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POWER XINCHEN

新 晨 動 力

XINCHEN CHINA POWER HOLDINGS LIMITED

新晨中國動力控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1148)

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 40 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 Friday, 20 December 2024 at 9:00 a.m. is set out on pages 47 to 50 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.

3 December 2024

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DEFINITIONS

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

“2021 Announcement”	the announcement dated 30 September 2021 made by the Company in relation to, among others, the Continuing Connected Transactions 2022-2024;
“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 2022-2024”	the framework agreement entered into between the Company and Brilliance China on 30 September 2021 in relation to the sale of engines and engine components to the Brilliance China Group;
“Brilliance China Sale Agreement 2025-2027”	the framework agreement entered into between the Company and Brilliance China on 18 October 2024 in relation to the sale of engines 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 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;

DEFINITIONS

“Continuing Connected Transactions 2025-2027”	the transactions between the Group and the connected persons of the Company as contemplated under the Brilliance China Sale Agreement 2025-2027 and the Xinhua Combustion Engine Purchase Agreement 2025-2027;
“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 2022-2024 as stated in the 2021 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 Friday, 20 December 2024 at 9:00 a.m. for considering and, if thought fit, approving, among other things, the Brilliance China Sale Agreement 2025-2027, the Xinhua Combustion Engine Purchase Agreement 2025-2027, 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 and Ms. Dong Yan, all of whom are independent non-executive Directors, formed to advise the Independent Shareholders as to the Brilliance China Sale Agreement 2025-2027, the Xinhua Combustion Engine Purchase Agreement 2025-2027, 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 2025-2027, the Xinhua Combustion Engine Purchase Agreement 2025-2027, 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 2025-2027 between the Group and the Brilliance China Group or Shareholder(s) other than Wuliangye, Mr. Deng Han and their respective associates in respect of the Continuing Connected Transactions 2025-2027 between the Group and the Wuliangye Group;
“Latest Practicable Date”	27 November 2024, 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 2025-2027 for the three financial years ending 31 December 2027;
“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 2022-2024”	the framework agreement entered into between Mianyang Xincheng and Xinhua Combustion Engine on 30 September 2021 in relation to the purchase of engine components from Xinhua Combustion Engine;
“Xinhua Combustion Engine Purchase Agreement 2025-2027”	the framework agreement entered into between Mianyang Xincheng and Xinhua Combustion Engine on 18 October 2024 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

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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. Zhang Wei (*Chairman*)

Mr. Deng Han (*Chief Executive Officer*)

Non-executive Director:

Mr. Yang Ming

Independent Non-executive Directors:

Mr. Chi Guohua

Mr. Wang Jun

Ms. Dong Yan

Registered office:

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PO Box 1350

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Cayman Islands

*Head office and principal
place of business:*

Unit 3303, 33rd Floor

The Henderson

2 Murray Road

Central

Hong Kong

3 December 2024

To all Shareholders

Dear Sir/Madam,

**RENEWAL OF CONTINUING CONNECTED TRANSACTIONS
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

INTRODUCTION

Reference is made to the announcement of the Company dated 18 October 2024 in relation to, among others, the Continuing Connected Transactions 2025-2027.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with, among others, (i) details of the Continuing Connected Transactions 2025-2027 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 2025-2027 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 2025-2027 and the Proposed Caps; and (iv) a notice of the Extraordinary General Meeting.

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

On 18 October 2024, (a) the Company entered into the Brilliance China Sale Agreement 2025-2027 with Brilliance China; and (b) Mianyang Xincheng, a wholly-owned subsidiary of the Company, entered into the Xinhua Combustion Engine Purchase Agreement 2025-2027 with Xinhua Combustion Engine, as to the continued conduct of the Continuing Connected Transactions 2022-2024 for the three financial years commencing from 1 January 2025 to 31 December 2027.

A. Sale of engines to the Brilliance China Group

Background

As stated in the 2021 Announcement, the Company and Brilliance China entered into the Brilliance China Sale Agreement 2022-2024 for the supply by the Group to the members of the Brilliance China Group of various types of engines and engine components, which is going to expire on 31 December 2024. The Brilliance China Sale Agreement 2025-2027 was entered into to renew the continuing connected transactions contemplated under the Brilliance China Sale Agreement 2022-2024 (other than the sale of engine components) for a further term of three years commencing from 1 January 2025 and ending on 31 December 2027.

Brilliance China Sale Agreement 2025-2027

Date	:	18 October 2024
Parties	:	(1) the Company, as the seller; and
		(2) Brilliance China, as the purchaser

LETTER FROM THE BOARD

- Term : The Brilliance China Sale Agreement 2025-2027 shall be for a term of three years commencing from 1 January 2025 and ending on 31 December 2027 (both dates inclusive). Unless terminated prior to its expiry date, the Brilliance China Sale Agreement 2025-2027 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 (mainly comprising engines for light duty commercial vehicles) to the Brilliance China Group.
- Consideration : The price for each sale of engines 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. The sales manager provides price quotations to these customers usually on an annual basis. In any event, terms of each sale to the Brilliance China Group will be no less favourable than the terms which can be obtained by the Group from independent third party customers for selling products of comparable quality, quantity and specifications.

After communications with its potential customer on the products required, the Group will compile a bill of materials. Based on the bill of materials, cost analysis conducted by the accounting department and further discussions with the potential customer, the sales manager will prepare competitive quotation having regard to two to three of the prevailing price quotations to independent third parties (which are referred to for obtaining the market prices as mentioned in the preceding paragraph), the costs involved and the expected profit margin 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

LETTER FROM THE BOARD

alike, represent appropriate and sufficient internal control measures to ensure that sales of engines 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 2021 Announcement, Mianyang Xinchun entered into the Xinhua Combustion Engine Purchase Agreement 2022-2024 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 2024. The Xinhua Combustion Engine Purchase Agreement 2025-2027 was entered into to renew the continuing connected transactions contemplated under the Xinhua Combustion Engine Purchase Agreement 2022-2024 for a further term of three years commencing from 1 January 2025 and ending on 31 December 2027.

Xinhua Combustion Engine Purchase Agreement 2025-2027

Date	:	18 October 2024
Parties	:	(1) Mianyang Xinchun, as the purchaser; and (2) Xinhua Combustion Engine, as the seller
Term	:	The Xinhua Combustion Engine Purchase Agreement 2025-2027 shall be for a term of three years commencing from 1 January 2025 and ending on 31 December 2027 (both dates inclusive). Unless terminated prior to its expiry date, the Xinhua Combustion Engine Purchase Agreement 2025-2027 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, Mianyang Xinchun has agreed to purchase various gasoline and diesel engine components such as crankshafts, exhaust manifolds, cylinder chambers and cylinder heads from Xinhua Combustion Engine.

LETTER FROM THE BOARD

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 usually three 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 by Mianyang Xincheng 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 and the procurement department will select the lowest quotation provided that the quality specifications can be met. 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 2022, 2023 and 2024; and (ii) the actual total transaction amounts of the relevant Continuing Connected Transactions 2022-2024 for the two financial years ended 31 December 2023 and the ten months ended 31 October 2024:

Continuing Connected Transactions 2022-2024	Major type of products	For the financial year ended 31 December 2022	Actual total transaction amount	For the financial year ended 31 December 2023	Actual total transaction amount	For the financial year ending 31 December 2024	For the ten months ended 31 October 2024
		Existing Cap (RMB'000)	(RMB'000)	Existing Cap (RMB'000)	(RMB'000)	Existing Cap (RMB'000)	Actual total transaction amount (RMB'000)
1. Sale of engines and engine components to the Brilliance China Group	Engines and engine components	409,000	764* [#]	504,000	— [#]	421,000	— [#]
2. Purchase of engine components from Xinhua Combustion Engine	Engine components	111,700	36,941	142,100	55,618	128,700	59,942

* This actual transaction amount relates to sale of engines only. There was no sale of engine components by the Group to the Brilliance China Group for the financial year ended 31 December 2022.

[#] Since July 2021, Renault Brilliance Jinbei Automotive Company Limited (“**RBJAC**”) (formerly within the Brilliance China Group) has ceased production of certain series of Jinbei light commercial vehicles, which required engines produced by the Group, due to cashflow issues. In 2022, the Group only sold a minimal amount of engines to the Brilliance China Group in connection with its after-sale services. In January 2023, RBJAC was officially declared bankrupt and began to undergo reorganisation. Such reorganisation was completed in mid-2024, and Jinbei (Shenyang) Automotive Co., Ltd. (the entity within the Brilliance China Group which has taken up the manufacture of Jinbei light commercial vehicles) is working towards resumption of production. Therefore, other than the minimal sale of engines in 2022 as mentioned above, there were no sales of engines and engine components to the Brilliance China Group during these periods.

B. The Proposed Caps

The following table sets out the Proposed Caps for the three financial years ending 31 December 2027:

Continuing Connected Transactions 2025-2027	Major type of products	For the financial year ending 31 December		
		2025 Proposed Cap (RMB'000)	2026 Proposed Cap (RMB'000)	2027 Proposed Cap (RMB'000)
1. Sale of engines to the Brilliance China Group	Engines	106,100	168,720	217,950
2. Purchase of engine components from Xinhua Combustion Engine	Engine components	97,820	126,360	191,700

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 2022-2024;
- (ii) in respect of the Brilliance China Sale Agreement 2025-2027, (a) the expected unit price of engines to be sold; (b) the number of engines required by the Brilliance China Group based on their internal sales targets of the relevant light commercial vehicles which require the engines from the Group; (c) the anticipated increase in sales of vehicle produced by the Brilliance China Group with the introduction of new models developed with reference to market trend; (d) the gradual recovery in operation of the Brilliance China Group during the first half of 2024 following the completion of the reorganisation of Huachen Automotive Group Holdings Company Limited and its subsidiaries; and (e) the expected growth in the automobile market boosted by the favourable government policy encouraging the public to replace old vehicles with new models; and
- (iii) in respect of the Xinhua Combustion Engine Purchase Agreement 2025-2027, (a) the expected purchase prices of the engine components to be purchased; and (b) the estimated number of engines to be produced and sold by the Group to customers under its existing product lines as well as new models of engines to be launched based on the expected demand from its customers after discussions between the Group's sales teams and its customers on their business plans.

REASONS FOR AND BENEFITS OF ENTERING INTO THE CONTINUING CONNECTED TRANSACTIONS 2025-2027

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, and also sells engines produced by it to the Brilliance China Group.

The Continuing Connected Transactions 2025-2027 are entered into for the following reasons:

- 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 Group sells its engines to the Brilliance China Group for use in manufacturing vehicles, and such engines are developed and produced according to the specifications required by the Brilliance China Group.

LETTER FROM THE BOARD

- The facilities of Mianyang Xincheng and those of Xinhua Combustion Engine are closely located, which reduces transportation costs, and ensures timely delivery, of products purchased by Mianyang Xincheng from Xinhua Combustion Engine.

The Brilliance China Group and Xinhua Combustion Engine have been long-standing customer and supplier, respectively, of the Group. With such an established relationship, it is expected that the Group will be able to command continual orders from the Brilliance China Group for the Group's engines at fair and reasonable prices in the foreseeable future under the Brilliance China Sale Agreement 2025-2027, which will contribute to the revenue of the Group for the three years ending 31 December 2027. Through the entering into of the Xinhua Combustion Engine Purchase Agreement 2025-2027, the Group is able to continue to take advantage of the proximity in location between the facilities of Mianyang Xincheng and those of Xinhua Combustion Engine to ensure cost-efficient and timely supply of engine components required by the Group.

The Directors (excluding 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 2025-2027 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 the terms of the Brilliance China Sale Agreement 2025-2027 and the Xinhua Combustion Engine Purchase Agreement 2025-2027 (including the related Proposed Caps) to be fair and reasonable.

MATERIAL INTEREST OF DIRECTORS IN THE BRILLIANCE CHINA SALE AGREEMENT 2025-2027 AND THE XINHUA COMBUSTION ENGINE PURCHASE AGREEMENT 2025-2027

Mr. Zhang Wei, an executive Director and the chairman of the Company, is also an executive director and Executive Vice President of Supply Chain of Brilliance China. Accordingly, Mr. Zhang Wei abstained from voting on the Board resolutions (to the extent of those which were passed since his appointment as executive Director and the chairman of the Company on 8 November 2024) in respect of the Continuing Connected Transactions 2025-2027 between the Group and the Brilliance China Group.

Mr. Deng Han, an executive Director and the chief executive officer of the Company, is also the chairman and director of Xinhua Combustion Engine. Accordingly, Mr. Deng Han abstained from voting on the Board resolutions in respect of the Continuing Connected Transactions 2025-2027 between the Group and the Wuliangye Group.

Mr. Yang Ming, a non-executive Director, is also a director and 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. Yang Ming abstained from voting on the Board resolutions in respect of the Continuing Connected Transactions 2025-2027 between the Group and the Wuliangye Group.

LETTER FROM THE BOARD

The Board confirms that (i) except for Mr. Zhang Wei, none of the Directors has any material interest in the Brilliance China Sale Agreement 2025-2027; and (ii) except for Mr. Deng Han and Mr. Yang Ming, none of the Directors has any material interest in the Xinhua Combustion Engine Purchase Agreement 2025-2027. Accordingly, none of the Directors (except for Mr. Zhang Wei, Mr. Deng Han and Mr. Yang Ming who abstained from voting as mentioned above) was required to abstain from voting on the Board resolutions in respect of the Continuing Connected Transactions 2025-2027.

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.

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.

LETTER FROM THE BOARD

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 2025-2027 are, on an annual basis, over 5%, the Continuing Connected Transactions 2025-2027 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 2025-2027, the Xinhua Combustion Engine Purchase Agreement 2025-2027, 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 Friday, 20 December 2024 at 9:00 a.m., is set out on pages 47 to 50 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 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.

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.

LETTER FROM THE BOARD

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. Each of Brilliance China and Wuliangye controlled or was entitled to exercise control over the voting rights in respect of these Shares in which it was interested as at the Latest Practicable Date. As at the Latest Practicable Date, Mr. Deng Han, an executive Director and chief executive officer of the Company, was interested and/or deemed to be interested in an aggregate of 36,987,643 Shares, representing approximately 2.88% of the issued share capital of the Company. Mr. Deng Han controlled or was entitled to exercise control over the voting rights in respect of these Shares in which he was interested as at the Latest Practicable Date. Brilliance China and its associates (if any) will abstain from voting on the ordinary resolution(s) to be proposed at the Extraordinary General Meeting in respect of the Continuing Connected Transactions 2025-2027 between the Group and the Brilliance China Group and the related Proposed Caps. Wuliangye, Mr. Deng Han and their respective associates (if any) will abstain from voting on the ordinary resolution(s) to be proposed at the Extraordinary General Meeting in respect of the Continuing Connected Transactions 2025-2027 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 2025-2027, the Xinhua Combustion Engine Purchase Agreement 2025-2027, 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 2025-2027, the Xinhua Combustion Engine Purchase Agreement 2025-2027, 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 40 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 2025-2027, the Xinhua Combustion Engine Purchase Agreement 2025-2027, 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 2025-2027, the Xinhua Combustion Engine Purchase Agreement 2025-2027, 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
Zhang Wei
Chairman

* for identification purpose only

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

POWER XINCHEN

新 晨 動 力

XINCHEN CHINA POWER HOLDINGS LIMITED

新晨中國動力控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1148)

3 December 2024

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 3 December 2024 (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 2025-2027, the Xinhua Combustion Engine Purchase Agreement 2025-2027, 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 2025-2027, the Xinhua Combustion Engine Purchase Agreement 2025-2027, 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 2025-2027, the Xinhua Combustion Engine Purchase Agreement 2025-2027, 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 2025-2027, the Xinhua Combustion Engine Purchase Agreement 2025-2027, 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 2025-2027, the Xinhua Combustion Engine Purchase Agreement 2025-2027, 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 2025-2027, the Xinhua Combustion Engine Purchase Agreement 2025-2027, the transactions contemplated thereunder and the Proposed Caps.

Yours faithfully,

Independent Board Committee

Mr. Chi Guohua Mr. Wang Jun Ms. Dong Yan

Independent non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

The following is the text of the letter of advice to the Independent Board Committee and the Independent Shareholders from Octal Capital which has been prepared for inclusion in this circular.



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

3 December 2024

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

RENEWAL OF 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 2025-2027 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 3 December 2024 (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 18 October 2024, (a) the Company entered into the Brilliance China Sale Agreement 2025-2027 with Brilliance China; and (b) Mianyang Xinchun, a wholly-owned subsidiary of the Company, entered into the Xinhua Combustion Engine Purchase Agreement 2025-2027 with Xinhua Combustion Engine, as to the continued conduct of the Continuing Connected Transactions 2022-2024 for the three financial years commencing from 1 January 2025 to 31 December 2027.

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 2025-2027 are, on an annual basis, over 5%, the Continuing Connected Transactions 2025-2027 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 ADVISOR

The Independent Board Committee comprising all of the independent non-executive Directors, namely Mr. Chi Guohua, Mr. Wang Jun and Ms. Dong Yan, has been formed to advise the Independent Shareholders as to (i) the Continuing Connected Transactions 2025-2027; and (ii) the Proposed Caps. We have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

As at the Latest Practicable Date, we were not connected with the Group, Brilliance China, Xinhua Combustion Engine and Wuliangye or, where applicable, any of their respective substantial shareholders, directors or chief executives, or any of their respective subsidiaries or associates pursuant to Rule 13.84 of the Listing Rules. During the last two years, there has been no other engagement entered into between the Company and us. We are therefore considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders regarding the Continuing Connected Transactions 2025-2027 and the Proposed Caps.

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, the Group, Brilliance China, Xinhua Combustion Engine and Wuliangye or any of their respective subsidiaries or associates that could reasonably be regarded as relevant to our independence. Accordingly, we consider that we are independent to act as the Independent Financial Adviser pursuant to Rule 13.84 of the Listing Rules.

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 continued 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 of Brilliance China for the three years ending 31 December 2027 (the “**Sales Plan**”); (ii) list of estimated purchases of engine components of the Group for the three years ending 31 December 2027 (the “**Purchase Plan**”); (iii) samples of historical transactions and corresponding invoices of the comparable products under the Brilliance China Sale Agreement 2022-2024 during the two years ended 31 December 2023 and the ten months ended 31 October 2024; (iv) samples of quotations of the comparable products under the Xinhua Combustion Engine Purchase Agreement 2022-2024 during the two years ended 31 December 2023 and the ten months ended 31 October 2024; and (v) internal control policies adopted for the Continuing Connected Transactions 2025-2027.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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, Xinhua Combustion Engine and 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 2025-2027 AND THE PROPOSED CAPS

Principal factors and reasons considered

In arriving at our opinion regarding the Continuing Connected Transactions 2025-2027 and the Proposed Caps, we have considered the following principal factors and reasons:

1. Background of and reasons for the Continuing Connected Transactions 2025-2027 and the Proposed Caps

The Group is principally engaged in the development, manufacture and sales 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.

As stated in the 2021 Announcement, (i) the Company and Brilliance China entered into the Brilliance China Sale Agreement 2022-2024 for the supply by the Group to the Brilliance China Group of various types of engines and engine components; and (ii) Mianyang Xinchun entered into the Xinhua Combustion Engine Purchase Agreement 2022-2024 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 2024 and the parties wish to continue the relevant transactions (i.e. the Brilliance China Sale Agreement 2022-2024 and the Xinhua Combustion Engine Purchase Agreement 2022-2024) upon expiry of the relevant framework agreements, the parties entered into the Brilliance China Sale Agreement 2025-2027 and the Xinhua Combustion Engine Purchase Agreement 2025-2027.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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 to the Brilliance China Group. In particular, 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.

Based on our review of the Sales Plan and the Purchase Plan provided by the Group and our discussion with the management of the Company, we understand that the Group sells its engines, produced with engine components under the Purchase Plan, to the Brilliance China Group for use in manufacturing light commercial vehicles. Such engines are developed and produced according to the specification required by the Brilliance China Group and the Group sells R-series engines and D-series engines to the Brilliance China Group for use in manufacturing light commercial vehicles, which broadens the customer base and increases the demand for these types of engines.

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 whose products have 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 engine supplier of the Brilliance China Group for long in respect of their vehicles manufactured (namely light commercial vehicles, sedans, SUVs and MPVs). Considering the extensive business operations of the Brilliance China Group, the entering into of the Brilliance China Sale Agreement 2025-2027 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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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 engine components for its manufacturing operation from Xinhua Combustion Engine over the years, the close relationship between the Group and Xinhua Combustion Engine allows the Group to secure stable supply of engine components for its operation. The long-term supply relationship has allowed 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. Additionally, the close proximity of the production facilities of the Group and Xinhua Combustion Engine, which are both located in Mianyang City and connected by a straight driveway that enables efficient logistics and quick response times. These factors collectively contribute to ensuring timely supply of engine components which (i) could meet the necessary quality and standards as required by the Group; and (ii) could minimise any disruptions to the Group's existing business operations.

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 2025-2027 and the Xinhua Combustion Engine Purchase Agreement 2025-2027 in order to continue the ongoing (i) sales transactions with the Brilliance China Group to secure stable source of revenue for the Group; and (ii) purchase transactions with Xinhua Combustion Engine to secure a stable supply of engine components for the onward manufacturing of engines of the Group.

2. Industry overview

The growth of production and sales of automobiles have shown resilience in recent years despite challenges such as high inventories and fluctuating consumer confidence. According to the statistics in the 2023 Automotive Industry Economic Operation Report* (2023年汽車工業經濟運行報告) as released by National Bureau of Statistics of China^{Note 1}, approximately 30.1 million new vehicles were sold in 2023 in the PRC, reflecting a growth of approximately 9.9% compared to previous years. According to the analysis released by the China Association of Automobile Manufacturers^{Note 2}, during the first six months in 2024, vehicle sales volumes and production reached approximately 14.0 million units and approximately 13.9 million units, marking 6.1% and 4.9% increase year-over-year, respectively. The continuing increase in sales and production of vehicles indicates a healthy recovery from the previous pandemic-induced downturn. An industry report by credit rating agency S&P Global Inc. released in April 2024^{Note 3} further introduced that the growth

* for identification purposes only

Notes:

1. Please refer to the link below for the 2023 Automotive Industry Economic Operation Report*: <http://lwzb.stats.gov.cn/pub/lwzb/bztt/202405/W020240527578179613545.pdf>
2. Please refer to the link below for the analysis the China Association of Automobile Manufacturers: www.caam.org.cn/chn/5/cate_39/con_5236464.html
3. Please refer to the link below for the industry report by S&P Global Inc.: <https://www.spglobal.com/ratings/en/research/pdf/articles/240429-china-auto-margin-pressure-heightens-101596837#:~:text=China's%20domestic%20light%20vehicle%20sales,from%20over%2030%25%20last%20year.&text=S%26P%20Global%20Inc.>

LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

trajectory of vehicle industry in the PRC is expected to continue into the years of 2024 and 2025, with projections indicating an increase in domestic light vehicle sales by 2% to 3% and electric vehicle sales by 15% to 20% annually.

On the other hand, the Chinese government has implemented policies aimed at supporting the growth of automobile market. In March 2024, fourteen ministries including the Ministry of Commerce (商務部) of the PRC launched a national-wide “old-for-new” program, the Action Plan for Promoting Large-scale Equipment Renewals and Consumer Goods Trade-ins (《推動消費品以舊換新行動方案》)(the “**Action Plan**”)^{Note 4}, which has revised auto loan policies to allow financial institutions to offer loans with down payment ratios potentially reaching 100%, facilitating “zero down payment” purchases for both traditional internal combustion engine vehicles and new energy vehicles. Subsequently in May 2024, the Ministry of Finance (財政部) of the PRC supported and substantialised the Action Plan by allocating approximately RMB11.2 billion for auto trade-in subsidies in 2024 through the release of the Central Government Pre-Allocated Fund Budget for the 2024 Auto Trade-in Subsidy^{Note 5} (《2024年汽車以舊換新補貼中央財政預撥資金預算》), with emphasis on the importance of trade-in programs for older vehicles with lower emission standards. In terms of performance indicators, the annual scrapped car recycling volume is 3.78 million vehicles. The auto loan policies allowing “zero down payment” and the issuance of the subsidy fund with target volume of scrapped car may provide solid financial support that promotes the growth of the automobile market.

With a view to enhancing environmental standards, under the Action Plan, by 2025, passenger cars with emission standards of China III (中國第三階段汽車排放標準) and below are planned to be phased out at an accelerated pace. The Chinese government aims to increase the recycling of scrapped automobiles by 50% by 2025 and 100% by 2027, comparing to the level of recycling in 2023. This strategy encourages consumers to trade older vehicles in for newer models that comply with stricter emissions regulations.

Notes:

4. Please refer to the link below for the Action Plan:
https://www.gov.cn/zhengce/zhengceku/202404/content_6945069.htm
5. Please refer to the link below for the release of the auto trade-in subsidy:
https://www.gov.cn/zhengce/zhengceku/202406/content_6955282.htm

LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

Moreover, the overseas market opportunity for Chinese vehicle components in developing countries is expanding, driven by regional demands. In Africa, there is growing demand for affordable and high-quality vehicles, while in the Middle East, the market is increasingly focused on mid to high-end new energy vehicles equipped with intelligent features and autonomous driving capabilities. According to Naamsa^{Note 6}, the Automotive Business Council in South Africa, the number of imported Chinese vehicles surged from about 11,000 units in 2019 to over 39,000 units in 2023, which represents a growth rate exceeding 200% within a few years, driven by Chinese brands' increasing competitiveness, against established American and Japanese automakers well-known for offering affordable mass-market vehicles, through lower prices and improved quality perceptions among consumers. Apart from the growth in Africa, Chinese automakers have also made progress in the Middle East automotive market. According to the latest data from the General Administration of Customs of the PRC^{Note 7}, in the first half of 2024, China's passenger vehicle exports to the Middle East region reached 420,000 units, representing a year-on-year growth of 46.2%, making it China's largest export destination for automobiles during this period. As reported by China Daily^{Note 8}, a national English newspaper in the PRC, this growth in vehicle exports is accompanying with collaboration by local manufacturers in overseas market with Chinese automakers to develop domestic production facilities and led to Chinese automakers to expand their presence in Africa and the Middle East, with developments across key markets such as South Africa, Morocco, Egypt and Ethiopia. For instance, BAIC Group, a major Chinese state-owned automaker, made investment of 226 million United States Dollars for its first phase construction of a plant in South Africa with the first vehicle being assembled in 2018 and the construction was fully completed in 2023^{Note 9}. Another notable development is the expansion of Changan Automobile, a leading Chinese automaker, where it has accumulated sales exceeding 400,000 units in Africa and the Middle East markets and established its largest global flagship store in Saudi Arabia^{Note 10}. The leading Chinese automaker planned to collaborate with local business partners to enhance its regional presence through the establishment of spare parts centers and technical support facilities, while accelerating operational localisation including financial services and logistics distribution networks to ensure efficient after-sales support and service delivery. These developments in Chinese vehicle exports and manufacturing presence in Africa and the Middle East markets demonstrate the growing opportunities for engine and engine components suppliers to support both local production and after-market service needs in these regions.

Notes:

6. Please refer to the link below for the data:
<https://www.voanews.com/a/in-the-fast-lane-chinese-car-imports-grow-in-south-africa/7809451.html>
7. Please refer to the link below for the data:
<https://finance.sina.com.cn/stock/relnews/cn/2024-10-30/doc-incukean0819036.shtml>
8. Please refer to the link below for the report:
<https://www.chinadailyhk.com/hk/article/592584>
9. Please refer to the link below for the information:
<https://baic.co.za/about-us.html>
10. Please refer to the link below for the information:
<https://www.globalchangan.com/newsroom/changans-journey-30-years-in-the-middle-east-and-africa-embarking-on-a-new-chapter.html>

LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

With the stable growth of the Chinese passenger vehicle market and the supportive policies of the government in encouraging consumption in the automobile industry, the automobile industry is continuing its recovery subsequent to the pandemic situation and demand in the end-products of the automakers is growing. We consider that the recovering local demand in the PRC and the expanding opportunities in the overseas markets with growing regional demands, particularly in developing regions, may in turn result in an increasing demand for engines and engine components from the Group.

The Company plans to capitalise on the expanding growth potential in developing regions, by strategically collaborating with long-standing Chinese automaker business partners. By leveraging these established relationships, the Company aims to become a preferred supplier of engines and engine components for local vehicle manufacturing and after-sales services in these markets. This strategic approach will enable the Company to tap into the growing demand for affordable, high-quality automotive components in the developing regions. The Company expects to commence exporting its products to these markets in the coming years, with a targeted export launch in the financial year ended 31 December 2025 (“FY2025”). This timeline allows for further market research, product customisation, and the optimisation of distribution channels and local networks for exportation. The Company’s export initiative, strategically aligned with the expanding presence of Chinese automotive products in developing countries, positions it to capture the opportunities in the overseas markets.

In light of this observed growth in demand for engines and engine components, the Group is of view that the entering into of the Brilliance China Sale Agreement 2025-2027 and the Xinhua Combustion Engine Purchase Agreement 2025-2027 help position the Group to capitalise on the positive market trend and ensure a stable supply chain to meet the anticipated product demand.

3. The Existing Caps and historical transaction amounts

Based on information provided by the Company, we summarise in the following table (i) the Existing Caps of the Continuing Connected Transactions 2022-2024 for each of the three financial years ending 31 December 2024; and (ii) the actual transaction amounts for the two years ended 31 December 2023 and the ten months ended 31 October 2024.

Continuing Connected Transactions 2022-2024	Major type of products	For the financial year ended 31 December 2022		For the financial year ended 31 December 2023		For the financial year ending 31 December 2024	For the ten months ended 31 October 2024
		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)
1. Sales of engines and engine components to the Brilliance China Group	Engines and engine components	409,000	764 [#]	504,000	–	421,000	–
Utilisation rate			0.2%		0.0%		0.0% (On an annualised basis)
2. Purchases of engine components from Xinhua Combustion Engine	Engine components	111,700	36,941	142,100	55,618	128,700	59,942
Utilisation rate			33.1%		39.1%		55.9% (On an annualised basis)

[#] This actual transaction amount relates to sale of engines only. There was no sale of engine components by the Group to the Brilliance China Group for the financial year ended 31 December 2022.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

Continuing Connected Transactions 2022-2024

The utilisation rates of the Existing Caps in respect of the Brilliance China Sale Agreement 2022-2024 were approximately 0.2%, 0.0% and 0.0% for the two years ended 31 December 2023 and the ten months ended 31 October 2024 on an annualised basis, respectively. The utilisation rates of the Existing Caps in respect of the Xinhua Combustion Engine Purchase Agreement 2022-2024 were approximately 33.1%, 39.1% and 55.9% for the two years ended 31 December 2023 and the ten months ended 31 October 2024 on an annualised basis, respectively.

Based on our discussion with the management of the Company, the low utilisation rates of the Existing Caps in respect of the Brilliance China Sale Agreement 2022-2024 for the two years ended 31 December 2023 and the ten months ended 31 October 2024 was mainly due to the suspension of production of certain series of Jinbei light commercial vehicles by Renault Brilliance Jinbei Automotive Company Limited (“**RBJAC**”) (formerly within the Brilliance China Group) due to cashflow issues, where such Jinbei light commercial vehicles required engines produced by the Group.

As discussed in the Letter from the Board, in 2022, the Group only sold a few engines to the Brilliance China Group in connection of its after-sale services. In January 2023, RBJAC was officially declared bankrupt and began to undergo reorganisation (the “**Reorganisation**”). The Reorganisation was completed in mid-2024, and Jinbei (Shenyang) Automotive Co., Ltd. (the entity within the Brilliance China Group which has taken up the manufacture of Jinbei light commercial vehicles) is working towards resumption of production. Therefore, other than the minimal sale of engines in 2022 as mentioned above, there were no sales of engines and engine components to the Brilliance China Group during the two years ended 31 December 2023 and ten months ended 31 October 2024.

The low utilisation rates of the Existing Caps in respect of the Xinhua Combustion Engine Purchase Agreement 2022-2024 for the two years ended 31 December 2023 and the ten months ended 31 October 2024 were mainly attributable to (i) the reduction in demand for the engines from the Brilliance China Group, as part of the engine components to be acquired from Xinhua Combustion Engine is for the production of such types of engines to be sold to the Brilliance China Group, leading to the reduction in the utilisation rates by around 50% in the two years ended 31 December 2023 and ten months ended 31 October 2024; and (ii) the reduction in overall demand for the engines from the remaining manufacturers and thus the need to acquire engine components from Xinhua Combustion Engine due to supply chain disruptions and reduced consumer demand under lasting economic effects of COVID-19 pandemic, leading to the reduction in the utilisation rates by around 20% and around 10% in the year ended 31 December 2022 and 2023, respectively.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

Supported by the PRC's recovering economic activity, there was increased engine sales to manufacturers other than the Brilliance China Group during the ten months ended 31 October 2024. Such increased sales contributed to the improvement in the utilisation rate for the Group's purchase of engine components from Xinhua Combustion Engine of approximately 39.1% for the year ended 31 December 2023 to an annualised utilisation rate of approximately 55.9% for the ten months ended 31 October 2024.

The suspension of production by the Brilliance China Group since 2022, due to the Reorganisation, had negative impact to both the Group's sales of engine to the Brilliance China Group and the Group's purchase of engine components from Xinhua Combustion Engine during the two years ended 31 December 2023 and the ten months ended 31 October 2024. Following the completion of the Reorganisation in the first half of 2024 and the planned resumption of Jinbei light commercial vehicle production in the FY2025, the Group's sales of engines to the Brilliance China Group is expected to recover gradually in the coming years.

4. Pricing policy

- ***The pricing policy for the Brilliance China Sale Agreement 2025-2027***

Pursuant to the Brilliance China Sale Agreement 2025-2027, the Group agreed to sell engines to the Brilliance China Group on terms which are no less favourable than the terms which can be obtained by the Group from independent third parties customers for selling products of comparable quality, quantity and specification for a term of three years commencing from 1 January 2025 and ending on 31 December 2027 (both dates inclusive) which 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. The price for the engines to be sold to the Brilliance China Group is determined by reference to the prevailing market price of the same type of engines that can be sold to independent third party customers on normal commercial terms or better in the ordinary course of business. In determining the prevailing market price of the engines, we noted that the Group will make reference to the selling prices of engines of comparable quality, quantity and specifications to other independent third party customers.

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To assess the pricing policy, we selected year 2021 for timeframe of samples as it is the last year before the suspension of production by the Brilliance China Group since 2022 due to the Reorganisation. Based on this timeframe, we selected one historical sales transactions to the Brilliance China Group in 2021 on random basis, for each of the selected two engine series (R-series and Y-series). We originally intended to select historical sales transaction to the Brilliance China Group for the two engine series, being R-series and D-series, as they are the two engine series expected to be sold under the Brilliance China Sale Agreement 2025-2027. Since D-series was not sold to the Brilliance China Group in 2021, we selected Y-series as supplemental engine series for sampling. For each selected sales transaction, we compare the selling price agreed in the relevant pricing agreement against the selling price in three comparable sales and corresponding sales invoices to independent third parties for engines of same engine series in the same month. We noted that the selling prices for historical sales transactions to the Brilliance China Group, for both R-series and Y-series, were either higher than or comparable to those of the comparable sales to independent third parties. We consider the overall sample size, of two historical sales transactions to the Brilliance China Group in 2021, is sufficient as it covered one engine series (i.e. the R-series engine) that is expected to be sold to the Brilliance China Group with a supplemental sample on another engine series (i.e. the Y-series engine) as an additional assurance for the engine series (i.e. the D-series engine) without available historical transactions, while the three corresponding sales invoices to independent third parties for each of the engine series (i.e. total six sales invoices to independent third parties), also provided multiple external references from transactions with independent third parties for each engine series. From the assessment, we noted that the pricing policy of the Group was effective and ensured the transactions before the Reorganisation were conducted on normal commercial terms and terms no less favourable than those to the independent third party customers. Given that the pricing policy for the transactions under Brilliance China Sale Agreement 2025-2027 remains consistent with that implemented before the Reorganisation, we are of the view that the pricing policy of the Group is effective and such pricing policy can ensure the transactions under the Brilliance China Sale Agreement 2025-2027 will be on normal commercial terms and terms no less favourable than those to the independent third party customers.

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- ***The pricing policy for the Xinhua Combustion Engine Purchase Agreement 2025-2027***

Pursuant to the Xinhua Combustion Engine Purchase Agreement 2025-2027, 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 Mianyang Xincheng from independent third parties suppliers for purchasing products of comparable quality, quantity and specifications for a term of three years commencing on 1 January 2025 and ending on 31 December 2027, and it 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. The price for engine components to be purchased from Xinhua Combustion Engine is determined by reference to the prevailing market price of the products of comparable quality, quantity and specifications that can be obtained from independent third party suppliers on normal commercial terms or better in the ordinary course of business. In determining the prevailing market prices of the relevant engine components, we noted that the Group will make reference to the price quotations obtained from other independent third party suppliers for products of comparable quality, quantity and specifications.

To assess the pricing policy, we have obtained three price quotations on random basis from independent third party suppliers of the Group for comparable engine components during the ten months ended 31 October 2024. Notably, the engine components to be purchased under the Xinhua Combustion Engine Purchase Agreement 2025-2027 are intended for the production of engine series of Y-series, R-series and D-series. As such, the selection criteria were based on quotations from 2024, with one representative quotation randomly selected for each engine product series (Y-series, R-series and D-series), where the engine component is required for production of that specific engine series. We have also obtained an agreement entered into between Mianyang Xincheng and Xinhua Combustion Engine (the “**2024 Purchase Agreement**”), effective since 1 January 2024, which has listed all individual unit price of the engine components that Mianyang Xincheng could purchase from Xinhua Combustion Engine for the year ending 31 December 2024. Upon comparison, we noted that the quoted prices of the independent third party suppliers were higher than purchase prices for engine components purchased from Xinhua Combustion Engine as agreed in the 2024 Purchased Agreement. We consider the overall sample size of three engine components, with their individual unit prices compared against three quotations from independent third parties, is sufficient as it covered the engine components for all three engine product series (Y-series, R-series and D-series), and it represented the latest effectiveness of the pricing policy. Taking into account the above, we are of the view that the pricing policy of the Group is effective and such pricing policy can ensure the transactions under the Xinhua Combustion Engine Purchase Agreement 2025-2027 will be on normal commercial terms and terms no less favourable than those to the independent third party suppliers.

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5. The Proposed Caps

The following table sets out the Proposed Caps for the three years ending 31 December 2027:

Continuing Connected Transactions 2025-2027	Major type of products	For the financial year ending 31 December		
		2025 Proposed Cap (RMB'000)	2026 Proposed Cap (RMB'000)	2027 Proposed Cap (RMB'000)
1. Sales of engines to the Brilliance China Group	Engines	106,100	168,720	217,950
2. Purchases of engine components from Xinhua Combustion Engine	Engine components	97,820	126,360	191,700

As stated in the Letter from the Board, the Proposed Caps are determined primarily based on the following:

- (i) the historical transaction amounts of the relevant Continuing Connected Transactions 2022-2024;
- (ii) in respect of the Brilliance China Sale Agreement 2025-2027, (a) the expected unit price of engines to be sold; (b) the number of engines required by the Brilliance China Group based on their internal sales targets of the relevant light commercial vehicles which require the engines from the Group; (c) the anticipated increase in sales of vehicle produced by the Brilliance China Group with the introduction of new models developed with reference to market trend; (d) the gradual recovery in operation of the Brilliance China Group during the first half of 2024 following the completion of the reorganisation of Huachen Automotive Group Holdings Company Limited and its subsidiaries; and (e) the expected growth in the automobile market boosted by the favourable government policy encouraging the public to replace old vehicles with new models; and
- (iii) in respect of the Xinhua Combustion Engine Purchase Agreement 2025-2027, (a) the expected purchase prices of the engine components to be purchased; and (b) the estimated number of engines to be produced and sold by the Group to customers under its existing product lines as well as new models of engines to be launched based on the expected demand from its customers after discussions between the Group's sales teams and its customers on their business plans.

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

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- ***The Proposed Caps for the Brilliance China Sale Agreement 2025-2027***

To understand the calculation of the Proposed Caps for the Brilliance China Sale Agreement 2025-2027, we have obtained and reviewed the Sales Plan of the relevant engines to be sold to the Brilliance China Group which was planned according to the vehicle sales plan provided by the Brilliance China Group, and noted that the Proposed Caps for the Brilliance China Sale Agreement 2025-2027 were arrived at based on the expected selling prices and the demand for the Group's engines for use in the Brilliance China Group's manufacturing of light commercial vehicles. As advised by the management of the Company, the engines to be supplied to the Brilliance China Group mainly involve the D-series engines and the R-series engines, which are customised according to the specifications required by the Brilliance China Group.

We also noted that the Group has set the expected unit prices in determining the Proposed Caps for the Brilliance China Sale Agreement 2025-2027. For R-series engines, the expected unit prices were based on the historical selling price of the same type of engines sold to the Brilliance China Group in April 2021 which is the last month with normal level of sales activity with the Brilliance China Group before the Reorganisation. For D-series engines, since there was no sales of such engine series to the Brilliance China Group, the expected unit prices were based on the Group's understanding upon pricing negotiation with the Brilliance China Group. In order to assess the fairness and reasonableness of the selling price of the relevant engines in determining the Proposed Caps for the Brilliance China Sale Agreement 2025-2027, we have obtained two historical transactions and corresponding invoices of engines of similar specification and components provided to or sold to independent third parties in 2024 and compared it with the selling prices of the relevant engines to be sold to the Brilliance China Group used in determining the Proposed Caps. We noted that the engines to be sold to the Brilliance China Group are priced comparably to those sold to independent third parties while having similar performance specifications and sharing common core components. Based on the above findings, we consider the expected unit prices set by the Group in determining the Proposed Caps for the Brilliance China Sale Agreement 2025-2027 reflect selling prices under the prevailing market conditions.

We noted that the expected selling prices under the Proposed Caps are stable across the three years ended 31 December 2027. As advised by the Company, the management of the Company projected that the selling prices for products sold to the Brilliance China Group will maintain at a stable level as they do not expect sales quantity to the Brilliance China Group in the three years ended 31 December 2027 to deviate largely from the current Sales Plan. Such deviations, if within normal range, would typically trigger a 3% price adjustment upon annual price negotiation with the Brilliance China Group. Therefore, the management considered the stable selling price to be prudent estimation for the Proposed Caps across the three years ended 31

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December 2027. To evaluate the assessment by the management of the Company, we have reviewed the price adjustment for sales to the Brilliance China Group during the year ended 31 December 2021 and noted that for products with change in annual sales quantity by not more than 50%, there was less than 3% price adjustment for such product, which we consider the finding is consistent to the expectation of the management of the Company. We have further researched the annual change of average consumer prices of the PRC to observe its trend of inflation rate. According to the International Monetary Fund*, the average consumer prices for the PRC in year 2021 to 2023 are 0.9%, 2.0% and 0.2% respectively, which suggests the price pressure is minimal to be added to the Proposed Caps. Taking into account the above, we are of the view that the adopted selling prices of the engines to be sold to the Brilliance China Group in determining the Proposed Caps for the Brilliance China Sale Agreement 2025-2027 are fair and reasonable.

In respect of the quantity of the engines to be sold to the Brilliance China Group under the Proposed Caps, it was estimated based on (i) the number of engines required by the Brilliance China Group based on their internal sales targets of the relevant light commercial vehicles which require the engines from the Group; (ii) the anticipated increase in sales of vehicle produced by the Brilliance China Group with the introduction of new models developed with reference to market trend; (iii) the gradual recovery in operation of the Brilliance China Group following the completion of the Reorganisation during the first half of 2024; and (iv) the expected growth in the automobile market boosted by the favourable government policy encouraging the public to replace old vehicles with new models as discussed in the section headed “2. Industry overview” which would drive the demand for the vehicles to be produced by the Brilliance China Group.

To further assess the estimated quantity, we have reviewed the actual sales amount of the relevant engines to the Brilliance China Group in 2020, being the latest year with normal full-year activity level of sales transactions to the Brilliance China Group before the Reorganisation since the last month with normal sales activity level of sales transactions to the Brilliance China Group was April 2021. We noted that the Group’s historical sales of engines to the Brilliance China Group in 2020 amounted to approximately RMB289.8 million (primarily attributable to sales of the R-series engines at 22,297 units and the Y-series engines at 838 units). Following the completion of the Reorganisation in the first half of 2024, the Proposed Caps for the three year ended 31 December 2027 reflect a transition in product mix and gradual recovery trajectory. For 2025, sales are estimated to recover to 8,100 units of R-series engines, with Y-series engines being phased out. For 2026, sales are estimated to further recover to 11,800 units of R-series engines, complemented by the introduction of 600 units of D-series engines. For 2027, sales are expected to reach 15,000 units of

* Please refer to the link below for the data:
<https://www.imf.org/external/datamapper/PCPIPCH@WEO/CHN>

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R-series engines and 900 units of D-series engines. Comparing to the Group's historical sales quantity of engines to the Brilliance China Group in 2020, the total estimated sales quantity of engines under the Proposed Caps indicated overall recovery level of 35.0%, 53.6% and 68.7%. Observing the recovery pace over three years, we consider the projected recovery path aligns with our understanding for the Brilliance China Group's operational recovery following the completion of the Reorganisation during the first half of 2024. We have further obtained the vehicle sales plan provided by the Brilliance China Group to the Group's sales teams and compare it against the Sales Plan and noted that the types and units of engines planned to be sold to the Brilliance China Group agreed with the vehicle sales plan provided by the Brilliance China Group. Taking into account the above, we are of the view that the estimated quantities of the engines to be sold to the Brilliance China Group in determining the Proposed Caps for the Brilliance China Sale Agreement 2025-2027 are justifiable.

On the above basis, we are of the view that the bases on which the Proposed Caps for the Brilliance China Sale Agreement 2025-2027 were determined are fair and reasonable and in the interests of the Shareholders and the Company as a whole.

- ***The Proposed Caps for the Xinhua Combustion Engine Purchase Agreement 2025-2027***

We have obtained and reviewed the Purchase Plan of the relevant engine components to be purchased from Xinhua Combustion Engine and noted that the Proposed Caps for the Xinhua Combustion Engine Purchase Agreement 2025-2027 were arrived at based on the expected purchase prices and the estimated volumes of engines components required by the Group based on the estimated demand for the Group's engines from its customers after communicating with its customers' on their demand level for engines in the coming years.

We noted that the expected unit prices in determining the Proposed Caps for the Xinhua Combustion Engine Purchase Agreement 2025-2027 were based on the historical purchase price of relevant engine components as agreed in the 2024 Purchase Agreement. To assess the fairness and reasonableness of the expected unit prices, we reviewed and cross checked the purchase price of each engine component in the 2024 Purchase Agreement against those listed in the Purchase Plan, and noted that the estimated unit price of each engine component used in determining the Proposed Caps is expected to remain at the same level as those listed in the 2024 Purchase Agreement. As discussed in the section headed "4. Pricing policy", we have assessed the agreed prices in the 2024 Purchase Agreement. As the expected unit prices under the Proposed Caps are based on such agreed price, we considered the expected unit prices align with the Group's pricing policy and reflect the prevailing market price. As advised by the management of the Company, the Group negotiate the purchase prices with Xinhua Combustion Engine annually based on various factors, in particular, the

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staff costs and production costs required by Xinhua Combustion Engine to produce the engine components. Based on the understanding of the management of the Company on the industry condition, the staff costs and production costs of the Xinhua Combustion Engine will not have significant fluctuation in the coming years. As such, the management of the Company considered having the expected unit prices at the same level over the three years ended 31 December 2027 will be a prudence estimation for the Proposed Caps. We concur with the view of the management of the Company as we noted the stable staff costs and production costs as discussed above are in line with the low PRC inflation rates, which ranging between 0.2% and 2.0% from 2021 to 2023. This low inflationary environment demonstrated minimal price pressure on the purchase prices for the engine components.

On the above basis, we are of the view that estimated purchase prices for the engine components adopted in the Purchase Plan are reasonable.

In respect of the quantity of the engine components under the Purchase Plan, it was arrived at based on the estimated number of underlying engines to be produced and sold by the Group to customers under its existing product lines as well as new engine models to be launched based on the expected demand from its customers after discussions between the Group's sales teams and its customers on their business plans.

We have reviewed the Purchase Plan and noted that the quantity of engine components was arrived at after taking into account (i) the fulfillment of the sales order from the aforementioned revamp of production for the light commercial vehicles by the Brilliance China Group after the Reorganisation and the gradual increment in the purchase amount for the relevant engine components for the engines to be sold to the Brilliance China Group under the Sales Plan, contributing to approximately 14.5%, 16.4% and 13.2% of the estimated quantity of engine components under the Purchase Plan in 2025, 2026 and 2027, respectively; (ii) the expected increment in demand for the Group's engines from its local customers other than the Brilliance China Group, including several major Chinese automakers that produce a diverse range of passenger vehicles and light commercial vehicles; and (iii) the expected expansion of the sales of the Group's engines to the overseas market of developing countries in various regions which is experiencing growing regional demand for engine and engine components made in the PRC as local manufacturers of these countries are starting to collaborate with Chinese automakers to develop domestic production facilities. The relevant engines components required for this expected growth in sales in the overseas market contributes approximately 43.3%, 49.6% and 48.2% of the estimated quantity of engine components under the Purchase Plan in 2025, 2026 and 2027, respectively, which is in line with the Group's strategy on overseas market expansion to capitalise the opportunities in the overseas market.

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As presented above, the estimated quantity of engine components under the Purchase Plan comprised of three parts of estimates: (i) the quantity of engine components for underlying engines to fulfill orders from the Brilliance China Group; (ii) the quantity of engine components for underlying engines to fulfill orders from local customers other than Brilliance China Group; and (iii) the quantity of engine components for underlying engines to fulfill expected demand for overseas markets. The following analysis examines the trends in estimated number of underlying engines for each part of the estimates for the engine components required under the Purchase Plan.

For the estimated number of underlying engines for fulfilling orders from Brilliance China Group, we have cross checked the estimated quantity of engine components and the number of underlying engines to be sold to the Brilliance China Group in the Purchase Plan, against the Sales Plan. We noted that the estimated quantity of engine components and the number of underlying engines to be sold to the Brilliance China Group are matched in the two plans. We also noted that the number of underlying engines expected to be sold to the Brilliance China Group in the Purchase Plan showed same pace of recovery of engine sales as in the Sales Plan.

For the estimated number of underlying engines for fulfilling orders from other local customers other than the Brilliance China Group, we noted that the estimated underlying engines over the three years from 2025 to 2027 represent annual growth rate of approximately 5% and 67% in 2026 and 2027, respectively. The 5% growth rate for engines required by customers other than the Brilliance China Group in 2026 is considered a reasonable estimate comparing to statistics as discussed in the section headed “2. Industry overview” where in the first six months in 2024, vehicle sales volumes and production marked 6.1% and 4.9% increase year-over-year, respectively. The 67% growth for engines required by customers other than the Brilliance China Group in 2027 was attributable to the launch of new engine model which is expected to be marketed in 2027, in additional to the existing product mix. The management of the Company has confidence that the new engine model will become another income driver for the Company, as the new engine model is expected to have advantageous key specification indicators, including fuel consumption, dry weight and torque, addressing market opportunities where current available solutions in the market only partially meet customer demands. According to China Association of Automobile Manufacturers, the PRC’s light commercial vehicle production reached approximately 2.3 million units in 2023, comprising 1.9 million light trucks and 0.4 million light passenger vehicles. The number of units as sales target for the launch of new engine model in 2027 represents less than 1% of the projected 2024 market size in term of light commercial vehicle production volume, assuming a 4.9% annual growth rate based on industry performance in the first half of 2024. Moreover, according to the China Association of Automobile Manufacturers, the production of vehicles in first half of 2024 in the PRC is approximately 13.9 million units while the sales volume of

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engines of the Group for the same period, as disclosed in the latest interim report of the Company, was approximately 210,000 units, representing a market share of approximately 1.5% for sales volume of all type of vehicles. Given the market's unsaturated state, the growth potential for the new engine model and the existing market position of the Group, we consider this target to be a reasonable estimate.

For the estimated number of underlying engines for overseas market, we noted that the estimated underlying engines over the three years from 2025 to 2027 represent annual growth rate of 50% and 54% during 2026 and 2027. According to data from the China Association of Automobile Manufacturers, Chinese vehicle exports experienced fast growth, reaching a record of approximately 4.91 million vehicles for 2023, with annual growth rates at around 57.9% and around 54.0% in 2023 and 2022, respectively. Upon comparison, the estimated number of engines for exporting to overseas market in 2025 represents less than 1% of the total vehicle export in 2023 which is small amount compared to the fast-growing market size and not excessive compared to the existing market position of the Group. The annual growth rates of the estimated number of engines for overseas market of 50% and 54% for 2026 and 2027 are also in line with the historical growth rate of Chinese vehicle exports of around 57.9% and around 54.0% in 2023 and 2022, respectively. The Group is actively enhancing its business networks and collaborating with potential business partners to export its products for overseas markets in 2025. Currently, the engine model targeting international markets is already undergoing engine testing processes with potential business partner of the Group. There are generally three stages for the collaboration process with potential business partner before official launch of sales of engine in large scale, including initial stage for technology discussion and feasibility analysis, middle stage for engine testing processes, and final stage for small-batch market launch and tracking. The on-going engine testing processes are considered the middle stage of the collaboration process and essential for optimising vehicle performance and ensuring the quality of vehicles assembled with engines supplied by the engine manufacturer such as the Group.

We have further checked that the estimated quantity of engine components under the Purchase Plan aligns with the estimated numbers of underlying engine required to fulfill sales order from customers. Taking into account of the above, we are of the view that the estimated quantities of the engine components to be purchased from Xinhua Combustion Engine in determining the Proposed Caps for the Xinhua Combustion Engine Purchase Agreement 2025-2027 are justifiable.

On the above basis, we consider that the bases on which the Proposed Caps for the Xinhua Combustion Engine Purchase Agreement 2025-2027 were determined are fair and reasonable and in the interests of the Shareholders and the Company as a whole.

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6. Internal control

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

In determining the Proposed Caps, the sales department of the Group would estimate the production volume of the engines in the relevant periods while the procurement department would estimate the volume of the engine components required. Also, when entering into new sales or purchase contracts, the sales department and the procurement department of the Group will assess the pricing basis by (i) conducting research and analysis of the recent market conditions of the industry; and (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. Finance department of the Group will maintain on-going monitoring on transactions under the contracts to ensure terms including pricing and quantity are in line with the contracts assessed by the sales department and the procurement department of the Group. In addition, the pricing are subject to annual review and review upon renewal of contracts and may be adjusted by the Company if necessary, with reference to the then market rates to ensure fairness and reasonableness of such prices, and the transactions under the relevant continuing connected transactions are on normal commercial terms and on terms no less favourable to the independent third parties. As there are cross-departmental efforts and multi-layer safeguards from on-going monitoring to annual review, we consider the Company's design of internal control policy is sufficient to ensure the transactions under the Continuing Connected Transactions 2025-2027 are on normal commercial terms and on terms no less favourable to the independent third party.

The sales and purchase transactions under the Proposed Caps are reviewed by the finance department of the Group. Moreover, the finance department of the Group will quarterly monitor the aggregated transaction amount and perform annual review for the total amount of the relevant continuing connected transactions to ensure the total amount is within the Proposed Caps. With the monitoring of relevant continuing connected transactions and the momentum of the sales and purchase transactions, the Group will evaluate, and revise if necessary, the respective annual caps. As (i) the Group had less than 60% annual and annualised utilisation rates on the Existing Caps over the two years ended 31 December 2023 and the ten months ended 31 October 2024; and (ii) the production capacity is planned ahead according to future demand information collected from its customers, we consider the control measures by the Group in monitoring the transaction amounts are sufficient to ensure the transactions under the Continuing Connected Transactions 2025-2027 will not exceed the Proposed Caps.

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In assessing whether the Company has put in place effective internal control procedures for the Continuing Connected Transactions 2025-2027, 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 the approval process prior to the relevant member of the Group entering into sale agreement or purchase agreement with the relevant connected person of the Company under the Continuing Connected Transactions 2022-2024 where we observed the two approval forms in 2024 and noted that sales and purchase contracts are approved through relevant departments through the approval process and we consider the sample size sufficient as it covered approval processes for both sales and purchase contracts in the most recent year; (iii) the board resolutions concerning the Continuing Connected Transactions 2025-2027; (iv) the independent non-executive Directors' confirmation for the years 2022 and 2023 concerning historical connected transactions; and (v) the auditors' report for years 2022 and 2023 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 are in compliance with the relevant requirements under the Listing Rules. Furthermore, as discussed in the section headed "4. Pricing policy", we have also compared historical transactions with the Brilliance China Group and Xinhua Combustion Engine against prices quoted in invoices and quotations of independent third parties and noted that the internal control procedures are effective. Therefore, we consider that the Company has taken appropriate and adequate measures to govern the Group in carrying out the Continuing Connected Transactions 2025-2027, thereby safeguarding the interests of the Shareholders thereunder.

RECOMMENDATION

Having considered the above principal factors, we are of the opinion that the Continuing Connected Transactions 2025-2027 and the Proposed Caps are on normal commercial terms, in the ordinary and usual course of business of the Company, 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 2025-2027 and the Proposed Caps.

Yours faithfully,
For and on behalf of
Octal Capital Limited

Alan Fung **Louis Chan**
Managing Director *Director*

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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 30 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 2)
Mr. Deng Han (Note 1)	Long position	Beneficial owner	2,994,258 ordinary	0.23%
	Long position	Trustee and interest in a controlled corporation	33,993,385 ordinary	2.65%

Notes:

- (1) Mr. Deng Han is a trustee of the discretionary trust (which holds 33,993,385 Shares for the beneficiaries through Lead In Management Limited) and holds 100% interests in Lead In Management Limited. Accordingly, Mr. Deng is deemed or taken to be interested in approximately 2.65% of the issued share capital of the Company.
- (2) 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, 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 5)
Brilliance Investment Holdings Limited ("Brilliance Investment")	Beneficial owner	400,000,000 Ordinary (L)	31.20%
Brilliance China (Note 1)	Interest in a controlled corporation	400,000,000 Ordinary (L)	31.20%
Xinhua Investment Holdings Limited ("Xinhua Investment")	Beneficial owner	400,000,000 Ordinary (L)	31.20%
Xinhua Combustion Engine (Note 2)	Interest in a controlled corporation	400,000,000 Ordinary (L)	31.20%
Sichuan Yibin Pushi Group Co., Ltd. ("Pushi Group") (Note 3)	Interest in a controlled corporation	400,000,000 Ordinary (L)	31.20%
Wuliangye (Note 4)	Interest in a controlled corporation	400,000,000 Ordinary (L)	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) 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.
- (3) 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.
- (4) 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.
- (5) 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 2023, being the date to which 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 2023, being the date to which the latest published audited consolidated financial statements of the Group were made up, acquired or disposed of by, or leased to, 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/her 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. Zhang Wei	Brilliance China	Executive Director and Executive Vice President of Supply Chain
	Brilliance Investment	Director
Mr. Deng Han	Xinhua Combustion Engine	Chairman and Director
	Xinhua Investment	Director
Mr. Yang Ming	Pushi Group	Director and 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 2023, 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 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 2025-2027 and the Xinhua Combustion Engine Purchase Agreement 2025-2027;
- (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 40 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 動 力

XINCHEN CHINA POWER HOLDINGS LIMITED

新晨中國動力控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1148)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of Xinchen China Power Holdings Limited (the “**Company**”) will be held at Victoria Room, 2nd Floor, Mandarin Oriental, Hong Kong, 5 Connaught Road Central, Hong Kong on Friday, 20 December 2024 at 9:00 a.m., 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 of the meeting for identification purpose) dated 18 October 2024 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 2027 as set out in the paragraph headed “Letter from the Board – Renewal of Continuing Connected Transactions – A. Sale of engines to the Brilliance China Group” contained in the circular of the Company dated 3 December 2024 (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
- (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 2027 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.”

NOTICE OF THE EXTRAORDINARY GENERAL MEETING

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 of the meeting for identification purpose) dated 18 October 2024 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 2027 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 3 December 2024 (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 2027 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, 3 December 2024

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:

Unit 3303, 33rd Floor
The Henderson
2 Murray 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 Tuesday, 17 December 2024 to Friday, 20 December 2024, 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 Tuesday, 17 December 2024 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 Monday, 16 December 2024.

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 of the Company to vote by way of a poll.

As at the date of this notice, the board of directors of the Company comprises two executive directors, Mr. Zhang Wei (Chairman) and Mr. Deng Han (Chief Executive Officer); one non-executive director, Mr. Yang Ming; and three independent non-executive directors, Mr. Chi Guohua, Mr. Wang Jun and Ms. Dong Yan.