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**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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

**If you have sold or transferred** all your securities in Xinchen China Power Holdings Limited, you should at once hand this circular to the purchaser, transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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**POWER XINCHEN**

新 晨 动 力

**XINCHEN CHINA POWER HOLDINGS LIMITED**

新 晨 中 國 動 力 控 股 有 限 公 司

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1148)**

- (1) MAJOR AND CONNECTED TRANSACTION –  
C3 ASSETS TRANSFER AGREEMENT;  
(2) MAJOR AND CONNECTED TRANSACTION –  
CALL OPTION;  
AND  
(3) NOTICE OF EXTRAORDINARY GENERAL MEETING**

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

 **金 融 有 限 公 司**  
OCTAL Capital Limited

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A letter from the Board is set out on pages 5 to 13 of this circular. A letter from the Independent Board Committee is set out on pages 14 to 15 of this circular. A letter from Octal Capital Limited, the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 16 to 31 of this circular.

A notice convening the Extraordinary General Meeting to be held at Tian & Di, 7/F, The Landmark Mandarin Oriental, The Landmark, 15 Queen's Road Central, Central, Hong Kong on Thursday, 15 June 2017 immediately after the conclusion of the annual general meeting of the Company (which is scheduled to be held at the same place on the same date at 9:00 a.m.) is set out on pages 46 to 48 of this circular. Whether or not you are able to attend the Extraordinary General Meeting, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon and deposit the same at the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the Extraordinary General Meeting or adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the Extraordinary General Meeting if you wish.

26 May 2017

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## DEFINITIONS

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

“Acquisition”	the acquisition of the C3 Acquired Assets by Mianyang Xincheng as contemplated under the C3 Assets Transfer Agreement
“Affiliated Facilities”	the equipment and facilities in connection with the operation of the C3 Crankshaft Production Line
“associates”	has the meaning ascribed thereto in the Listing Rules
“BBA”	BMW Brilliance Automotive Ltd. (華晨寶馬汽車有限公司*), a sino-foreign equity joint venture company incorporated in the PRC which is owned as to 50% by Shenyang Jinbei (an indirect wholly-owned subsidiary of Brilliance China) and 50% by BMW Holdings B.V.
“BMW AG”	Bayerische Motoren Werke Aktiengesellschaft
“Board”	the board of Directors
“Brilliance China”	Brilliance China Automotive Holdings Limited (華晨中國汽車控股有限公司*), a company incorporated in Bermuda, whose shares are listed on the Main Board of the Stock Exchange, and a controlling shareholder of the Company
“C3 Acquired Assets”	the C3 Crankshaft Production Line and the Affiliated Facilities
“C3 Assets Transfer Agreement”	an assets transfer agreement entered into between BBA and Mianyang Xincheng on 11 April 2017, pursuant to which BBA would transfer to Mianyang Xincheng the C3 Acquired Assets and the Transferred Contracts
“C3 Crankshaft Production Line”	the C3 crankshaft production line in Tiexi District of Shenyang City, the PRC which is currently owned and operated by BBA

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## DEFINITIONS

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“Call Option”	BBA’s right to buy all or any part of the C3 Acquired Assets together with the Transferred Contracts, and the equipment, facilities and related services as contemplated under the C3 Assets Transfer Agreement
“Closing”	the completion of the transactions contemplated under the C3 Assets Transfer Agreement
“Company”	Xinchen China Power Holdings Limited (新晨中國動力控股有限公司), an exempted company incorporated in the Cayman Islands with limited liability
“connected person”	has the meaning ascribed thereto in the Listing Rules
“Consideration”	the consideration for the C3 Acquired Assets under the C3 Assets Transfer Agreement
“controlling shareholder”	has the meaning ascribed thereto in the Listing Rules
“Director(s)”	director(s) of the Company
“Extraordinary General Meeting”	the extraordinary general meeting of the Company to be convened for the purpose of approving the transactions (including the grant of the Call Option pursuant thereto) contemplated under the C3 Assets Transfer Agreement
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Huachen”	Huachen Automotive Group Holdings Company Limited* (華晨汽車集團控股有限公司), a state-owned company incorporated in the PRC and a controlling shareholder of Brilliance China

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## DEFINITIONS

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“Independent Board Committee”	the independent committee of the Board comprising all the independent non-executive Directors, being Mr. Chi Guohua, Mr. Wang Jun, Mr. Huang Haibo and Mr. Wang Songlin
“Independent Financial Adviser”	Octal Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong), being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the C3 Assets Transfer Agreement
“Independent Shareholder(s)”	Shareholder(s) other than Brilliance China and its associates
“Latest Practicable Date”	means 23 May 2017, being the latest practicable date prior to the printing of this circular, for ascertaining certain information for inclusion in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mianyang Xincheng”	Mianyang Xincheng Engine Co., Ltd.* (綿陽新晨動力機械有限公司) (including its branches), a company incorporated in the PRC and an indirect wholly-owned subsidiary of the Company
“PRC”	The People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	means the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company

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## DEFINITIONS

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“Shareholder(s)”	holder(s) of the Share(s)
“Shenyang Jinbei”	Shenyang Jinbei Automotive Industry Holdings Co., Ltd.* (瀋陽金杯汽車工業控股有限公司), a company established in the PRC and an indirect wholly-owned subsidiary of Brilliance China
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Transferred Contracts”	the related contracts in connection with the operation of the C3 Crankshaft Production Line
“Wuliangye”	Sichuan Province Yibin Wuliangye Group Co., Ltd.* (四川省宜賓五糧液集團有限公司), a state-owned company incorporated in the PRC and a controlling shareholder of the Company
“%”	per cent.

\* for identification purposes only

*For the purposes of illustration only, any amount denominated in RMB in this circular was translated into HK\$ at the rate of RMB1 = HK\$1.12684. Such translations should not be construed as a representation that the amounts in question have been, could have been or could be, converted at any particular rate or at all.*

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LETTER FROM THE BOARD

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**POWER XINCHEN**

新 晨 動 力

**XINCHEN CHINA POWER HOLDINGS LIMITED**

新晨中國動力控股有限公司

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1148)**

*Executive Directors:*

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

Mr. Wang Yunxian (*Chief Executive Officer*)

*Non-executive Directors:*

Mr. Liu Tongfu

Mr. Yang Ming

*Independent non-executive Directors:*

Mr. Chi Guohua

Mr. Wang Jun

Mr. Huang Haibo

Mr. Wang Songlin

*Registered office:*

Clifton House

75 Fort Street

PO Box 1350

Grand Cayman KY1-1108

Cayman Islands

*Head office and principal*

*place of business:*

Suites 1602-05

Chater House

8 Connaught Road Central

Hong Kong

26 May 2017

*To all Shareholders*

Dear Sir/Madam,

- (1) MAJOR AND CONNECTED TRANSACTION –  
C3 ASSETS TRANSFER AGREEMENT;  
(2) MAJOR AND CONNECTED TRANSACTION –  
CALL OPTION;  
AND  
(3) NOTICE OF EXTRAORDINARY GENERAL MEETING**

**INTRODUCTION**

Reference is made to the Company's announcement dated 11 April 2017. On 11 April 2017 (after trading hours), Mianyang Xincheng entered into the C3 Assets Transfer Agreement with BBA pursuant to which BBA will transfer to Mianyang Xincheng the C3 Acquired Assets and the Transferred Contracts at a Consideration of approximately RMB419.91 million (equivalent to approximately HK\$473.17 million).

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## LETTER FROM THE BOARD

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The purpose of this circular is to provide you with, among other things, (1) details of the C3 Assets Transfer Agreement, (2) the letter from the Independent Board Committee to the Independent Shareholders, setting out its recommendations in connection with the C3 Assets Transfer Agreement, (3) the letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders in connection with the C3 Assets Transfer Agreement and (4) a notice to Shareholders convening the Extraordinary General Meeting to approve the transactions contemplated under the C3 Assets Transfer Agreement (including the grant of the Call Option) in accordance with the requirements of the Listing Rules.

### C3 ASSETS TRANSFER AGREEMENT

On 11 April 2017 (after trading hours), Mianyang Xinchun entered into the C3 Assets Transfer Agreement with BBA in connection with the Acquisition by Mianyang Xinchun of the C3 Acquired Assets and the Transferred Contracts from BBA.

<b>Date:</b>	11 April 2017 (after trading hours)
<b>Transferor:</b>	BBA
<b>Transferee:</b>	Mianyang Xinchun
<b>Subject matter:</b>	The C3 Acquired Assets comprise (i) the C3 Crankshaft Production Line and the Affiliated Facilities (including the supporting equipment and facilities to be transferred together with the C3 Crankshaft Production Line including, without limitation, industrial truck, lifting machine, milling machine, turning machine, drilling machine, grinding machine, ventilating system, cooling machine, powering equipment, switch, office equipment and logistic tools) and (ii) the Transferred Contracts. The C3 Crankshaft Production Line locates at No. 19, Road 13, Shenyang Economic and Technological Development Zone, Liaoning Province, the PRC with a production capacity of 200,000 products per year. As at the Latest Practicable Date, the main product of the C3 Crankshaft Production Line is B48 crankshaft. It is expected that after upgrading the C3 Crankshaft Production Line, it would then manufacture the enhanced Bx8 series of products.



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## LETTER FROM THE BOARD

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### **Consideration:**

The Consideration consists of (i) the fair market value of the C3 Acquired Assets and the Transferred Contracts, which shall not be higher than the book value of the C3 Acquired Assets and the Transferred Contracts plus a reasonable margin of 5% based on arm's length negotiations, (ii) value added tax and surcharge, and (iii) customs related tax, if any. The consideration for the C3 Acquired Assets is estimated to be approximately RMB419.91 million (equivalent to approximately HK\$473.17 million), after taking account of the book value of the C3 Acquired Assets of approximately RMB328.96 million (equivalent to approximately HK\$370.68 million) as at 31 December 2016, 5% margin on the book value of the C3 Acquired Assets of approximately RMB16.45 million (equivalent to approximately HK\$18.53 million); value added tax and surcharge of approximately of RMB66.48 million (equivalent to approximately HK\$74.91 million) and customs/duties that may be incurred by BBA for the transfer of imported equipment and facilities under the customs custody of approximately RMB8.03 million (equivalent to approximately HK\$9.05 million). The Consideration will be settled by internal resources and bank borrowing.

The original purchase costs of the C3 Acquired Assets were approximately RMB431.47 million (equivalent to approximately HK\$486.20 million). They were acquired by BBA pursuant to a facility procurement agreement executed in July 2014.

### **Conditions Precedent:**

The completion of the C3 Assets Transfer Agreement will occur after the satisfaction of the following conditions precedent:

- (i) the Consideration being fully paid by or on behalf of Mianyang Xinchun to BBA;
- (ii) BBA having obtained the approval from the competent customs authority and, if required by such customs authority, paid the relevant duty and tax in respect of the transfer of imported C3 Acquired Assets under customs custody (if any) pursuant to the applicable laws;
- (iii) the C3 Assets Transfer Agreement and the transactions contemplated thereunder having been approved by the Independent Shareholders;
- (iv) all necessary approvals, permits, licenses, registrations and filings from the competent development and reform commission and other related governmental authorities regarding environment protection and urban planning for the transactions contemplated under the C3 Assets Transfer Agreement being obtained by Mianyang Xinchun (if any);

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## LETTER FROM THE BOARD

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- (v) each party having obtained all necessary approvals from its shareholders or board of directors as required for the transactions contemplated under the C3 Assets Transfer Agreement in accordance with its articles of association; and
- (vi) each related transaction document has been duly executed by the relevant parties, and there is no reasonable suspicion that any of such transaction documents may not come into effect in accordance with its terms and conditions.

As at the Latest Practicable Date, save for items (i), (ii) and (iii) above, all conditions precedent have been fulfilled.

### **Closing:**

Subject to the satisfaction of the conditions, the parties agree that Closing is expected to take place on 27 May 2017 or any other date as agreed between the parties in writing.

### **Call Option:**

Pursuant to the C3 Assets Transfer Agreement, the Company has granted BBA the Call Option to buy back all or any part of the C3 Acquired Assets together with the Transferred Contracts, and the equipment, facilities and related services. As the Group is the sole crankshaft supplier of BBA, BBA requested the Group for the Call Option for managing any risk that may arise as a result of the Group's failure to deliver the products in time or to meet the product specifications, etc.

### **Key terms:**

Call Option exercise period: The period commencing from the date when the title of the C3 Acquired Assets is transferred to Mianyang Xinchun to the end of production date of Bx8 engines, which is estimated to be 31 December 2023.

Triggering events for exercise of the Call Option: (i) after the Closing, Mianyang Xinchun undergoes a change of control, or any mergers, split-up, transfer or other similar reorganizations that may involve BBA's or BMW's competitors or have a material negative impact on the performance of the C3 Assets Transfer Agreement and/or any other transaction agreements;

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## LETTER FROM THE BOARD

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- (ii) Mianyang Xincheng fails to supply to BBA with finished crankshafts as needed by BBA in accordance with an agreement regarding finished crankshafts except for certain exemptions;
- (iii) Mianyang Xincheng commits a breach of any of its post-closing obligations and fails to correct the same within 45 days from written notice being sent by BBA requiring the breach to be remedied;
- (iv) after the Closing, any transaction agreements regarding to the C3 Crankshaft Production Line other than the C3 Assets Transfer Agreement is terminated by BBA; or
- (v) after the Closing, Mianyang Xincheng becomes insolvent, files a petition for bankruptcy or insolvency, is subject to the appointment of a receiver or administrator over any of its assets, or other bankruptcy or insolvency proceedings are commenced by or against it.

Exercise price of the  
Call Option:

The Call Option exercise price shall be determined based on the fair market value of assets and the contracts to be repurchased, which shall be calculated with reference to the book value of the assets and the contracts plus a reasonable margin of 5% based on arm's length negotiations, value added tax and customs related tax.

The Company is unable to estimate the Call Option exercise price at this stage, as the fair market value of the assets will depend on various factors such as the amount of depreciation on the C3 Acquired Assets. The maximum exercise price of the Call Option for the C3 Acquired Assets is estimated to be approximately RMB412.79 million (equivalent to approximately HK\$465.15 million), being the amount of the book value of the C3 Acquired Assets and the Transferred Contracts plus a reasonable margin of 5%, value added tax and customs related tax, which is considered to be fair and reasonable and in the interests of the Company and its Shareholders as a whole. If and when the Call Option is exercised, the Company will make an announcement of the final exercise price.

If the Call Option is exercised, the parties shall, by signing a new asset transfer agreement, complete the transaction in relation to the Call Option within 60 days after BBA's written notice is provided to Mianyang Xincheng. Liquidated damages of 50% of the Call Option consideration is payable in the event of default unless the failure to complete is primarily attributable to BBA.

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## LETTER FROM THE BOARD

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### REASONS FOR AND BENEFITS OF ENTERING INTO THE C3 ASSETS TRANSFER AGREEMENT

The Group has been supplying crankshaft to BBA since 2015. Given that there is an increasing demand for crankshaft from BBA and the Group is exploring possibility of exporting certain units of crankshaft to BMW AG, the Group needs to expand the production capacity of its crankshaft line. Rather than acquiring a brand-new production line, the Group decided to acquire the C3 Acquired Assets from BBA, after considering, among others, (i) the C3 Acquired Assets are in a good condition, (ii) the C3 Crankshaft Production Line has been in operation for seven months only, the production processes of which have been optimised and proved to be stable and reliable, whereas the performance of a new production line may be relatively unstable, whereas the performance of a new production line may be relatively unstable, which may delay the Bx8 series of products production commencement date (which is expected to be mid of 2017), and (iii) the Group will be able to achieve certain degree of costs saving as the consideration for the C3 Crankshaft Production Line and the costs that may be involved for its enhancement and upgrade are cheaper than the costs such for a new production line. Therefore, the Group decided to enter the C3 Assets Transfer Agreement with BBA for the purpose of acquiring an additional crankshaft line.

The Directors (excluding directors who had abstained from voting on the resolution) consider that the transactions contemplated under the C3 Assets Transfer Agreement (including the grant of the Call Option) to be in the interests of the Company and the Shareholders as a whole; on normal commercial terms or better and in the ordinary and usual course of business of the Group; and that the terms of the C3 Assets Transfer Agreement (including the grant of the Call Option) to be fair and reasonable.

### FINANCIAL EFFECTS OF THE ACQUISITION

Upon the completion of the C3 Assets Transfer Agreement, property, plant and equipment and trade and other receivables will be increased by approximately RMB353.42 million (equivalent to approximately HK\$398.25 million) and RMB66.48 million (equivalent to approximately HK\$74.91 million), respectively. Assuming the consideration will be settled by cash, there will be a decrease of approximately RMB419.90 million (equivalent to approximately HK\$473.16 million) in bank balances and cash. The value added tax to be paid pursuant to the C3 Assets Transfer Agreement will be used to set-off other value added tax obligations of the Group. The supply of finished crankshaft to BBA following completion of the acquisition of the C3 Crankshaft Production Line is expected to generate additional revenue and profit, so the Group believes that the acquisition of the C3 Acquired Assets will bring a positive effect on the earnings of the Group. The Group intends to settle the consideration through bank borrowing and internal resources. Should the Group raise cash from bank borrowing to finance the acquisition of the C3 Crankshaft Production Line, both the total assets and total liabilities will be increased by the same amount while there may be an increase in the Group's debt-to-equity ratio.

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## LETTER FROM THE BOARD

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### FINANCIAL EFFECTS OF THE CALL OPTION

Should BBA exercises the Call Option, the Group will be required to transfer all or part of the C3 Acquired Assets together with the Transferred Contracts, and the equipment, facilities and related services to BBA at a consideration based on the book value of relevant assets and the contracts plus a 5% margin. The difference between the final consideration and net book value of the relevant assets and contracts being transferred to BBA will be recognised in the profit and loss of the Group in the same period. As explained above, the consideration payable upon exercise of the Call Option is dependant on various factors such as when the Call Option is exercised, which in turn will affect the amount of depreciation on the assets. Accordingly, it would not be meaningful to provide a numerical description of the financial effects of the Call Option as any calculation would require various assumptions to be made. Assuming that BBA exercises the Call Option shortly after the acquisition, the Group expects to receive cash inflow from the disposal of relevant assets based on the net book value plus a 5% margin which will in turn increase the total assets of the Group, while the Group will be responsible for certain costs related to the exercise of the Call Option, which will increase the total liabilities of the Group. After transferring the C3 Crankshaft Production Line back to BBA, the Group may not be able to supply finished crankshaft to BBA. Therefore, the Group believes that the exercise of the Call Option will have negative impact on the total earnings of the Group.

### INFORMATION OF THE PARTIES INVOLVED

#### The Group

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

#### BBA

BBA is a sino-foreign equity joint venture company incorporated in the PRC and is owned as to 50% by Shenyang Jinbei, an indirect wholly-owned subsidiary of Brilliance China, and 50% by BMW Holding B.V. The principal activities of BBA include but are not limited to manufacture and sale of BMW vehicles.

### LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, Brilliance China is interested in 400,000,000 Shares, representing approximately 31.20% of the issued share capital of the Company. Accordingly, Brilliance China is a connected person of the Company under Rule 14A.07(1) of the Listing Rules.

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## LETTER FROM THE BOARD

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Brilliance China is indirectly interested in 50% of the issued share capital of BBA. As BBA is an associate of Brilliance China, it is a connected person of the Company under Chapter 14A of the Listing Rules.

Mianyang Xinchun is an indirect wholly-owned subsidiary of the Company.

As one or more of the applicable percentage ratios under the Listing Rules in respect of each of the Acquisition and the Call Option exceed(s) 25% or more but less than 100%, each of the Acquisition and the Call Option constitutes a major and connected transaction of the Company. Accordingly, each of the Acquisition and the Call Option is subject to the reporting, announcement and Independent Shareholder's approval requirements under Chapter 14 and/or Chapter 14A of the Listing Rules.

Mr. Wu Xiao An, an executive Director, is also the chairman and an executive director of Brilliance China and a director of Huachen (which is a controlling shareholder of Brilliance China and a deemed connected person of the Company by the Stock Exchange). Mr. Liu Tongfu, a non-executive Director, is also a director of Huachen (which is a controlling shareholder of Brilliance China and deemed connected person of the Company by the Stock Exchange). Accordingly, Mr. Wu Xiao An and Mr. Liu Tongfu had abstained from voting on the Board resolutions in respect of the C3 Assets Transfer Agreement and the transactions contemplated under the C3 Assets Transfer Agreement (including the grant of the Call Option).

### **EXTRAORDINARY GENERAL MEETING**

The Company will convene the Extraordinary General Meeting to, among other things, consider and approve the C3 Assets Transfer Agreement, and the transactions (including the grant of the Call Option) contemplated thereunder. The notice convening the Extraordinary General Meeting is set out on pages 46 to 48 of this circular. Brilliance China is interested in 400,000,000 Shares, representing approximately 31.20% of the issued share capital of the Company as at the Latest Practicable Date. Mr. Wu Xiao An is interested and deemed to be interested in an aggregate of 42,313,426 Shares, representing approximately 3.30% of the issued share capital of the Company. Brilliance China, Mr. Wu Xiao An and their respective associates are required to abstain from voting at the Extraordinary General Meeting in relation to the C3 Assets Transfer Agreement. Save as disclosed, none of the Shareholders have any material interest in the transactions contemplated under the C3 Assets Transfer Agreement (including the grant of the Call Option) and therefore are not required to abstain from voting at the Extraordinary General Meeting.

Pursuant to the Listing Rules, voting by poll is mandatory at all general meetings (except where the chairman of the meeting, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands). The chairman of the Extraordinary General Meeting will demand a poll on the resolution proposed at the Extraordinary General Meeting. The results of the poll will be published on the websites of the Company and the Stock Exchange on the day of the Extraordinary General Meeting.

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## LETTER FROM THE BOARD

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A proxy form for use at the Extraordinary General Meeting is enclosed. Whether or not you are able to attend the Extraordinary General Meeting, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon and deposit the same at the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the Extraordinary General Meeting or adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the Extraordinary General Meeting if you wish.

### RECOMMENDATION

The Directors (including the independent non-executive Directors whose views have been set out in this circular after taking into consideration the advice of the Independent Financial Adviser, and except for Mr. Wu Xiao An and Mr. Liu Tongfu who had abstained from voting on the Board resolutions) are of the view that the transactions contemplated under the C3 Assets Transfer Agreement (including the grant of the Call Option) are on normal commercial terms, in the ordinary and usual course of business of the Company and such terms are fair and reasonable and in the interests of the Company and its Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors, except for Mr. Wu Xiao An and Mr. Liu Tongfu who had abstained from voting on the Board resolutions) recommend the Independent Shareholders to vote in favour of the resolution in relation to the C3 Assets Transfer Agreement (including the grant of the Call Option) to be proposed at the Extraordinary General Meeting.

### ADDITIONAL INFORMATION

Your attention is drawn to the (i) the letter from the Independent Board Committee as set out on pages 14 to 15 of this circular which contains its recommendation to the Independent Shareholders as to voting at the Extraordinary General Meeting, and (ii) the letter from the Independent Financial Adviser as set out on pages 16 to 31 of this circular which contains, among others, its advice to the Independent Board Committee and the Independent Shareholders.

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

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**LETTER FROM THE INDEPENDENT BOARD COMMITTEE**

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**POWER XINCHEN**

**新 晨 动 力**

**XINCHEN CHINA POWER HOLDINGS LIMITED**

**新晨中國動力控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1148)**

26 May 2017

*To the Independent Shareholders*

Dear Sir or Madam,

**MAJOR AND CONNECTED TRANSACTION –  
C3 ASSETS TRANSFER AGREEMENT;  
AND  
MAJOR AND CONNECTED TRANSACTION –  
CALL OPTION**

We refer to the circular issued by the Company to Shareholders dated 26 May 2017 (the “Circular”) of which this letter forms part. Terms defined in this Circular shall have the same meanings in this letter unless the context otherwise requires.

We have been appointed as the Independent Board Committee to consider the terms of the C3 Assets Transfer Agreement and to advise the Independent Shareholders in connection with the C3 Assets Transfer Agreement and the transactions (including the grant of the Call Option) contemplated thereunder as to whether, in our opinion, their terms are fair and reasonable so far as the Independent Shareholders are concerned, and on normal commercial terms or better and in the ordinary and usual course of business of the Group, and whether the C3 Assets Transfer Agreement and the transactions (including the grant of the Call Option) contemplated thereunder are in the interests of the Company and the Shareholders as a whole. Octal Capital Limited has been appointed as the Independent Financial Adviser to advise us in this respect.

We wish to draw your attention to the letter from the Board and the letter from the Independent Financial Adviser as set out in the Circular. Having taken into account the principal factors and reasons considered by, and the advice of, the Independent Financial Adviser as set out in its letter of advice, we consider that the terms of the C3 Assets Transfer Agreement and the transactions (including the grant of the Call Option) contemplated thereunder to be fair and reasonable so far as the interests of the Independent Shareholders are concerned on normal



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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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commercial terms or better and in the ordinary and usual course of business of the Group and to be in the interests of the Company and the Shareholders as a whole. We therefore recommend the Independent Shareholders to vote in favour of the relevant resolution to approve the C3 Assets Transfer Agreement and the transactions (including the grant of the Call Option) contemplated thereunder in the Extraordinary General Meeting.

Yours faithfully,

For and on behalf of the Independent Board Committee of

**Xinchen China Power Holdings Limited**

**Chi Guohua**

**Wang Jun**

**Huang Haibo**

**Wang Songlin**

*Independent non-executive Directors*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

26 May 2017

*To the Independent Board Committee and the Independent Shareholders*

Dear Sirs,

### MAJOR AND CONNECTED TRANSACTION IN RELATION TO C3 ASSETS TRANSFER AGREEMENT

#### INTRODUCTION

We refer to our engagement to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the C3 Assets Transfer Agreement (including the grant of the Call Option), particulars of which are set out in the letter from the Board (the “**Letter from the Board**”) of the circular to the Shareholders dated 26 May 2017 (the “**Circular**”) and in which this letter is reproduced. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as given to them under the definitions section of the Circular.

As set out in the Letter from the Board, on 11 April 2017, Mianyang Xinchun and BBA entered into the C3 Assets Transfer Agreement, pursuant to which BBA will transfer to Mianyang Xinchun the C3 Acquired Assets (including the Transferred Contracts), and the Company has granted BBA the Call Option to buy back all or any part of the C3 Acquired Assets together with the Transferred Contracts, the equipment, facilities and related services.

As at the Latest Practicable Date, Brilliance China, the controlling shareholder of the Company, is indirectly interested in 50% of the issued share capital of BBA. As BBA is an associate of Brilliance China, it is a connected person of the Company under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios under the Listing Rules in respect each of the Acquisition and the Call Option exceed(s) 25% or more but less than 100%, each of the Acquisition and the Call Option constitutes a major and connected transaction of the Company. Accordingly, each of the Acquisition and the Call Option is subject to the reporting, announcement and Independent Shareholder’s approval requirements under Chapter 14 and Chapter 14A of the Listing Rules.

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In view of the foregoing, the Company will seek approval of the Independent Shareholders on the Acquisition (including the grant of the Call Option under the C3 Assets Transfer Agreement) at the Extraordinary General Meeting. In addition, Mr. Wu Xiao An, an executive Director, who is also the chairman and an executive director of Brilliance China and a director of Huachen (which is a controlling shareholder of Brilliance China and deemed connected person of the Company by the Stock Exchange), and Mr. Liu Tongfu, a non-executive Director, who is also a director of Huachen, are deemed to have a material interest in the transactions contemplated under the C3 Assets Transfer Agreement and had abstained from voting on the Board resolutions in respect of the C3 Assets Transfer Agreement (including the grant of the Call Option). As at the Latest Practicable Date, Brilliance China is interested in 400,000,000 Shares, representing approximately 31.20% of the issued share capital of the Company. On the other hand, Mr. Wu Xiao An is interested or deemed to be interested in an aggregate of approximately 3.30% of the issued share capital of the Company. Accordingly, Mr. Wu Xiao An, Brilliance China and their respective associates are required to abstain from voting on the ordinary resolution in relation to the C3 Assets Transfer Agreement (including the grant of the Call Option) at the Extraordinary General Meeting, at which the proposed resolution will be passed by way of ordinary resolution and voting will be conducted by way of poll in accordance with the requirements of the Listing Rules.

The Independent Board Committee comprising all the independent non-executive Directors, being Mr. Chi Guohua, Mr. Wang Jun, Mr. Huang Haibo and Mr. Wang Songlin, has been established to advise the Independent Shareholders in respect of whether the terms of the C3 Assets Transfer Agreement (including the grant of the Call Option) contemplated thereunder are fair and reasonable so far as the interests of the Independent Shareholders are concerned and whether such terms are on normal commercial terms or better and in the ordinary and usual course of business of the Group and whether the transactions contemplated under the C3 Assets Transfer Agreement (including the grant of the Call Option) are in the interests of the Company and the Shareholders as a whole. In this regard, Octal Capital Limited has been appointed as the independent financial adviser to the Independent Board Committee and the Independent Shareholders.

As at the Latest Practicable Date, we, Octal Capital Limited, are not connected with the Directors, chief executive and substantial shareholders of the Company, Mianyang Xinchun, Brilliance China, BBA or any of their respective subsidiaries or associates and are therefore considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders. During the last two years, we were engaged as an independent financial adviser to the Company in respect of certain connected transactions (details of which are set out in the circulars of the Company dated 16 November 2015, 27 July 2016 and 12 October 2016). Under such engagements, we were required to express our opinion on and give recommendation to the Independent Board Committee and the Shareholders in respect of the relevant transactions. Apart from normal professional fees payable to us by the Company in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company or the directors, chief executive and substantial shareholders of the Company, Mianyang Xinchun, Brilliance China and BBA or any of their respective subsidiaries or associates.

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In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Circular and have assumed that all information and representations made or referred to in the Circular were true at the time they were made and continue to be true as at the Latest Practicable Date. We have also relied on our discussions with the Directors and management of the Company regarding the Group and the C3 Assets Transfer Agreement including the information and representations contained in the Circular. We have also assumed that all statements of belief, opinion and intention made by the Directors and management of the Company in the Circular were reasonably made after due enquiry. We consider that we have reviewed sufficient information to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have no reason to suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in the Circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and management of the Company. We have not, however, conducted an independent in-depth investigation into the business and affairs of the Group, Mianyang Xincheng, Brilliance China, BBA and their respective controlling shareholder(s) and associates nor have we carried out any independent verification of the information supplied.

### **MAJOR AND CONNECTED TRANSACTIONS: ACQUISITION OF THE C3 ACQUIRED ASSETS (INCLUDING THE GRANT OF THE CALL OPTION)**

#### **Principle factors and reasons considered**

In arriving at our opinion regarding the terms of the C3 Assets Transfer Agreement (including the grant of the Call Option), we have considered the following principal factors and reasons:

#### **1. *Background of and reasons for the Acquisition***

- *Information of the Group and the counterparty*

The Group is principally engaged in the development, manufacture and sale of automotive engines for passenger vehicles and light duty commercial vehicles and manufacture of engine parts and components of the passenger vehicles in the PRC. On the other hand, BBA is a sino-foreign equity joint venture company incorporated in the PRC and is owned as to 50% by Shenyang Jinbei, an indirect wholly-owned subsidiary of Brilliance China, and 50% by BMW Holding B.V. The principal activities of BBA include but are not limited to manufacture and sale of BMW vehicles. Set out below is the extract from

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the annual report for the year ended 31 December 2015 (the “**2015 Annual Report**”) and the annual report for the year ended 31 December 2016 (the “**2016 Annual Report**”) of the Company. During the two years ended 31 December 2016, sale of gasoline engines and engine components and service income have been the principal source of revenue of the Group and contributed approximately 90% of the total revenue of the Group.

	<b>For the year ended 31 December</b>	
	<b>2016</b>	<b>2015</b>
	<i>RMB'000</i>	<i>RMB'000</i>
	(audited)	(audited)
Revenue (by product segment)		
– Gasoline engines	2,696,215	2,568,436
– Diesel engines	267,931	262,772
– Engine components and service income	498,314	438,123
Total Revenue	3,462,460	3,269,331
Profit before tax	228,263	270,759
Profit after tax	185,896	224,665
Net assets	2,864,310	2,679,421
Cash and cash equivalents	306,014	288,212

During the years ended 31 December 2015 and 2016, gasoline engines and engine components and service income have been the principal source of revenue of the Group and contributed approximately 86.6% and 85.6% of the total revenue of the Group, respectively. During the year ended 31 December 2016, the engine business segment recorded an increase of approximately 4.7% in revenue, the increase was mainly due to increase in sale of traditional small engine. During the same period, the engine components and service income segment also recorded approximately 13.7% increase in revenue, which was mainly due to full year contribution of crankshaft business in 2016 with recorded sales of around 259,100 units, representing an increase of approximately 62.0% from around 159,900 units in 2015. However, the Group recorded a decrease in profit attributable to owners of the Company of approximately 17.3% from approximately RMB224.7 million for the year ended 31 December 2015 to approximately RMB185.9 million for the year ended 31 December 2016. Such decrease was mainly due to an increase of total depreciation and amortization charge of approximately RMB73.0 million for property, plant and equipment and intangible assets during the year 2016.

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- *Information on the C3 Acquired Assets*

The C3 Acquired Assets comprise (i) the C3 Crankshaft Production Line and the Affiliated Facilities (including the supporting equipment and facilities to be transferred together with the C3 Crankshaft Production Line including, without limitation, industrial truck, lifting machine, milling machine, turning machine, drilling machine, grinding machine, ventilating system, cooling machine, powering equipment, switch, office equipment and logistic tools) and (ii) the Transferred Contracts. The C3 Acquired Assets are located in a production facility at Shenyang Economic and Technology Development Zone, Tiexi District, Shenyang, the PRC.

The C3 Acquired Assets have been in-use for operation by BBA since October 2016 for the production of crankshafts to be equipped in B48 engines. The original purchase costs of the C3 Acquired Assets were approximately RMB431.47 million (equivalent to approximately HK\$486.20 million). The estimated useful life of plant and machinery of similar nature is approximately 10 years. As the C3 Acquired Assets (along with the equipment and facilities under the Transferred Contracts) have only been used for seven months, the remaining lifespan of the C3 Acquired Assets is estimated to be approximately 9.4 years. The designed production capacity of the C3 Acquired Assets is approximately 180,000 units of crankshaft per year.

- *Reasons for entering into the C3 Assets Transfer Agreement*

References are made to the Company's circulars dated 18 February 2015, the Company's announcement dated 6 April 2016 and the Company's circulars dated 12 October 2016 in relation to, inter alia, the acquisition of the crankshaft production line from BBA and the expansion plan and investment plan regarding the upgrade and investment of the crankshaft production line and the subsequent commitment to the expansion plan contemplated therein by Mianyang Xincheng.

The Group acquired its first crankshaft production line from BBA in February 2015. As part of such acquisition, Mianyang Xincheng committed to an expansion plan for expanding the production capacity of and upgrading the acquired crankshaft production line and making certain investments in respect of the expansion plan from 2015 to 2018. Since then, the operation efficiency of the crankshaft production line has been improved under the guidance of

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BMW AG and BBA. Subsequently in April 2016, as part of the expansion plan, Mianyang Xincheng further acquired from BBA certain enhancement equipment and facilities and the related consumables in connection with the operation of the acquired crankshaft production line to enable it to produce crankshafts for Bx8 engines. As advised by the Company, the Acquisition is part of the expansion plan of the Company in expanding the production capacity of finished crankshafts and carrying out the future operation of the C3 Acquired Assets at the costs of Mianyang Xincheng with the related consulting and technical support from BBA under the second term of the compliance agreement entered into between BBA, the Company and Mianyang Xincheng in relation to the sale and purchase of engines, engine parts and components and raw materials for manufacturing engines and engine parts and components and the provision of related services (details of which are set out in the circular of the Company dated 12 October 2016) in anticipation of the increased sales to BBA.

According to the China Association of Automobile Manufacturers, the sale of passenger vehicle and commercial vehicle segments increased in 2016. As set out in Brilliance China's annual report for the financial year ended 31 December 2016, Brilliance China achieved sales of 310,026 BMW vehicles in 2016, representing an increase of approximately 8.0% as compared to the same period in 2015. Besides, as advised by the Company, the estimated demand of finished crankshaft for Bx8 engines by BBA for the two years ending 31 December 2019 will increase gradually as compared to the year ending 31 December 2017, mainly due to Bx8 engines gradually replaced N20 engines for some of the BMW models of BBA since 2016 and the expectation of BBA that the target sale of vehicles (with Bx8 engines installed) will increase in the foreseeable future. The current production capacity of the crankshaft production line is approximately 400,000 units per annum, and the utilization rate of the crankshaft production line for the year ended 31 December 2016 (adjusted for the available production period upon completion of the upgrade of the existing crankshaft production line on 15 April 2016) is approximately 81%, it is expected that the current production capacity will not be sufficient to accommodate the expected increase in demand for finished crankshafts as required by BBA in 2018. Furthermore, as advised by the Company, upon completion of certain modification and upgrades on the C3 Acquired Assets, the designed production capacity of the C3 Acquired Assets will be increased to approximately 200,000 units of crankshaft per year, which subject to the demand of BBA, the C3 Acquired Assets can be further modified to increase its

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designed production capacity up to 400,000 units of crankshafts per year, which the Directors believe will provide a sufficient buffer for the increasing demand of crankshafts in the foreseeable future. As such, there is a strong business need for the Company to further expand its current production capacity of crankshaft in order to accommodate the increasing demand of crankshaft from BBA, and provide sufficient production capacity to cater for the possible export supply of crankshaft to BMW AG.

Strategically, by acquiring the C3 Acquired Assets, the Group is able to obtain the world class technology and have an immediate enhancement in the production capacity of crankshafts in the most efficient way, as compared to making its own investment in developing its own production line which is time consuming and capital intensive, and the end results is uncertain. Therefore, the Group and BBA decided to transfer the C3 Acquired Assets from BBA to Mianyang Xincheng, which will then be modified and tested before commencement of production of crankshaft to meet the specifications required by BBA, after considering, among others, (i) the C3 Acquired Assets are in a good condition with the estimated remaining lifespan of the C3 Acquired Assets of approximately 9.4 years; (ii) the C3 Crankshaft Production Line (as upgraded and modified under the Transferred Contracts) has been in operation for seven months only, the production of which has been optimized and proved to be stable and reliable, whereas the performance of a new production line may be relatively unstable, which may delay the crankshaft production commencement date (which is expected to be mid of 2017 shortly after the Closing); and (iii) the Group will be able to achieve certain degree of costs saving as the consideration for the C3 Acquired Assets and the costs that may be involved for its logistic arrangement and assembly are cheaper than that for building and assembling a new production line. Further, crankshaft production will continue to be one of the main business focuses in the development of core engine parts and components business of the Group for foreign-branded auto manufacturer(s), especially for BBA. Based on the above, we are of the view that the Acquisition is in line with the Group's business strategy and is therefore in the ordinary and usual course of the Group's business.



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As part of our due diligence, we have obtained from the Company and reviewed the purchasing analysis in relation to the investment comparison on building a new production line and purchasing the C3 Acquired Assets for increasing the production capacity of crankshafts. We have discussed with the management of the Company and we noted that the C3 Acquired Assets are currently in operation and producing crankshafts for BBA, the estimated cost of modifying and testing the C3 Acquired Assets to become readily available for crankshaft production will be significantly reduced. Moreover, the C3 Acquired Assets will be transferred in a functioning condition along with the supporting equipment and facilities and other upgrade improvements under the Transferred Contracts, whereas the estimated cost of procuring and customizing the brand new supporting equipment and facilities from third party suppliers will be much higher. Upon comparison, approximately RMB112.6 million will be saved from building a new production line by the Company. Moreover, it is expected that approximately 3.0 years' time is required for building up a new production line and additional resources will be required (i.e. production consultants, technicians, and management supervisors, etc.) for calibrating the new production line and equipment into workable condition for accreditation by BBA before commencement of crankshaft production. In contrast, to completely knock-down the C3 Acquired Assets for re-assembly and re-tooling in the designated site where all the equipment and process under the C3 Acquired Assets are qualified for the stringent requirement and specifications provided by BBA at its existing operation would lower the costs for the calibration process as mentioned above. Based on the aforesaid, we concur with the Directors' view that acquiring the C3 Acquired Assets is a more cost-saving and efficient approach for expanding production capacity for crankshaft and therefore is in the interest of the Company.

Based on the above, we consider that there is a strong commercial rationale for the Company to enter into the C3 Assets Transfer Agreement for increasing the production capacity of crankshafts, which will enable the Group to further enhance its profitability potential in the engine component business segment.

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### 2. *Terms of the Acquisition*

- *Consideration*

As set out in the Letter from the Board, the Consideration consists of (i) the fair market value of the C3 Acquired Assets and the equipment and facilities under the Transferred Contracts, which shall not be higher than the book value of the C3 Acquired Assets (including the Transferred Contracts) plus a reasonable margin of 5% based on arm's length negotiations, (ii) value added tax and surcharge, and (iii) customs related tax, if any. The fair market value was determined applying the cost approach, based on net book value of the C3 Acquired Assets and the equipment and facilities under the Transferred Contracts (which is the total capital invested by BBA in purchasing the C3 Acquired Assets and improving the C3 Acquired Assets with the equipment and facilities under the Transferred Contracts less depreciation). The margin was determined with reference to the internal target profit margin reasonably agreed upon by the Group and BBA. Having considered the nature of the C3 Acquired Assets and the equipment and facilities under the Transferred Contracts being fixed assets (equipment and machineries) and hence the net book value of which is a reasonable representation of its value given the C3 Acquired Assets have only depreciated during a period of seven months, we are of view that the fair market value which is based on the net book value of the C3 Acquired Assets and the equipment and facilities under the Transferred Contracts are fair and reasonable.

The consideration for the C3 Acquired Assets is estimated to be approximately RMB419.91 million (equivalent to approximately HK\$473.17 million), after taking into account of the book value of the C3 Acquired Assets of approximately RMB328.96 million (equivalent to approximately HK\$370.68 million) as at 31 December 2016, 5% margin on the sum of the book value of the C3 Acquired Assets of approximately RMB16.45 million (equivalent to approximately HK\$18.53 million), value added tax and surcharge of approximately of RMB66.48 million (equivalent to approximately HK\$74.91 million) and customs/duties that may be incurred by BBA for the transfer of imported equipment and facilities under the customs custody of approximately RMB8.03 million (equivalent to approximately HK\$9.05 million). The Consideration will be settled by internal resources and bank borrowing.

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As mentioned above, we consider that the determination of the consideration by making reference to the net book value of the C3 Acquired Assets as reasonable and in line with market practice. In addition to the inevitable tax surcharges such as value added tax and custom duty that must be complied according to relevant rules and regulation when acquiring assets in the PRC, the 5% reasonable margin is determined based on an arm's length negotiation with the counterparty and with reference to the profit margins of other similar connected transactions between the Group and BBA which we consider to be in line with market practice.

To assess the fairness and reasonableness of the Consideration, we performed a comparables analysis through identifying companies principally engaged in the automobile industry and listed on the Main Board of the Stock Exchange which announced acquisition of production lines/facilities of automobiles, automotive components and/or parts in the past two years from connected parties. In view of the terms of the C3 Assets Transfer Agreement being a direct acquisition of the C3 Acquired Assets by the Group, we have disregarded those transactions which involved acquisition of equity interest in companies as we noted such acquisitions involve, in most cases, the sale and purchase of the target company's business operations, liabilities, human resources and intangible assets in addition to the production lines/facilities themselves. We consider that the inclusion of which in our comparables analysis would render the comparison less fair and meaningful based on the fact that the Group would solely acquire the C3 Acquired Assets.

Based on the above criteria, we have endeavored to find but were unable to identify any close comparable transactions, save for the discloseable and connected transaction of the Company conducted in October 2016, which the Company acquired from BBA the N20 Engine Assembly Line and the affiliated facilities for the purpose of modifying and upgrading for the production of prince engines, the consideration of the production facilities represented a premium margin of 5% to the net book value of the production facilities acquired which is the same as the consideration structure under the C3 Assets Transfer Agreement. Given the limited search results, we further broadened our search to cover other industries and all major acquisitions and/or very substantial acquisitions conducted by any Main Board listed companies with independent third parties in the past two years that involved acquisition of production lines/facilities, which however still yields no comparable transactions for our analysis. In light of the foregoing, we are of the view that there are limited comparable transactions available in the market for any meaningful comparison and assessment of the consideration.

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Having considered (i) the strategic benefits of the C3 Assets Transfer Agreement to the Group as discussed in the paragraph headed “Reasons for and benefits of entering into the C3 Assets Transfer Agreement” above, particularly the cost and time savings in acquiring an existing production facility against constructing the facilities by the Group itself; (ii) the result of our comparables analysis; and (iii) the counterparty of the transaction being BBA who is a reputable business partner with long-term collaboration and the C3 Crankshaft Production Line, along with the Transferred Contracts, have been built and developed in accordance with BMW’s world class quality standard, we are of the view that the 5% margin over the net book value of the C3 Acquired Assets is acceptable and reasonable and we consider the adoption of book value as primary basis for determining the Consideration is fair and reasonable.

- *Call option*

Pursuant to the C3 Assets Transfer Agreement, the Company has granted BBA the Call Option to buy back all or any part of the C3 Acquired Assets together with the Transferred Contracts, and the equipment, facilities and related services. The key terms of the Call Option are summarized below:

Call Option exercise period:	The period commencing from the date when the title of the C3 Acquired Assets is transferred to Mianyang Xincheng to the end of production date of Bx8 engines, which is estimated to be 31 December 2023.
Triggering events for exercise of the Call Option:	<ul style="list-style-type: none"><li>(i) after the Closing, Mianyang Xincheng undergoes a change of control, or any mergers, split-up, transfer or other similar reorganizations that may involve BBA’s or BMW’s competitors or have a material negative impact on the performance of the C3 Assets Transfer Agreement and/or any other transaction agreements;</li><li>(ii) Mianyang Xincheng fails to supply to BBA with finished crankshafts as needed by BBA in accordance with an agreement regarding finished crankshafts except for certain exemptions;</li></ul>

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- (iii) Mianyang Xinchun commits a breach of any of its post-closing obligations and fails to correct the same within 45 days from written notice being sent by BBA requiring the breach to be remedied;
- (iv) after the Closing, any transaction agreements regarding to the C3 Crankshaft Production Line other than the C3 Assets Transfer Agreement is terminated by BBA; or
- (v) after the Closing, Mianyang Xinchun becomes insolvent, files a petition for bankruptcy or insolvency, is subject to the appointment of a receiver or administrator over any of its assets, or other bankruptcy or insolvency proceedings are commenced by or against it.

Exercise price of the  
Call Option:

The Call Option exercise price shall be determined based on the fair market value of assets and the contracts to be repurchased, but shall not be higher than the book value of the assets and the contracts plus a reasonable margin of 5% based on arm's length negotiations.

As set out in the Letter from the Board, the Company is unable to estimate the Call Option exercise price at this stage, as the fair market value of the C3 Acquired Assets will depend on various factors such as the amount of depreciation on the C3 Acquired Assets at the time of the exercise of the Call Option. It is expected that the fair market value will be determined applying the cost approach, based on net book value of the assets (which will be the total investment amount to be paid by the Group less depreciation). As stated above, the Consideration under the C3 Assets Transfer Agreement for the Acquisition will be approximately RMB419.91 million (equivalent to approximately HK\$473.17 million). The maximum exercise price of the Call Option is estimated to be approximately RMB412.79 million (equivalent to approximately HK\$465.15 million), being the aggregated amount of the consideration comprising the book value of the C3 Acquired Assets (including the Transferred Contracts) plus a reasonable margin of 5% on the book value of the relevant assets, value added tax and customs related tax.

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If the Call Option is exercised, the parties shall, by signing a new asset transfer agreement, complete the transaction in relation to the Call Option within 60 days after BBA's written notice is provided to Mianyang Xincheng. Liquidated damages of 50% of the Call Option consideration is payable in the event of default unless the failure to complete is primarily attributable to BBA.

As advised by the Company, the Acquisition represents the complete transfer of the production of finished crankshafts from BBA to the Group. Upon Closing, the Group will become the sole crankshaft supplier of BBA in the PRC. Since the finished crankshafts produced by the C3 Acquired Assets are one of the core components for BBA in producing Bx8 engines, in order to maintain a stable supply of its core production components for BBA, same as the previous acquisitions of the crankshaft production line by the Company in 2015 (details of which are set out in the circular of the Company dated 18 February 2015), the Call Option under the C3 Assets Transfer Agreement granted to BBA as per BBA's request serves the purpose of protecting its interest and its investment in the C3 Crankshaft Production Line and to minimize the possible potential impact from certain undesirable events which may occur after the completion of the Acquisition, one of which would be Mianyang Xincheng failing to supply to BBA with finished crankshafts as needed by BBA in accordance with the C3 Asset Transfer Agreement. The Call Option is exercisable by BBA at its own discretion subject to the occurrence of the triggering events during the exercise period and BBA shall inform the Group in writing should BBA decided to exercise the Call Option.

Based on the terms and conditions of the Call Option stated above, we consider the Call Option is also beneficial to the Group in case of the occurrence of the undesirable events. When acquiring a new production line, the Company could encounter many unforeseeable circumstances and the C3 Acquired Assets may not be suitable to fulfill the purposes for which they have been originally acquired for, i.e. plant capacity may be inadequate, lack of operating skills of the engineers and management staff, frequent unnecessary break-downs or maintenances, etc.. In the event that such undesirable events occur and result in the Group no longer able to supply finished crankshafts at the required standards set by BBA, in the absence of the Call Option: 1) the Group may attempt to re-modify and/or upgrade the C3 Acquired Assets which can be used in the production of other products of the Group; or 2) the Group may attempt to dispose of the C3 Acquired Assets to third party. However, under option (1), the re-modification and/or upgrade of the C3 Acquired Assets may involve unpredictable time and resources and the end results may not be promising to be in the interest of the Group; Whereas under option (2) above,

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should the Group attempt to dispose of the C3 Acquired Assets, since they are tailor-made for the production of finished crankshafts to be used in specific models of BMW vehicles, it may be difficult for the Group to locate a willing buyer in the market for the C3 Acquired Assets and the selling price of the C3 Acquired Assets will be uncertain. Based on the above, despite the Call Option is exercisable by BBA at its own discretion subject to the occurrence of the triggering events, the Call Option in fact represents an exit mechanism for the Group to dispose of the C3 Crankshaft Production Line at a reasonable price within a short timeframe when the Group is no longer able to supply the finished crankshafts at the required standards set by BBA. Therefore, on one hand the Call Option will provide certainty to BBA for stable supply of finished crankshafts for the production of Bx8 engines, but on the other hand the Call Option will also grant the Company a mechanism to compensate for the investment cost of the C3 Acquired Assets and allow re-allocation of the available resources and working capital from the disposal of the C3 Acquired Assets to support other core business segments of the Group. The exercise price shall be determined based on the fair market value of assets and the contracts to be repurchased, but shall not be higher than the book value of the assets and the contracts plus a reasonable margin of 5% based on arm's length negotiations. Since the finished crankshafts are crucial for BBA in producing Bx8 engines and the Group will become the only source of supply of such finished crankshafts in the PRC upon Closing, we consider that it is unlikely for BBA not to exercise the Call Option upon occurrence of the triggering events. However, in view that BBA will continue to provide consulting service and technical support based on the second term of the BBA Compliance Agreement, the Company considers that the likelihood of occurrence of the aforesaid undesirable events as low. Against the above background, we are of the view that the existence of the Call Option is commercially justifiable and we consider that the exercise price of the Call Option, which is determined based on fair market value, is reasonable and both BBA and the Group's interests and risks can be, on balance, protected and mitigated under such arrangement.

### **3. *Financial effects of the Acquisition***

#### *(i) Earnings*

As set out in the Letter from the Board, the Group acquires the C3 Acquired Assets to expand the production capacity of its crankshaft line.

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Upon completion of the transfer, the C3 Acquired Assets will become assets of the Group. The C3 Acquired Assets, upon commencement of production after certain modifications and testing, will enable the Group to accommodate the increasing demand for crankshaft from BBA and provide sufficient production capacity to cater for the possible export supply of crankshaft to BMW AG. Hence, it is expected that the Acquisition would increase the Company's profitability potential in the engine component and service business and bring positive effect to the earnings of the Group.

*(ii) Cashflow*

Based on the 2016 Annual Report, the Group had cash and bank balances of approximately RMB306.0 million as at 31 December 2016. As advised by the Company, the Company intends to settle the Consideration by way of bank borrowing and internal resources. Thus, it is expected that there will be a cash outflow of the Group arising from the C3 Assets Transfer Agreement but we consider this will not affect the working capital sufficiency of the Group as the Group has been profitmaking consecutively since 2009 and recorded a net current assets in the amount of RMB662.3 million as at 31 December 2016.

*(iii) Net asset value*

According to the 2016 Annual Report, as at 31 December 2016, the unaudited consolidated net assets attributable to equity holders of the Company and the net asset value per Share were approximately RMB2,864.3 million and approximately RMB2.23 respectively. Upon the completion of the Acquisition, the C3 Acquired Assets will become assets of the Group which will be offset by the Company's settlement of the Consideration by internal resources and bank borrowings. Accordingly, we consider that the C3 Assets Transfer Agreement is expected to have a neutral effect on the Group's net assets position and on net asset value per Share.

*(iv) Gearing*

According to the 2016 Annual Report, the gearing ratio of the Group as at 31 December 2016 was approximately 49%, as derived by dividing the total bank borrowings of the Group as at 31 December 2016 of approximately RMB1,392.2 million by the total equity attributable to owners of the Company of approximately RMB2,864.3 million as at 31 December 2016. However, given the Group intends to settle the consideration through bank borrowing and internal resources, the gearing ratio of the Group may increase.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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On such basis, we are of the view that the transactions under the C3 Assets Transfer Agreement (including the grant of the Call Option) will have a positive effect on the Group's earnings and a neutral effect on the Group's net assets positions and gearing, albeit it will have a short term negative impact on the Group's cashflow. Thus, we are of the view that the C3 Assets Transfer Agreement (including the grant of the Call Option) is, on balance, in the interests of the Company and the Shareholders as a whole.

### RECOMMENDATION

Having considered the above principal factors and reasons, we are of the opinion that the terms of the C3 Assets Transfer Agreement (including the grant of the Call Option) are on normal commercial terms, in the ordinary and usual course of business of the Group and such terms are fair and reasonable and the transactions contemplated thereunder are in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders, and we advise the Independent Shareholders, to vote in favour of the ordinary resolution to be proposed at the Extraordinary General Meeting for approving the C3 Assets Transfer Agreement and the transactions (including the grant of the Call Option) contemplated thereunder.

Yours faithfully,

For and on behalf of

**Octal Capital Limited**

**Alan Fung**

**Louis Chan**

*Managing Director*

*Director*

*Note:* Mr. Alan Fung has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities since 2003. Mr. Fung has more than 25 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions in respect of connected transactions of listed companies in Hong Kong. Mr. Louis Chan has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities since 2008. Mr. Chan has more than 15 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions in respect of connected transactions of listed companies in Hong Kong

**FINANCIAL INFORMATION OF THE COMPANY**

Details of the financial information of the Group for the years ended 31 December 2014, 31 December 2015 and 31 December 2016 have been set out in the Company's annual reports for the years ended 31 December 2014 (from pages 48 to 110), 31 December 2015 (from pages 48 to 114) and 31 December 2016 (from pages 54 to 120) respectively.

All annual reports of the Company have been posted on the website of the Company at [www.xinchenpower.com](http://www.xinchenpower.com). Please visit the Company's website for more details.

**INDEBTEDNESS**

As at 31 March 2017, which is the latest practicable date for the purpose of determining the amount of indebtedness, the Group had outstanding interest-bearing balance of short-term and long-term bank borrowings in the total amount of approximately RMB1,478 million of which RMB144 million are secured by certain property, plant and equipment and land use rights under operating lease of the Group and, of which RMB866 million are unsecured and guaranteed by the Company, the remaining balance is unguaranteed and unsecured.

At 31 March 2017, the Group had pledged bank deposits amounting to RMB292 million, comprising (a) RMB275 million were pledged to banks to secure bills payable issued to suppliers of the Group, (b) RMB1 million were placed with banks for issuance of letters of credit, and (c) RMB16 million were pledged to banks as deposits for acquiring equivalent amount in foreign currency for operational needs.

Certain bills receivable were either endorsed for the settlement of trade and other payables or discounted to banks for raising of cash that were regarded as contingent liabilities to the Group. The maximum exposure to the Group that may result from the default of these endorsed and discounted bills receivable as at 31 March 2017 approximated to RMB519 million.

Save as disclosed above and otherwise mentioned in this circular, except and apart from intragroup liabilities, the Group did not have any debt securities issued and outstanding or agreed to be issued, bank borrowings or other similar indebtedness, liabilities under acceptances (other than normal trade bills), acceptance credits, debentures, mortgages, charges, finance leases or hire purchase commitments, guarantees or other material contingent liabilities as at 31 March 2017.

**FINANCIAL AND TRADING PROSPECTS**

According to the China Association of Automobile Manufacturers, the sale of passenger vehicle and commercial vehicle segments increased in 2016. The Group has been supplying gasoline and diesel engines for the local-branded auto manufacturers for over 20 years. Considering increasing uncertainties in this business segment, such as foreign branded auto manufacturers continue to outperform the local-branded auto manufacturers and implementation of stringent regulatory requirement on fuel efficiency and emission standards in the PRC from time to time, the Group strives to tap into the premium automobile segment by establishing stable business relationship with BBA in order to optimize the Group's product portfolio, shifting from medium to low-end products to high-end products, and providing more stable return to its shareholders after the Company's listing in Hong Kong.

As mentioned above, the business environment for local-branded auto manufacturers remains challenging, sale performance of the Group's local-branded customers is affected under such unfavorable operating environment, which in turn affects the Group's sale of traditional gasoline and diesel engines. Local-branded auto manufacturers are in the midst of upgrading their production capabilities and products and improving their distribution system so as to strengthen their competitiveness and improve their sales performance. As such, the Directors believe that the sale performance of the traditional gasoline and diesel engines will likely be volatile in the near terms and will become relatively stable in the medium and long terms. Premium engines and engine parts and components segment has become the primary focus of the Group's development strategy. The Group is in the transition from medium to low-end engines supplier to high-end engines and engine part and components suppliers. The Group supplies different products, namely N20 engines and Bx8 engines and connection rods, to BBA. The Group expects that the premium engines and engine parts and components segment will make increasing contribution to the Group's overall financial performance in the future.

**WORKING CAPITAL**

The Directors are of the opinion that, after taking into account (1) the financial resources currently available to the Group including its internally generated funds and banking facilities, and (2) the effect of the proposed acquisition of the C3 Acquired Assets, the Transferred Contracts and the Call Option, and in the absence of unforeseeable circumstance, the Group will have sufficient working capital for its present requirements that is for at least the next twelve months following the date of this circular.

## 1. RESPONSIBILITY STATEMENT

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

## 2. DISCLOSURE OF INTERESTS

### Directors and chief executives of the Company

Save as disclosed below, as at the Latest Practicable Date, none of the Directors and chief executives of the Company and their respective associates had interests and short positions in the Shares, the underlying Shares and/or the debentures (as the case may be) of the Company or any associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any such Director or chief executive is taken or deemed to have under such provisions of the SFO) or which were required to be entered into the register required to be kept by the Company under section 352 of the SFO or which were otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in the Listing Rules:

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

*Notes:*

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

**Interests of Substantial Shareholders**

As at the Latest Practicable Date, so far as known to the Directors and chief executives of the Company, each of the following persons (other than a Director or chief executive of the Company) had an interest or a short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or were directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Company and were recorded in the register to be kept under section 336 of the SFO:

Name of Shareholder	Nature of interests	Number and class of Shares	Approximate percentage of shareholding <sup>(6)</sup>
Brilliance Investment Holdings Limited	Beneficial owner	400,000,000 ordinary (L)	31.20%
Brilliance China <sup>(1)</sup>	Interest in a controlled corporation	400,000,000 ordinary (L)	31.20%
Huachen <sup>(2)</sup>	Interest in a controlled corporation	400,000,000 ordinary (L)	31.20%
Xinhua Investment Holdings Limited	Beneficial owner	400,000,000 ordinary (L)	31.20%

## APPENDIX II

## GENERAL INFORMATION

Name of Shareholder	Nature of interests	Number and class of Shares	Approximate percentage of shareholding <sup>(6)</sup>
Mianyang Xinhua Internal Combustion Engine Joint-stock Company Limited <sup>(3)</sup>	Interest in a controlled corporation	400,000,000 ordinary (L)	31.20%
Sichuan Yibin Pushi Group Co., Ltd. <sup>(4)</sup>	Interest in a controlled corporation	400,000,000 ordinary (L)	31.20%
Wuliangye <sup>(5)</sup>	Interest in a controlled corporation	400,000,000 ordinary (L)	31.20%
JPMorgan Chase & Co.	Beneficial owner	96,137,600 ordinary (L)	7.49%
		151,000 ordinary (S)	0.01%
	Custodian corporation/ approved lending agent	95,835,600 ordinary (P)	7.47%
Templeton Asset Management Ltd.	Investment Manager	89,829,000 ordinary (L)	7.01%

*Notes:*

- (1) Brilliance Investment Holdings Limited (“**Brilliance Investment**”) is wholly-owned by Brilliance China and Brilliance China is deemed or taken to be interested in approximately 31.20% of the issued share capital of the Company in which Brilliance Investment is interested.
- (2) Brilliance China is owned as to approximately 42.36% by Huachen and Huachen is deemed or taken to be interested in approximately 31.20% of the issued share capital of the Company in which Brilliance Investment is interested.
- (3) Xinhua Investment Holdings Limited (“**Xinhua Investment**”) is a direct wholly-owned subsidiary of Mianyang Xinhua Internal Combustion Engine Joint-stock Company Limited (“**Xinhua Combustion Engine**”) and Xinhua Combustion Engine is deemed or taken to be interested in approximately 31.20% of the issued share capital of the Company in which Xinhua Investment is interested.

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

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

Save as disclosed above, as at the Latest Practicable Date, there was no other person (other than a Director or chief executive of the Company or a member of the Group) who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

### **3. DIRECTORS’ SERVICE AGREEMENTS**

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

### **4. DIRECTORS’ INTERESTS IN ASSETS AND CONTRACTS OF SIGNIFICANCE**

As at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any asset which have been since 31 December 2016, being the date to which the latest published audited financial statements of the Group were made up, acquired by or disposed of or leased to any member of the Group or are proposed to be acquired by or disposed of or leased to any member of the Group.

Save as disclosed in this circular, as at the Latest Practicable Date, none of the Directors were materially interested in any contract or arrangement entered into by any member of the Group since 31 December 2016, being the date to which the latest published audited financial statements of the Group were made up, and which was significant in relation to the business of the Group.

**5. DIRECTORS' COMPETING INTERESTS**

As at the Latest Practicable Date, none of the Directors and their respective associates have any interest in businesses which are considered to compete or are likely to compete, either directly or indirectly, with the businesses of the Group.

**6. DIRECTORSHIP AND EMPLOYMENT OF DIRECTORS AND CHIEF EXECUTIVE IN SUBSTANTIAL SHAREHOLDER**

As at the Latest Practicable Date, save as disclosed below, none of the Directors were a director or employee of a company which had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of the SFO:

<b>Name of Director</b>	<b>Name of company which had such discloseable interest or short position</b>	<b>Position within such company</b>
Mr. Wu Xiao An (also known as Mr. Ng Siu On)	Brilliance China	chairman and executive director
	Huachen	director
	Brilliance Investment	director
Mr. Wang Yunxian	Xinhua Investment	director
Mr. Liu Tongfu	Huachen	director, executive vice president, member of the standing committee of the Communist Party of China and vice general manager of auto business unit
Mr. Yang Ming	Pushi Group	a committee member of Communist Party of China and vice president

**7. MATERIAL ADVERSE CHANGES**

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



**8. EXPERT**

- (a) The following sets out the qualifications of the expert who have given their opinions or advice as contained in this circular:

<b>Name</b>	<b>Qualifications</b>
Octal Capital Limited	a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the transactions contemplated under the C3 Assets Transfer Agreement

- (b) As at the Latest Practicable Date, the above expert does not have any shareholding, direct or indirect, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.
- (c) As at the Latest Practicable Date, the above expert does not have any interest, direct or indirect, in any asset which have been since 31 December 2016, being the date to which the latest published audited financial statements of the Group were made up, acquired by or disposed of or leased to any member of the Group or are proposed to be acquired by or disposed of or leased to any member of the Group.
- (d) The above expert has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter, statement or advice and references to its name in the form and context in which they are included.
- (e) The letter and recommendation given by Octal Capital Limited is given as of the date of this circular for incorporation herein.

**9. LITIGATION**

As at the Latest Practicable Date, none of the members of the Group were engaged in any litigation or claims of material importance known by the Directors to be pending or threatened against any member of the Group.

**10. MATERIAL CONTRACTS**

The following contracts (not being contracts entered into in the ordinary course of business) are or may be material and have been entered into by the Group within the two years preceding the date of this circular:

- (1) the prince engine license agreement dated 10 June 2015 entered into between Mianyang Xincheng and BMW AG pursuant to which Mianyang Xincheng is granted an irrevocable non-exclusive license to enable it to assemble prince engines for supply to approved vehicle manufacturers for installation into approved vehicles. Mianyang Xincheng agreed to pay BMW AG an upfront license fee of €9.72 million and a fee of €100 for each Prince Engine manufactured by Mianyang Xincheng;
- (2) the framework agreement dated 13 October 2015 entered into between Mianyang Xincheng and An Shiji Logistic Co., Ltd. Sichuan\* (四川安仕吉物流有限公司) (“**An Shiji**”) pursuant to which An Shiji agreed to provide logistics services to Mianyang Xincheng (the “**An Shiji Logistics Services Agreement**”). The annual caps of the continuing connected transaction contemplated under the An Shiji Logistics Services Agreement for the three financial years ending 31 December 2017 are RMB4,000,000, RMB3,500,000 and RMB3,000,000, respectively;
- (3) the framework agreement dated 13 October 2015 entered into between the Company and Brilliance China pursuant to which the Group agreed to purchase various engine components from Brilliance China and its subsidiaries (the “**Brilliance China Purchase Agreement**”). The annual caps of the continuing connected transactions contemplated under the Brilliance China Purchase Agreement for the three financial years ending 31 December 2018 are RMB55,919,000, RMB58,714,000 and RMB61,650,000, respectively;
- (4) the framework agreement dated 13 October 2015 entered into between the Company and Brilliance China pursuant to which the Group agreed to sell engines and engine components to Brilliance China and its subsidiaries (the “**Brilliance China Sale Agreement**”). The annual caps of the continuing connected transactions contemplated under the Brilliance China Sale Agreement for the three financial years ending 31 December 2018 are RMB769,997,000, RMB808,991,000 and RMB848,781,000, respectively;

- (5) the framework agreement dated 13 October 2015 entered into between the Company and Huachen pursuant to which the Group agreed to purchase various engine components from Huachen and its subsidiaries (the “**Procurement Agreement**”). The annual caps of the continuing connected transactions contemplated under the Procurement Agreement for the three financial years ending 31 December 2018 are approximately RMB4,022,000, RMB3,893,000 and RMB3,895,000, respectively;
- (6) the framework agreement dated 13 October 2015 entered into between the Company and Huachen pursuant to which the Group agreed to sell engines and engine components to Huachen and its subsidiaries (the “**Huachen Sale Agreement**”). The annual caps of the continuing connected transactions contemplated under the Huachen Sale Agreement for the three financial years ending 31 December 2018 are RMB1,374,440,000, RMB1,442,263,000 and RMB2,118,086,000, respectively;
- (7) the lease agreement dated 13 October 2015 entered into between Mianyang Xincheng and Shenyang Brilliance Power Train Machinery Co., Ltd.\* (瀋陽華晨動力機械有限公司) (“**Shenyang Brilliance Power**”) pursuant to which Shenyang Brilliance Power agreed to lease to Mianyang Xincheng the premises with a total area of 20,833 square metres which is part of the E2 Factory situated in No. 12, the 8 Road, Economic and Technological Development Zone, Shenyang, PRC, the related land use right and ancillary assets at a rental of RMB5,999,904 per year for a term of three years commencing on 1 January 2016 and expiring on 31 December 2018;
- (8) the framework agreement dated 13 October 2015 entered into between Mianyang Xincheng and Sichuan Province Yibin Wuliangye Group Anji Logistic Co.\* (四川省宜賓五糧液集團安吉物流公司) (“**Sichuan Anji**”) pursuant to which Sichuan Anji agreed to provide logistics services to Mianyang Xincheng (the “**Sichuan Anji Logistics Services Agreement**”). The annual caps of the continuing connected transaction contemplated under the Sichuan Anji Logistics Services Agreement for the three financial years ending 31 December 2017 are RMB2,100,000, RMB4,500,000 and RMB4,500,000, respectively;
- (9) the framework agreement dated 13 October 2015 entered into between Mianyang Xincheng and Sichuan Yibin Pushi Automotive Components Co., Ltd.\* (四川省宜賓普什汽車零部件有限公司) (“**Sichuan Pushi**”) pursuant to which Mianyang Xincheng agreed to purchase various gasoline and diesel engine components from Sichuan Pushi (the “**Sichuan Pushi Purchase Agreement**”). The annual caps of the continuing connected transaction contemplated under the Sichuan Pushi Purchase Agreement for the three financial years ending 31 December 2018 are RMB28,550,000, RMB30,000,000 and RMB31,500,000, respectively;

- (10) the framework agreement dated 13 October 2015 entered into between Mianyang Xincheng and Xinhua Combustion Engine pursuant to which Mianyang Xincheng agreed to procure cleaning and greening services from Xinhua Combustion Engine (the “**Wuliangye Cleaning and Greening Services Agreement**”). The annual caps of the continuing connected transaction contemplated under the Wuliangye Cleaning and Greening Services Agreement for the three financial years ending 31 December 2017 are RMB2,600,000, RMB2,600,000 and RMB2,600,000, respectively;
- (11) the framework agreement dated 13 October 2015 entered into between the Company and Mianyang Jianmen Real Estate Development and Construction Co., Ltd.\* (綿陽劍門房地產開發建設有限責任公司) (“**Mianyang Jianmen Real Estate**”) pursuant to which Mianyang Xincheng agreed to procure construction and building maintenance services from Mianyang Jianmen Real Estate (the “**Wuliangye Procurement Agreement**”). The annual caps of the continuing connected transactions contemplated under the Wuliangye Procurement Agreement for the three financial years ending 31 December 2018 are RMB15,306,500, RMB11,495,000 and RMB11,495,000, respectively;
- (12) the framework agreement dated 13 October 2015 entered into between Mianyang Xincheng and Xinhua Combustion Engine pursuant to which Mianyang Xincheng agreed to purchase various gasoline and diesel engine components from Xinhua Combustion Engine (the “**Xinhua Combustion Engine Purchase Agreement**”). The annual caps of the continuing connected transaction contemplated under the Xinhua Combustion Engine Purchase Agreement for the three financial years ending 31 December 2018 are RMB180,850,000, RMB186,870,000 and RMB193,180,000, respectively;
- (13) the assets transfer agreement dated 6 April 2016 entered into between Mianyang Xincheng and BBA pursuant to which BBA agreed to transfer to Mianyang Xincheng the enhancement equipment and facilities and the related consumables and the related contracts in connection with the operation of the crankshaft production line at a consideration of approximately RMB401,748,565;
- (14) an assets transfer agreement dated 13 September 2016 entered into between BBA and Mianyang Xincheng pursuant to which BBA agreed to transfer to Mianyang Xincheng the N20 engine assembly line, the equipment and facilities and the spare parts in connection with the operation of the N20 engine assembly line at a consideration of approximately RMB94.77 million;

- (15) the acquisition agreement dated 14 September 2016 entered into between Mianyang Xincheng and Xinhua Combustion Engine pursuant to which Mianyang Xincheng agreed to acquire the properties comprising 3 parcels of land located at No. 69, Xingchang Avenue, Gaoxin District, Mianyang City, Sichuan Province, the PRC and 6 buildings and various ancillary structures erected thereon from Xinhua Combustion Engine at a consideration of approximately RMB264.26 million;
- (16) the facility letter dated 26 September 2016 entered into between the Company, Mianyang Xincheng and Bank of China (Hong Kong) Limited for a term loan facility of up to US\$28,500,000;
- (17) the C3 Assets Transfer Agreement;
- (18) the consultation framework agreement dated 11 April 2017 entered into between Mianyang Xincheng and Xinhua Combustion Engine pursuant to which Xinhua Combustion Engine agreed to provide Mianyang Xincheng with certain technical consultation services in connection with the assembly and testing of the prince engines production line for a consultancy fee of RMB11.38 million;
- (19) an underwriting agreement dated 22 May 2017 entered into between Mianyang Xincheng and Ping An Securities Company, Ltd. (“**Ping An**”) in respect of the proposed public issue of corporate bonds in the aggregate principal amount not exceeding RMB1,000,000,000 in multiple tranches at appropriate time(s) in the future to qualified investors in the PRC (the “**Corporate Bonds**”);
- (20) a corporate bonds fiduciary management agreement dated 22 May 2017 entered into between Mianyang Xincheng and Ping An in respect of the Corporate Bonds; and
- (21) a special funds account custodian agreement dated 22 May 2017 entered into between Mianyang Xincheng, Ping An Bank Co., Ltd., Mianyang branch and Ping An in respect of the Corporate Bonds.

**11. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection at the principal place of business in Hong Kong of the Company at Suites 1602-05, Chater House, 8 Connaught Road Central, Hong Kong during normal business hours from the date of this circular up to and including 14 June 2017:

- (1) the memorandum and articles of association of the Company;
- (2) the material contracts referred to in paragraph headed “Material Contracts” in this Appendix;
- (3) the C3 Assets Transfer Agreement;
- (4) the letter from the Board, the text of which is set out on pages 5 to 13 of this circular;
- (5) the letter from the Independent Board Committee, the text of which is set out on pages 14 to 15 of this circular;
- (6) the letter from the Independent Financial Adviser, the text of which is set out on pages 16 to 31 of this circular;
- (7) the written consent of the Independent Financial Adviser referred to in the paragraph headed “Expert” above;
- (8) copies of the Company’s annual reports for the years ended 31 December 2014, 31 December 2015 and 31 December 2016; and
- (9) copies of each circular issued pursuant to Chapters 14 and/or 14A of the Listing Rules which have been issued since the date of the latest published audited accounts.

**12. MISCELLANEOUS**

- (1) The company secretary of the Company is Ms. Ngai Ka Yan. Ms. Ngai is an associate of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom.
- (2) The registered office of the Company is Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman KY1-1108, Cayman Islands.
- (3) The branch share registrar of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (4) In case of any inconsistency, the English text of this circular shall prevail over its Chinese text.

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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# POWER XINCHEN

## 新 晨 動 力

### XINCHEN CHINA POWER HOLDINGS LIMITED

### 新晨中國動力控股有限公司

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1148)**

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting of Xinchen China Power Holdings Limited (the “**Company**”) will be held at Tian & Di, 7/F, The Landmark Mandarin Oriental, The Landmark, 15 Queen’s Road Central, Central, Hong Kong on Thursday, 15 June 2017 immediately after the conclusion of the annual general meeting of the Company (which is scheduled to be held at the same place on the same date at 9:00 a.m.), for the purposes of considering and, if thought fit, passing, with or without modification, the following resolution as ordinary resolution of the Company:

#### **ORDINARY RESOLUTION**

**“THAT**

- (a) The C3 assets transfer agreement (the “**C3 Assets Transfer Agreement**”) (a copy of which has been produced to this meeting marked “A” and initialled by the chairman of this meeting for the purpose of identification) dated 11 April 2017 entered into between Mianyang Xinchen Engine Co., Ltd.\* (綿陽新晨動力機械有限公司) (an indirect wholly-owned subsidiary of the Company) (“**Mianyang Xinchen**”) and BMW Brilliance Automotive Ltd. (華晨寶馬汽車有限公司\*) (an associate of Brilliance China Automotive Holdings Limited (華晨中國汽車控股有限公司\*)) which is a controlling shareholder of the Company) (“**BBA**”) pursuant to which BBA would transfer to Mianyang Xinchen certain assets and all transactions (including the call option pursuant to the C3 Assets Transfer Agreement) contemplated thereunder be and are hereby approved, ratified and confirmed; and
- (b) any director of the Company (the “**Director**”) and any director of Mianyang Xinchen be and are hereby authorized, for and on behalf of the Company and Mianyang Xinchen respectively, to do all such things and exercise all powers which he considers necessary or desirable or expedient in connection with the C3 Assets Transfer Agreement and otherwise in connection with the implementation of the transactions contemplated thereunder, including without limitation the execution, amendment, supplement, delivery, waiver, submission and implementation of any further documents or agreements including but not limited to any document to agree and



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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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confirm the actual completion date, and any Director and the company secretary of the Company or two Directors be authorized to affix the common seal of the Company (if required) on any document or deed as they consider appropriate.”

By order of the Board  
**Xinchen China Power Holdings Limited**  
**Ngai Ka Yan**  
*Company Secretary*

Hong Kong, 26 May 2017

*Registered office:*

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

*Head office and principal place of business:*

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

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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*Notes:*

1. A shareholder entitled to attend and vote at the above meeting may appoint one or more than one proxies to attend and to vote on a poll in his stead. On a poll, votes may be given either personally (or in the case of a shareholder being a corporation, by its duly authorised representative) or by proxy. A proxy need not be a shareholder of the Company.
2. Where there are joint registered holders of any share, any one of such persons may vote at the meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders are present at the meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.
3. In order to be valid, the form of proxy duly completed and signed in accordance with the instructions printed thereon together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy thereof must be delivered to the office of the Company's branch registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting (i.e. not later than 9:00 a.m. (Hong Kong time) on Tuesday, 13 June 2017) or any adjournment thereof.
4. Completion and return of the form of proxy will not preclude shareholders from attending and voting in person at the meeting if shareholders so wish.
5. The Hong Kong branch register of members of the Company will be closed from Monday, 12 June 2017 to Thursday, 15 June 2017, both days inclusive, during which period no transfer of shares will be registered. Only shareholders of the Company whose names appear on the register of members of the Company on Monday, 12 June 2017 or their proxies or duly authorised corporate representatives are entitled to attend the meeting. In order to qualify for attending the meeting, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, 9 June 2017.
6. The ordinary resolution set out in this notice of extraordinary general meeting will be put to shareholders to vote taken by way of a poll.

\* *for identification purposes only*