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## **THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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

**If you have sold or transferred all** your shares in China Engerine International (Holdings) Limited (the "Company"), you should at once hand this circular together with the accompanying form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities of the Company.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

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### **CHINA ENGERINE INTERNATIONAL (HOLDINGS) LIMITED**

**中國航天萬源國際(集團)有限公司\***

*(Incorporated in Cayman Islands with limited liability)*

(Stock Code: 1185)

### **DISCLOSEABLE AND CONNECTED TRANSACTIONS INVESTMENTS IN SINO-FOREIGN JOINT VENTURES AND ENTERING INTO A CONSTRUCTION CONTRACT FOR CONSTRUCTION WORKS ON WIND ENERGY PROJECT**

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



**Mitsubishi UFJ Securities**

Mitsubishi UFJ Securities (HK) Capital, Limited

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A letter from the Board is set out on pages 4 to 13 of this circular.

A letter from the Independent Board Committee is set out on pages 14 to 15 of this circular.

A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 16 to 29 of this circular.

A notice convening the EGM to be held at Hall 1B, G/F., No.1 Science Park East Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong on 31 December 2008 at 12:00 noon is set out on pages 35 to 37 of this circular. Whether or not you are able to attend the EGM, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time of the EGM. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the EGM or any adjourned meeting should you so wish.

\* *For identification purpose only*

13 December 2008

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## DEFINITIONS

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

|   |  |
|---|--|
| “Aerospace Material”                      | 航天材料及工藝研究所 (Aerospace Research Institute of Materials & Processing Technology), a state-owned institute incorporated in the PRC and wholly-owned by CALT;  |
| “Board”                                   | the board of Directors;  |
| “CALT”                                    | 中國運載火箭技術研究院 (China Academy of Launch Vehicle Technology), a state-owned entity established in the PRC and wholly-owned by China Aerospace Science and Technology Corporation, the ultimate controlling shareholder of the Company; |
| “Company”                                 | China Engine International (Holdings) Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange;  |
| “Construction Contract”                   | Construction contract entered into between Inner Mongolia New Energy and WY Construction Project of 1 December 2008;   |
| “Direct Energy”                           | 北京新源賽風技術有限公司 (Beijing Direct Energy Corp.), a company established in Beijing, the PRC;   |
| “Direct Wind Sales”                       | 北京航天宜達特直驅風機銷售有限公司 (Beijing EWT-CASC Direct Wind Marketing and Sales Co. Ltd.), an associate of the Company incorporated in Beijing, the PRC;   |
| “Direct Wind Service”                     | 北京航天宜達特直驅風機服務維護有限公司 (Beijing EWT-CASC Direct Wind Service and Maintenance Co. Ltd.), a subsidiary of the Company incorporated in Beijing, the PRC;   |
| “Directors”                               | the directors of the Company;  |
| “Discloseable and Connected Transactions” | the two transactions contemplated under the Joint Venture Contract and the Construction Contract;  |
| “EGM”                                     | The extraordinary general meeting to be convened to consider and, if thought fit, approve the entering into the Joint Venture contract and the Construction Contract;  |
| “Enlarged Group”                          | The Group immediately after establishments of the Joint Venture and the previous joint ventures, Inner Mongolia Turbine Manufacturer and Direct Wind Service;  |

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## DEFINITIONS

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|                                       |   |
|---------------------------------------|---|
| “EWT”                                 | Emergya Wind Technologies B.V., a company incorporated in Netherlands;  |
| “Group”                               | the Company and its subsidiaries;   |
| “HK\$”                                | Hong Kong dollar, the legal currency of the Hong Kong Special Administrative Region of the PRC;   |
| “Independent Board Committee”         | An independent committee of the board of directors comprising Mr. Wang Dechen, Ms. Kan Lai Kuen, Alice, and Mr. Gordon Ng, being all the independent non-executive directors.   |
| “Independent Financial Adviser”       | Mitsubishi UFJ Securities (HK) Capital, Limited, being the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Discloseable and Connected Transactions; |
| “Independent Shareholders”            | All shareholders of the Company excluding CALT and its associates;  |
| “Inner Mongolia New Energy”           | 內蒙古航天萬源新能源開發有限公司 (Inner Mongolia CASC Wanyuan New Energy Development Co. Ltd.), a wholly-owned subsidiary of the Company established in Wulangchabu City, Inner Mongolia, the PRC;  |
| “Inner Mongolia Turbine Manufacturer” | 內蒙古航天萬源風電設備製造有限公司 (Inner Mongolia CASC-EWT Directwind Turbine Manufacturer Co. Ltd.), a subsidiary established in Wulangchabu City, Inner Mongolia, the PRC with EWT;   |
| “Inner Mongolia WY Material”          | 內蒙古航天萬源復合材料有限公司 (Inner Mongolia CASC Wanyuan Composite Material Co. Ltd.), a sino-foreign equity joint venture enterprise established in Wulangchabu City, Inner Mongolia, the PRC;   |
| “Joint Venture”                       | Inner Mongolia WY Material;   |
| “Joint Venture Contract”              | Sino-foreign equity joint venture contract in respect of establishment of Inner Mongolia WY Material of 1 December 2008;  |
| “Latest Practicable Date”             | 12 December 2008, being the latest practicable date prior to the printing of this circular for ascertaining information herein;   |
| “Listing Rules”                       | The Rules Governing the Listing of Securities on the Stock Exchange;  |

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## DEFINITIONS

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|                           |   |
|---------------------------|---|
| “New Image”               | New Image Development Limited, a wholly-owned subsidiary of the Company incorporated in Hong Kong;  |
| “PRC”                     | the People’s Republic of China (but, for the purpose of this circular, excluding Hong Kong, Macau and Taiwan);  |
| “Previous JV Contracts”   | Sino-foreign equity joint venture contracts in respect of establishments of Inner Mongolia Turbine Manufactuer, Direct Wind Sales and Direct Wind Service of 29 May 2008; |
| “RMB”                     | Renminbi, the legal currency of the PRC;  |
| “Stock Exchange”          | The Stock Exchange of Hong Kong Limited;  |
| “US\$”                    | the United States dollars, the legal currency of the United States of America;  |
| “WY Construction Project” | 北京航天萬源建築工程有限責任公司 (Beijing CASC Wanyuan Construction Project Corporation Ltd.), a company established in Beijing, the PRC, 80% owned by CALT;                              |
| “WY Industry”             | 北京萬源工業有限公司 (Beijing Wanyuan Industry Corporation Ltd.), a wholly-owned subsidiary of the Company established in Beijing, the PRC; and                                     |
| “%”                       | per cent.   |

*For the purpose of this circular, the exchange rate of RMB:HK\$ is RMB1.00:HK\$1.14.*

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## LETTER FROM THE BOARD

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### CHINA ENERGINE INTERNATIONAL (HOLDINGS) LIMITED

中國航天萬源國際(集團)有限公司\*

(Incorporated in Cayman Islands with limited liability)

(Stock Code: 1185)

*Executive Directors:*

Mr. Han Shuwang (*Chairman*)

Mr. Wang Xiaodong

Mr. Li Guang

*Non-executive Directors:*

Mr. Wu Jiang

Mr. Tang Guohong

*Independent Non-executive Directors:*

Mr. Wang Dechen

Ms. Kan Lai Kuen, Alice

Mr. Gordon Ng

*Registered Office:*

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman

KY1-1111

Cayman Islands

*Principal Place of Business:*

Suite 4701, 47th Floor

Central Plaza

18 Harbour Road

Wanchai

Hong Kong

13 December 2008

*To the shareholders of the Company*

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTIONS  
INVESTMENTS IN SINO-FOREIGN JOINT VENTURES  
AND  
ENTERING INTO A CONSTRUCTION CONTRACT  
FOR CONSTRUCTION WORKS  
ON WIND ENERGY PROJECT**

#### INTRODUCTION

#### Joint Venture Contract

It was announced on 1 December 2008 that WY Industry and New Image, wholly-owned subsidiaries of the Company entered into a sino-foreign equity joint venture contract for establishing

\* For identification purpose only

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## LETTER FROM THE BOARD

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Inner Mongolia WY Material thereon in relation to manufacture of direct-drive windmill blade whereby all the joint venture parties including WY Industry and New Image had agreed to make their investments for their respective shares of capital of Inner Mongolia WY Material.

### Joint Venture Contract dated 1 December 2008

- Parties:
1. Aerospace Material, a connected person of the Company
  2. WY Industry, a wholly-owned subsidiary of the Company
  3. New Image, a wholly-owned subsidiary of the Company
  4. EWT, a connected person of the Company as of 1 December 2008

Total investment: RMB100 million (HK\$114 million)

Total registered capital: RMB80 million (HK\$91.2 million)

|   | <b>Aerospace<br/>Material</b> | <b>WY Industry</b> | <b>New Image</b>   | <b>EWT</b>         |
|---|-------------------------------|--------------------|--------------------|--------------------|
|   | <i>RMB'000</i>                | <i>RMB'000</i>     | <i>RMB'000</i>     | <i>RMB'000</i>     |
| Share of registered capital:<br>(in HK\$000 equivalent) | 32,000<br>(36,480)            | 28,000<br>(31,920) | 16,000<br>(18,240) | 4,000<br>(456)     |
| Percentage of total registered<br>capital:              | 40%                           | 35%                | 20%                | 5%                 |
| Currency of the payment:                                | RMB                           | RMB                | RMB                | Euro<br>Equivalent |
| Director to be assigned:                                | 1                             | 2                  | 1                  | 1                  |

### Business of Inner Mongolia WY Material

Inner Mongolia WY Material is to be engaged in the manufacture and sales of the composite material of glass fabrics for machinery use, in particular, for manufacture of windmill blade on a mass scale.

It was planned that the capacity of the annual production of the plant with area of about 180 hectares to be established in Xinghe County, Wulanchabu City, Inner Mongolia by the company will reach 400 sets of 900KW direct-drive windmill blades and 250 sets of 2MW direct-drive windmill blades.

The entering into of the Joint Venture is a major move in development of direct-drive windmill project of advanced energy intensively, which comprises parts of manufacture of windmill equipment, research and development of technology, 50MW testing wind field and windmill distribution with strategic investors, EWT and Aerospace Material.

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## LETTER FROM THE BOARD

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### PREVIOUS JOINT VENTURES WITH EWT

Before entering into the Joint Venture, the Group also, on 29 May 2008, entered into three joint venture contracts with EWT in relation to the same windmill project whereby the joint venture parties including the Company and WY Industry agreed to make their investments for their respective shares of capitals of Inner Mongolia Turbine Manufacturer, Direct Wind Sales and Direct Wind Service.

### Joint venture contract dated 29 May 2008 of Inner Mongolia Turbine Manufacturer

- Parties:
1. WY Industry, a wholly-owned subsidiary of the Company
  2. EWT, to the best of the Directors' knowledge, information and belief having made all reasonable enquiry, this joint venture party and their ultimate beneficial owners were third parties independent of the Company and its connected person and were not connected persons of the Group as of 29 May 2008

Total investment: RMB100 million (HK\$114 million)

Total registered capital: RMB50 million (HK\$57 million)

|   | <b>WY Industry</b> | <b>EWT</b>     |
|---|--------------------|----------------|
|   | <i>RMB'000</i>     | <i>RMB'000</i> |
| Share of registered capital:            | 45,000             | 5,000          |
| (in HK\$000 equivalent)                 | (51,300)           | (5,700)        |
| Percentage of total registered capital: | 95%                | 5%             |
| Currency of the payment:                | RMB                | RMB            |
| Director to be assigned:                | 2                  | 1              |

### Business of Inner Mongolia Turbine Manufacturer

Inner Mongolia Turbine Manufacturer is to be engaged in the manufacture and delivery of the wind turbine generators as to 750-1,000KW and 2MW, blade and other components thereof in the PRC.

It was planned that the capacity of the annual production of the plant with area of about 150 hectares to be established in Xinghu County, Wulanchabu City, Inner Mongolia by the company will reach 400 sets of 900KW direct-drive windmill turbines and 200 sets of 2MW direct-drive windmill turbines.



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## LETTER FROM THE BOARD

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### Joint venture contract dated 29 May 2008 of Direct Wind Sales

- Parties:
1. the Company
  2. EWT, to the best of the Directors' knowledge, information and belief having made all reasonable enquiry, this joint venture party and their ultimate beneficial owners were third parties independent of the Company and its connected person and were not connected persons of the Group as of 29 May 2008
  3. Direct Energy, to the best of the Directors' knowledge, information and belief having made all reasonable enquiry, this joint venture party and their ultimate beneficial owners are third parties independent of the Company and its connected person and are not connected persons of the Group

Total investment: RMB14 million (HK\$15.96 million)

Total registered capital: RMB10 million (HK\$11.4 million)

|   | <b>The Company</b><br><i>RMB'000</i> | <b>EWT</b><br><i>RMB'000</i> | <b>Direct Energy</b><br><i>RMB'000</i> |
|---|--------------------------------------|------------------------------|--|
| Share of registered capital:<br>(in HK\$000 equivalent) | 2,500<br>(2,850)                     | 6,000<br>(6,840)             | 1,500<br>(1,710)                       |
| Percentage of total registered<br>capital:              | 25%                                  | 60%                          | 15%                                    |
| Currency of the payment:                                | Euro equivalent                      | Euro equivalent              | RMB                                    |
| Director to be assigned:                                | 1                                    | 3                            | 1                                      |

### Business of Direct Wind Sales

Direct Wind Sales is to be engaged in import, export and sales of windmill turbine generators as to 750-1,000KW and 2MW, blades and other components thereof in the PRC.

### Joint venture contract dated 29 May 2008 of Direct Wind Service

- Parties:
1. WY Industry
  2. EWT, to the best of the Directors' knowledge, information and belief having made all reasonable enquiry, this joint venture party and their ultimate beneficial owners were third parties independent of the Company and its connected person and were not connected persons of the Group as of 29 May 2008

Total investment: RMB7 million (HK\$7.98 million)

Total registered capital: RMB5 million (HK\$5.7 million)

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## LETTER FROM THE BOARD

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|   | <b>WY Industry</b> | <b>EWT</b>     |
|---|--------------------|----------------|
|   | <i>RMB'000</i>     | <i>RMB'000</i> |
| Share of registered capital:            | 2,550              | 2,450          |
| (in HK\$000 equivalent)                 | (2,907)            | (2,793)        |
| Percentage of total registered capital: | 51%                | 49%            |
| Currency of the payment:                | RMB                | RMB            |
| Director to be assigned:                | 2                  | 1              |

### **Business of Direct Wind Service**

Direct Wind Service is to be engaged in provision of service and maintenance for windmill turbine generators as to 750-1,000KW and 2MW, blades and other components thereof in the PRC.

The entering into of the three Previous JV Contracts together with the Joint Venture Contract are the moves in development of direct-drive windmill project of advanced energy intensively, which comprises parts of manufacture of windmill equipment, research and development of technology, 50MW testing wind field and windmill distribution with strategic investors, EWT and Aerospace Material and Direct Energy.

### **Reasons for and benefit of investing in the joint ventures**

The Group is principally engaged in the businesses of intelligent transportation systems, broadband wireless access systems and equipment, manufacture and sale of telecommunications products, and of hi-tech rare-earth permanent magnetic motors for elevators as well as investment in businesses of automotive components parts and wind energy.

The Directors considered that the Group would benefit from entering into of the Joint Venture Contract and the Previous JV Contracts, as the entering into them are staunch moves on turning wind energy project as one of the Group's main business in grasping the strong demand on direct-drive windmill for power generation with nil emission of carbon dioxide in the PRC and overseas in the course of global persistent hail of environmental conservation and of PRC's economic growth under the state policy on stressing development of renewable energy with merit of environmental conservation as boosted by the 2006 Renewable Energy Law.

The terms of the Joint Venture Contract and the Previous JV Contracts were negotiated after arm's length negotiation. The Directors (including the independent non-executive directors after taking into account the advice from the Independent Financial Adviser) consider that the terms of the Joint Venture Contract were on normal commercial terms which are fair and reasonable and the entering into the Joint Venture is in the interests of the Company and its Shareholders as a whole. The Directors including the independent non-executive directors considered that the terms of the Previous JV Contracts were on normal commercial terms which were fair and reasonable and the entering into the joint ventures were in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE BOARD

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### **Funding**

Pursuant to the Joint Venture Contract and the Previous JV Contracts, the amount of investment made by each of joint venture parties is restricted to their respective contribution in the registered capital of the joint ventures. The difference between total investment and registered capital will be funded by bank borrowings to be secured by assets of the Joint Venture.

The share of registered capital to be contributed by the Group in relation to the Joint Venture Contract amounts to an aggregate of RMB44 million (HK\$50.16 million) and will be satisfied by internal resources of the Group, payable on schedule of 20% within 90 days of obtaining of business licence and the remaining 80% on need basis according to the business plan to be formulated but no later than 2 years after the issuance of the business licence. The Joint Venture will be a non-wholly owned subsidiary of the Group with 55% shareholding in total; and the revenue, profits, assets and liabilities of the Joint Venture will be consolidated into the accounts of the Group accordingly. This subsidiary will also be an associate of CALT, the connected person of the Group under the Listing Rules. In this connection, it is contemplated that the Group will apply for a yearly mandate from Independent Shareholders at general meeting for the continuous transactions to be entered into with this subsidiary in the year subject to a cap amount.

The shares of registered capital to be contributed by the Group in relation to the Previous JV Contracts of Inner Mongolia Turbine Manufacturer, of Direct Wind Sales and of Direct Wind Service amounted to RMB47.5 million (approximately HK\$54.15 million), RMB2.5 million (approximately HK\$2.85 million) and RMB2.55 million (approximately HK\$2.91 million) respectively, totaling RMB52.55 million (approximately HK\$59.91 million) and would be satisfied by internal resources of the Group, payable on schedules of 20% within 90 days of obtaining of business licences and the remaining 80% on need basis according to the business plan to be formulated but no later than 2 years after the issuance of the business licences. The joint ventures, Inner Mongolia Turbine Manufacturer and the Direct Wind Service, would be non-wholly owned subsidiaries as to 95% and 51% shareholding respectively of the Group; and the revenue, profits, assets and liabilities of the joint ventures would be consolidated into the accounts of the Group accordingly, whereas the Direct Wind Sales joint venture would be an associate of the Company and the results and net assets of the joint venture would be equity accounted for in the Group.

### **Financial effect of the investments**

There will not be any material effects on earnings, assets and liabilities of the Group arising from the investments.

### **Information on the joint venture parties**

EWT is a company established in Netherlands and is the second largest direct-drive windmill manufacturer possessing the comprehensive and advanced direct-drive techniques as to capacities of 750KW and 900KW on production of windmill and its main components such as turbine generators and windmill blades.

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## LETTER FROM THE BOARD

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Aerospace Material is a state-owned institution established in PRC, wholly owned by CALT and is the leading research centre engaging research on aerospace material application and processing as well as fibers, fabric and composite material, with possession of recognition award of GJB 9001.

Direct Energy is engaged in business of distribution of wind measuring equipment and instruments, possessing the capacity of development of early phase of wind energy generation field and of market of distribution of windmill turbines.

### **Discloseable and Connected Transaction**

The aggregate capital commitment in form of the share capitals contributed of the said four joint ventures as against EWT amounted to RMB96.55 million (approximately HK\$110.07 million). As the relevant percentage ratio calculated under Chapter 14 of the Listing Rules in relation to them associated with the same project on an aggregate basis exceed 5% but are less than 25%, the entering into of the fourth joint venture contract (the Joint Venture Contract) constitutes discloseable transactions of the Company for the four joint venture contracts under Chapter 14 of the listing Rules. The Previous JV Contracts entered into in May 2008 were not required to be disclosed then under the Listing Rules since the said relevant percentage ratios then calculated did not exceed 5%.

Aerospace Material, a state-owned institution wholly-owned by CALT which is also the controlling shareholder of the Company, is a connected person of the Company under the Listing Rules. EWT is a substantial shareholder (with 49% shareholding) of the subsidiary of the Company, Direct Wind Service and is accordingly a connected person of the Company. As the relevant percentage ratios calculated under Chapter 14 of the Listing Rules in relation to Joint Venture Contract exceed 5% but are less than 25%, the entering into of the Joint Venture Contract constitutes a discloseable and connected transaction of the Company under Chapter 14 and 14A of the listing Rules and is subject to the approval of Independent Shareholders at the EGM.

### **CONSTRUCTION CONTRACT**

It was also announced on 1 December 2008 that Inner Mongolia WY New Energy, a wholly-owned subsidiary of the Company entered into a construction contract with WY Construction Project thereon in relation to construction works of plants, offices, warehouses of direct-drive windmill composite material plant and direct-drive windmill turbine plant at a cash consideration of RMB46.1 million.

#### **Construction Contract dated 1 December 2008**

|                 |  |
|-----------------|--|
| Parties:        | <ol style="list-style-type: none"><li>1. Inner Mongolia WY New Energy, a wholly-owned subsidiary of the Company;</li><li>2. WY Construction Project, a connected person of the Company</li></ol> |
| Scope of Works: | construction works of plants, offices, warehouses of direct-drive windmill composite material plant and direct-drive windmill turbine plant  |

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## LETTER FROM THE BOARD

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- Consideration: RMB46.1 million (HK\$52.55 million) which may be adjusted upward dependent upon the actual amount of works completed at the end of the construction period but in no case higher than RMB60 million (HK\$68.4 million)
- Payment term: payable in cash in stages in accordance with the progress of the construction works with 5% of the fee retained until the expiration of a guarantee period of 12 months from the date of formal completion of the construction works

### **Reasons for and benefit of the transaction**

Inner Mongolia WY New Energy is to be engaged in development of Inner Mongolia windmill property park rendering of property management service for the two subsidiaries of the Group, namely, Inner Mongolia WY Material and Inner Mongolia Turbine Manufacturer, both of whose businesses have been mentioned above.

The entering into of the Construction Contract is another move in development of direct-drive windmill project of advanced energy intensively, which comprises parts of manufacture of windmill equipment, research and development of technology, 50MW testing wind field and windmill distribution with strategic investors, EWT and Aerospace Material in deriving the benefits as mentioned above.

The terms of the Construction Contract are evaluated by an independent expert panel in an open bid process under the supervision of Wulanchabu City Impartial Office wherein the terms were opined as fair and reasonable in economic and technical terms taking into accounts all of the terms offered and project plans put forward by each of the 3 bidders ie an arm's length process in concluding the terms. The Directors (including the independent non-executive directors after taking into account the advice from the Independent Financial Adviser) consider that the terms of the Construction Contract were on normal commercial terms which are fair and reasonable and the entering into Construction Contract is in the interests of the Company and its Shareholders as a whole.

### **Funding**

The funding for the Construction Contract will be satisfied by internal resources of the Group.

### **Financial effect of the construction**

There will not be any material effects on earnings, assets and liabilities of the Group arising from the Construction Contract as the consideration for the construction works will be capitalized as the Group's non-current assets after the completion.

### **Information on the contractor**

WY Construction Project is a state-owned institution established in PRC and is engaged in construction works of various projects.

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## LETTER FROM THE BOARD

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### **Discloseable and Connected Transaction**

WY Construction, a state-owned institution 80% owned by CALT which is also the controlling shareholder of the Company, is a connected person of the Company under the Listing Rules. As the relevant percentage ratios calculated under Chapter 14 of the Listing Rules in relation to Construction Contract exceed 5% but are less than 25%, the entering into of the Construction Contract constitutes a discloseable and connected transaction of the Company under Chapter 14 and 14A of the listing Rules and is subject to the approval of Independent Shareholders at the EGM.

### **EGM**

Set out on pages 35 to 37 is a notice convening the EGM to be held at Hall 1B, G/F., No.1 Science Park East Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong on 31 December 2008 at 12:00 noon at which two ordinary resolutions will be proposed to the Shareholders to consider and, if thought fit, approve the Joint Venture Contract and the Construction Contract.

A form of proxy is enclosed with this document for use at the EGM. Whether or not you intend to be present at the meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon not less than 48 hours before the time appointed for the holding of the meeting. Completion of a form of proxy will not preclude you from attending and voting at the EGM or any adjourned meeting in person if you so wish.

Astrotech Group Limited, a wholly-owned subsidiary of CALT, which holds 73.10% equity interest in the Company as at the Latest Practicable Date, and those with a material interest in the Discloseable and Connected Transactions (including EWT) and their respective associates shall abstain from voting at the EGM.

### **INDEPENDENT BOARD COMMITTEE**

The Independent Board Committee, comprising all independent non-executive Directors, namely Mr. Wang Dechen, Ms. Kan Lai Kuen, Alice and Mr. Gordon Ng, all of whom have no material interest in the Joint Venture Contract and the Construction Contract, has been formed to advise the Independent Shareholders on the terms of the Discloseable and Connected Transactions. As all non-executive Directors, namely Mr. Wu Jiang and Mr. Tang Guohong, are representatives of CALT, they are considered not to be independent for appointment as members of the Independent Board Committee.

Your attention is drawn to the advice from the Independent Board Committee set out in their letter dated 13 December 2008 on pages 14 to 15 of this circular.

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## LETTER FROM THE BOARD

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### INDEPENDENT FINANCIAL ADVISER

Mitsubishi UFJ Securities (HK) Capital, Ltd. has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the terms of the Discloseable and Connected Transaction.

The appointment of Mitsubishi UFJ Securities (HK) Capital, Ltd. as the independent adviser has been approved by the Independent Board Committee. Your attention is drawn to the advice from the Independent Financial Adviser set out in its letter dated 13 December 2008 on pages 16 to 29 of this circular.

### RECOMMENDATION

The Directors believe that the Discloseable and Connected Transactions contemplated under the Joint Venture Contract and the Construction Contract are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Directors therefore recommend the Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Joint Venture Contract and the Construction Contract in respect of the transactions.

### FURTHER INFORMATION

The Joint Venture Contract and the Construction Contract are not inter-conditional to each other.

Your attention is drawn to the information set out in the Appendices to this circular.

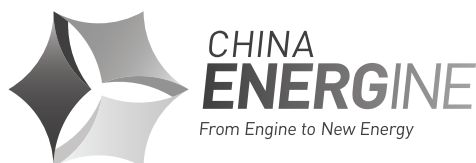
By order of the Board of  
**CHINA ENERGINE INTERNATIONAL (HOLDINGS) LIMITED**  
**Han Shuwang**  
*Chairman*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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*The following is the text of a letter received from the Independent Board Committee setting out their advice to the Independent Shareholders for the purpose of inclusion in this circular.*



### **CHINA ENERGINE INTERNATIONAL (HOLDINGS) LIMITED**

**中國航天萬源國際(集團)有限公司\***

*(Incorporated in Cayman Islands with limited liability)*

(Stock Code: 1185)

13 December 2008

To the Independent Shareholders

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTIONS  
INVESTMENTS IN SINO-FOREIGN JOINT VENTURES  
AND  
ENTERING INTO A CONSTRUCTION CONTRACT  
FOR CONSTRUCTION WORKS  
ON WIND ENERGY PROJECT**

We refer to the circular of the Company dated 13 December 2008 (the “Circular”) of which this letter forms part. Capitalized terms used in this letter shall have the same meanings as defined in the Circular.

We, being the Directors constituting the Independent Board Committee, have been appointed by the Board to advise you as to whether the terms of the Discloseable and Connected Transactions are fair and reasonable insofar as the Independent Shareholders are concerned.

We wish to draw your attention to the letter from the Board, which is set out on pages 4 to 13 of the Circular, and the letter of advice from the Independent Financial Adviser appointed by the Company to advise the Independent Board Committee, setting out its advice to us in respect of the terms of the Discloseable and Connected Transactions, as set out on pages 16 to 29 of the Circular.

\* For identification purpose only



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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Having considered the terms of the Discloseable and Connected Transactions and the advice of the Independent Financial Adviser, we are of the opinion that the terms of the Discloseable and Connected Transactions are fair and reasonable insofar as the Independent Shareholders are concerned and the Discloseable and Connected Transactions are in the interests of the Company and the Company's shareholders as a whole. We therefore recommend the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM to approve the Discloseable and Connected Transactions.

Yours faithfully,  
**Wang Dechen**      **Kan Lai Kuen, Alice**      **Gordon Ng**  
*Independent Board Committee*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Mitsubishi UFJ Securities

Mitsubishi UFJ Securities (HK) Capital, Limited

13 December 2008

*To the Independent Board Committee and the Independent Shareholders*

Dear Sirs,

### **DISCLOSEABLE AND CONNECTED TRANSACTIONS**

#### **INTRODUCTION**

We refer to our engagement to advise the Independent Board Committee and the Independent Shareholders in respect of the Discloseable and Connected Transactions, particulars of which are set out in the letter from the Board (the “Letter from the Board”) of this circular to the Shareholders dated 13 December 2008 (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 1 December 2008,

- (1) WY Industry and New Image, being two wholly-owned subsidiaries of the Company, entered into a sino-foreign equity joint venture contract with two connected persons of the Company for establishing the Joint Venture engaging in manufacture of direct-drive windmill blade for investment in an aggregate share of registered capital of RMB44 million (HK\$50.16 million); and
- (2) Inner Mongolia WY New Energy, being a wholly-owned subsidiary of the Company, entered into a construction contract with WY Construction Project (being a connected person of the Company) in relation to construction works of plants, offices, warehouses of direct-drive windmill blade plant and direct-drive windmill general assembly plant at a cash consideration of RMB46.1 million (HK\$52.55 million) (subject to upward adjustment).

The entering into of the Joint Venture Contract and the Construction Contract constitute discloseable and connected transactions of the Company under the Listing Rules. The investment contemplated under the Joint Venture Contract and the construction contracting under the Construction Contract are subject to the approval of the Independent Shareholders at a general meeting.

In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Circular and have assumed that all information and representations made or referred to in the Circular were true at the time they were made and continue to be true as at the date of the Circular. We have also relied on our discussion with the management of the Company regarding the Group and the respective terms and conditions of the Discloseable and Connected Transactions, 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 the Company

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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in the Circular were reasonably made after due enquiry. We consider that we have reviewed sufficient information to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have no reason to suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in the Circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors. We have not, however, conducted an independent in-depth investigation into the business and affairs of the Group, CALT, Aerospace Material, EWT, WY Construction Project and their respective associates nor have we carried out any independent verification of the information supplied.

### PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion regarding the terms of the Discloseable and Connected Transactions, we have considered the following principal factors and reasons:

#### 1. Background of and reasons for the Discloseable and Connected Transactions

##### (i) *Financial performance of the Company*

The Group is principally engaged in the businesses of intelligent transportation systems, broadband wireless access systems and equipment, manufacture and sale of telecommunications products, and of hi-tech rare-earth permanent magnetic motors for elevators as well as investments in businesses of automotive components parts and wind energy.

We summarise the financial results of the Group for the three most recent financial years and the most recent interim period:

|   | Year ended 31 December |                 |                 | Six months<br>ended |
|---|------------------------|-----------------|-----------------|---------------------|
|   | 2005                   | 2006            | 2007            | 30 June<br>2008     |
|   | <i>HK\$'000</i>        | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i>     |
|   | Audited                | Audited         | Audited         | Unaudited           |
| Turnover  | 185,784                | 156,199         | 178,755         | 63,770              |
| Gross profit / (loss)   | 65,077                 | 12,079          | (10,374)        | 10,079              |
| Share of results of associates & jointly<br>controlled entities | (259)                  | (1,300)         | 25,001          | 53,630              |
| (Loss) attributable to Shareholders                             | (29,781)               | (64,562)        | (573,901)*      | (21,430)            |
| Dividend  | —                      | —               | —               | —                   |
| Net assets (including minority interests)                       | 154,630                | 92,286          | 1,571,843       | 1,682,959           |

*Source: annual/interim reports of the Company*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As illustrated in the above table, the Group had been loss-making for the three most recent financial years and the most recent interim period, with no dividend payout for the same years/period under review. We also note that net assets of the Group as at 31 December 2007 increased significantly on a year-on-year basis as a result of the completion of a very substantial acquisition and an open offer in 2007.

*Note\*:* The sizeable loss attributable to Shareholders for the year ended 31 December 2007 was mainly attributable to impairment loss recognised in respect of interests in an associate and jointly controlled entities arising on acquisition of Advanced Grade Holdings Ltd. amounting to HK\$484.0 million (representing the excess of the carrying amount (which was inflated due to a substantial increase in the market share price of the Company between the date of the signing of the relevant agreement and the date of completion of the acquisition) over the recoverable amount as determined from value-in-use calculation).

We further summarise the audited or reviewed segment results of the Group for the three most recent financial years and the most recent interim period as follows:

|                              |                                | <b>Six months ended</b>       |                 |                 |                 |
|------------------------------|--------------------------------|-------------------------------|-----------------|-----------------|-----------------|
|                              |                                | <b>Year ended 31 December</b> |                 |                 | <b>30 June</b>  |
|                              |                                | <b>2005</b>                   | <b>2006</b>     | <b>2007</b>     | <b>2008</b>     |
|                              |                                | <i>HK\$'000</i>               | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Communication products       | Segment turnover               | 39,284                        | 55,506          | 69,144          | 37,078          |
|                              | Segment result ( <i>Note</i> ) | (904)                         | 5,043           | (11,679)        | (16,831)        |
| Intelligent transport system | Segment turnover               | 35,399                        | 32,073          | 45,397          | 18,173          |
|                              | Segment result ( <i>Note</i> ) | (1,152)                       | (1,786)         | 1,160           | 1,537           |
| Broadband wireless access    | Segment turnover               | 98,795                        | 53,696          | 64,214          | 8,519           |
|                              | Segment result ( <i>Note</i> ) | 23,209                        | (63,614)        | (76,651)        | (26,824)        |
| Wind energy facilities       | Segment turnover               | —                             | —               | —               | —               |
|                              | Segment result ( <i>Note</i> ) | —                             | —               | —               | 16,244          |

*Note:* after including “share of result of associates / jointly controlled entities”

*Source:* annual/interim reports of the Company

As illustrated in the above table, we note that both the communication products segment and the broadband wireless access segment of the Group recorded negative segment results for the most recent financial years/period. Meanwhile, the intelligent transport system segment of the Group recorded inconsistent segment results for the financial years/period under review. However, the wind energy facilities segment of the Group achieved positive segment results for the most recent interim period, notwithstanding that it was not a business line of the Group until the Group has embarked to diversify into since 2005 (by way of investing in Jiangsu Longyuan project and Jilin Longyuan project in April 2005, and by way of establishing Liaoning Benxi as a 40%-held joint venture partner in April 2006).

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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(ii) *Industry overview of the PRC wind energy market*

According to the Global Wind 2007 Report issued by Global Wind Energy Council:

- (a) PRC is the world's fastest growing wind energy market, with an average annual growth rate of 56% in the past seven years;
- (b) PRC has now reached the fifth place for installed wind energy capacity, with 5.9 GW at the end of 2007;
- (c) The government target of installing 5 GW of wind power by 2010 was already exceeded in 2007;
- (d) Chinese Renewable Energy Industry Association (CREIA) forecasts a capacity of around 50 GW by 2015;
- (e) PRC is exceptionally rich in wind energy potential with its large land mass and long coastline (on-shore : off-shore technically feasible wind resource = 1,000 GW : 300 GW);
- (f) Major areas for wind energy development in PR China in the next 5 to 10 years are poised to be Inner Mongolia, Jiangsu, Hebei and Jilin; and
- (g) Since 2005, 90% of the non-concession wind projects in China have applied for registration under the Kyoto Protocol's Clean Development Mechanism (CDM).

(iii) *Reasons for entering into the Discloseable and Connected Transactions*

➤ *Joint Venture Contract*

As set out in the Letter from the Board, the Directors considered that the Group would benefit from entering into of the Joint Venture Contract and the Previous JV Contracts, as the entering into them are staunch moves on turning wind energy project as one of the Group's main business in grasping the strong demand on direct-drive windmill for power generation with nil emission of carbon dioxide in the PRC and overseas in the course of global persistent hail of environmental conservation and of PRC's economic growth under the state policy on stressing development of renewable energy with merit of environmental conservation as boosted by the 2006 Renewable Energy Law.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Upon review, we note that previously on 29 May 2008, the Group already had a track record of entering into three joint venture contracts with EWT in relation to the same windmill project, details of which are summarised below:

|                                   | (1)<br>Inner Mongolia<br>Turbine<br>Manufacturer   |           | (2)<br>Direct Wind Sales    |           |                  | (3)<br>Direct Wind Service               |              |
|-----------------------------------|--|-----------|-----------------------------|-----------|------------------|--|--------------|
|                                   | The<br>Group   | EWT       | The<br>Group                | EWT       | Direct<br>Energy | The<br>Group                             | EWT          |
| Joint venture partner             | The Group  | EWT       | The Group                   | EWT       | Direct Energy    | The Group                                | EWT          |
| Share                             | <b>95%</b>   | 5%        | <b>25%</b>                  | 60%       | 15%              | <b>51%</b>                               | 49%          |
| Total registered capital (RMB)    | 50 million   |           | 10 million                  |           |                  | 5 million                                |              |
| Share of registered capital (RMB) | 45 million   | 5 million | 2.5 million                 | 6 million | 1.5 million      | 2.55 million                             | 2.45 million |
| Total investment (RMB)            | 100 million  |           | 14 million                  |           |                  | 7 million                                |              |
| Business scope                    | Manufacture and delivery of  |           | Import, export and sales of |           |                  | Provision of service and maintenance for |              |
|                                   | windmill turbine generators as to 750-1,000KW and 2MW, blade and other components thereof in the PRC |           |                             |           |                  |  |              |

Upon enquiry, we understand from the Directors that the entering into of the Joint Venture Contract is pivotal to the same windmill project of the Group, given that some of the windmill blades to be manufactured by the Joint Venture are scheduled to be sold to Direct Wind Sales for onward export and/or sales in the PRC.

Against the above background, especially in light of (i) the unsatisfactory financial performance of the Group in recent years, (ii) the favourable PRC government's policy leaning towards renewable energy sector, and (iii) progressive and positive track record actually attained by the Group to tap into the PRC wind energy sector since 2005, we consider it commercially sensible for the Group to strengthen its investment in wind energy project by way of entering into of the Joint Venture Contract, which is also in line with the corporate strategy of the Group to grasp the precious opportunity arising from the state policy propositioning on development of the renewable energy business.

➤ Construction Contract

Inner Mongolia WY New Energy, being a wholly-owned subsidiary of the Company, is to be engaged in development of Inner Mongolia windmill property park rendering of property management service for the two subsidiaries of the Group, namely, Inner Mongolia WY Material and Inner Mongolia Turbine Manufacturer, both of whose businesses have been mentioned above.

Upon enquiry, we understand from the Directors that the role of Inner Mongolia WY New Energy as property management service provider relates to the same windmill project of the

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Group with Inner Mongolia WY Material and Inner Mongolia Turbine Manufacturer, both of which however are newly established joint ventures yet to have any plant, office nor warehouse for self-use. To facilitate carrying out its property management service, Inner Mongolia WY New Energy has managed to engage a construction contractor for the relevant construction works of plants, offices, warehouses of direct-drive windmill blade plant and direct-drive windmill general assembly plant in Inner Mongolia. After being subjected to an open bid and selection process under the supervision of Wulanchabu City Impartial Office, the construction contractor who won the bid turned out to be WY Construction Project, being a connected person of the Company.

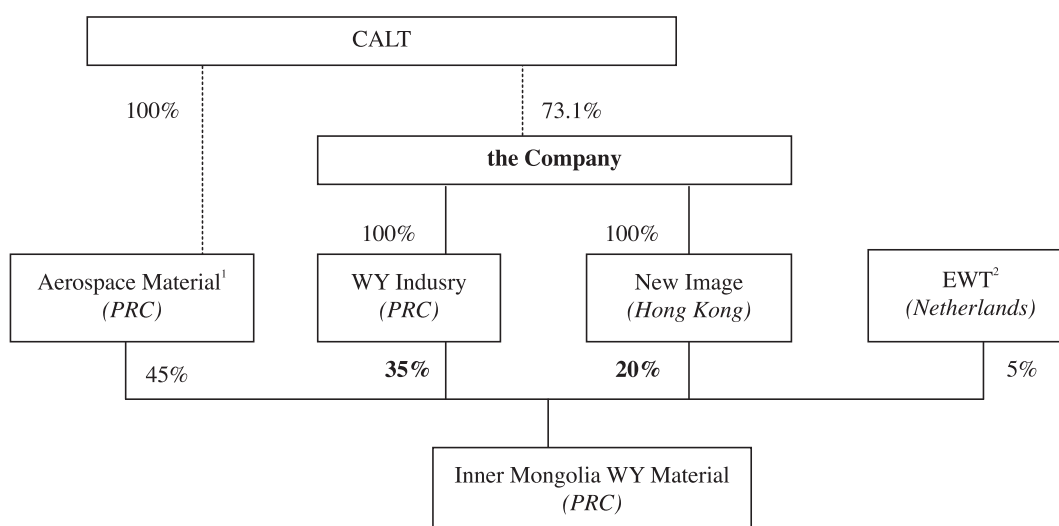
Based on the foregoing, we concur with the Directors that the entering into of the Construction Contract represents another move in development of the Group's direct-drive windmill project of advanced energy intensively, which comprises parts of manufacture of windmill equipment, research and development of technology, 50MW testing wind field and windmill distribution with strategic investor, EWT and Aerospace Material.

### 2. Terms of the Discloseable and Connected Transactions

#### ➤ *Joint Venture Contract*

##### (i) *Shareholding*

We summarise below the shareholding structure of Inner Mongolia WY Material, which is the joint venture to be established pursuant to the Joint Venture Contract:



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*Note:*

1. Aerospace Material (a connected person of the Company) is a state-owned institution established in PRC, wholly owned by CALT and is the leading research centre engaging research on aerospace material application and processing as well as fibers, fabric and composite material, with possession of recognition award of GJB 9001
  
2. EWT (a connected person of the Company) is a company established in Netherlands and is the second largest direct-drive windmill manufacturer possessing the comprehensive and advanced direct-drive techniques as to capacities of 750KW and 900KW on production of windmill and its main components such as turbine generators and windmill blades.

### (ii) *Capital*

We summarise below the capital contribution of Inner Mongolia WY Material, which is the joint venture to be established pursuant to the Joint Venture Contract:

| Joint venture partner                      | <b>the Joint Venture</b> |            |           |
|--|--------------------------|------------|-----------|
|  | Aerospace<br>Material    | The Group  | EWT       |
| Share                                      | 40%                      | <b>55%</b> | 5%        |
| Total registered capital ( <i>RMB</i> )    | 80 million               |            |           |
| Share of registered capital ( <i>RMB</i> ) | 32 million               | 44 million | 4 million |
| Total investment ( <i>RMB</i> )            | 100 million              |            |           |

The share of registered capital to be contributed by the Group in relation to the Joint Venture Contract amounts to an aggregate of RMB44 million (HK\$50.16 million), payable on schedule of 20% within 90 days of obtaining of business license and the remaining 80% on need basis according to the business plan to be formulated but no later than 2 years after the issuance of the business license.

Pursuant to the Joint Venture Contract, the amount of investment made by each of joint venture parties is restricted to their respective contribution in the registered capital of the joint ventures. The difference between total investment and registered capital will be funded by bank borrowings to be secured by assets of the Joint Venture.

### (iii) *Operation*

The Joint Venture is to be engaged in the manufacture and sales of the composite material of glass fabrics for machinery use, in particular, for manufacture of windmill blade on a mass scale. It was planned that the capacity of the annual production of the plant with area of about 180 hectares to be established in Xinghe County, Wulanchabu City, Inner Mongolia by the company will reach 400 sets of 900KW direct-drive windmill blades and 250 sets of 2MW direct-drive windmill blades.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Upon reviewing the Joint Venture Contract, we note that the key obligations of the joint venture partners of the Joint Venture include:

**Aerospace Material, WY Industry  
& New Image  
(PRC- or Hong Kong-incorporated)**

**EWT  
(Netherlands-incorporated)**

- |  |   |
|--|---|
| <ol style="list-style-type: none"><li>1. assisting the Joint Venture in obtaining all licenses and permits necessary for its business operation</li><li>2. assisting the Joint Venture in securing company site, office facilities, communication equipment and utility facilities such as water and electricity, etc.</li><li>3. endeavouring the product localisation of the Joint Venture (meeting the 70% target level as imposed by the PRC government)</li></ol> | <ol style="list-style-type: none"><li>1. providing (advanced) technology (in relation to specialised equipment, production parameters/procedures, and tooling) and sending experts to offer training to the Joint Venture</li><li>2. endeavouring to solicit and secure potential business opportunities and projects for the Joint Venture</li><li>3. sending a chief technology officer to manage and supervise technology-related issues of the Joint Venture for at least two years commencing from the issue of business license</li></ol> |
|--|---|

As set out in the Letter from the Board, the Joint Venture (being an associate of CALT) is itself a connected person of the Company. It is contemplated that the Group will apply for a yearly mandate from Independent Shareholders at general meeting for the continuing connected transactions to be entered into with the Joint Venture in the year subject to a cap amount.

(iv) *Management*

Upon reviewing the Joint Venture Contract, we note that the board of directors of the Joint Venture consists of five directors, of which a total of three shall be nominated by the Group, one by Aerospace Material, and the remaining one by EWT. Chairman shall not be entitled to any casting vote or second vote.

There shall be three supervisors of the Joint Venture, among whom each of WY Industry and EWT shall appoint one, with the remaining one by the employees of the Joint Venture.

A general manager shall be appointed by WY Industry.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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(v) *Tenor*

The Joint Venture Contract shall be effective from the date on which the approval authority approves the Joint Venture Contract, and shall end when the Joint Venture dissolves or the Joint Venture Contract is terminated early.

The Joint Venture may be dissolved and the Joint Venture Contract may be terminated early in the event that (amongst others):

- (a) the Joint Venture has incurred heavy losses for consecutive three years and the total accumulated losses exceeds its registered capital, thereby rendering it unable to continue operation;
- (b) the Joint Venture is unable to attain its business objective or maintain its business scope, and fails to meet its budgeted profitability on a recurrent basis; and
- (c) a deadlock situation of the board of directors persist despite actions taken with an attempt to resolve.

➤ ***Construction Contract***

(vi) *Consideration*

Pursuant to the Construction Contract, the consideration payable is RMB46.1 million (HK\$52.55 million) of cash, which may be adjusted upward dependent upon the actual amount of works completed at the end of the construction period but in no case higher than RMB60 million (HK\$68.4 million).

During our due diligence meetings with the Company, we understand that the consideration payable of RMB46.1 million (before possible upward adjustment) is slightly less than the price level actually bid by WY Construction Project under an open bid process. According to the written concluding remarks made by the relevant independent expert panel as circulated by the Company, the winning bidder was WY Construction Project, which was judged with the highest overall grade among the three competing bidders after taken into account a combination of factors, including (i) the technical feasibility of the implementation plan for the construction project, (ii) the bidding price level, and (iii) the construction license ranking. According to the same concluding remarks, the overall open bid process had been under the supervision of Wulanchabu City Impartial Office.

As regards any possible upward adjustment dependent upon the actual amount of works completed at the end of the construction period, we have been confirmed by the Directors that the same (per unit or per sq.m.) costing basis (in terms of raw materials' cost, labour cost, installation cost, and equipment purchase cost, etc) as already agreed by WY Construction Project under the Construction Contract shall strictly apply (on a pro rata basis) for such possible extension of construction works on top of that original portion equivalent to the base amount of RMB46.1 million (subject to downward adjustment if the then prevailing market price for any individual item (eg. steel cost) becomes lower than that agreed under the Construction Contract. We have further been confirmed by the Directors that such actual amount of works to be completed as a possible extension shall be subject to certification/verification by professional surveyors.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Upon enquiry, we have been confirmed by the Directors that the capped size of RMB60 million of the consideration payable under the Construction Contract has been arrived at after accounting for the relative percentage proportion (in terms of sq.m. scale) of (i) the original portion of the construction works equivalent to the base amount of RMB46.1 million versus (ii) the possible portion of extension. The relative proportion is about 80% versus 20% as certified by an independent supervisor which was appointed by WY Construction Project for this purpose. Further, we have been confirmed by the Directors that the capped size of RMB60 million is already lower than the total budgeted costs for the same entire construction project as published by an independent architectural expert which was appointed for the purpose of setting out the same information publicly before inviting interested construction contractors to participate in the open bid process.

Based on the forgoing, we consider that the consideration payable of RMB46.1 million (subject to upward adjustment with a cap of RMB60 million) under the Construction Contract has been set with close reference to an open bid process actually taken place in the PRC. For further comparison purpose, we note that the price of not more than RMB3,202 per sq.m. as represented by the consideration payable of not more than RMB60 million under the Construction Contract is roughly in line with the market price of RMB3,080 to 5,000 per sq.m. of real estate sector in Hohhot, the capital of Inner Mongolia as publicly available from real estate websites recently.

### (vii) *Payment terms*

The consideration under the Construction Contract is payable in stages in accordance with the progress of the construction works with 5% of the fee retained until the expiration of a guarantee period of 12 months from the date of formal completion of the construction works.

We consider the above payment term (as to stage-payment practice, and as to fee retention during a guarantee period) is not uncommon for construction industry.

### 3. **Financial effects of the Discloseable and Connected Transactions**

#### (i) *Cashflow*

- Impact from the settlement of the registered capital and the construction consideration

Both (i) the share of registered capital to be contributed by the Group in relation to the Joint Venture Contract amounts to an aggregate of RMB44 million (HK\$50.16 million) and (ii) the funding for the Construction Contract of not higher than RMB60 million (HK\$68.4 million) will be satisfied by internal resources of the Group.

On such basis, the Discloseable and Connected Transactions are expected to have a negative impact on the cashflow position of the Group.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As set out in the latest published interim report of the Company for the six months ended 30 June 2008, we note that the unaudited bank balance and cash of the Group amounted to approximately HK\$330.16 million as at 30 June 2008, which was more than the registered capital and the consideration payable under the Joint Venture Contract and the Construction Contract respectively. On such basis, and taking into account the cash inflow of the Group subsequent to 30 June 2008 and the capital commitment of the Group as at 30 June 2008 (totaling approximately HK\$455.4 million (already inclusive of those for the three joint ventures as announced previously on 29 May 2008 and that for the Joint Venture), which payment however does not have a definite timetable according to the Company, the Directors expect that the Group would have sufficient working capital for meeting the relevant settlement obligation payable under the Joint Venture Contract and/or the Construction Contract.

- Impact from the funding requirements of the Joint Venture

Upon enquiry, we have been advised by the Directors that the Joint Venture can basically be self-sustained in securing its own financial resources for ongoing development, and hence no material CAPEX nor OPEX commitment on the part of the Group (other than the Group's share of registered capital) is expected for supporting the Joint Venture. The difference between total investment and registered capital of the Joint Venture will be funded by bank borrowings to be secured by assets of the Joint Venture.

Other than the planned capacity of the annual production of the plant reaching 400 sets of 900KW direct-drive windmill blades and 250 sets of 2MW direct-drive windmill, we have been advised by the Directors that the Joint Venture itself has no material capital commitment (nor contingent liabilities) at present.

(ii) *Net Asset*

According to the latest published interim report of the Company for the six months ended 30 June 2008, the unaudited consolidated net assets (excluding minority interests) of the Group as at 30 June 2008 were approximately HK\$1,678.5 million.

The Joint Venture will be consolidated as a 55% non-wholly owned subsidiary of the Group. As discussed with the Company, virtually all of the consideration incurred under the Construction Contract is expected to be capitalised as fixed assets on the balance sheet of the Group.

On the above basis, the Discloseable and Connected Transactions are expected to have a neutral impact on the net asset position of the Group immediately upon completion.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### (iii) *Gearing*

According to the latest published interim report of the Company for the six months ended 30 June 2008, the unaudited total borrowings of the Group were approximately HK\$669.3 million as at 30 June 2008, whereas the unaudited consolidated net assets (including minority interests) of the Group as at 30 June 2008 were approximately HK\$1,683.0 million. As at 30 June 2008, the gearing ratio of the Group (as measured by total borrowings over shareholders' equity) was 40%.

As discussed with the Company, the registered capital and the consideration payable under the Joint Venture Contract and the Construction Contract respectively is not to be funded by new borrowings of the Group. However, the Joint Venture will become a 55%-owned subsidiary of the Group. Hence, the Group will fully consolidate any bank borrowings to be procured for making up the difference between total investment and registered capital of the Joint Venture (let alone other liabilities thereof). Based on the foregoing, the Joint Venture Contract is expected to have a negative impact on the gearing ratio of the Group, whereas the Construction Contract is expected to have a neutral impact on the gearing ratio of the Group immediately upon completion.

### (iv) *Earnings*

The Joint Venture will become a 55%-owned subsidiary of the Group and, hence, the Group will fully consolidate the financial results (in terms of turnover and all relevant items of income statement) of the Joint Venture (to be subsequently offset by 45% minority interests).

We consider that the effect of the Joint Venture Contract on the earnings of the Group will depend on the actual profit and loss performance of the Joint Venture in the context of full consolidation. As the full-fledged business operation of the Joint Venture is not expected to take place before 31 December 2008, the Joint Venture Contract is expected to have a neutral impact on the earnings of the Group for the year ending 31 December 2008. However, we note that Joint Venture may in future incur (i) interest expense arising from any bank borrowings to be procured for making up the difference between total investment and registered capital of the Joint Venture and (ii) depreciation expense arising from additional fixed assets of the Group (after not more than RMB60 million of consideration under the Construction Contract has been capitalised).

As discussed with the Company, given that virtually all of the consideration incurred under the Construction Contract is expected to be capitalised as fixed assets on the balance sheet of the Group, the Construction Contract is expected to have a virtually neutral impact on the earnings of the Group before 31 December 2008.

In summary, notwithstanding that the Discloseable and Connected Transactions are expected to have negative effects on the cashflow position and the gearing position of the Group, the Discloseable and Connected Transactions have its own merits, such as enabling the Group to better capture the growth potential of the wind energy market in the PRC.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 4. Risk factors

During our due diligence exercise, we observe the following key risk factors for the Discloseable and Connected Transactions:

(i) *The recent global financial crisis might adversely affect the PRC wind energy sector*

We note the recent downturn in total actual electricity consumption in the PRC, where a number of thermal power enterprises (relying on coal burning) have announced loss-making status.

Notwithstanding that, we have been advised by the Company that it is exactly due to the prevailing high coal cost as suffered by these thermal power enterprises that they are prompted to look for windmill set-up as alternative for power generation, thereby creating product demand for the Group's windmill project in Inner Mongolia. Upon our due diligence enquiry, we have been advised by the Company that the Group's same windmill project with EWT (as announced previously on 1 December 2008 in relation to three joint venture contracts of 29 May 2008), of which the Joint Venture will form part, has already secured indication of interests from customers (mostly PRC government-owned electricity enterprises) in various provinces/autonomous regions (namely, Inner Mongolia, Xinjiang and Gansu) for a total of about 165 sets of direct-drive windmill blades/ turbine generators).

(ii) *Demand for the Joint Venture's products is dependent on the overall market conditions in which the Joint Venture's customers (i.e. operators of wind farm generating electricity) operate, which in turn could be adversely affected by any possible reduction in the on-grid tariffs as set by the relevant government authorities*

Notwithstanding that, we note that the PRC government continues to advocate the policy of clean energy, low emission and environmental protection. In relation to policy support for wind energy sector, the Renewable Energy Law entered into force on 1 January 2006. While the law sets a target for renewable energy development in PR China, the relevant regulations offer a number of favourable policies to encourage the construction and operation of the renewable energy power generation facilities, including:

- (a) Operators of electricity grid should purchase all the electricity generated by power plants using renewable energy sources;
- (b) Preferential tax treatment for renewable energy power generation projects; and
- (c) Favourable interest rate of loan for financing the construction of renewable energy power generation project.

(iii) *Lack of operating track record of the Joint Venture itself*

Notwithstanding that, we have been advised by the Company that the Group (via Nantong CASC Wanyuan Accoina Wind Turbine Manufacture Corporation Ltd., being another joint venture of which the Group has attributable interests of 45%) has been experienced in the manufacture of wind turbine since 2007.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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However, given that the Group has embarked on carrying out PRC wind energy business since 2005, and in view that the Group already had a track record of entering into three joint venture contracts with EWT in relation to the same windmill project, the above risk factors should already be in line with the ongoing risk exposure of the Company and the risk profile of Shareholders.

### RECOMMENDATION

Having considered the principal factors and reasons, we are of the opinion that the terms of the Discloseable and Connected Transactions are on normal commercial terms, in the ordinary course of business of the Group, fair and reasonable and in the interests of the Company and the Company's shareholders as a whole. Accordingly, we recommend the Independent Shareholders, and we recommend the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the ordinary resolutions to be proposed at the EGM for approving the Discloseable and Connected Transactions.

Yours faithfully,  
For and on behalf of  
**Mitsubishi UFJ Securities (HK) Capital, Limited**  
**Eddy Chick**  
*Chief Executive*

### 1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in this circular misleading.

### 2. DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN THE COMPANY AND ANY ASSOCIATED CORPORATION

As at the Latest Practicable Date, none of the Directors and chief executive of the Company or their respective associates had any interest or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or to be recorded in the registrar required to be maintained pursuant to Section 352 of the SFO, or otherwise to be notified to the Company or the Stock Exchange pursuant to the Model Code for Securities Transaction by Directors of the Listed Issuers in the Listing Rules.

### 3. SUBSTANTIAL SHAREHOLDERS' INTEREST IN THE COMPANY

As at the Latest Practicable Date, so far as is known to the Directors, the persons/entities had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under provisions of Division 2 and 3 of Part XV of the SFO, or, who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Enlarged Group and the amount of each of such person's interest in such securities or in any options in respect of such capital were as follows:

| Name      | Capacity   | Number of<br>shares<br>(note 1) | Percentage of<br>shareholding |
|-----------|--|---------------------------------|-------------------------------|
| CASC      | Interest of a controlled corporation<br>(note 2) | 2,649,244,000 (L)               | 73.10%                        |
| CALT      | Interest of a controlled corporation<br>(note 3) | 2,649,244,000 (L)               | 73.10%                        |
| Astrotech | Beneficial Owner                                 | 2,649,244,000 (L)               | 73.10%                        |

Note:

- The letter "L" denotes the shareholder's long position in the shares.



2. CASC is deemed to be interested in 2,649,244,000 shares as it holds 100% of the equity of CALT.
3. Astrotech is a wholly owned subsidiary of CALT. Accordingly, CALT is deemed to be interested in all the shares held by Astrotech.

Save as disclosed herein, as at Latest Practicable Date, as is known to the Directors or the chief executive of the Company, there is no other persons/entities (including the Directors or chief executive of the Company) who had any interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under provisions of Division 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Enlarged Group and the amount of each of such person's interest in such securities or in any options in respect of such capital.

#### **4. DIRECTORS' SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors had entered into, or was proposing to enter into any service contract with the Company or any member of the Enlarged Group (except those expiring or determinable by the Company within a year without payment of compensation other than statutory compensation).

#### **5. MATERIAL ADVERSE CHANGE**

Save for an allowance for bad and doubtful debts of HK\$34 million made as reflected in the interim results in the 2008 Interim Report, the Directors are not aware of any material adverse change in the financial or trading position of the Company since 31 December 2007, the date to which the latest published audited consolidated financial statements of the Company were made up.

#### **6. COMPETING INTERESTS OF DIRECTORS AND ASSOCIATES**

As at the Latest Practicable Date, none of the Directors and their respective associates were considered to have interests in any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group pursuant to the Listing Rules.

#### **7. DIRECTORS' INTERESTS IN ASSETS/ CONTRACTS AND OTHER INTERESTS**

None of the directors is materially interested in any contract or arrangement entered into by any member of the Enlarged Group subsisting at the date of this circular which is significant in relation to the business of the Enlarged Group.

As at the Latest Practicable Date, none of the Directors had any direct or indirect in any assets which had been, since the date to which the latest published audited accounts of the Company was made up, acquired or disposed of by or leased to the Enlarged Group, or were proposed to be acquired or disposed of or leased to the Enlarged Group.

**8. EXPERT AND CONSENT**

- (a) The Independent Financial Adviser is a registered institution under the SFO to conduct type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO.
- (b) As at the Latest Practicable Date, the Independent Financial Adviser did not have any shareholding in the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Group, nor did they have any interest, direct or indirect, in any assets which had been since the date to which the latest published audited financial statements of the Company was made up, acquired or disposed of by or leased to the Enlarged Group, or were proposed to be acquired or disposed of or leased to the Enlarged Group.
- (c) The Independent Financial Adviser has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and references to its name in the form and context in which they appear.

**9. PROCEDURES FOR DEMANDING A POLL BY SHAREHOLDERS**

Pursuant to Article 80 of the Articles of Association of the Company, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is duly demanded. A poll may be demanded by:

- (a) the chairman of the meeting; or
- (b) at least five members present in person or by proxy and entitled to vote; or
- (c) any member or members present in person or by proxy and representing in the aggregate not less than one-tenth of the total voting rights of all members having the right to attend and vote at the meeting; or
- (d) any member or members present in person or by proxy and holding shares conferring a right to attend and vote at the meeting on which they have been paid up sums in aggregate equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

Pursuant to Article 85 of the Articles of Association of the Company, at any general meeting on a show of hands every member who is present in person or by proxy (or, in the case of a member being a corporation by its duly authorized representative) shall have one vote, and on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy shall have one vote for each share registered in his name in the register. On a poll a member entitled to more than one vote is under no obligation to cast all his votes in the same way.

An announcement will be made by the Company following the conclusion of the EGM to inform the Shareholders of the results of the EGM.

#### **10. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection during normal business hours at the principal place of business of the Company within 14 days from the date of this circular:

- (a) the Joint Venture Contract dated 1 December 2008;
- (b) the Construction Contract dated 1 December 2008;
- (c) the letter from the Independent Financial Adviser as set out in this circular; and
- (d) the written consent from the Independent Financial Adviser referred to in the section headed “Expert and consent” in this circular.

#### **11. LITIGATION**

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the directors to be pending or threatened against the Company or any of its subsidiaries.

#### **12. GENERAL**

- (a) The secretary of the Company is Mr. Au-Yeung Keung Steve LLB LLM, who is a fellow member of Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the Chartered Institute of Management Accountants.
- (b) Mr. Wang Lijun (“Mr. Wang”), having a professional accounting qualification in PRC, is the qualified accountant of the Company appointed pursuant to Rule 3.24 of the Listing Rules. Mr Wang is able to meet all the requirements set out in Rule 3.24 of the Listing Rules, except that he is not a fellow or associate member of HKICPA or a similar body of accountants recognised by HKICPA for the purpose of granting exemptions from the examination requirement for membership of HKICPA; and the Company has in place arrangements providing Mr. Wang with access to the assistance of Ms. Shiu Lo Shan, Rosana (“Ms. Shiu”) who is an associate member of the HKICPA. The Stock Exchange has agreed to grant a three-year conditional waiver to the Company from strict compliance with Rule 3.24 of the Listing Rules to 9 May 2011 on the condition of Ms. Shiu’s assistance for the waiver period.

- (c) The registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.
- (d) The principal place of business of the Company is Suite 4701, 47th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.
- (e) The English texts of this circular shall prevail over the Chinese texts.

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## NOTICE OF THE EGM

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### CHINA ENERGINE INTERNATIONAL (HOLDINGS) LIMITED

中國航天萬源國際(集團)有限公司\*

*(Incorporated in Cayman Islands with limited liability)*

(Stock Code: 1185)

#### NOTICE OF EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that an EGM of China Energin International (Holdings) Limited (the “**Company**”) will be held at Hall 1B, G/F., No.1 Science Park East Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong on 31 December 2008 at 12:00 noon for the purposes of considering and, if thought fit, passing the ordinary resolutions set out as follows:—

#### ORDINARY RESOLUTIONS

1. **“THAT:**

- (a) the sino-foreign equity joint venture contract (the “**Joint Venture Contract**”) dated 1 December 2008 entered into between 航天材料及工藝研究所 (Aerospace Research Institute of Materials & Processing Technology), 北京萬源工業有限公司 (Beijing Wanyuan Industry Corporation Limited), New Image Development Limited and Emergya Wind Technologies B.V. in respect of establishment of 內蒙古航天萬源復合材料有限公司 (Inner Mongolia CASC Wanyuan Composite Material Company Limited) (a copy of the Joint Venture Contract is tabled at the meeting and marked “**A**” and initialed by the chairman of the meeting for identification purposes) be and is hereby approved, confirmed and ratified; and
- (b) the execution of the Joint Venture Contract be and is hereby confirmed and ratified and any one director of the Company, or any two directors of the Company if the affixation of the common seal of the Company is necessary, be and is hereby authorised to do all such things and take all other steps which, in his/her opinion, may be necessary or desirable in connection with the matters contemplated in and for giving effect to the Joint Venture Contract.”

\* *For identification purpose only*

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## NOTICE OF THE EGM

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2. **“THAT:**

- (a) the construction contract (the **“Construction Contract”**) dated 1 December 2008 entered into between 內蒙古航天萬源新能源開發有限公司 (Inner Mongolia CASC Wanyuan New Energy Development Company Limited) and 北京航天萬源建築工程有限責任公司 (Beijing CASC Wanyuan Construction Project Corporation Limited) (a copy of the Construction Contract is tabled at the meeting and marked **“B”** and initialed by the chairman of the meeting for identification purposes) be and is hereby approved, confirmed and ratified; and
- (b) the execution of the Construction Contract be and is hereby confirmed and ratified and any one director of the Company, or any two directors of the Company if the affixation of the common seal of the Company is necessary, be and is hereby authorised to do all such things and take all other steps which, in his/her opinion, may be necessary or desirable in connection with the matters contemplated in and for giving effect to the Construction Contract.”

By order of the board of directors of  
**China Engine International (Holdings) Limited**  
**Au-Yeung Keung Steve**  
*Secretary*

Hong Kong, 13 December 2008

**Note:**

- 1. Any member of the Company entitled to attend and vote at the meeting of the Company by the above notice shall be entitled to appoint another person as his/her proxy to attend and vote instead of such member. A proxy need not be a member of the Company.
- 2. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his/her attorney duly authorized in writing or, if the appointor is a corporation, either under its seal or under the hand of an officer, attorney or other person authorized to sign the same.
- 3. The instrument appointing a proxy and (if required by the Board) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority must be delivered to the office of Tricor Standard Limited at 26/F, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong or by way of notice to or in any document accompanying the notice convening the meeting not less than forty-eight (48) hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposed to vote and in default the instrument of proxy shall not be treated as valid.
- 4. Delivery of an instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the meeting convened and in such event, the instrument appointing a proxy shall be deemed to be revoked.

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## NOTICE OF THE EGM

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5. In the case of joint holders of any share, if more than one of such joint holders be present at any meeting, the vote of the senior who tenders a vote, whether in person, or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register in respect of the joint holding.
  
6. The votes to be taken at the meeting of the Company by the above notice will be taken by poll. As at the date of this notice, the Board comprises Mr. Han Shuwang, Mr. Wang Xiaodong and Mr. Li Guang as Executive Directors, Mr. Wu Jiang and Mr. Tang Guohong as Non-executive Directors and Mr. Wang Dechen, Ms. Kan Lai Kuen, Alice and Mr. Gordon Ng as Independent Non-executive Directors.