision of Products and Services Framework Agreement

We understand from the management of the Company that the price of the products provided to the BAIC group is determined by cost of the products incurred plus a reasonable profit margin. The Company will gather information on market prices and profit margin levels of automobile products in the industry through industrial associations and independent automobile products suppliers in the PRC to ensure the terms of supplying products to BAIC group are on an arm's length basis.

Regarding the above pricing policy, we have obtained and reviewed samples of the quotation of the market price in respect of the raw materials, automotive parts and components, and vehicles of independent third parties obtained by the Company and checked to price offered to the Company by BAIC Group regarding the provision of products transactions. We noted that the major terms of the provision of products are not less favorable than that offered by the independent third parties for the same product provided. As such, we consider that the terms of the Products and Services Purchasing Framework Agreement are no less favorable than terms available to independent third parties.

We also understand from the management of the Company that Payment arrangement will be negotiated by the Company and the counter parties and in any case the payment terms with the BAIC Group are not less favorable than that of the independent third parties. In this regards, we have checked to samples of the sales agreements between the Company with the BAIC Group and that with the independent third parties. We noted that both payment terms with BAIC Group and independent third parties are the same and are be settled in cash within the pre-agreed credit period. We are of the view that the settlement terms are on normal commercial terms, and fair and reasonable and in the interest of the Company and its Independent Shareholder.

Accordingly, we are of the view that the pricing policy of Provision of Products and Services Framework Agreement is on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned.

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(C) *The Renewed Annual Caps of the Provision of Products and Services Framework Agreement*

As set out in the Letter from the Board, the historical figure and the Renewed Annual Caps of provision of products for each of the three years ending 31 December 2019 are as follows:

	For the years ended 31 December,			For the year ending 31 December,		
	2014	2015	2016	2017	2018	2019
	Historical figures (RMB million)	Historical figures (RMB million)	Historical figures (RMB million)	Renewed Annual Cap (RMB million)	Renewed Annual Cap (RMB million)	Renewed Annual Cap (RMB million)
<u>Product provision</u>						
– Annual cap	1,927.7	15,377.7	22,925.4	32,473.3	43,017.6	46,445.6
– Actual amount	1,902.6	6,410.6	9,855.8 ⁽¹⁾	N/A	N/A	N/A

Note 1: Actual amount of product provision of the Company for the period ended 30 September 2016

We note that the Renewed Annual Cap for product provision of 2019 represents a compound annual growth rate of approximately 26.53% compared to the annual cap of 2016. In determining the Renewed Annual Caps of the Products and Services Purchasing Framework Agreement for each of the three years ending 31 December 2019, we understand from the management of the Company that they have made references to the following factors:

- (i) the steady growth on future sales of complete vehicles to be manufactured and assembled by Beijing Benz and Beijing Motor by taking into account, among others, macroeconomic conditions as well as the development strategies and business expansion plan of our Group;
- (ii) the percentage of our sales to the dealership outlets operated by the associates of BAIC Group in the future, which is determined with reference to the historical percentage of our sales of complete vehicles manufactured and assembled by Beijing Benz and Beijing Motor to the dealership outlets operated by the associates of BAIC Group;
- (iii) the expected annual value of the connected transactions between Beijing Benz and BAIC Group and its associates; and
- (iv) expected increase of our revenues, which is ultimately driven by our business expansion plan.

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We understand from the management of the Company that the increase in the Renewed Annual Caps for the provision of products to BAIC Group and its associates by the Group is primarily linked to the expected increase of the Group's revenues, which is ultimately driven by its business expansion plan. In determining the fairness and reasonableness of the Renewed Annual Caps, we have performed the following steps:

- We have discussed with the management of the Company about the rationale and reasons for the increment of the Renewed Annual Caps for each of the three years ending 31 December 2019. The Renewed Annual Cap for provision of products represents a compound annual growth rate of approximately 26.53% from 2016 to 2019. We are advised by the Company that the growth rate in the Renewed Annual Caps was made reference to the compound annual growth rate of revenue of the Group from 2013 to 2015 of approximately 156.52%.
- We have obtained and reviewed a list of estimated sales of passenger vehicles and automobile parts with BAIC Group and its associates prepared by the management of the Company. We understand from the Company that such list of estimates was prepared on the basis of multiplying the estimated price per unit of the products by the estimated quantity of the corresponding components based on information and knowledge obtained by the front-line sales staff of the Company. We have discussed with the management of the Company the bases and assumptions made by the Company. In particular, we have also considered the following:
 - (i) **The Group's track record in the passenger vehicle market:** the management of the Company expected that the sales volume of existing models will continue to increase due to the increasing demand in the industry from 2017 to 2019. In particular, we have considered, as disclosed in the 2016 interim results announcement, the sales volume for the six months ended 30 June 2016 of Beijing Brand, Beijing Benz and Beijing Hyundai increased by approximately 36.7%, 39.2% and 2.5% respectively compared to the six months ended 30 June 2015;
 - (ii) **The macroeconomic condition of the passenger vehicle market:** the management of the Company expects that the passenger vehicles market of China is still expanding in the coming three years. According to the news article published by the China Association of Automobile Manufacturers titled “全球車市：中國成為上半年唯一千萬輛級市場” in 27 July 2016, China was the only country that reported sales volume of over 10 million units in the global market and maintained dominant position of the largest market for passenger vehicles in the world; Moreover, according to the news article published by the China

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Association of Automobile Manufacturers^{Note 1} titled “汽車業2020目標：整體規模2877萬輛” in 29 October 2015, it is expected that the automobile industry will grow at a compound annual growth rate of 4% from 2016 to 2020. We are of the view that the revenue of the Company is expected to grow in line with the growth of the vehicle market in China.

- (iii) **The Government Policy in favour of the China new energy vehicle market:** China’s State Council announced a fresh set of new energy vehicle policies in September 2015 which include encouraging and promoting the use of new energy vehicles. Moreover, new energy vehicles are not subject to purchase quotas and traffic control measures. Since the Company will launch a series of new energy vehicles, it will help to boost the sales of the Company under the great promotion of the government policy.
- (iv) **The Group’s market position in the passenger vehicle market:** the Company is a market leader in passenger vehicles market in China. According to the news article published by the China Association of Automobile Manufacturers titled “2016年1-8月汽車分車型前十家生產企業銷量排名” on 23 September 2016, the Company ranked fourth in terms of sales volume of passenger vehicles in the PRC. In particular, according to the 2016 Interim Results Announcement Presentation, Beijing Benz and Beijing Hyundai ranked second and fourth amongst domestically made luxury vehicles, joint venture brands respectively;
- (v) **The launch of brand new products in the passenger vehicle market:** the Company will launch a variety of brand new products into the SUV automobile market and new energy vehicles market during the second half of 2016 including but not limited to the first tough urban cross-country vehicle (BJ)20, a front-wheel-drive mini-MPV for Wevan and a brand new flagship model EH400 new energy sedan; and the brand new long-wheelbase E-class sedan for Beijing Benz. The demand of Beijing Brand had a very strong demand and is expected to continue to grow rapidly while the brand new product of Beijing Benz is focusing on premium passenger vehicle market. As stated in the 2016 Interim Results Announcement Presentation, the sales of Beijing Brand for the six months ended 30 June 2016 increased by 36.7% as compared to the corresponding period while the sales of Beijing Benz series increased by 39.2% of the corresponding period.

Note 1: China Association of Automobile Manufacturers is an social organization founded in Beijing in 1987 with the approval of the Ministry of Civil Affairs of the People’s Republic of China.

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According to the “AUTOMOTIVE經濟增長放緩和刺激措施 – 中國需求前景” report published by HIS Markit in 27 October 2016 (IHS Markit is a global leading industry information and analysis provider in industries such as aerospace, defense and security, automotive, chemical, energy, maritime and trade; and technology based in London and is listed in NASDAQ stock market (stock code: INFO)), the growth of SUV products remain strong and will continue to grow at a compound annual growth rate of approximately 9.05% from 2017-2019.

According to “2020年新能源汽車500萬輛目標有望實現” published by China Association of Automobile Manufacturers in 26 November 2015, it is stated that the China government adopted the 節能與新能源汽車產業發展規劃 (2012-2020年) and pointed out that the target sale of new energy vehicles in China should increase from 0.5 million units to 5 million units from 2015 to 2020, which represent a compound annual growth rate of approximately 58.5%.

We also understand from the management of the Company that the BAIC Group will establish more dealership outlets for Beijing Brand Beijing Benz in view of the strong and continuous growing demand of SUV products of Beijing Brand and Beijing Benz. As such, the demand and the provision of product transaction between the Company and the BAIC Group will also grow in line with the growth of SUV products of Beijing Brand and Beijing Benz in China vehicle market.

Having considered (i) the past growth record of SUV and new energy record; (ii) the expected growth of the SUV vehicle market in China; and (iii) the expected growth of the connected transaction between the Company and the BAIC Group, we considered that the launch of brand new products of the Company can continue to drive the growth of revenue of the Company from 2017 to 2019.

- (vi) **The optimisation of product mix in the passenger vehicle market:** the Company will continue to adjust its products structure by increasing sales of SUV products, new energy vehicles and premium passenger vehicles as stated in the 2016 Interim Result Announcement. We understand from the management of the Company and checked to the selling price of passenger vehicles in the websites of the Company that the price of the Senova Series and Beijing Benz series is generally higher than other brand of passenger vehicles sold by the Company. In line with the launch of several new products as mentioned in the previous paragraph, it is expected that the Company will continue to further improve its product mix with more weight on SUV and premium passenger vehicles such as Senova Series and Beijing Benz in the coming three years ending 31 December 2019.

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As disclosed in the 2016 Interim Results Announcement Presentation, the proportion of sales of SUV products under the Beijing Brand and Beijing Benz is continuously increasing from 11.5% and 39% in mid-2015 to 55.7% and 51% in mid-2016 respectively and we understand from the management of the Company that the proportion will continue to grow in view of the growing demand of SUV vehicle products in China as disclosed in paragraph (v) above.

Having considered the past record and the expected strong growth in the SUV vehicle market in China as stated in paragraph (v) above, we are of the view that the optimization of product mix will continue to drive the revenue of the Company from 2017 to 2019.

- (vii) **The expansion plan of the Group:** as stated in the 2016 Interim Results Announcement Presentation, the Group has formulated a strategic and expansion plan till 2020, namely the “ π Plan”. In practice, by the year 2020, (a) Beijing Brand will see a substantial boost in its brand competitiveness supported by a competitive product mix, aiming to become top three domestic brands in China; (b) Beijing Benz aims to compete for the top one position in PRC’s luxury vehicle market; and (c) Beijing Hyundai will pursue the strategic goal of securing the fourth position in joint venture brands and endeavour to move up in the ranking table. We concur with the view of the management of the Company that the expansion plan of the Group will help to drive the growth of the revenue of the Group.

Having said that, Independent Shareholders should note that the aforesaid projected sales figures may vary depending on numerous factors such as increase in population and economic development throughout the duration of the Provisions of Products and Services Framework Agreement. Accordingly, Independent Shareholders should not regard the aforesaid projected figures as the projection of the revenue of the Group for each of the three years ending 31 December 2019.

Having considered the above, we are of the view that the continuing connected transactions and the Renewed Annual Caps in respect of the provision of products under the Provision of Products and Services Framework Agreement are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Internal Control and Corporate Governance Measures Targeted for Transactions under the Provision of Products and Services Framework Agreement

As set out in the Circular, the Company has adopted the following measures with respect to the transactions under the Provision of Products and Services Framework Agreement in order to further safeguard the interests of the Independent Shareholders:

- The Company has adopted and implemented a management system on connected transactions. Under this system, the finance center of the Company is responsible for conducting reviews; on compliance with relevant laws, regulations, company policies and Listing Rules in respect of the Renewed CCTs. In addition, the finance center, procurement center, legal affairs department and other relevant operation departments of the Company are jointly responsible for evaluating the transaction terms under the agreements for Renewed CCTs, in particular, the fairness of the pricing terms under each agreement; and
- The independent non-executive Directors of the Company have also reviewed and will continue to review the agreements for Renewed CCTs to ensure such agreements, where available, are entered into on normal commercial terms, are fair and reasonable, and are carried out pursuant to the terms of such agreements. The auditor of the Company will also conduct an annual review on the pricing and annual caps of such agreements.

Based on our understanding of the internal control measures, we are of the view that the adoption of the above measures promote good corporate governance and can safeguards the interests of Independent Shareholders.

OPINION

Having considered the principal factors and reasons as discussed above, we are of the opinion that the Continuing Connected Transactions and the Renewed Annual Caps are on normal commercial terms, entered into in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole and the Continuing Connected Transactions and the Renewed Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favor of the ordinary resolutions to approve the Continuing Connected Transactions at the EGM.

Yours faithfully,
For and on behalf of
Zhongtai International Capital Limited
Frankie Yan
Managing Director

Note: Mr. Frankie Yan is a licensed person registered with the Securities and Futures Commission and a responsible officer of Zhongtai International Capital Limited to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO. He has over 20 years of experience in the corporate finance industry.

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 our 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. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, and to the best knowledge of the Directors, the following entities/persons (except for the Directors, Supervisors and senior management) have interests or short positions in the Shares or underlying shares which are required to be disclosed to our Company according to Divisions 2 and 3 in Part XV of SFO:

Name of Shareholder	Type of Share	Amount of share/ relevant share amount ^(Note 1)	Percentages to relevant share capital types (%) ^(Note 2)	Percentages to the total share capital (%)
BAIC Group Beijing Shougang Company Limited	Domestic Shares	3,416,659,704(L)	62.18	44.98
Shenzhen Benyuan Jinghong Equity Investment Fund (Limited Partner)	Domestic Shares	1,028,748,707(L)	18.72	13.54
Daimler AG	H Share	342,138,918(L)	6.23	4.50
Easy Smart Limited	H Share	765,818,182(L)	36.46	10.08
		278,651,500(L)	13.26	3.67

- (L) – Long position, (S) – Short position, (P) – Shares can be loaned;
- The percentage is calculated by the amount of shares held by relevant person/the amount of relevant types of shares issued as at the Latest Practicable Date.

3. DIRECTORS' INTERESTS

As of December 31, 2015, none of the Directors have any interests or short positions or debentures (including those deemed to have according to the provisions of SFO) in our Company's or any of its associated corporation's Shares, underlying shares or debentures which are required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 in Part XV of SFO, or any rights and interests or short positions, pursuant to section 352 in SFO, which are required to be registered in the register referred to by the provision, or interests or short positions or debentures needed to be notified to our Company

and the Stock Exchange pursuant to Model Code for Securities Transactions by Directors of Listed Companies (Model Code).

The Directors have no interest, direct or indirect, in any assets which have been, since December 31, 2015, the date to which the latest published audited consolidated financial statements of our Company were made up, acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group. In addition, the Directors have no any contract or arrangement subsisting at the Latest Practicable Date in which a Director is materially interested and which is significant in relation to the business of our Group.

4. SERVICE CONTRACTS

Our Company has entered into service contracts with all of our Directors and Supervisors. None of the Directors or Supervisors has entered into or proposed to enter into any service contracts with our Company which cannot be terminated by our Company within one year without any compensation (other than the statutory compensation).

5. LITIGATION

As at the Latest Practicable Date, our Company was not engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against our Company.

6. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors confirm that there was no material adverse change in the financial or trading position of our Group since December 31, 2015, the date to which the latest published audited consolidated financial statements of our Company were made up.

7. COMPETING INTERESTS

As at the Latest Practicable Date, the Board consists of fifteen directors, five of whom hold positions within BAIC Group. Set forth below is a table summarizing the identities of the five Directors who hold positions within BAIC Group and its subsidiaries and their respective major positions in our Group and BAIC Group as well as its subsidiaries.

Name	Major positions in our Group	Major positions within BAIC Group and its subsidiaries
Mr. Xu Heyi	<ul style="list-style-type: none"> • Chairman of the board, secretary of the Communist Party of China (CPC) committee and non-executive Director of our Company • Director of Beijing Benz • Director of BAIC Hong Kong • Director of BAIC Investment 	<ul style="list-style-type: none"> • Chairman of the board, secretary of the CPC Committee of BAIC Group • Chairman of the board of Foton • Chairman of the board of Beijing General Aviation Co. Ltd. • Chairman of the board of Beijing BAIC Electric Vehicle Co., Ltd.
Mr. Zhang Xiyong	<ul style="list-style-type: none"> • Non-executive Director of our Company 	<ul style="list-style-type: none"> • Director, vice secretary of the CPC committee and general manager of BAIC Group • Vice chairman of the board of Foton • Executive director of BAIC International Development Co., Ltd. • Chairman of the Board of BAIC Rocar Automobile Services & Trade Co., Ltd.
Mr. Li Feng	<ul style="list-style-type: none"> • Executive Director, President and vice secretary of the CPC committee of our Company • Director of Beijing Benz 	<ul style="list-style-type: none"> • Director and member of the standing committee of the CPC committee of BAIC Group

Name	Major positions in our Group	Major positions within BAIC Group and its subsidiaries
Mr. Qiu Yinfu	• Non-executive Director of our Company	• Director of Foton
Mr. Bao Robert Xiaochen	• Independent non-executive Director of our Company	• Independent director of Foton
Ms. Wang Jing	• Non-executive Director of our Company	• Director of Beijing Electric Vehicle Co., Ltd.
Mr. Zhu Zhenghua	• Supervisor of our Company	• Director of Beijing Electric Vehicle Co., Ltd. • Director of Beijing Hainachuan Investment Co., Ltd.

8. QUALIFICATION AND CONSENT OF EXPERT

The following is the qualification of the expert who has provided its opinion or advice, which is contained in this circular:

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

At the Latest Practicable Date, ZTIC has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and/or references to its name in the form and context in which they respectively appear.

At the Latest Practicable Date, ZTIC did not have any shareholding in any member of our Group or the rights (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for the securities in any member of our Group.

At the Latest Practicable Date, ZTIC did not have any interest in any asset which have been acquired or disposed of by or leased to any member of our Group, or were proposed to be acquired or disposed of by or leased to any member of our Group since December 31, 2015 (being the date to which the latest published audited consolidated financial statements of our Company were made up).

9. MISCELLANEOUS

- (1) Ms. Mok Ming Wai from KCS Hong Kong Limited, external service provider, has been engaged by our Company as its assistant to company secretary. Its primary contact person at our Company is Ms. Sun Ke, company secretary of our Company.
- (2) The registered office of the Company is located at the fifth building, Block 25 Shuntong Road, Shunyi District, Beijing, the PRC. Our Group is principally engaged in the manufacturing and sales of passenger vehicles, engines and auto parts in the PRC.
- (3) The H share registrar and transfer office of our Company is Computershare Hong Kong Investor Services Limited located at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (4) The English version of the circular shall prevail over the Chinese version in the event of inconsistency.

10. DOCUMENTS FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at the principal place of business of our Company in Hong Kong at 36/F, Tower two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong from the date of this circular up to and including the date of the EGM:

- (1) the Continuing Connected Transaction Agreements;
- (2) the letter from the Independent Board Committee, the text of which is set out on pages 39 to 40 of this circular;
- (3) the letter from ZTIC, the Independent Financial Adviser, regarding the Non-exempt Transactions and Non-exempt Annual Caps, the text of which is set out on page 41 to 64 of this circular;
- (4) the written consent of ZTIC referred to in paragraph 8 of this appendix; and
- (5) this circular.



北京汽车
BAIC MOTOR

北京汽车股份有限公司
BAIC MOTOR CORPORATION LIMITED*

(A joint stock company incorporated in the People's Republic of China with limited liability)
(Stock Code: 1958)

NOTICE OF THE FIRST EXTRAORDINARY GENERAL MEETING OF 2016

NOTICE IS HEREBY GIVEN that the first extraordinary general meeting of 2016 (“**2016 EGM**”) of BAIC Motor Corporation Limited (the “**Company**”) will be held at 9:30 a.m. on Wednesday, December 28, 2016 at Multi-purpose Hall, 1st Floor, the South Tower of Beijing Automotive Industry R&D Base, No. 99 Shuanghe Road, Shunyi District, Beijing, the PRC for the purpose of considering, among others, and if thought fit, passing the following resolutions (with or without modifications). Unless included otherwise, capitalized terms used wherein shall have the same meanings as those defined in the circular of the Company dated November 12, 2016:

Ordinary Resolutions

1. Renewal of Continuing Connected Transactions with BAIC Group
 - 1.1. Deposit transactions between our Group and BAG Finance under Financial Services Framework Agreement;
 - 1.2. Products purchasing transactions between our Group and BAIC Group and its associates under the Products and Services Purchasing Framework Agreement;
 - 1.3. Services purchasing transactions between our Group and BAIC Group and its associates under the Products and Services Purchasing Framework Agreement;
 - 1.4. Provision of products transactions between our Group and BAIC Group and its associates under the Provision of Products and Services Framework Agreement;
2. Appointment of Non-executive Directors of the Company
 - 2.1. Appointment of Mr. Zhang Jianyong as the Non-executive Director of the Company;
 - 2.2. Appointment of Ms. Shang Yuanxian as the Non-executive Director of the Company; and
3. Appointment of Mr. Wang Min as the Supervisor of the Company.

By order of the Board
BAIC Motor Corporation Limited
Xu Heyi
Chairman

Beijing, the PRC, November 12, 2016

* *For identification purpose only*

NOTICE OF THE FIRST EXTRAORDINARY GENERAL MEETING OF 2016

Notes:

- (A) The register of members will be closed from Monday, November 28, 2016 to Wednesday, December 28, 2016 (both days inclusive), during which period no transfer of the H Shares will be effected. Holders of H Shares of the Company whose names appear on the register of H Shares of the Company, as maintained by Computershare Hong Kong Investor Services Limited on Wednesday, December 28, 2016 are entitled to attend and vote at the EGM following completion of the registration procedures. To qualify for attendance and voting at the EGM, documents on transfers of H Shares of the Company must be lodged with the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for holders of H Shares no later than 4:30 p.m. on Friday, November 25, 2016 or the China Security Depository and Clearing Corporation Limited at No. 17 Tai Ping Qiao Street, Xicheng District, Beijing, the PRC for holders of Domestic Shares no later than 4:00 p.m. on Friday, November 25, 2016.
- (B) Shareholders intending to attend the EGM should complete and return the reply slip for attending the EGM in person, by facsimile or by post to the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for holders of H Shares or the Board of Directors' office of the Company at 9th Floor, Peng Long Building, No. 10 Hua Wei Li, Chaoyang District, Beijing, the PRC for holders of Domestic Shares on or before Thursday, December 8, 2016.
- (C) Each shareholder entitled to attend and vote at the EGM may, by completing the form of proxy of the Company, appoint one or more proxies to attend and vote at the EGM on its behalf. A proxy need not be a Shareholder of the Company. With respect to any Shareholder who has appointed more than one proxy, the proxy holders may only vote on a poll.
- (D) A proxy shall be appointed by a Shareholder by a written instrument signed by the appointor or his attorney duly authorized in writing. In case of a corporation, the same must be either under its common seal or under the hand of its legal representative or duly authorized attorney(s). If the written instrument is signed by an attorney of the appointor, the power of attorney or other documents of authorization of such attorney shall be notarized.
- (E) To be valid, the form of proxy and the relevant notarized power of attorney (if any) and other relevant documents of authorization (if any) as mentioned in Note (D) above must be delivered to the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for holders of H Shares or the Board of Directors office of the Company at 9th Floor, Peng Long Building, No. 10 Hua Wei Li, Chaoyang District, Beijing, the PRC for holders of Domestic Shares, not less than 24 hours before the time appointed for the EGM or any adjournment thereof (as the case may be). Completion and return of a form of proxy will not preclude a Shareholder from attending and voting in person at the meeting if he so desires.
- (F) A Shareholder or his proxy should produce proof of identity when attending the EGM. Where a Shareholder is a legal person, the legal representative of that Shareholder or the person authorized by its board of directors or other governing body shall produce a copy of the authorization documents of the board of directors or other governing body of such Shareholder appointing such person to attend the meeting.
- (G) The EGM is expected to last for not more than half a day. Shareholders who attend the EGM shall bear their own travelling and accommodation expenses.