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

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

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POWER XINCHEN

新 晨 动 力

XINCHEN CHINA POWER HOLDINGS LIMITED

新晨中國動力控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1148)

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS AND NOTICE OF EXTRAORDINARY GENERAL MEETING

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

 **金融有限公司**
OCTAL Capital Limited

Capitalised terms used in this cover have the same meanings as those defined in this circular. A letter from the Board is set out on pages 5 to 16 of this circular. A letter from the Independent Board Committee is set out on pages 17 to 18 of this circular.

A letter from Octal Capital, the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 19 to 35 of this circular.

A notice convening the Extraordinary General Meeting to be held at Victoria Room, 2nd Floor, Mandarin Oriental, Hong Kong, 5 Connaught Road Central, Hong Kong on Tuesday, 16 November 2021 at 9:30 a.m. or immediately after the conclusion of the extraordinary general meeting of the Company (which is scheduled to be held at the same place on the same date at 9:00 a.m.), whichever is earlier, is set out on pages 42 to 45 of this circular. Whether or not you are able to attend the Extraordinary General Meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the office of the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the Extraordinary General Meeting or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the Extraordinary General Meeting or any adjourned meeting (as the case may be) should you so wish.

PRECAUTIONARY MEASURES FOR THE EXTRAORDINARY GENERAL MEETING

In view of the pandemic of COVID-19, the following precautionary measures will be implemented at the Extraordinary General Meeting (or any adjournment thereof) to protect the Shareholders from the risk of infection (please refer to Note 7 to the Notice of Extraordinary General Meeting set out on page 45 of this circular for details):

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

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

CONTENTS

	<i>Page</i>
Definitions	1
Letter from the Board	5
Letter from the Independent Board Committee	17
Letter from the Independent Financial Adviser	19
Appendix – General Information	36
Notice of the Extraordinary General Meeting	42

DEFINITIONS

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

“2018 Announcement”	the announcement dated 18 October 2018 made by the Company in relation to, among others, the Continuing Connected Transactions 2019-2021;
“associate(s)”	has the meaning ascribed thereto in the Listing Rules;
“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;
“Brilliance China Group”	Brilliance China and its subsidiaries;
“Brilliance China Sale Agreement 2019-2021”	the framework agreement entered into between the Company and Brilliance China on 18 October 2018 in relation to the sale of engine and engine components to Brilliance China Group;
“Brilliance China Sale Agreement 2022-2024”	the framework agreement entered into between the Company and Brilliance China on 30 September 2021 in relation to the sale of engine and engine components to the Brilliance China Group;
“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, whose shares are listed on the Main Board of the Stock Exchange;
“connected person(s)”	has the meaning ascribed to it in the Listing Rules;
“Continuing Connected Transactions 2019-2021”	the transactions between the Group and the connected persons of the Company as contemplated under the Brilliance China Sale Agreement 2019-2021 and the Xinhua Combustion Engine Purchase Agreement 2019-2021;

DEFINITIONS

“Continuing Connected Transactions 2022-2024”	the transactions between the Group and the connected persons of the Company as contemplated under the Brilliance China Sale Agreement 2022-2024 and the Xinhua Combustion Engine Purchase Agreement 2022-2024;
“controlling shareholder(s)”	has the meaning ascribed thereto in the Listing Rules;
“Director(s)”	the director(s) of the Company;
“Existing Caps”	the existing annual caps of the Continuing Connected Transactions 2019-2021 as stated in the 2018 Announcement;
“Extraordinary General Meeting”	the extraordinary general meeting of the Company to be convened and held at Victoria Room, 2nd Floor, Mandarin Oriental, Hong Kong, 5 Connaught Road Central, Hong Kong on Tuesday, 16 November 2021 at 9:30 a.m. or immediately after the conclusion of the extraordinary general meeting of the Company (which is scheduled to be held at the same place on the same date at 9:00 a.m.), whichever is earlier for considering and, if thought fit, approving, among other things, the Brilliance China Sale Agreement 2022-2024, the Xinhua Combustion Engine Purchase Agreement 2022-2024, the transactions contemplated thereunder and the Proposed Caps;
“Group”	the Company and its subsidiaries;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“Independent Board Committee”	the independent committee of the Board, comprising Mr. Chi Guohua, Mr. Wang Jun, Mr. Huang Haibo and Mr. Wang Songlin, all of whom are independent non-executive Directors, formed to advise the Independent Shareholders as to the Brilliance China Sale Agreement 2022-2024, the Xinhua Combustion Engine Purchase Agreement 2022-2024, the transactions contemplated thereunder and the Proposed Caps;

DEFINITIONS

“Independent Financial Adviser” or “Octal Capital”	Octal Capital Limited, a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, which has been appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Brilliance China Sale Agreement 2022-2024, the Xinhua Combustion Engine Purchase Agreement 2022-2024, the transactions contemplated thereunder and the Proposed Caps;
“Independent Shareholder(s)”	Shareholder(s) other than Brilliance China and its associates in respect of the Continuing Connected Transactions 2022-2024 between the Group and the Brilliance China Group or Shareholder(s) other than Wuliangye and its associates in respect of the Continuing Connected Transactions 2022-2024 between the Group and the Wuliangye Group;
“Latest Practicable Date”	22 October 2021, being the latest practicable date prior to the publication of this circular for the purpose of ascertaining certain information contained in this circular;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Mianyang Xincheng”	Mianyang Xincheng Engine Co., Ltd.* (綿陽新晨動力機械有限公司)(including its branches), a company incorporated in the PRC and a wholly-owned subsidiary of the Company;
“PRC”	The People’s Republic of China, which for the purpose of this circular only, excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan;
“Proposed Caps”	the respective estimated annual monetary value of the Continuing Connected Transactions 2022-2024 for the three financial years ending 31 December 2024;
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);

DEFINITIONS

“Share(s)”	ordinary share(s) in the Company with a nominal value of HK\$0.01 each;
“Shareholder(s)”	holder(s) of Share(s);
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“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;
“Wuliangye Group”	Wuliangye and its subsidiaries;
“Xinhua Combustion Engine”	Mianyang Xinhua Internal Combustion Engine Joint Stock Company Limited* (綿陽新華內燃機股份有限公司), a joint-stock company established in the PRC and a non wholly-owned subsidiary of Wuliangye;
“Xinhua Combustion Engine Purchase Agreement 2019-2021”	the framework agreement entered into between Mianyang Xinchen and Xinhua Combustion Engine on 18 October 2018 in relation to the purchase of engine components from Xinhua Combustion Engine;
“Xinhua Combustion Engine Purchase Agreement 2022-2024”	the framework agreement entered into between Mianyang Xinchen and Xinhua Combustion Engine on 30 September 2021 in relation to the purchase of engine components from Xinhua Combustion Engine;
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong;
“RMB”	Renminbi, the lawful currency of the PRC; and
“%”	per cent.

* for identification purposes only

LETTER FROM THE BOARD

POWER XINCHEN

新 晨 动 力

XINCHEN CHINA POWER HOLDINGS LIMITED

新 晨 中 國 動 力 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1148)

Executive Directors:

Mr. Wu Xiao An

(also known as Mr. Ng Siu On)

(Chairman)

Mr. Wang Yunxian *(Chief Executive Officer)*

Non-executive Directors:

Ms. Ma Nina

Mr. Yang Ming

Independent Non-executive Directors:

Mr. Chi Guohua

Mr. Wang Jun

Mr. Huang Haibo

Mr. Wang Songlin

Registered office:

Windward 3

Regatta Office Park

PO Box 1350

Grand Cayman KY1-1108

Cayman Islands

Head office and principal

place of business:

Suites 1602-05

Chater House

8 Connaught Road Central

Hong Kong

28 October 2021

To all Shareholders

Dear Sir/Madam,

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

Reference is made to the announcement of the Company dated 30 September 2021 in relation to, among others, that the Continuing Connected Transactions 2022-2024.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with, among others, (i) details of the Continuing Connected Transactions 2022-2024 and the Proposed Caps; (ii) the letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in connection with the Continuing Connected Transactions 2022-2024 and the Proposed Caps; (iii) the letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders in connection with the Continuing Connected Transactions 2022-2024 and the Proposed Caps; and (iv) a notice of the Extraordinary General Meeting.

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

On 30 September 2021, (a) the Company entered into the Brilliance China Sale Agreement 2022-2024 with Brilliance China; and (b) Mianyang Xinchun, a wholly-owned subsidiary of the Company, entered into the Xinhua Combustion Engine Purchase Agreement 2022-2024 with Xinhua Combustion Engine, as to the continued conduct of the Continuing Connected Transactions 2019-2021 for the three financial years commencing from 1 January 2022 to 31 December 2024.

A. Sale of engines and engine components to Brilliance China Group

Background

As stated in the 2018 Announcement, the Company and Brilliance China entered into the Brilliance China Sale Agreement 2019-2021 for the supply by the Group to the members of the Brilliance China Group various types of engines and engine components, which is going to expire on 31 December 2021. The Brilliance China Sale Agreement 2022-2024 was entered into to renew the continuing connected transactions contemplated under the Brilliance China Sale Agreement 2019-2021 for a further term of three years commencing from 1 January 2022 and ending on 31 December 2024.

Brilliance China Sale Agreement 2022-2024

Date : 30 September 2021

Parties : (1) The Company, as the seller; and
(2) Brilliance China, as the purchaser

LETTER FROM THE BOARD

- Term : The Brilliance China Sale Agreement 2022-2024 shall be for a term of three years commencing from 1 January 2022 and ending on 31 December 2024 (both dates inclusive). Unless terminated prior to its expiry date, the Brilliance China Sale Agreement 2022-2024 shall be renewable for an additional term of three years subject to fulfillment of all necessary statutory and regulatory requirements including but not limited to any applicable requirement under the Listing Rules.
- Nature of transactions : Pursuant to the agreement, the Group has agreed to sell engines and engine components (mainly comprising engines for light duty commercial vehicles and engine components for after-sale car services of those engines sold) to the Brilliance China Group.
- Consideration : The price for each sale of engines and engine components to the Brilliance China Group is determined by reference to the prevailing market price from time to time.

Pricing policy

Prevailing market price means the price at which the same type of products can be sold to independent third party customers on normal commercial terms or better in the ordinary course of business. For the purpose of obtaining market prices, the Group will make reference to the price quotations to independent third party customers for products of comparable quality, quantity and specifications. In any event, terms of each sale to the Brilliance China Group will be no less favourable than the terms which can be obtained from independent third party customers for selling products of comparable quality, quantity and specifications.

LETTER FROM THE BOARD

After communications with its potential customer on the products required, the Group will compile a bill of materials. Based on the bill of materials and further discussions with the potential customer, the Group will prepare competitive quotation for internal approval by the sale department and the chief financial officer. The approved quotation will then be provided to the potential customer in writing. After the quotation is confirmed, the relevant member of the Group will sign a sale contract with the customer. These procedures apply equally to both connected and independent third party customers. The Directors (including the independent non-executive Directors) consider that the above procedures, which apply to both connected and independent third party customers alike, represent appropriate and sufficient internal control measures to ensure that sales of engines and engine components to the Group's connected customers are priced fairly and reasonably and in the interests of the Company and the Shareholders as a whole.

B. Purchase of engine components from Xinhua Combustion Engine

Background

As stated in the 2018 Announcement, Mianyang Xincheng entered into the Xinhua Combustion Engine Purchase Agreement 2019-2021 with Xinhua Combustion Engine for the purchase from Xinhua Combustion Engine of various gasoline and diesel engine components such as crankshafts, exhaust manifolds, cylinder chambers and cylinder heads, which is going to expire on 31 December 2021. The Xinhua Combustion Engine Purchase Agreement 2022-2024 was entered into to renew the continuing connected transactions contemplated under the Xinhua Combustion Engine Purchase Agreement 2019-2021 for a further term of three years commencing from 1 January 2022 and ending on 31 December 2024.

Xinhua Combustion Engine Purchase Agreement 2022-2024

Date	:	30 September 2021
Parties	:	(1) Mianyang Xincheng, as the purchaser; and (2) Xinhua Combustion Engine, as the seller
Term	:	The Xinhua Combustion Engine Purchase Agreement 2022-2024 shall be for a term of three years commencing from 1 January 2022 and ending on 31 December 2024. Unless terminated prior to its expiry date, the Xinhua Combustion Engine Purchase Agreement 2022-2024 shall be renewable for an additional term of three years subject to fulfillment of all necessary statutory and regulatory requirements including but not limited to any applicable requirement under the Listing Rules.

LETTER FROM THE BOARD

- Nature of transactions : Pursuant to the agreement, Mianyang Xincheng has agreed to purchase various gasoline and diesel engine components such as crankshafts, exhaust manifolds, cylinder chambers and cylinder heads from Xinhua Combustion Engine.
- Consideration : The price for each purchase of engine components from Xinhua Combustion Engine is determined by reference to the prevailing market price from time to time.

Pricing policy

Prevailing market price means the price at which the same type of products can be obtained from independent third party suppliers on normal commercial terms or better in the ordinary course of business. For the purpose of obtaining market prices, Mianyang Xincheng will make reference to the price quotations obtained from independent third party suppliers for products of comparable quality, quantity and specifications. In any event, the terms of each purchase from Xinhua Combustion Engine will be no less favourable than the terms which can be obtained from independent third party suppliers for purchasing products of comparable quality, quantity and specifications.

For the purpose of seeking quotations, the Group provides sketches of the engine components it requires to potential suppliers (including both connected and independent third party suppliers). When the quotations are received, the procurement department of the relevant member of the Group will analyse the quotations with reference to, among others, cost of raw materials, labour cost, manufacturing cost, mould depreciation and logistics cost. Once the quotation has successfully passed the internal review among various departments, the terms of the supply contract will be subject to the Group's approval process involving, among others, the general manager of the relevant member of the Group. Only upon approval by the general manager will the supply contract be signed. The Directors (including the independent non-executive Directors) consider that the above procedures, which apply to both connected and independent third party suppliers alike, represent appropriate and sufficient internal control measures to ensure that purchases of engine components from the Group's connected suppliers are priced fairly and reasonably and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

PROPOSED CAPS AND HISTORICAL TRANSACTION VALUE

A. Existing Caps and historical transaction value

The following table sets out (i) the Existing Caps for each of the three financial years ended or ending (as applicable) 31 December 2019, 2020 and 2021; and (ii) the actual total transaction amounts of the relevant Continuing Connected Transactions 2019-2021 for the two financial years ended 31 December 2020 and the six months ended 30 June 2021:

Continuing Connected Transactions 2019-2021	Major type of products/services	For the financial year ended 31 December 2019		For the financial year ended 31 December 2020		For the financial year ending 31 December 2021	For the six months ended 30 June 2021
		Existing Cap	Actual total transaction amount	Existing Cap	Actual total transaction amount	Existing Cap	Actual total transaction amount
		(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
1. Sale of engines and engine components to the Brilliance China Group	Engines and engine components	1,754,500	386,773	1,775,000	284,831	2,600,000	236,665
2. Purchase of engine components from Xinhua Combustion Engine	Engine components	194,900	145,802	179,500	103,736	174,200	55,053

B. The Proposed Caps

The following table sets out the Proposed Caps for the three financial years ending 31 December 2024:

Continuing Connected Transactions 2022-2024	Major type of products/services	For the financial year ending 31 December		
		2022 Proposed Cap (RMB'000)	2023 Proposed Cap (RMB'000)	2024 Proposed Cap (RMB'000)
1. Sale of engines and engine components to the Brilliance China Group	Engines and engine components	409,000	504,000	421,000
2. Purchase of engine components from Xinhua Combustion Engine	Engine components	111,700	142,100	128,700

LETTER FROM THE BOARD

C. Basis for determining the Proposed Caps

The Proposed Caps are primarily based on the following:

- (i) the historical transaction amounts of the relevant Continuing Connected Transactions 2019-2021. As shown in the sub-paragraph headed “A. Existing Caps and historical transaction value” above, the utilization of the Existing Caps in respect of the Brilliance China Sale Agreement 2019-2021 for the two years ended 31 December 2019 and the six months ended 30 June 2021 was low. This was due to the fact that the demand for the Group’s CE series engines from the member of the Brilliance China Group, which supplied these engines purchased from the Group to Huachen Automotive Group Holdings Company Limited (華晨汽車集團控股有限公司) (a controlling shareholder of Brilliance China) and its subsidiaries (collectively the “**Huachen Group**”), only reached approximately 8% of the expected demand since 2019. In September 2020, the bankruptcy and reorganization of the Huachen Group led to virtually zero demand for these engines from the Brilliance China Group. So the actual utilization of the Existing Caps in respect of the Brilliance China Sale Agreement 2019-2021 turned out to be much lower than originally expected. When determining the Proposed Caps in respect of the Brilliance China Sale Agreement 2022-2024, the Company no longer took into account the demand for CE engines and the relevant Proposed Caps were arrived at with reference to the expected demand for the Group’s engines for use in the Brilliance China Group’s manufacturing of Jinbei minibuses;
- (ii) in respect of the Brilliance China Sale Agreement 2022-2024: (a) the estimated volume of engines and engine components required by the Brilliance China Group with reference to its internal sales targets based on, among others, the estimated number of engines to be assembled and the estimated number of vehicles to be produced by the Brilliance China Group under its existing production lines, and the expected decrease in demand for the Group’s engines and engine components from the Brilliance China Group for the year ending 31 December 2024 caused by the potential time lag in research and development of the Group’s engines and engine components that comply with the requirements of RDE (Real Drive Emission) regulations under the new emission standards of the PRC to be implemented after July 2023; and (b) the expected unit sale prices of the engines and engine components of the Group; and
- (iii) in respect of the Xinhua Combustion Engine Purchase Agreement 2022-2024: (a) the estimated volume of engines components required by the Group based on the estimated demand for the Group’s engines from the Group’s customers; (b) the estimated number of engines to be produced by the Group under its existing product lines and new models (including several models that comply with the new emission standards of the PRC) to be launched; and (c) the expected unit purchase prices for the engine components of Xinhua Combustion Engine.

LETTER FROM THE BOARD

REASONS FOR AND BENEFITS OF ENTERING INTO THE CONTINUING CONNECTED TRANSACTIONS 2022-2024

In the ordinary course of business of the Group, the Group purchases various types of engine components from the Brilliance China Group and the Wuliangye Group for production of the Group's engines. The Group sells engines produced by it and also engine components to the Brilliance China Group.

The Continuing Connected Transactions 2022-2024 are entered into for the following reasons:

- The Group sells its engines to the Brilliance China Group for use in manufacturing Jinbei minibuses, which are minibuses under the “Jinbei” brand of commercial vehicles manufactured under a non-wholly-owned business operated by the Brilliance China Group. Such engines are developed and produced according to the specifications required by the Brilliance China Group.
- Engine components supplied by the Wuliangye Group are produced based on specifications provided by the Group and used for the production of engines of the Group or for sale to customers of the Group for repair and maintenance purposes.

The Directors (excluding the Directors who abstained from voting on the relevant resolutions but including the independent non-executive Directors whose view is set out in the section headed “Letter from the Independent Board Committee” in this circular after taking into consideration the advice of the Independent Financial Adviser) consider the Continuing Connected Transactions 2022-2024 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 relevant agreements (including the related Proposed Caps) governing the Continuing Connected Transactions 2022-2024 to be fair and reasonable.

MATERIAL INTEREST OF DIRECTORS IN THE BRILLIANCE CHINA SALE AGREEMENT 2022-2024 AND THE XINHUA COMBUSTION ENGINE PURCHASE AGREEMENT 2022-2024

Mr. Wu Xiao An, an executive Director and chairman of the Company, is also the chairman and an executive director of Brilliance China. Ms. Ma Nina, a non-executive Director, is also an executive director of Brilliance China and a director of Shenyang XingYuanDong Automobile Component Co., Ltd. (a subsidiary of Brilliance China). Accordingly, Mr. Wu Xiao An and Ms. Ma Nina abstained from voting on the Board resolutions in respect of the Brilliance China Sale Agreement 2022-2024 and the transactions contemplated thereunder.

LETTER FROM THE BOARD

Mr. Wang Yunxian, an executive Director, is also a director of Xinhua Investment Holdings Limited (which is a wholly-owned subsidiary of Xinhua Combustion Engine). Mr. Yang Ming, a non-executive Director, is also the general manager of Sichuan Yibin Pushi Group Co., Ltd.* (四川省宜賓普什集團有限公司)(which is a holding company of Xinhua Combustion Engine). Accordingly, Mr. Wang Yunxian and Mr. Yang Ming abstained from voting on the Board resolutions in respect of the Xinhua Combustion Engine Purchase Agreement 2022-2024 and the transactions contemplated thereunder.

The Board confirms that (i) except for Mr. Wu Xiao An and Ms. Ma Nina, none of the Directors has any material interest in the Brilliance China Sale Agreement 2022-2024; and (ii) except for Mr. Wang Yunxian and Mr. Yang Ming, none of the Directors has any material interest in the Xinhua Combustion Engine Purchase Agreement 2022-2024. Accordingly, none of the Directors (except for Mr. Wu Xiao An, Ms. Ma Nina, Mr. Wang Yunxian and Mr. Yang Ming who abstained as mentioned above) was required to abstain from voting on the Board resolutions in respect of the Brilliance China Sale Agreement 2022-2024, the Xinhua Combustion Engine Purchase Agreement 2022-2024 and the transactions contemplated thereunder.

INFORMATION ON THE PARTIES INVOLVED

The Group

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

The Brilliance China Group

Brilliance China

Brilliance China is a company incorporated in Bermuda, the shares of which are listed on the Stock Exchange. It is an investment holding company.

As at the Latest Practicable Date, Brilliance China, through its wholly-owned subsidiary, owned approximately 31.20% of the issued share capital of the Company and was a connected person of the Company.

The Wuliangye Group

Wuliangye

Wuliangye primarily engages in the production and sale of a series of wine. It also engages in a wide range of businesses including industrial packaging, optical glass, logistics, rubber products and pharmacy.

LETTER FROM THE BOARD

As at the Latest Practicable Date, Wuliangye, through its non wholly-owned subsidiary, owned approximately 31.20% of the issued share capital of the Company and was a connected person of the Company.

Xinhua Combustion Engine

Xinhua Combustion Engine is a joint-stock company established in the PRC and a non wholly-owned subsidiary of Wuliangye and a connected person of the Company. The principal activities of Xinhua Combustion Engine are manufacture and sales of engine components, vehicles sales and provision of ancillary services and logistic services.

LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, each of Brilliance China and Wuliangye was interested in 400,000,000 and 400,000,000 Shares, representing approximately 31.20% and 31.20% of the issued share capital of the Company, respectively. Accordingly, each of Brilliance China and Xinhua Combustion Engine (being a non wholly-owned subsidiary of Wuliangye) is a connected person of the Company under Rule 14A.07(1) of the Listing Rules.

As one or more of the applicable percentage ratios under Rule 14.07 of the Listing Rules for the Continuing Connected Transactions 2022-2024 are, on an annual basis, over 5% and the Proposed Caps are more than HK\$10,000,000, the Continuing Connected Transactions 2022-2024 are subject to reporting, announcement, annual review and independent shareholders' approval requirements as set out in Chapter 14A of the Listing Rules.

EXTRAORDINARY GENERAL MEETING

A notice convening the Extraordinary General Meeting at which ordinary resolutions will be proposed to consider and, if thought fit, to approve the Brilliance China Sale Agreement 2022-2024, the Xinhua Combustion Engine Purchase Agreement 2022-2024, the transactions contemplated thereunder and the Proposed Caps to be held at Victoria Room, 2nd Floor, Mandarin Oriental, Hong Kong, 5 Connaught Road Central, Hong Kong on Tuesday, 16 November 2021 at 9:30 a.m. or immediately after the conclusion of the extraordinary general meeting of the Company (which is scheduled to be held at the same place on the same date at 9:00 a.m.), whichever is earlier, is set out on pages 42 to 45 of this circular. Whether or not you are able to attend the Extraordinary General Meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the Extraordinary General Meeting or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the Extraordinary General Meeting or any adjourned meeting (as the case may be) should you so wish.

LETTER FROM THE BOARD

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

As at the Latest Practicable Date, Brilliance China and Wuliangye were interested in 400,000,000 and 400,000,000 Shares, representing approximately 31.20% and 31.20% of the issued share capital of the Company, respectively. As at the Latest Practicable Date, each of Mr. Wu Xiao An, an executive Director and chairman of the Company, and Mr. Wang Yunxian, an executive Director and chief executive officer of the Company, was interested and deemed to be interested in an aggregate of 42,313,426 Shares, representing approximately 3.30% of the issued share capital of the Company. Brilliance China, Mr. Wu Xiao An and their associates will abstain from voting on the ordinary resolution(s) to be proposed at the Extraordinary General Meeting in respect of the Continuing Connected Transactions 2022-2024 between the Group and the Brilliance China Group and the related Proposed Caps. Wuliangye, Mr. Wang Yunxian and their associates will abstain from voting on the ordinary resolution(s) to be proposed at the Extraordinary General Meeting in respect of the Continuing Connected Transactions 2022-2024 between the Group and the Wuliangye Group and the related Proposed Caps.

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising all the independent non-executive Directors, has been formed to advise the Independent Shareholders as to whether the Brilliance China Sale Agreement 2022-2024, the Xinhua Combustion Engine Purchase Agreement 2022-2024, the transactions contemplated thereunder and the Proposed Caps are fair and reasonable so far as the Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Your attention is drawn to the letter from the Independent Board Committee containing its recommendation set out on pages 17 to 18 of this circular.

INDEPENDENT FINANCIAL ADVISER

Octal Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the Brilliance China Sale Agreement 2022-2024, the Xinhua Combustion Engine Purchase Agreement 2022-2024, the transactions contemplated thereunder and the Proposed Caps are fair and reasonable so far as the Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. The text of the letter of advice from Octal Capital is set out on pages 19 to 35 of this circular.

LETTER FROM THE BOARD

RECOMMENDATION

The Directors (excluding the Directors who abstained from voting on the relevant resolutions but including the independent non-executive Directors whose view is set out in the section headed “Letter from the Independent Board Committee” in this circular after taking into consideration the advice of the Independent Financial Adviser) believes that the Brilliance China Sale Agreement 2022-2024, the Xinhua Combustion Engine Purchase Agreement 2022-2024, the transactions contemplated thereunder and the Proposed Caps are in the interests of the Company and the Shareholders as a whole and are fair and reasonable so far as the Shareholders are concerned. Accordingly, the Directors (excluding the Directors who abstained from voting on the relevant Directors resolutions but including the independent non-executive Directors whose view is set out in the section headed “Letter from the Independent Board Committee” in this circular after taking into consideration the advice of the Independent Financial Adviser) recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the Extraordinary General Meeting to approve the Brilliance China Sale Agreement 2022-2024, the Xinhua Combustion Engine Purchase Agreement 2022-2024, the transactions contemplated thereunder and the Proposed Caps.

ADDITIONAL INFORMATION

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

Yours faithfully,
By order of the Board
Xinchen China Power Holdings Limited
Wu Xiao An
(also known as Ng Siu On)
Chairman

* *for identification purpose only*

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)

28 October 2021

To the Independent Shareholders

Dear Sir or Madam,

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

We refer to the circular issued by the Company to its Shareholders dated 28 October 2021 (the “**Circular**”), of which this letter forms part. Terms defined in the Circular shall bear the same meanings when used herein unless the context requires otherwise.

We have been appointed by the Board as the Independent Board Committee to advise you as to whether, in our opinion, the Brilliance China Sale Agreement 2022-2024, the Xinhua Combustion Engine Purchase Agreement 2022-2024, the transactions contemplated thereunder and the Proposed Caps are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Details of the Brilliance China Sale Agreement 2022-2024, the Xinhua Combustion Engine Purchase Agreement 2022-2024, the transactions contemplated thereunder and the Proposed Caps are set out in the letter from the Board contained in the Circular. Octal Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Brilliance China Sale Agreement 2022-2024, the Xinhua Combustion Engine Purchase Agreement 2022-2024, the transactions contemplated thereunder and the Proposed Caps. Details of its advice and the principal factors taken into consideration in arriving at its recommendations are set out in the letter from the Independent Financial Adviser contained in the Circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having considered the terms of the Brilliance China Sale Agreement 2022-2024, the Xinhua Combustion Engine Purchase Agreement 2022-2024, the transactions contemplated thereunder and the Proposed Caps and taking into account the information contained in the Circular and the advice of Octal Capital, we are of the opinion that the Brilliance China Sale Agreement 2022-2024, the Xinhua Combustion Engine Purchase Agreement 2022-2024, the transactions contemplated thereunder and the Proposed Caps are fair and reasonable so far as the Independent Shareholders are concerned, on normal commercial terms or better and in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be put forward at the Extraordinary General Meeting to approve the Brilliance China Sale Agreement 2022-2024, the Xinhua Combustion Engine Purchase Agreement 2022-2024, the transactions contemplated thereunder and the Proposed Caps.

Yours faithfully,

Independent Board Committee

Mr. Chi Guohua

Mr. Wang Jun

Mr. Huang Haibo

Mr. Wang Songlin

Independent non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER



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

28 October 2021

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

RENEWAL OF THE CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our engagement to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Continuing Connected Transactions 2022-2024 and the Proposed Caps, particulars of which are set out in the letter from the Board (the “**Letter from the Board**”) of the circular to the Shareholders dated 28 October 2021 (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 30 September 2021, the Company entered into (a) the Brilliance China Sale Agreement 2022-2024 with Brilliance China; and (b) Mianyang Xinchun, a wholly-owned subsidiary of the Company, entered into the Xinhua Combustion Engine Purchase Agreement 2022-2024 with Xinhua Combustion Engine, as to the continued conduct of the Continuing Connected Transactions 2019-2021 for the three financial years commencing from 1 January 2022 to 31 December 2024.

As at the Latest Practicable Date, each of Brilliance China and Wuliangye was interested in 400,000,000 and 400,000,000 Shares, representing approximately 31.20% and 31.20% of the issued share capital of the Company, respectively. Accordingly, each of Brilliance China and Xinhua Combustion Engine (being a non wholly-owned subsidiary of Wuliangye) is a connected person of the Company under Rule 14A.07(1) of the Listing Rules.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As one or more of the applicable percentage ratios under Rule 14.07 of the Listing Rules for the Continuing Connected Transactions 2022-2024 are, on an annual basis, over 5% and the Proposed Caps are more than HK\$10,000,000, the Continuing Connected Transactions 2022-2024 are subject to reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Company will hold the Extraordinary General Meeting for the purpose of considering and approving the Continuing Connected Transactions and the Proposed Caps by the Independent Shareholders, at which ordinary resolutions will be proposed and voting will be conducted by way of poll in accordance with the requirements of the Listing Rules.

The Independent Board Committee has been established to advise the Independent Shareholders as to (i) the Continuing Connected Transactions 2022-2024; and (ii) the Proposed Caps. We have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

We are not connected with the Directors, chief executive and substantial shareholders of the Company, Brilliance China, Wuliangye 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 (i) the compliance agreement entered into between BMW Brilliance Automotive Ltd., the Company and Mianyang Xinchun in relation to the sale and purchase of, among others, engine parts and components and raw materials for manufacturing engines and engine parts and components (as the case may be) and the provision of related services, details of which are set out in the circular of the Company dated 1 November 2019; and (ii) the financial assistance from BMW Brilliance Automotive Ltd., details of which are set out in the circular of the Company dated 30 July 2021 (collectively, the “**Previous Engagements**”). Under the Previous Engagements, we were required to express our opinion on and give recommendation to the Independent Board Committee and/or 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, Brilliance China, Wuliangye or any of their respective subsidiaries or associates.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Circular and have assumed that all information and representations made or referred to in the Circular were true at the time they were made and continue to be true as at the Latest Practicable Date. We have also relied on our discussion with the management of the Company regarding the Group, including the information and representations contained in the Circular. We have also assumed that all statements of belief, opinion and intention made by the Directors and management of the Company in the Circular were reasonably made after due enquiry. We consider that we have reviewed sufficient information 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, among other things, (i) automobile sales plan for the three years ended 31 December 2024; (ii) list of estimated purchases of engine components for the three years ended 31 December 2024; (iii) samples of quotations of the comparable products under the Brilliance China Sale Agreement 2019-2021 during the two years ended 31 December 2020 and the six months ended 30 June 2021; (iv) samples of quotations of the comparable products under the Xinhua Combustion Engine Purchase Agreement 2019-2021 during the two years ended 31 December 2020 and the six months ended 30 June 2021; and (v) internal control policies adopted for the Continuing Connected Transactions 2022-2024. 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, Brilliance China, Wuliangye and their respective controlling shareholder(s) and associates nor have we carried out any independent verification of the information supplied.

THE CONTINUING CONNECTED TRANSACTIONS 2022-2024 AND THE PROPOSED CAPS

Principal factors and reasons considered

In arriving at our opinion regarding the Continuing Connected Transactions 2022-2024 and the Proposed Caps, we have considered the following principal factors and reasons:

- 1. Background of and reasons for the Continuing Connected Transactions 2022-2024 and the Proposed Caps***

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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As stated in the 2018 Announcement, (i) the Company and Brilliance China entered into the Brilliance China Sale Agreement 2019-2021 for the supply by the Group to the Brilliance China Group various types of engines and engine components; and (ii) Mianyang Xincheng entered into the Xinhua Combustion Engine Purchase Agreement 2019-2021 with Xinhua Combustion Engine, for the purchase from Xinhua Combustion Engine of various gasoline and diesel engine components such as crankshafts, exhaust manifolds, cylinder chambers and cylinder heads.

As the above-mentioned framework agreements will expire on 31 December 2021 and the parties wish to continue the relevant transactions (i.e. the Brilliance China Sale Agreement 2019-2021 and the Xinhua Combustion Engine Purchase Agreement 2019-2021) upon expiry of the relevant framework agreements, the parties entered into the Brilliance China Sale Agreement 2022-2024 and the Xinhua Combustion Engine Purchase Agreement 2022-2024.

As disclosed in the Letter from the Board, in the ordinary course of business of the Group, the Group purchases various types of engine components from the Wuliangye Group for production of the Group's engines. The Group sells engines produced by it and also engine components to the Brilliance China Group. In particular, engine components supplied by certain members of the Brilliance China Group and the Wuliangye Group are produced based on specifications provided by the Group and used for the production of engines of the Group or for sale to customers of the Group for repair and maintenance purposes.

Based on our review of the product mix of the engine components to be provided by the Group, we understand that the Group sells its engines to the Brilliance China Group for use in manufacturing Jinbei minibuses, which are minibuses under the "Jinbei" brand of commercial vehicles manufactured under a non-wholly-owned business operated by the Brilliance China Group. Such engines are developed and produced according to the specification required by the Brilliance China Group and the Group sells Y series engines and R series engines (which refers to the 2.0L to 2.5L displacement engines for the minibuses under the "JinBei" brand) to the Brilliance China Group for use in manufacturing Jinbei minibuses, which broadens the customer base and increases the demand for these types of engines.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As advised by the management of the Company, the specification of automotive components is usually tailor-made for specific brands of vehicles of particular automotive manufacturers due to confidentiality and control over the core production technologies and assurance, and the same type of automotive component of an automotive manufacturer would usually be used in various models of vehicles. We understand that due to the fact that safety is of the utmost importance of a vehicle, an automotive manufacturer would either produce the required engines and engine components on its own or source those engines and engine components from its entrusted suppliers. It is common for an automotive manufacturer to build a long term business relationship with a particular engine and engine component supplier which its products has been repeatedly tested and proven to meet the requirement and specification by the automotive manufacturer.

In view that the specification of engines and engine components is usually tailor-made for specific brands of vehicles of particular automotive manufacturers and the same model of engine or engine component of an automotive manufacturer would usually be used in various models of vehicles, it is more efficient to produce engines and engine components to suit certain automotive manufacturers' requirements and specification.

The Group has been part of the Brilliance China Group before its listing and has been an important supplier of engines and engine components of the Brilliance China Group for long in respect of their vehicles manufactured (namely minibuses, sedans, SUVs and MPVs). Considering the extensive business operations of Brilliance China Group, the entering into of the Brilliance China Sale Agreement 2022-2024 could allow the Group to secure a source of revenue through the transactions to be conducted thereunder, and, on the other hand, allow the Group to leverage on the reputations of the Brilliance China Group and its brands, resulting in attracting potential customers which may in turn enhance returns to the Shareholders.

On the other hand, the Group has been procuring engine components from Xinhua Combustion Engine for over 10 years. Since the Group has been purchasing certain raw materials and automotive components for its manufacturing operation from the Xinhua Combustion Engine over the years, the close relationship between the Group and the Xinhua Combustion Engine allows the Group to secure stable supply of raw materials and automotive components for its operation. The long-term supply relationship has allowed the Xinhua Combustion Engine to develop thorough understanding of the technical requirements and specifications required by the Group and become familiar with the production cycle and operation needs of the Group, thereby ensuring the timely supply of raw materials and automotive components which (i) meets the necessary quality and standards as required by the Group and (ii) minimises any disruptions to the Group's existing business operations.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Based on the above, we consider that it is fair and reasonable and in the interests of the Company and the Shareholders as a whole for the Group to enter into the Brilliance China Sale Agreement 2022-2024 and the Xinhua Combustion Engine Purchase Agreement 2022-2024 in order to continue the ongoing transactions with (i) the Brilliance China Group to secure stable customers for the Group and (ii) Xinhua Combustion Engine to secure a stable supply of engine components for the onward manufacturing of engines of the Group.

2. Industry overview

According to the statistics of China Association of Automobile Manufacturers, approximately 25.3 million new vehicles were sold in 2020 in the PRC with an annual decline of approximately 1.9%, marking its third straight annual decline since 2018. The annual decline in sales in the automobile industry in the PRC created a negative impact on the performance of the Group which is driven by the sales of engine and engine components.

Despite the decline in overall automobile market in 2020 due to the COVID-19 pandemic, the production and sales of automobiles have risen in contrast to the downturn of the general automobile industry, which has driven the potential demand in the upstream products where the Group is operating in. According to the statistics of China Association of Automobile Manufacturers, the production and sales of automobiles in the PRC reached approximately 12.6 million and 12.9 million units for the six months ended 30 June 2021, which represented an annual increase of approximately 24.2% and 25.6% respectively. In addition, the production and sales of automobiles in the PRC in first half year of 2021 has put back as compared to statistics of the same period of 2019 of approximately 12.2 million and 12.3 million units, representing a mild increase of approximately 3.4% and 4.4%, respectively.

On the other hand, under the new environmental standard under the “Limits and Measurement Methods for Emissions from Light-Duty Vehicles” 《輕型汽車污染物排放限值及測量方法(中國第六階段)》(the “**China VI Emission Standards**”) promulgated in December 2016 and implemented in July 2020, certain types of light-duty vehicles powered primarily by gasoline or diesel will have to satisfy more stringent evaporative and refueling emission-control requirements, where production of some of the car dealers may have been suspended and were subject to redesign and relevant tests in pre-production, production in compliance with the new emission standards adoption of the China VI Emission Standards in terms of the automobile production schedule. In addition, car dealers may need to offer high discounts and incentives to reduce its obsolete inventories which were produced in accordance with the precedent emission standard before the full implementation of the China VI Emission Standards.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

With a view to stabilising and expanding automobile consumption and promoting the stable operation of the automobile industry, on 29 April 2020, the National Development and Reform Commission of the PRC and other ten departments jointly issued “Notice on measures to stabilise and expand automobile consumption” (《關於穩定和擴大汽車消費若干措施的通知》) (the “**Notice**”). The Notice proposed a series of measures to extend the interim period of transition of precedent emission standard to the China VI Emission Standards, among others, (i) the adjustment of the deadline for compliance with the China VI Emission Standards from 1 July 2020 to 1 January 2021; (ii) acceleration of elimination of obsolete diesel trucks; and (iii) supporting automobile consumer financing by lowering the down payment ratio and loan interest rates and extending the repayment period. In addition, in order to encourage relevant cities to optimise purchase restrictions, according to “Notice on several measures to boost bulk consumption, key consumption and promote the release of rural consumption potential” (《關於提振大宗消費重點消費促進釋放農村消費潛力若干措施的通知》) jointly issued by the Ministry of Finance of the PRC and other eleven departments on 5 January 2021, the government of the PRC has started a new campaign of cars “going-to-the-countryside” and trade-in for vehicles which is compliant with the new emission standards, which include the measures of encouraging purchase of trucks of 3.5 tons or less and passenger vehicles with displacements of 1.6 liters or less for rural residents, so as to eliminate vehicles with outmode emission standards and purchase of new vehicles.

Taking into account the growth of the PRC passenger vehicle market and the supportive policies of the government in encouraging the consumption in the automobile industry, we consider that the prospects of the automobile industry, subject to the further development of the COVID-19 situation, is expected to recover and bounce back to the pre-pandemic level and drive up the demand in the end products of the automobile manufacturers, which may in turn result in an increasing demand for engines and engine components from the Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

3. The Existing Caps and historical transaction amounts

Based on information provided by the Company, we summarised in the following table (i) the Existing Caps of the Continuing Connected Transactions 2019-2021 for each of the three financial years ending 31 December 2021; and (ii) the historical transaction amounts for the two years ended 31 December 2020 and the six months ended 30 June 2021.

Continuing Connected Transactions 2019-2021	Major type of products/services	For the financial year ended 31 December 2019		For the financial year ended 31 December 2020		For the financial year ending 31 December 2021	For the six months ended 30 June 2021
		Existing Cap (RMB'000)	Actual total transaction amount (RMB'000)	Existing Cap (RMB'000)	Actual total transaction amount (RMB'000)	Existing Cap (RMB'000)	Actual total transaction amount (RMB'000)
			Utilisation rate		Utilisation rate		
1. Sale of engines and engine components to the Brilliance China Group	Engines and engine components	1,754,500	386,773	1,775,000	284,831	2,600,000	236,665
	Utilisation rate		22.0%		16.0%		18.2% (On an annualised basis)
2. Purchase of engine components from Xinhua Combustion Engine	Engine components	194,900	145,802	179,500	103,736	174,200	55,053
	Utilisation rate		74.8%		57.8%		63.2% (On an annualised basis)

The utilisation rates of the annual caps for the Brilliance China Sale Agreement 2019-2021 were approximately 22.0%, 16.0% and 18.2% for the two years ended 31 December 2020 and the six months ended 30 June 2021 on an annualised basis, respectively. The utilisation rates of the annual caps for the Xinhua Combustion Engine Purchase Agreement 2019-2021 were approximately 74.8%, 57.8% and 63.2% for the two years ended 31 December 2020 and the six months ended 30 June 2021 on an annualised basis, respectively.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We noted that the Existing Caps in respect of the Brilliance China Sale Agreement 2019-2021 for the two years ended 31 December 2020 and the six months ended 30 June 2021 was not fully utilised with the range from approximately 16.0% to approximately 22.0%. Based on our discussion with the management of the Company and upon our review on the automobile sales plan for the three years ending 31 December 2024 (the “**Sales Plan**”), we noted that under the Brilliance China Sale Agreement 2019-2021, the demand for the Group’s CE series engines, being the major product offering in the estimation of the Existing Caps, was much lower than expected. This was mainly due to (i) the lower demand from the Huachen Group, being the major downstream automobile manufacturer which uses the CE engines to be purchased by the Brilliance China Group, which only reached approximately 8% of the expected demand since 2019; and (ii) the reorganisation of the Huachen Group led to virtually zero demand for these engines from the Brilliance China Group.

4. The Proposed Caps

The following table sets out the Proposed Caps for the Continuing Connected Transactions 2022-2024 for the three years ending 31 December 2024:

Continuing Connected Transactions 2022-2024	Major type of products/services	For the financial year ending 31 December		
		2022 Proposed Cap (RMB'000)	2023 Proposed Cap (RMB'000)	2024 Proposed Cap (RMB'000)
1. Sale of engines and engine components to the Brilliance China Group	Engines and engine components	409,000	504,000	421,000
2. Purchase of engine components from Xinhua Combustion Engine	Engine components	111,700	142,100	128,700

As stated in the Letter from the Board, the Proposed Caps of the Continuing Connected Transactions 2022-2024 are determined primarily based on the following:

- (i) the historical transaction amounts of the relevant Continuing Connected Transactions 2019-2021;
- (ii) the estimated volume of engines and engine components required by the Group’s connected customers with reference to their internal sales targets and expected market demand for their products;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (iii) the estimated volume of engines components required by the Group based on the estimated demand for the Group's engines from both connected and independent third party customers; and
- (iv) the expected unit sale and purchase prices for the engines and engine components.

In order to assess the fairness and reasonableness of the estimated quantity and estimated price of the Proposed Caps, we have performed the following analysis:

- *The Proposed Caps for the Brilliance China Sale Agreement 2022-2024*

Pursuant to the Brilliance China Sale Agreement 2022-2024, the Brilliance China Sale Agreement 2022-2024 shall be for a term of three years commencing on 1 January 2022 and ending on 31 December 2024 (both dates inclusive). Unless the Brilliance China Sale Agreement 2022-2024 is terminated prior to its expiry date, the agreement shall be renewable for an additional term of three years subject to fulfillment of all necessary statutory and regulatory requirements including but not limited to any applicable requirement under the Listing Rules. In addition, the Group agreed to sell engines and engine components to the Brilliance China Group on terms which are no less favourable than the terms which can be obtained by the relevant members of the Group from independent third parties for sale of such products of comparable quality, quantity and specification. The price for each sale of engine and engine components to the Brilliance China Group is determined by reference to the prevailing market price. Prevailing market price means the price at which the same type of products can be sold to independent third party customers on normal commercial terms or better in the ordinary course of business. For the purpose of obtaining market prices, the Group will make reference to the price quotations to other independent third party customers for products of comparable quality, quantity and specifications.

Upon our review of the Sales Plan, we noted that the Company no longer took into account the demand for CE engines in determining the Proposed Caps and the relevant Proposed Caps were arrived at with reference to the expected demand for the Group's engines for use in the Brilliance China Group's manufacturing of Jinbei minibuses.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As advised by the management of the Company, the engines and engine components mainly involve the R series engine and the Y series engine (collectively, the “Engines”), and are intended to be supplied to (i) the Brilliance China Group, which will be processed by the Brilliance China Group and will then be re-sold for vehicle installation, and (ii) other independent third party customers. As advised by the management of the Company, the unit price of the forecasted sales of Engines to the Brilliance China Group for the three years ending 31 December 2024 was determined with reference to the unit price of the agreed sales order quoted to independent third party customers. In accessing the fairness and the reasonableness of the price in determining the Proposed Caps with regard to the portion of sales of Engines to the Brilliance China Group, we have reviewed three sales orders and the corresponding sales invoices during the two years ended 31 December 2020 and the six months ended 30 June 2021 in respect of the Engines sold by the Group to independent third party customers and compared them against the unit price of the forecasted sales of the same type of Engines to the Brilliance China Group.

Upon comparison, we noted that the unit price of the Engines to be sold to the Brilliance China Group is comparable to the unit price of the Engines sold to independent third parties. Therefore, we are of the view that the unit price of the Engines to be sold to the Brilliance China Group is no less favourable than the unit price sold to independent third party customers.

In respect of the Proposed Caps of RMB409,000,000, RMB504,000,000 and RMB421,000,000 to be sought for the sale of engines and engine components to the Brilliance China Group for each of the three years ending 31 December 2024, respectively, we have obtained from the Company a list of estimated sales of engines and engine components summing up roughly to the relevant Proposed Caps. We have reviewed the breakdown of sales for engines and engine components of the Group up to 30 June 2021. We understand from the Company that such list of estimate was prepared on the basis of multiplying the estimated price per unit of the individual engine or engine component by the estimated quantity of the corresponding engine or engine component. We noted that the selling price per unit of engine or engine component for each of the three years ending 31 December 2024 is expected to remain largely stable at those actually recorded in the two years ended 31 December 2020 and the six months ended 30 June 2021.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We noted that due to the pandemic situation in 2020 and 2021, the gradual recovery of the economy and the growth of the automobile market, the historical transaction amounts for the two years ended 31 December 2020 and the six months ended 30 June 2021 (on an annualised basis) were adopted as the base for comparison in order to take into account (i) the new revenue sources from the new car models of the Brilliance China Group developed with Renault SAS, a company incorporated under the laws of France and the strategic partner of the Brilliance China Group; and (ii) the rescheduling of the production scheme and launch dates after suspension of certain existing models during the period of the Brilliance China Sale Agreement 2019-2021 due to the revision of emission standard into the China VI Emission Standards. As per our further discussion with the management of the Company and based on our review of the Sales Plan, we noted subsequent growth in the estimated monetary value under the Brilliance China Sale Agreement 2022-2024 in 2022 and 2023 will be contributed by the estimated increase in estimated quantity. The estimated quantity of the corresponding components was arrived at after taking into account (i) the estimated number of vehicles to be produced by the Brilliance China Group under its existing product lines, which include various models of minibuses under the “Jinbei” brand; and (ii) the anticipated growth in sales of the Brilliance China Group’s products in domestic and overseas markets as a result of tighter fuel consumption requirements in the PRC and other countries over the next few years and it is expected that there will be a recovery in demand to the pre-pandemic level in 2022 for the Brilliance China Group’s vehicles which would indirectly drive the demand for the engines and engine components of the Group. Meanwhile, as discussed with the management of the Group, it is anticipated that there will be a decrease in procurement of the Group’s engines and engine components from both connected and independent customers for the year ending 31 December 2024 in regard of the potential time lag in research and development under the requirements of RDE (Real Drive Emission) regulations under the China VI Emission Standard to be implemented after July 2023.

On the above basis, we are of the view that the bases on which the Proposed Caps relating to the Brilliance China Sale Agreement 2022-2024 were determined are fair and reasonable and in the interests of the Shareholders and the Company as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- *The Proposed Caps for the Xinhua Combustion Engine Purchase Agreement 2022-2024*

Pursuant to the Xinhua Combustion Engine Purchase Agreement 2022-2024, the Xinhua Combustion Engine Purchase Agreement 2022-2024 shall be for a term of three years commencing on 1 January 2022 and ending on 31 December 2024. Unless the Xinhua Combustion Engine Purchase Agreement 2022-2024 is terminated prior to its expiry date, the agreements shall be renewable for an additional term of three years subject to fulfillment of all necessary statutory and regulatory requirements including but not limited to any applicable requirement under the Listing Rules. In addition, Mianyang Xincheng agreed to purchase various gasoline and diesel engine components such as crankshafts, exhaust manifolds, cylinder chambers and cylinder heads from Xinhua Combustion Engine on terms which are no less favourable than the terms which can be obtained by the relevant members of the Group from independent third parties for purchase of such products of comparable quality, quantity and specifications.

The price for each purchase of engine components from the Xinhua Combustion Engine is determined by reference to the prevailing market price. Prevailing market price means the price at which the same type of products can be obtained from independent third party suppliers on normal commercial terms or better in the ordinary course of business. For the purpose of obtaining market prices, the Group will make reference to the price quotations obtained from other independent third party suppliers for products of comparable quality, quantity and specifications. In order to review the fairness and the reasonableness of the prices in determining the Proposed Caps, we have obtained two price quotations on a sample basis from independent third party suppliers of the Group for comparable products during the two years ended 31 December 2020 and the six months ended 30 June 2021 and we note that the quoted prices were comparable to the price provided by Xinhua Combustion Engine. Therefore, we are of the view that the quoted price provided by Xinhua Combustion Engine was no less favourable to the Group than those obtained from independent third party suppliers under the Xinhua Combustion Engine Purchase Agreement 2019-2021.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In respect of the aggregate Proposed Caps of RMB111,700,000, RMB142,100,000 and RMB128,700,000 to be sought for the purchase of engine components from Xinhua Combustion Engine for each of the three years ending 31 December 2024, respectively, we have obtained from the Company a list of estimated purchases of engine components summing up roughly to the relevant Proposed Caps. We have reviewed the breakdown of purchases for engine components of the Group up to 30 June 2021. We understand from the Company that such list was prepared on the basis of multiplying the estimated purchase price per unit of the individual engine component by the estimated quantity of the corresponding engine component. We note that the purchase price per unit of engine component for each of the three years ending 31 December 2024 is expected to remain the same comparing to those actually recorded in the first half of 2021. On the other hand, the estimated quantity of the corresponding components was arrived at after taking into account (i) the estimated number of engines to be produced by the Group under its existing product lines and new models to be launched, based on confirmed orders and discussions between the Group and the customers regarding their plans. The existing products of the Group include various gasoline and diesel engines for passenger vehicles and light duty commercial vehicles such as mid to low end minibuses, pickup, SUVs, MPVs and the new models of products of the Group to be launched include several models of engines that are China VI Emission Standards compliant and are designed to be used in mid to high end sedans and SUVs; (ii) after-sales engine replacement; and (iii) the historical trend of purchases from the Xinhua Combustion Engine by the Group during the two years ended 31 December 2020 and the six months ended 30 June 2021.

On the above basis, we consider that the bases on which the Proposed Caps for the Xinhua Combustion Engine Purchase Agreement 2022-2024 were determined are fair and reasonable and in the interests of the Shareholders and the Company as a whole.

5. *The conditions*

As one or more of the applicable percentage ratios under Rule 14.07 of the Listing Rules for the Continuing Connected Transactions 2022-2024 are, on an annual basis, over 5% and the Proposed Caps are more than HK\$10,000,000, the Continuing Connected Transactions 2022-2024 are subject to reporting, announcement, annual review and Independent Shareholders' approval requirements as set out in Chapter 14A of the Listing Rules.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Company will therefore seek the approval by the Independent Shareholders of the Continuing Connected Transactions 2022-2024 and the Proposed Caps subject to the following conditions:

1. the Continuing Connected Transactions 2022-2024 will be:
 - (i) entered into by the Group in the ordinary and usual course of its business;
 - (ii) conducted on normal commercial terms or, if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available to or from independent third parties; and
 - (iii) entered into in accordance with the terms of the relevant framework agreements governing the Continuing Connected Transactions 2022-2024 that are fair and reasonable and in the interests of the Shareholders of the Company as a whole;
2. the transaction amount under the Brilliance China Sale Agreement 2022-2024 and the Xinhua Combustion Engine Purchase Agreement 2022-2024 shall not exceed the relevant Proposed Caps; and
3. the Company will comply with all other relevant requirements under the Listing Rules.

As advised by the Company, to ensure the Company's conformity with the terms and the pricing mechanism of continuing connected transaction, the Company has established a series of internal control procedures which are stipulated in Company's internal control policy.

In determining the proposed annual caps in respect of the Continuing Connected Transactions 2022-2024, the sales department of the Group would estimate the production volume of the products in the relevant periods while the purchase department would estimate the volume of the materials required. Also, the sales department and the purchase department of the Group will assess the pricing basis by (i) conducting research and analysis of the recent market conditions of the industry; (ii) comparing the terms of similar products supplied to or procured from other independent third parties to ensure that those contemplated transactions are no less favourable than those supplied to or procured from independent third parties. In addition, the pricing are subject to annual review and may be adjusted by the Company if necessary, with reference to the then market rates to ensure fairness and reasonableness of such prices.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The estimated quantity and price comprising the proposed annual caps is reviewed by the finance department in order to ensure its fairness and reasonableness and it is then submitted for the approval by the Board. Moreover, the finance department will regularly monitor the aggregated transaction amount and perform annual review for the total amount of the relevant continuing connected transactions.

In assessing whether the Company has put in place effective internal control procedures for the Continuing Connected Transactions 2022-2024, we have obtained and reviewed the following documents: (i) the internal control policies provided by the Company in order to understand the design of the Company's internal control system; (ii) the documentation of estimated price and quantity for determining the Proposed Caps which have been properly reviewed by the finance department; (iii) the board resolutions concerning the Continuing Connected Transactions 2022-2024; (iv) the independent non-executive Directors' report for the year 2020 concerning historical connected transactions, in particular, the Continuing Connected Transactions 2019-2021; and (v) the auditors' report for years 2019 and 2020 concerning the historical connected transactions. We note that the above documents were prepared in accordance with the internal control policies of the Company and they were in compliance with the relevant requirements under the Listing Rules. Therefore, we are of the view that the Company has put in place effective internal control procedures for the Continuing Connected Transactions 2022-2024.

Taking into account the conditions attached to the Continuing Connected Transactions 2022-2024, in particular (i) the restriction by way of setting the Proposed Caps; and (ii) the compliance with all other relevant requirements under the Listing Rules (which include the annual review and/or confirmation by the independent non-executive Directors and auditors of the Company on the actual execution of the Continuing Connected Transactions 2022-2024), we consider that the Company has taken appropriate and adequate measures to govern the Group in carrying out the Continuing Connected Transactions 2022-2024, thereby safeguarding the interests of the Shareholders thereunder.

RECOMMENDATION

Having considered the above principal factors, in particular, the following:

- (i) it is common for an engine and engine component supplier to build a long term business relationship with particular automotive manufacturer which is mutual reliant in nature;
- (ii) the entering into of the Brilliance China Sale Agreement 2022-2024 and the Xinhua Combustion Engine Purchase Agreement 2022-2024 would enable the Group to secure (i) the Brilliance China Group as stable customers for the Group and (ii) Xinhua Combustion Engine as stable suppliers of engine components, for the onward manufacturing of engines and engine components of the Group;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(iii) the mechanism and measures taken or to be taken by the Group in ensuring the Continuing Connected Transactions 2022-2024 are on normal commercial terms; and

(iv) the restriction by way of setting of the Proposed Caps,

we are of the opinion that the Continuing Connected Transactions 2022-2024 and the Proposed Caps are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders, and we advise the Independent Shareholders, to vote in favour of the ordinary resolutions to be proposed at the Extraordinary General Meeting for approving the Continuing Connected Transactions 2022-2024 and the Proposed Caps.

Yours faithfully,

For and on behalf of

Octal Capital Limited

Alan Fung

Managing Director

Louis Chan

Director

Note: Mr. Alan Fung has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities since 2003. Mr. Fung has more than 28 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions in respect of mergers and acquisitions, connected transactions and transactions subject to the compliance to the Takeovers Code of listed companies in Hong Kong.

Mr. Louis Chan has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities since 2008. Mr. Chan has more than 20 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions in respect of mergers and acquisitions, connected transactions and transactions subject to the compliance to the Takeovers Code of listed companies in Hong Kong.

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

(a) Interests of Directors and chief executive of the Company

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, were as follows:

The Company

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

Notes:

- (1) Mr. Wu Xiao An is a trustee of the discretionary trust (which holds 33,993,385 Shares for the beneficiaries) under the share incentive scheme established by Lead In Management Limited (“**Lead In**”) in 2011 (the “**Incentive Scheme**”) and holds 50% interests in Lead In. Accordingly, Mr. Wu is deemed or taken to be interested in approximately 2.65% of the issued share capital of the Company.

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

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had or was deemed to have any interests and short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers under the Listing Rules.

(b) Interests of substantial shareholders of the Company

So far as is known to the Directors, as at the Latest Practicable Date, each of the following persons (other than a Director or chief executive of the Company) had, or was deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was, directly or indirectly, interested in 10% or more of any class of shares carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Name of Shareholder	Nature of interests	Number and class of Shares	Approximate percentage of shareholding (Note 6)
Brilliance Investment Holdings Limited ("Brilliance Investment")	Beneficial owner	400,000,000 (L) ordinary	31.20%
Brilliance China (Note 1)	Interest in a controlled corporation	400,000,000 (L) ordinary	31.20%
Huachen Automotive Group Holdings Company Limited* (華晨汽車集團控股有限公司) ("Huachen") (Note 2)	Interest in a controlled corporation	400,000,000 (L) ordinary	31.20%
Xinhua Investment Holdings Limited ("Xinhua Investment")	Beneficial owner	400,000,000 (L) ordinary	31.20%

Name of Shareholder	Nature of interests	Number and class of Shares	Approximate percentage of shareholding (Note 6)
Xinhua Combustion Engine (Note 3)	Interest in a controlled corporation	400,000,000 (L) ordinary	31.20%
Sichuan Yibin Pushi Group Co., Ltd. ("Pushi Group") (Note 4)	Interest in a controlled corporation	400,000,000 (L) ordinary	31.20%
Wuliangye (Note 5)	Interest in a controlled corporation	400,000,000 (L) ordinary	31.20%

Notes:

- (1) Brilliance Investment is wholly-owned by Brilliance China and Brilliance China is deemed or taken to be interested in approximately 31.20% of the issued share capital of the Company in which Brilliance Investment is interested.
- (2) Brilliance China is beneficially owned as to approximately 30.43% by Huachen and Huachen is deemed or taken to be interested in approximately 31.20% of the issued share capital of the Company in which Brilliance Investment is interested.
- (3) Xinhua Investment is a direct wholly-owned subsidiary of Xinhua Combustion Engine and Xinhua Combustion Engine is deemed or taken to be interested in approximately 31.20% of the issued share capital of the Company in which Xinhua Investment is interested.
- (4) Xinhua Combustion Engine is a direct non wholly-owned subsidiary of Pushi Group and Pushi Group is deemed or taken to be interested in approximately 31.20% of the issued share capital of the Company in which Xinhua Investment is interested.
- (5) Pushi Group is a direct wholly-owned subsidiary of Wuliangye and Wuliangye is deemed or taken to be interested in approximately 31.20% of the issued share capital of the Company in which Xinhua Investment is interested.
- (6) These percentages are calculated on the basis of 1,282,211,794 Shares in issue as at the Latest Practicable Date

(L) – Long Position

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

3. SERVICE CONTRACTS

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

4. OTHER INTERESTS OF THE DIRECTORS

As at the Latest Practicable Date:

- (a) save as disclosed in this circular, none of the Directors had any direct or indirect interest in any assets which have, since 31 December 2020, being the date of the latest published audited consolidated financial statements of the Group were made up, been acquired or disposed of by, or leased to, or are proposed to be acquired or disposed of by, or leased to any member of the Group; and
- (b) save as disclosed in this circular, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group which contract or arrangement was subsisting as at the Latest Practicable Date and which is significant in relation to the business of the Group as a whole.

5. EXPERT'S CONSENT AND QUALIFICATION

The following is the qualification of the professional adviser who has given opinion or advice which is contained in this circular:

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

Octal Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and all reference to its name in the form and context in which they appear.

As at the Latest Practicable Date, Octal Capital was not beneficially interested in the share capital of any member of the Group nor did it has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group nor did it have any interest, either direct or indirect, in any assets which have been, since 31 December 2020, being the date to which the latest published audited consolidated financial statements of the Group were made up, acquired, disposed of by, or leased to, or are proposed to be acquired or disposed of by, or leased to any member of the Group.

6. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and his/her respective associates was interested directly or indirectly in a business, apart from his interest in the Company, which competes or is likely to compete with the business of the Group.

7. DIRECTORSHIP AND EMPLOYMENT OF DIRECTORS AND CHIEF EXECUTIVE IN SUBSTANTIAL SHAREHOLDERS

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

Name of Director	Name of company which had such discloseable interest or short position	Position within such company
Mr. Wu Xiao An (also known as Mr. Ng Siu On)	Brilliance China	Chairman and executive director
	Brilliance Investment	Director
Mr. Wang Yunxian	Xinhua Investment	Director
Ms. Ma Nina	Brilliance China	Executive director
Mr. Yang Ming	Pushi Group	General manager

8. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2020, being the date to which the latest published audited consolidated financial statements of the Group were made up.

9. DOCUMENTS ON DISPLAY

Copies of the following documents will be on display for inspection on the website of the Stock Exchange at www.hkexnews.hk and the Company's website at www.xinchenpower.com from the date of this circular up to and including the date of the Extraordinary General Meeting:

- (a) the Brilliance China Sale Agreement 2022-2024 and the Xinhua Combustion Engine Purchase Agreement 2022-2024;
- (b) the letter of recommendation from the Independent Board Committee, the text of which is set out on pages 17 to 18 of this circular;
- (c) the letter of advice from Octal Capital, the text of which is set out on pages 19 to 35 of this circular; and
- (d) the written consent from Octal Capital referred to in the paragraph headed "Expert's consent and qualification" in this appendix.

10. MISCELLANEOUS

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

NOTICE OF THE EXTRAORDINARY GENERAL MEETING

POWER XINCHEN

新 晨 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)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of Xinchén China Power Holdings Limited (the “**Company**”) will be held at Victoria Room, 2nd Floor, Mandarin Oriental, Hong Kong, 5 Connaught Road Central, Hong Kong on Tuesday, 16 November 2021 at 9:30 a.m. or immediately after the conclusion of the extraordinary general meeting of the Company (which is scheduled to be held at the same place on the same date at 9:00 a.m.), whichever is earlier, for the purposes of considering and, if thought fit, passing, with or without modification, the following resolutions as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. “**THAT**

- (a) the entering into of the framework agreement (the “**Brilliance China Sale Agreement**”) (copy of which is marked “A” and produced to the meeting and initialled by the Chairman for identification purpose) dated 30 September 2021 and entered into between the Company and Brilliance China Automotive Holdings Limited (“**Brilliance China**”) in respect of the continuing connected transactions to be entered into between the Company and its subsidiaries on the one part and Brilliance China and its subsidiaries on the other part for the three financial years ending 31 December 2024 as set out in the paragraph headed “Letter from the Board – Renewal of Continuing Connected Transactions – A. Sale of engines and engine components to Brilliance China Group” contained in the circular of the Company dated 28 October 2021 (the “**Circular**”) be and is hereby approved, confirmed and ratified and the entering into of the relevant continuing connected transactions pursuant to the Brilliance China Sale Agreement be and are hereby approved; and that any director of the Company be and is hereby authorised to take such actions and to enter into such documents as are necessary to give effect to the abovementioned continuing connected transactions contemplated under the Brilliance China Sale Agreement; and

NOTICE OF THE EXTRAORDINARY GENERAL MEETING

- (b) the proposed maximum annual monetary value of the continuing connected transactions contemplated under the Brilliance China Sale Agreement pursuant to paragraph (a) of this Resolution for each of the three financial years ending 31 December 2024 as set out in the paragraph headed “Letter from the Board – Proposed Caps and historical transaction value – B. The Proposed Caps” contained in the Circular be and are hereby approved.”
2. **“THAT**
- (a) the entering into of the framework agreement (the “**Xinhua Combustion Engine Purchase Agreement**”) (copy of which is marked “B” and produced to the meeting and initialled by the Chairman for identification purpose) dated 30 September 2021 and entered into between Mianyang Xincheng Engine Co., Ltd.* (綿陽新晨動力機械有限公司)(a wholly-owned subsidiary of the Company) (“**Mianyang Xincheng**”) and Mianyang Xinhua Internal Combustion Engine Joint Stock Company Limited* (綿陽新華內燃機股份有限公司)(“**Xinhua Combustion Engine**”) in respect of the continuing connected transactions to be entered into between Mianyang Xincheng on the one part and Xinhua Combustion Engine on the other part for the three financial years ending 31 December 2024 as set out in the paragraph headed “Letter from the Board – Renewal of Continuing Connected Transactions – B. Purchase of engine components from Xinhua Combustion Engine” contained in the circular of the Company dated 28 October 2021 (the “**Circular**”) be and is hereby approved, confirmed and ratified and the entering into of the relevant continuing connected transactions pursuant to the Xinhua Combustion Engine Purchase Agreement be and are hereby approved; and that any director of the Company be and is hereby authorised to take such actions and to enter into such documents as are necessary to give effect to the abovementioned continuing connected transactions contemplated under the Xinhua Combustion Engine Purchase Agreement; and
- (b) the proposed maximum annual monetary value of the continuing connected transactions contemplated under the Xinhua Combustion Engine Purchase Agreement pursuant to paragraph (a) of this Resolution for each of the three financial years ending 31 December 2024 as set out in the paragraph headed “Letter from the Board – Proposed Caps and historical transaction value – B. The Proposed Caps” contained in the Circular be and are hereby approved.”

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

Hong Kong, 28 October 2021

NOTICE OF THE EXTRAORDINARY GENERAL MEETING

Registered Office:

Windward 3
Regatta Office Park
PO Box 1350
Grand Cayman KY1-1108
Cayman Islands

Head office and principal place of business:

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

* *for identification purposes only*

Notes:

1. A shareholder entitled to attend and vote at the above meeting may appoint one or more than one proxies to attend and to vote on a poll in his stead. On a poll, votes may be given either personally (or in the case of a shareholder being a corporation, by its duly authorised representative) or by proxy. A proxy need not be a shareholder of the Company.
2. Where there are joint registered holders of any share, any one of such persons may vote at the meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders are present at the meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.
3. In order to be valid, the form of proxy duly completed and signed in accordance with the instructions printed thereon together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy thereof must be delivered to the office of the Company's branch registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.
4. Completion and return of the form of proxy will not preclude shareholders from attending and voting in person at the meeting if shareholders so wish.
5. The Hong Kong branch register of members of the Company will be closed from Thursday, 11 November 2021 to Tuesday, 16 November 2021, both days inclusive, during which period no transfer of shares will be registered. Only shareholders of the Company whose names appear on the register of members of the Company on Thursday, 11 November 2021 or their proxies or duly authorised corporate representatives are entitled to attend the meeting. In order to qualify for attending the meeting, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 10 November 2021.

NOTICE OF THE EXTRAORDINARY GENERAL MEETING

6. The ordinary resolutions set out in this notice of extraordinary general meeting will be put forward to independent shareholders to vote by way of a poll.
7. In view of the pandemic of COVID-19, the following precautionary measures will be implemented at the meeting (or any adjournment thereof) to protect our shareholders from the risk of infection:
 - (i) Compulsory body temperature check will be conducted for all shareholders, proxies and other attendees at the entrance of the meeting venue. Any person with a body temperature above the reference range recommended by the Department of Health of The Government of the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong Government**") from time to time, or is exhibiting flu-like symptoms, may be denied entry into the meeting venue or be required to leave the meeting venue.
 - (ii) Each attendee may be asked to complete and submit a health declaration form prior to entry into the meeting venue. Anyone who responds positively to any of the questions in the health declaration form may be denied entry into the meeting venue or be required to leave the meeting venue.
 - (iii) All attendees will be required to wear surgical face mask before they are permitted to attend, and during their attendance of, the meeting. Please note that no masks will be provided at the meeting venue and attendees should bring and wear their own masks.
 - (iv) No refreshment and drinks will be provided and no gift will be distributed at the meeting.

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

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

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

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