THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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 Energine 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.

CHINA ENERGINE
From Engine to New Energy

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)

VERY SUBSTANTIAL ACQUISITION
ACQUISITION OF 40% EQUITY IN AN ASSOCIATE
BEIJING EWT-CASC DIRECTWIND MARKETING AND SALES CO. LTD.

A letter from the Board is set out on pages 3 to 11 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 24 May 2010 at 12:30 p.m. is set out on pages N1 to N2 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*

30 April 2010

CONTENTS

Pages

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

"Acquisition"	acquisition of 40% equity in Directwind Sales pursuant to the Equity Transfer Agreement
"associate(s)"	having the meaning ascribed thereto in the Listing Rules
"Board"	the board of Directors
"CALT"	China Academy of Launch Vehicle Technology, the Company's major controlling shareholder of 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 Energine 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
"Completion"	completion of the Equity Transfer Agreement
"Connected person(s)"	having the meaning ascribed thereto in the Listing Rules
"Director(s)"	the director(s) of the Company
"Direct Energy"	Beijing Direct Energy Corp., a company established in Beijing, the PRC, holding 15% equity interest in Directwind Sales
"Directwind Sales"	Beijing EWT-CASC Directwind Marketing and Sales Co. Ltd., an associate of the Company as to 25% equity incorporated in Beijing, the PRC
"EGM"	the extraordinary general meeting of Company to be convened to consider and, if thought fit, approve, among other things, the entering into of the Equity Transfer Agreement
"Enlarged Group"	the Group immediately after the Acquisition
"Equity Transfer Agreement"	the equity transfer agreement dated 10 February 2010 and entered into between the Company and EWT in relation to purchase and sales of a 40% equity interest in Directwind Sales
"EWT"	Emergya Wind Technologies B.V., a company incorporated in Netherlands

"Group"	the Company and its subsidiaries
"HKFRS"	Hong Kong Financial Reporting Standards
"HK$"	Hong Kong Dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"IM Composite Material"	Inner Mongolia CASC Energine Composite Material Co. Ltd., a subsidiary of the Company as to 56.41% equity established in Wulangchabu City, Inner Mongolia, the PRC
"IM Turbine Manufacture"	Inner Mongolia CASC Energine Wind Turbine Manufacture Co. Ltd., a subsidiary of the Company as to 95% equity established in Wulangchabu City, Inner Mongolia, the PRC
"independent third party(ies)"	party(ies) who is(are) independent of and not connected nor acting in concert with the Directors, chief executive or substantial Shareholders of the Company or its subsidiaries, or any of their respective associates, or parties acting in concert with it
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Latest Practicable Date"	27 April 2010, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"RMB"	Renminbi, the legal currency of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
"Share(s)"	ordinary share(s) of HK$0.10 in the capital of the Company
"Shareholder(s)"	holder(s) of Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary(ies)"	having the meaning ascribed thereto in the Listing Rules
"%"	per cent

For the purpose of this announcement, the exchange rate of RMB:HK$ is RMB1:HK$1.14.

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

Non-executive Directors:
Mr. Wu Jiang
Mr. Tang Guohong
Mr. Li Guang

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

30 April 2010

To the shareholders of the Company

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION
ACQUISITION OF 40% EQUITY IN AN ASSOCIATE
BEIJING EWT-CASC DIRECTWIND MARKETING AND SALES CO. LTD.

INTRODUCTION

It was announced on 10 February 2010 that the Company had entered into an equity transfer agreement whereby EWT agreed to sell and the Company agreed to purchase a 40% equity in an associate of the Company, Directwind Sales for a consideration of RMB 1.60 million (HK$1.82 million) in cash.

* *For identification purpose only*

The purpose of this circular is (i) to provide you with further information in relation to, amongst other things, the Acquisition, and (ii) to give you a notice of EGM with resolution approving the Equity Transfer Agreement.

THE EQUITY TRANSFER AGREEMENT

Date : 10 February 2010

Parties:

1. EWT, as assignor; and

2. The Company, as assignee.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, the assignor and their ultimate beneficial owners are third parties independent of the Company and its connected persons and are not connected persons of the Group.

Subject of the Acquisition:

Directwind Sales is a limited liability company established in Beijing, the PRC on 4 August 2008 and is principally engaged in the sales of the wind turbines manufactured by IM Turbine Manufacture, a subsidiary of the Group engaged in manufacture of direct drive turbines as to 900KW and 2MW capacities in Xinghe County, Inner Mongolia. The total registered capital of Directwind Sales amounts to RMB10 million (HK$11.4 million) and contributions thereto attributable to EWT, the Company and Direct Energy amounted to RMB6.0 million (HK$6.84 million), RMB2.5 million (HK$2.85 million), and RMB1.5 million (HK$1.71 million) respectively. EWT, the Company and Direct Energy hold 60%, 25%, and 15% equity interest in Directwind Sales respectively. As such, Directwind Sales is an associate of the Group and its results have been equity accounted for in the accounts of the Group. After of the Acquisition, the Company will hold 65% equity interest in Directwind Sales, which will then become a subsidiary of the Group. Its results will be consolidated into the accounts of the Group from the date of acquisition rather than equity accounted for as before.

According to unaudited financial statements of Directwind Sales prepared under PRC GAAP, the net loss before taxation and after taxation for the 3 months ended 31 March 2010 amounted to RMB2,112,000 (HK$2,408,000). According to the audited financial statements prepared under Hong Kong HKFRS, the net losses before taxation and after taxation for the period from 4 August 2008 to 31 December 2008 and the year ended 31 December 2009 amounted to RMB4,944,000 (HK$5,637,000) and RMB3,654,000 (HK$4,166,000) respectively. As at 31 December 2008 and 2009, the audited net assets value of Directwind Sales amounted to RMB5,058,000 (HK$5,766,000) and of RMB1,405,000 (HK$1,601,000) respectively. In accordance with the unaudited financial statements for the 3 months ended 31 March 2010, the net liabilities value as at 31 March 2010 was recorded as RMB708,000 (HK$807,000).

Consideration and settlement:

Pursuant to the Equity Transfer Agreement, the Company, after arm's length negotiation, agreed to acquire a 40% equity in Directwind Sales at a consideration of RMB1.60 million (HK$1.82 million) in cash, as determined by reference to value on control of all of the entities of the supply chain of manufacture and sales of wind turbines and blades after the Acquisition, fortifying the whole strategic positions of the Group's distribution of wind turbines and blades not only to the markets in China but also overseas markets. The consideration will be satisfied by the internal resources of the Company within the 10 business days in Euro or US dollar equivalent converted at the exchange rate on the date of payment following the completion of the conditions precedent mentioned below.

Conditions precedent for effectiveness of the agreement:

The Equity Transfer Agreement will become effective upon the fulfillment of the following conditions:

1. the signing of the revised joint venture contract and the revised Articles of Association of Directwind Sales between the parties and Direct Energy reflecting the equity transfer;

2. appointment of 2 more directors to Directwind Sales by the Company and removal of 2 directors by EWT such that the Company will have 3 directors assigned in the 5 director board of Directwind Sales;

3. filing for the required governmental approvals as to the equity transfer by Directwind Sales as procured by the parties.

Completion:

Subject to the fulfillment of the above conditions precedent, Completion will take place on the day when the valid registrations with the Beijing Administration of Industry and Commerce in relation to the ownership transfer of 40% equity interest in Directwind Sales are completed.

Reasons for and benefit of further investing in the Joint Venture

The Group is principally engaged in the businesses of manufacturing and sales of wind turbines and blades, operation of wind farm, intelligent transportation systems, broadband wireless access systems and equipment, manufacturing and sale of telecommunications products and of hi-tech rare-earth permanent magnetic motors for elevators as well as investment in businesses of automotive component parts.

The acquisition of Directwind Sales is a Group's strategic move in completing development of wind energy project in terms of controlling all of the entities in the whole supply chain of sales and manufacture of wind turbine businesses, thereby enabling the Group to account for the whole profit out of the supply chain in the course of sales and manufacture of wind turbines and blades with the application of advanced direct-drive techniques as to 900KW direct drive turbines supplied by EWT rather than sharing of the profit in equity accounting at the sales company (Directwind Sales) in the supply chain.

Information on the parties

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

EWT is one of the strategic partners of the wind energy project of the Group in that EWT is also one of the shareholders of the Group's subsidiaries, IM Turbine Manufacture as to 5% equity and IM composite Material as to 2.56% equity and was the major shareholder of Directwind Sales as to 60% equity before the Acquisition.

It also was the turbine components supplier supplying turbine components to the wind turbine assembling plant of IM Turbine Manufacture.

FINANCIAL EFFECTS OF THE ACQUISITION

After the Acquisition, Directwind Sales will become a 65% subsidiary of the Group and its results will be consolidated into the accounts of the Group.

The Company will, under HKFRS 3 (revised), recognise all the identifiable assets and liabilities of Directwind Sales at their fair values in its consolidated financial statements. The difference between the cost of acquisition and net attributable fair value of the identifiable assets, liabilities and contingent liabilities so recognised will be accounted for as goodwill or excess on acquisition. Any goodwill arising from the Acquisition will be recognised as an asset in the consolidated statement of financial position and carried at cost, subject to annual impairment review. Such impairment will have to be recognised as an expense in profit and loss. Any excess on acquisition arising from the Acquisition will be credited to profit and loss. The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised. These accounting treatments are consistent with the accounting policies of the Group.

The following sets out for illustrative purposes only the key financials of (i) the unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group commencing on 1 January 2009 as if the Acquisition had been taken place on 1 January 2009; and (ii) the unaudited pro forma consolidated statement of financial position of the Enlarged Group as at 31 December 2009 as if the Acquisition had been taken place on 31 December 2009. Please refer to Appendix III to this circular for basis of preparing the unaudited pro forma financial information on the Enlarged Group and the unaudited pro forma financial information on the Enlarged Group after the Acquisition.

Net assets

The audited consolidated net asset value of the Group as at 31 December 2009 as extracted from the consolidated statement of financial position of the Group as at 31 December 2009 was HK$1,645 million, representing the difference of total assets of HK$3,129 million and total liabilities of HK$1,484 million.

As set out in Appendix III to this circular, assuming the Acquisition had been taken place on 31 December 2009, the unaudited pro forma net assets of the Enlarged Group will have been HK$1,644 million, representing the difference of unaudited pro forma total assets of HK$3,141 million and unaudited pro forma total liabilities of HK$1,497 million.

Earnings

The audited consolidated net profit of the Group attributable to the Shareholders for the year ended 31 December 2009 as extracted from the consolidated statement of comprehensive income of the Group for the year ended 31 December 2009 was HK$68.03 million.

As set out in Appendix III to this circular, assuming the Acquisition had been taken place on 1 January 2009, the unaudited pro forma net profit of the Enlarged Group attributable to the Shareholders would be HK$65.25 million.

Indebtedness

At the close of business on 28 February 2010, Directwind Sales (as if the Acquisition had already taken place) did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

The Directors are not aware of any material adverse change in the indebtedness, contingent liabilities and commitments of Directwind Sales (as if the Acquisition had already been taken place) since 28 February 2010.

Gearing

As at 31 December 2009, gearing ratio of the Group (total borrowings over Shareholders' equity) was 83%.

As Directwind Sales (as if the Acquisition had already been taken place) had no borrowings as at 31 December 2009, gearing ratio of the Enlarged Group (total borrowings over Shareholders' equity) remained unchanged as 83%.

Working Capital

As set out in Appendix III to this circular, the increase in net cash and cash equivalents for the year ended 31 December 2009 will be slightly increased by approximately 1% to HK$647.5 million as if the Acquisition had been taken place on 1 January 2009.

After due and careful enquiry and taking into account of the financial resources available to Directwind Sales (as if the Acquisition had already been taken place), the Directors are of the opinion that, in the absence of unforeseen circumstances, the working capital available to Directwind Sales is sufficient for its present requirements.

Furthermore, after due and careful enquiry and taking into account the financial resources available to the Group, and Directwind Sales, the Directors are of the opinion that the Enlarged Group will, following Completion and in the absence of unforeseen circumstances, have sufficient working capital for its requirements.

IMPLICATIONS OF THE ACQUISITION UNDER THE LISTING RULES

As the percentage ratio contemplated in the Acquisition as defined in the Listing Rules is more than 100%, the entering into of the Equity Transfer Agreement constitutes a very substantial acquisition for the Company. The Acquisition is subject to the approval of the Company's Shareholders by way of poll at the EGM.

FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

The Group will benefit from its wind energy industry in the light of the shortage of electricity supplies in the PRC with the world's fastest growing wind energy market and the global trend towards renewable energy for environmental reasons assuring the tremendous demands in the future.

MANAGEMENT DISCUSSION AND ANALYSIS OF THE PERFORMANCE OF DIRECTWIND SALES

For the year ended 31 December 2008

Results Summary

Directwind Sales made a loss of RMB4.94 million for the period from the incorporation date of 4 August 2008 to 31 December 2008.

Business Review

In the initial period to 31 December 2008, the company has established its office for its board of directors, supervisors, management employed to start off its business in formulating the business plan on sales of wind turbines, provision of consulting service of project management, supervision for erection, installation and the commissioning as well as quality management in relation thereto.

Human Resources And Remuneration Policy

As at 31 December 2008, the Company had 7 employees in its Beijing office. Remuneration of employee is determined according to individual employee's performance and the prevailing trends in different areas and reviewed on an annual basis. The company also makes contribution to mandatory retirement scheme for its employees. In addition, discretionary performance bonus is available at the discretion of the directors.

Financial Review

The company had no borrowing and no investments and recorded a net asset value of RMB5.06 million as of 31 December 2008. The company had no acquisition and disposals of subsidiaries and associates in the period.

The company employed its capital fund for its business operation. There are no charges on the company assets as of 31 December 2008.

The company had no exposure to fluctuation in exchange rate as of 31 December 2008 since most of the business transactions were in RMB. The company had no contingent liability as of 31 December 2008.

For the year ended 31 December 2009

Results Summary

The company turnover for the year 2009 amounted to RMB285.02 million with a loss of RMB3.65 million in contrast to no turnover and a loss of RMB4.94 million for the year 2008.

Business Review

In September 2009, the company entered into a supply contract of 900KW wind turbines to Inner Mongolia Datang Wangyuan New Energy Co. Ltd., ("DWNE") pursuant to which 55 direct-drive wind turbines and wind farm remote monitoring system had been delivered to DWNE for their installation in establishment of the 49.5MW Inner Mongolia Xinghe Wind Farm, thereby deriving a revenue amounting to RMB285.02 million in the year. The company operation in the year was therefore to deliver and install the wind turbines with direct-drive technologies supplied by the parent company, EWT in deployment of the installation and commissioning teams of the company with team members from the parent company therein.

Human Resources And Remuneration Policy

As at 31 December 2009, the company had 14 employees in its Beijing office. Remuneration of employee is determined according to individual employee's performance and the prevailing trends in different areas and reviewed on an annual basis. The company also makes contributions to mandatory retirement scheme for its employees. In addition, discretionary performance bonus is available at the discretion of the directors.

Financial Review

The company had no borrowing and no investments and recorded a net asset value of RMB1.40 million as of 31 December 2009. The company had no acquisition and disposals of subsidiaries and associates in the year 2009.

The company employed its capital fund for its business operation. There are no charges on the company assets as of 31 December 2009.

The company had no exposure to fluctuation in exchange rate as of 31 December 2009 since most of the business transactions were in RMB. The company had no contingent liability as of 31 December 2009.

EGM

Set out on pages N1 to N2 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 24 May 2010 at 12:30 p.m. at which an ordinary resolution will be proposed to the Shareholders to consider and, if thought fit, approve the Equity Transfer Agreement.

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.

At the Latest Practicable Date, there are no Shareholders with a material interest in the Acquisition. No Shareholders are accordingly required to abstain from voting at the EGM.

RECOMMENDATION

The terms of the Equity Transfer Agreement are negotiated after arm's length negotiation. The board of directors (including the independent non-executive directors) of the Company considers that the transaction was entered into on normal commercial terms such that the terms thereof are fair and reasonable and in the interests of the Shareholders of the Company 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 Equity Transfer Agreement.

FURTHER INFORMATION

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

1. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

Set out below is a summary of the audited consolidated statement of comprehensive income and consolidated statement of financial position for the three years ended 31 December 2009 as extracted from the respective annual reports of the Group, and as restated and reclassified as appropriate. There was no modification or qualification in the auditor's reports of the Group for each of the three years ended 31 December 2007, 2008 and 2009. There were no extraordinary items or exceptional items for these three years.

Consolidated statement of comprehensive income

	For the year ended 31 December		
	2009	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Turnover	663,373	184,206	178,755
Cost of sales	(584,259)	(176,391)	(189,129)
Gross profit (loss)	79,114	7,815	(10,374)
Other income	19,333	13,680	11,332
Selling and distribution costs	(20,437)	(10,516)	(13,056)
Administrative expenses	(117,637)	(92,814)	(87,772)
Increase (decrease) in fair value of investment property	3,420	(2,280)	6,722
Recovery of fully impaired receivable from an associate	11,952	—	—
Allowance for amounts due from associates	—	(17,837)	(1,854)
Finance costs	(53,051)	(34,069)	(16,500)
Share of results of associates	25,379	30,631	2,624
Impairment loss recognised in respect of interest in an associate	—	—	(9,227)
Share of results of jointly controlled entities	74,630	41,048	22,377
Impairment loss reversed (recognised) in respect of interests in jointly controlled entities	55,189	(424,165)	(474,793)
Profit (loss) before taxation	77,892	(488,507)	(570,521)
Taxation	(7,091)	(7,421)	(1,510)
Profit (loss) for the year	70,801	(495,928)	(572,031)

	For the year ended 31 December		
	2009	2008	2007
	HK$'000	*HK$'000*	*HK$'000*
Other comprehensive income:			
Increase in fair value of land and buildings upon transfer to investment properties	—	—	1,864
Deferred tax liability arising on revaluation of properties	—	—	(465)
Exchange differences arising on translation to the Group's presentation currency	—	130,939	10,823
Total comprehensive income (expense) for the year	70,801	(364,989)	(559,809)
Profit (loss) for the year attributable to:			
Owners of the Company	68,033	(499,626)	(573,901)
Minority interests	2,768	3,698	1,870
	70,801	(495,928)	(572,031)
Total comprehensive income (expense) attributable to:			
Owners of the Company	68,033	(369,029)	(561,780)
Minority interests	2,768	4,040	1,971
	70,801	(364,989)	(559,809)
Earnings (loss) per share — Basic	HK1.86 cents	HK(13.79) cents	HK(36.50) cents

Consolidated statement of financial position

	As at 31 December		
	2009	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Non-current assets			
Investment property	23,940	20,520	21,000
Property, plant and equipment	388,690	309,261	30,602
Deposits paid for acquisition of property, plant and equipment	7,377	148,643	105,526
Goodwill	9,252	8,548	—
Intangible assets	—	—	4,900
Interests in associates	227,280	211,826	170,828
Interests in jointly controlled entities	1,054,117	949,695	1,241,996
Fixed bank deposits	91,200	—	—
	1,801,856	1,648,493	1,574,852
Current assets			
Inventories	76,828	55,240	24,867
Trade and other receivables	239,448	205,514	383,698
Amounts due from associates	212,583	2,419	54,960
Pledged bank deposits	97,851	41,599	1,400
Fixed bank deposits	57,000	—	—
Bank balances and cash	643,613	212,465	174,871
	1,327,323	517,237	639,796
Current liabilities			
Trade and other payables	194,739	119,287	53,998
Taxation payable	350	—	—
Amounts due to associates	1,856	1,452	3,656
Borrowings — amount due within one year	285,000	170,600	135,180
	481,945	291,339	192,834
Net current assets	845,378	225,898	446,962
Total assets less current liabilities	2,647,234	1,874,391	2,021,814

	As at 31 December		
	2009	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Non-current liabilities			
Borrowings — amount due after one year	992,410	591,090	447,825
Deferred taxation	10,026	7,389	2,146
	1,002,436	598,479	449,971
	1,644,798	1,275,912	1,571,843
Capital and reserves			
Share capital	396,900	362,400	362,400
Reserves	1,135,832	836,429	1,205,458
Equity attributable to equity owners of the Company	1,532,732	1,198,829	1,567,858
Minority interests	112,066	77,083	3,985
Total equity	1,644,798	1,275,912	1,571,843

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS

The following are the audited consolidated statement of comprehensive income of the Group for each of the two years ended 31 December 2009, the audited consolidated statement of financial position of the Group as at 31 December 2009 and 2008, and the audited consolidated statement of changes in equity of the Group for each of the two years ended 31 December 2009, the audited consolidated statement of cash flows of the Group for each of the two years ended 31 December 2009, together with accompanying notes extracted from the 2009 annual report of the Group.

Consolidated Statement of Comprehensive Income
For The Year Ended 31December 2009

		2009	2008
	NOTE	*HK$'000*	*HK$'000*
Turnover	5	663,373	184,206
Cost of sales		(584,259)	(176,391)
Gross profit		79,114	7,815
Other income	7	19,333	13,680
Selling and distribution expenses		(20,437)	(10,516)
Administrative expenses		(117,637)	(92,814)
Increase (decrease) in fair value of investment property		3,420	(2,280)
Recovery of fully impaired receivable from an associate		11,952	—
Allowance for amounts due from associates		—	(17,837)
Finance costs	8	(53,051)	(34,069)
Share of results of associates		25,379	30,631
Share of results of jointly controlled entities		74,630	41,048
Impairment loss reversed (recognised) in respect of interests in jointly controlled entities	19	55,189	(424,165)
Profit (loss) before taxation		77,892	(488,507)
Taxation	9	(7,091)	(7,421)
Profit (loss) for the year	10	70,801	(495,928)
Other comprehensive income:			
Exchange difference arising on translation to the Group's presentation currency		—	130,939
Total comprehensive income (expense) for the year		70,801	(364,989)

	NOTE	2009 HK$'000	2008 HK$'000
Profit (loss) for the year attributable to:			
Owners of the Company		68,033	(499,626)
Minority interests		2,768	3,698
		70,801	(495,928)
Total comprehensive income (expense) attributable to:			
Owners of the Company		68,033	(369,029)
Minority interests		2,768	4,040
		70,801	(364,989)
Earnings (loss) per share — Basic	13	HK1.86 cents	HK(13.79) cents

Consolidated Statement of Financial Position

At 31 December 2009

	NOTE	2009 HK$'000	2008 HK$'000
Non-current assets			
Investment property	14	23,940	20,520
Property, plant and equipment	15	388,690	309,261
Deposits paid for acquisition of property, plant and equipment	15	7,377	148,643
Goodwill	16	9,252	8,548
Intangible assets	17	—	—
Interests in associates	18	227,280	211,826
Interests in jointly controlled entities	19	1,054,117	949,695
Fixed bank deposits	20	91,200	—
		1,801,856	1,648,493
Current assets			
Inventories	21	76,828	55,240
Trade and other receivables	22	239,448	205,514
Amounts due from associates	23	212,583	2,419
Pledged bank deposits	24	97,851	41,599
Fixed bank deposits	20	57,000	—
Bank balances and cash	24	643,613	212,465
		1,327,323	517,237
Current liabilities			
Trade and other payables	25	194,739	119,287
Taxation payable		350	—
Amounts due to associates	23	1,856	1,452
Borrowings — amount due within one year	26	285,000	170,600
		481,945	291,339
Net current assets		845,378	225,898
Total assets less current liabilities		2,647,234	1,874,391

	NOTE	2009 HK$'000	2008 HK$'000
Non-current liabilities			
Borrowings — amount due after one year	26	992,410	591,090
Deferred taxation	27	10,026	7,389
		1,002,436	598,479
		1,644,798	1,275,912
Capital and reserves			
Share capital	28	396,900	362,400
Reserves		1,135,832	836,429
Equity attributable to equity owners of the Company		1,532,732	1,198,829
Minority interests		112,066	77,083
Total equity		1,644,798	1,275,912

Consolidated Statement of Changes in Equity
For the year ended 31 December 2009

	Attributable to owners of the Company									
	Share capital *HK$'000*	Special reserve *HK$'000* *(Note 1)*	Share premium *HK$'000*	Property revaluation reserve *HK$'000*	Exchange reserve *HK$'000*	General reserve *HK$'000* *(Note 2)*	Accu-mulated losses *HK$'000*	Total *HK$'000*	Minority interests *HK$'000*	Total *HK$'000*
At 1 January 2008	362,400	117,554	2,251,771	1,399	15,622	14,772	(1,195,660)	1,567,858	3,985	1,571,843
(Loss) profit for the year	—	—	—	—	—	—	(499,626)	(499,626)	3,698	(495,928)
Exchange difference arising on translation to presentation currency	—	—	—	—	130,597	—	—	130,597	342	130,939
Total comprehensive income (expense) for the year	—	—	—	—	130,597	—	(499,626)	(369,029)	4,040	(364,989)
Addition on acquisition of subsidiaries (note 31)	—	—	—	—	—	—	—	—	66,208	66,208
Capital contribution from minority shareholders of a subsidiary	—	—	—	—	—	—	—	—	2,850	2,850
Transfer	—	—	—	—	—	5,062	(5,062)	—	—	—
At 31 December 2008	362,400	117,554	2,251,771	1,399	146,219	19,834	(1,700,348)	1,198,829	77,083	1,275,912
Profit for the year and total comprehensive income for the year	—	—	—	—	—	—	68,033	68,033	2,768	70,801
Issue of new shares (note 28)	34,500	—	241,500	—	—	—	—	276,000	—	276,000
Transaction costs attributable to issue of shares	—	—	(10,130)	—	—	—	—	(10,130)	—	(10,130)
Capital contribution from minority shareholders of a subsidiary	—	—	—	—	—	—	—	—	38,762	38,762
Dividend paid to minority interests	—	—	—	—	—	—	—	—	(5,711)	(5,711)
Acquisition of additional interest in a subsidiary	—	—	—	—	—	—	—	—	(836)	(836)
Transfer	—	—	—	—	—	3,190	(3,190)	—	—	—
At 31 December 2009	396,900	117,554	2,483,141	1,399	146,219	23,024	(1,635,505)	1,532,732	112,066	1,644,798

Notes:

1. The special reserve of the Group represents the difference between the nominal amount of the share capital issued by the Company and the nominal amount of the issued share capital of the subsidiaries acquired by the Company and the aggregate amount of HK$116,025,000 transferred from other reserves pursuant to the Group's reorganisation on 11 August 1997.

2. Included in general reserve is reserve fund of a subsidiary in the People's Republic of China (the "PRC") which can be used only to (i) make up prior years' losses or (ii) expand production operations.

Consolidated Statement of Cash Flows
For the year ended 31 December 2009

	NOTE	**2009**	**2008**
		HK$'000	*HK$'000*
Operating activities			
Profit (loss) before taxation		77,892	(488,507)
Adjustments for:			
Interest income		(3,288)	(4,971)
Interest expenses		53,051	34,069
Share of results of associates		(25,379)	(30,631)
Share of results of jointly controlled entities		(74,630)	(41,048)
Amortisation of intangible assets		—	4,900
Depreciation of property, plant and equipment		28,120	9,627
Impairment loss (reversed) recognised in respect of interests in jointly controlled entities		(55,189)	424,165
Recovery of fully impaired receivable from an associate		(11,952)	—
(Increase) decrease in fair value of investment property		(3,420)	2,280
Allowance for doubtful debts		5,538	11,441
Allowance for amounts due from associates		—	17,837
Allowance for obsolete inventories		6,349	12,738
Loss on disposal of property, plant and equipment		68	276
Effect of foreign exchange rate changes on intercompany balances		—	1,810
Operating cash flows before movements in working capital		(2,840)	(46,014)
Increase in inventories		(27,937)	(10,126)
Increase in trade and other receivables		(74,796)	(37,811)
Increase in amounts due from associates		(83,641)	(1,976)
Increase (decrease) in trade and other payables		76,870	(11,098)
Increase (decrease) in amounts due to associates		404	(2,204)
Cash used in operations		(111,940)	(109,229)
Income taxes paid		(4,104)	(2,178)
Net cash used in operating activities		(116,044)	(111,407)

	NOTE	2009 HK$'000	2008 HK$'000
Investing activities			
Investments in fixed bank deposits		(148,200)	—
Increase in pledged bank deposits		(97,851)	(40,199)
Purchase of property, plant and equipment		(74,053)	(67,586)
Capital injection in a jointly controlled entity		(51,732)	—
Investments in associates		(14,820)	(58,082)
Deposits paid for acquisition of property, plant and equipment		(7,377)	(34,072)
Acquisition of additional interest in a subsidiary		(1,540)	—
Dividend received from a jointly controlled entity		112,453	252,281
Release of pledged bank deposits		41,599	—
Dividend received from associates		24,745	7,806
Interest received		3,288	4,971
Proceeds from disposal of property, plant and equipment		508	4,322
Acquisition of subsidiaries, net of cash and cash equivalents acquired	31	—	(5,990)
Repayment of loan to associates		—	37,696
Net cash (used in) from investing activities		(212,980)	101,147
Financing activities			
New loans raised		901,780	413,076
Proceeds from issue of new shares		276,000	—
Capital contribution from minority shareholders of a subsidiary		38,762	2,850
Repayment of loans		(386,060)	(360,137)
Interest paid		(54,469)	(19,953)
Expenses incurred in connection with the issue of new shares		(10,130)	—
Dividend paid to minority interests		(5,711)	—
Net cash from financing activities		760,172	35,836
Net increase in cash and cash equivalents		431,148	25,576
Effect of foreign exchange rate changes		—	12,018
Cash and cash equivalents at beginning of the year		212,465	174,871
Cash and cash equivalents at end of the year, representing bank balances and cash		643,613	212,465

Notes to the Consolidated Financial Statements
For the year ended 31 December 2009

1. GENERAL

The Company is incorporated in the Cayman Islands with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its immediate holding company is Astrotech Group Limited ("Astrotech"), a company incorporated in the British Virgin Islands which holds 66.75% interest in the Company. Astrotech is wholly owned by China Academy of Launch Vehicle Technology ("CALT"). China Aerospace Science & Technology Corporation ("CASC") is the ultimate holding company of the Company via the immediate shareholding of CALT. Both CASC and CALT are entities established in the People's Republic of China (the "PRC").

The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information to the annual report.

The functional currency of the Group is Renminbi ("RMB") while the consolidated financial statements are presented in Hong Kong dollars (''HK$''). The directors consider that HK$ is the appropriate presentation currency since the Company is a public company with the shares listed on the Stock Exchange where most of its investors are located.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following new and revised Standards, Amendments and Interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

HKAS 1 (Revised 2007)	Presentation of financial statements
HKAS 23 (Revised 2007)	Borrowing costs
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate
HKFRS 2 (Amendment)	Vesting conditions and cancellations
HKFRS 7 (Amendment)	Improving disclosures about financial instruments
HKFRS 8	Operating segments
HK(IFRIC) - INT 9 & HKAS 39 (Amendments)	Embedded derivatives
HK(IFRIC) - INT 13	Customer loyalty programmes
HK(IFRIC) - INT 15	Agreements for the construction of real estate
HK(IFRIC) - INT 16	Hedges of a net investment in a foreign operation

HK(IFRIC) - INT 18	Transfers of assets from customers
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

Except as described below, the adoption of the new and revised HKFRSs had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

New and revised HKFRSs affecting presentation and disclosure only

HKAS 1 (Revised 2007) Presentation of financial statements

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

HKFRS 8 Operating segments

HKFRS 8 is a disclosure standard that has resulted in a redesignation of the Group's reportable segments (see note 6) and changes in the basis of measurement of segment profit or loss, segment assets and segment liabilities.

New and revised HKFRSs affecting the reported results and/or financial position

HKAS 23 (Revised 2007) Borrowing costs

In previous years, the Group has an accounting policy that expensed all borrowing costs that were directly attributable to the acquisition, construction or production of a qualifying asset when they were incurred. HKAS 23 (Revised 2007) removes the option previously available to expense all borrowing costs when incurred. The adoption of HKAS 23 (Revised 2007) has resulted in the Group changing its accounting policy to capitalise all such borrowing costs as part of the cost of the qualifying asset. The Group has applied the revised accounting policy to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009 in accordance with the transitional provisions in HKAS 23 (Revised 2007). As the revised accounting policy has been applied prospectively from 1 January 2009, this change in accounting policy has not resulted in restatement of amounts reported in respect of prior accounting periods.

In the current year, the Group did not have any qualifying asset to capitalise the borrowing costs. Therefore, the adoption of HKAS 23 (Revised 2007) has not had any impact on Group's financial results and position for the current period.

The Group has not early applied the following new and revised Standards, Amendments or Interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of improvements to HKFRSs 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[2]
HKAS 24 (Revised)	Related party disclosure[6]
HKAS 27 (Revised)	Consolidated and separate financial statements[1]
HKAS 32 (Amendment)	Classification of right issues[4]
HKAS 39 (Amendment)	Eligible hedged items[1]
HKFRS 1 (Amendment)	Additional exemptions for first-time adopters[3]
HKFRS 1 (Amendment)	Limited exemption from comparative HKFRS 7 disclosures for first-time adopters[5]
HKFRS 2 (Amendment)	Group cash-settled share-based payments transactions[3]
HKFRS 3 (Revised)	Business combinations[1]
HKFRS 9	Financial instruments[7]
HK(IFRIC) - INT 14 (Amendment)	Prepayments of a minimum funding requirement[6]
HK(IFRIC) - INT 17	Distributions of non-cash assets to owners[1]
HK(IFRIC) - INT 19	Extinguishing financial liabilities with equity instrument[5]

1 Effective for annual periods beginning on or after 1 July 2009.

2 Amendments that are effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate.

3 Effective for annual periods beginning on or after 1 January 2010.

4 Effective for annual periods beginning on or after 1 February 2010.

5 Effective for annual periods beginning on or after 1 July 2010.

6 Effective for annual periods beginning on or after 1 January 2011.

7 Effective for annual periods beginning on or after 1 January 2013.

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary.

HKFRS 9 "Financial instruments" introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 "Financial instruments: Recognition and measurement" to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

In addition, as part of Improvements to HKFRSs issued in 2009, HKAS 17 Leases has been amended in relation to the classification of leasehold land. The amendments will be effective from 1 January 2010, with earlier application permitted. Before the amendments to HKAS 17, lessees were required to classify leasehold land as operating leases and presented as prepaid lease payments in the consolidated statement of financial position. The amendments have removed such a requirement. Instead, the amendments require the classification of leasehold land to be based on the general principles set out in HKAS 17, that are based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. The application of the amendments to HKAS 17 might affect the classification and measurement of the Group's leasehold land.

The directors of the Company anticipate that the application of the other new and revised Standards, Amendments or Interpretations will have no material impact on the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost basis except for the investment property, which is measured at fair value, as explained in accounting policies set out below.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions and balances within the Group are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Business combinations

The acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 Business Combinations are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

Goodwill arising on acquisition of additional interest in a subsidiary is recognised as an asset and initially measured at cost, being the excess of the cost over the Group's additional interest in the net book value of the identifiable assets, liabilities and contingent liabilities recognised.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Interests in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, interests in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is not tested for impairment separately. Instead, the entire carrying amount of the investment is tested for impairment as a single asset. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the associate. Any reversal of impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the jointly controlled entity recognised at the date of acquisition is recognised as goodwill. Goodwill is included within the carrying amount of the investment and is not tested for impairment separately. Instead, the entire carrying amount of the investment is tested for impairment as a single asset. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the associate. Any reversal of impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group transacts with a jointly controlled entity of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant jointly controlled entity.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from sales of goods are recognised when goods are delivered and title has passed.

Revenue from sales of electricity are recognised when electricity has been delivered.

Service income is recognised when services are provided.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives from the date on which they are available for use and after taking into account of their estimated residual values, using the straight line method.

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item at the date of transfer is recognised in other comprehensive income and accumulated in property revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to retained profits.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognised.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the item is derecognised.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Impairment (other than goodwill)

At the end of each reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Leasing

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight line basis.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases and amortised over the lease term on a straight-line basis.

Government grants

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Other government grants are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

Payments to the defined contribution retirement schemes are charged as an expense when employees have rendered services entitling them to the contributions.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are classified as loans and receivables. The accounting policies adopted in respect of loans and receivables are set out below.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from associates, bank balances and cash, fixed bank deposits and pledged bank deposits) are carried at amortised cost using the effective interest method, less any identified impairment losses.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in consolidated statement of comprehensive income when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables and amounts due from associates, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When trade receivables are considered uncollectible, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities including trade and other payables, amounts due to associates and borrowings are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire, or the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which case, the exchange differences are also recognised directly in other comprehensive income.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group entities which are stated at functional currency of the respective group entity other than Hong Kong dollars are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the exchange reserve).

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumption concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period, are discussed below.

Estimated impairment of jointly controlled entities

Determining whether interests in jointly controlled entities are impaired requires estimation of their recoverable amounts. The recoverable amount is determined from value in use calculation by estimating the Group's share of the present value of the estimated future cash flows expected to be generated by the jointly controlled entities, using discount rates which reflect current market assessments of the time value of money and the risk specific to the jointly controlled entities. As at 31 December 2009, the carrying amounts of interests in jointly controlled entities are HK$1,054,117,000 (2008: HK$949,695,000). Details of the recoverable amount calculation are disclosed in note 19.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2009, the carrying amount of goodwill is HK$9,252,000 (2008: HK$8,548,000). Details of the recoverable amount calculation are disclosed in note 16.

Estimated impairment of trade receivables and amounts due from associates

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2009, the carrying amounts of trade receivables and amounts due from associates are HK$50,770,000 (2008: HK$41,910,000), net of allowance for doubtful debts of HK$144,202,000 (2008: HK$138,664,000), and HK$212,583,000 (2008: HK$2,419,000), net of impairment loss for an associate of HK$23,383,000 (2008: HK$35,335,000) respectively.

5. TURNOVER

An analysis of the Group's turnover for the year is as follows:

	2009	**2008**
	HK$'000	*HK$'000*
Sales of goods	298,135	161,931
Sales of electricity from operation of wind power field	31,543	3,985
Sales of wind energy related products	314,565	—
Revenue from services	19,130	18,290
	663,373	184,206

6. SEGMENT INFORMATION

The Group has adopted HKFRS 8 Operating Segments with effect from 1 January 2009. HKFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Group's chief operating decision maker for the purpose of allocating resources to segments and assessing their performance. The chief operating decision maker of the Group has been identified as the Executive Directors. In contrast, the predecessor Standard (HKAS 14, Segment Reporting) required an entity to identify two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group's primary reporting format was business segments.

In prior years, primary segment information reported externally was analysed on the basis of the types of goods supplied and services provided by the Group's operating divisions (i.e. communication products, global positioning system application products ("ITS"), broadband wireless access, wind energy business and REPM products). However, information reported to the Executive Directors is analysed by manufacture and sales of wind energy related products, sales of electricity from operation of wind farm, manufacture and distribution of REPM products, trading of chemical materials and telecommunication business for the purposes of resources allocation and performance assessment. Financial information in relation to the sales of communication products, ITS and broadband wireless access are not separately reported but grouped together under telecommunication business operating segment under HKFRS 8 as the Executive Directors consider that the said types of products are of electronic telecommunication products. The redesignation of the Group's reportable segment under HKFRS 8 has no material impact on the results reported in the current and prior years.

The Group currently organises its operations into five operating segments. They represent five major lines of businesses engaged by the Group. The principal activities of the operating segments are as follows:

Wind Energy Related Products	—	Manufacture and sales of wind energy related products
Operation of Wind Farm	—	Sales of electricity from operation of wind farm
REPM Products	—	Manufacture and distribution of elevator motors
Trading of Materials	—	Trading of chemical materials
Telecommunication Business	—	Development, manufacture and distribution of communication products, ITS, broadband systems, equipment and accessories

Information regarding these segments is presented below. The segment results reported for the prior period have been restated to conform with the requirements of HKFRS 8.

Segment revenue and results

The following is an analysis of the Group's turnover and results by reportable segment:

	For the year ended 31 December 2009						
	Wind Energy Related Products	**Operation of Wind Farm**	**REPM Products**	**Trading of Materials**	**Telecom-munication Business**	**Elimination**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER							
External sales	353,954	31,543	56,140	170,842	90,283	(39,389)	663,373
RESULT							
Segment result	(6,279)	47,577	(4,083)	490	(3,431)	(12,669)	21,605
Unallocated corporate expenses							(47,936)
Unallocated other income							5,540
Finance costs							(53,051)
Increase in fair value of investment property							3,420
Reversal of impairment loss in respect of interest in a jointly controlled entity							55,189
Share of results of jointly controlled entities							93,125
Profit before taxation							77,892

	For the year ended 31 December 2008						
	Wind Energy Related Products	Operation of Wind Farm	REPM Products	Trading of Materials	Telecom-munication Business	Elimination	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER							
External sales	—	3,985	35,184	47,774	97,263	—	184,206
RESULT							
Segment result	(1,428)	35,332	2,481	606	(53,484)	—	(16,493)
Unallocated corporate expenses							(49,788)
Unallocated other income							9,007
Finance costs							(34,069)
Decrease in fair value of investment property							(2,280)
Allowance for amounts due from associates							(17,837)
Impairment loss recognised in respect of interests in jointly controlled entities							(424,165)
Share of results of jointly controlled entities							47,118
Loss before taxation							(488,507)

Segment results represent the profit (loss) before taxation earned or incurred by each segment, excluding finance costs, fair value gain or loss on investment property, impairment loss and reversal of impairment loss in respect of interest in a jointly controlled entity, share of results of jointly controlled entities which cannot be allocated, unallocated other income and corporate expenses such as central administration costs and directors' salaries. Share of profit of associates of HK$25,379,000 (2008:HK$30,631,000) and share of loss of jointly controlled entities of HK$18,495,000 (2008:HK$6,070,000) were allocated to reportable segments. This is the measure reported to the Group's Executive Directors for the purpose of resources allocation and assessment of segment performance.

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segment:

	At 31 December 2009					
	Wind Energy Related Products	**Operation of Wind Farm**	**REPM Products**	**Trading of Materials**	**Telecom-munication Business**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS						
Segment assets	761,104	478,386	83,563	21,847	114,666	1,459,566
Interests in jointly controlled entities						978,114
Unallocated corporate assets						691,499
Consolidated total assets						3,129,179
LIABILITIES						
Segment liabilities	421,089	96,518	31,944	32,081	61,573	643,205
Unallocated corporate liabilities						841,176
Consolidated total liabilities						1,484,381

	At 31 December 2008					
	Wind Energy Related Products	**Operation of Wind Farm**	**REPM Products**	**Trading of Materials**	**Telecom-munication Business**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS						
Segment assets	378,138	431,731	79,356	—	78,901	968,126
Interests in jointly controlled entities						902,418
Unallocated corporate assets						295,186
Consolidated total assets						2,165,730
LIABILITIES						
Segment liabilities	—	1,883	23,712	274	50,058	75,927
Unallocated corporate liabilities						813,891
Consolidated total liabilities						889,818

For the purpose of monitoring segment performance and allocating resources between segments:

- all assets are allocated to reportable segments other than interests in jointly controlled entities which cannot be allocated, investment properties, and other financial assets that comprise of mainly bank balances and cash. Goodwill is allocated to reportable segments as described in note 16; and

- all liabilities are allocated to reportable segments other than certain borrowings which cannot be allocated and deferred tax liabilities.

Other segment information

	At 31 December 2009						
	Wind Energy Related Products	**Operation of Wind Farm**	**REPM Products**	**Trading of Materials**	**Telecom-munication Business**	**Unallocated**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Amounts included in the measure of segment profit or loss or segment assets:							
Addition of property, plant and equipment	100,304	18	12	—	6,050	1,741	108,125
Depreciation of property, plant and equipment	6,723	11,764	1,677	—	6,119	1,837	28,120
(Reversal of) allowance for doubtful debts	—	(194)	3,611	—	2,121	—	5,538
Allowance for obsolete inventories	—	—	—	—	6,349	—	6,349
Loss on disposal of property, plant and equipment	—	—	—	—	62	6	68
Interests in associates	—	204,875	—	—	22,405	—	227,280
Interests in jointly controlled entities	24,272	51,731	—	—	—	978,114	1,054,117
Share of (loss) profit of associates	(1,422)	26,528	—	—	273	—	25,379
Share of (loss) profit of jointly controlled entities	(18,495)	—	—	—	—	93,125	74,630

	At 31 December 2008						
	Wind Energy Related Products	**Operation of Wind Farm**	**REPM Products**	**Trading of Material**	**Telecom-munication Business**	**Unallocated**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Amounts included in the measure of segment profit or loss or segment assets:							
Addition of property, plant and equipment	—	271,810	10,322	—	4,639	3,274	290,045
Depreciation of property, plant and equipment	—	1,051	859	—	6,640	1,077	9,627
Amortisation of intangible assets	—	—	—	—	4,900	—	4,900
Allowance for doubtful debts	—	—	—	—	11,441	—	11,441
Allowance for obsolete inventories	—	—	—	—	12,738	—	12,738
Loss on disposal of property, plant and equipment	—	—	—	—	257	19	276
Interests in associates	1,422	203,090	—	—	7,314	—	211,826
Interests in jointly controlled entities	47,277	—	—	—	—	902,418	949,695
Share of (loss) profit of associates	(1,428)	34,383	(1,234)	—	(1,090)	—	30,631
Share of (loss) profit of jointly controlled entities	(6,070)	—	—	—	—	47,118	41,048

Geographical information

The Group's operations are located in Hong Kong and other regions of the PRC.

(i) The Group's revenue from external customers are detailed below:

	2009	2008
	HK$'000	*HK$'000*
Other regions of the PRC	614,371	126,342
Hong Kong	31,825	24,575
United States of America	17,119	28,539
Others	58	4,750
	663,373	184,206

(ii) Information about the Group's non-current assets (excluding financial instruments) by geographical location of the assets are detailed below:

	Carrying amount of non-current assets	
	2009	2008
	HK$'000	*HK$'000*
Other regions of the PRC	1,677,549	1,632,014
Hong Kong	33,107	16,479
	1,710,656	1,648,493

Information about major customers

Revenues from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2009	2008
	HK$'000	*HK$'000*
Customer A[1]	314,565	N/A[4]
Customer B[2]	170,684	47,384
Customer C[3]	N/A[4]	36,309
Customer D[3]	N/A[4]	35,813

1 Revenue from Wind Energy Related Products, which was solely contributed from sales of goods to an associate, Beijing EWT-CASC Directwind Marketing and Sales Co., Ltd. during the year.

2 Revenue from Trading of Materials

3 Revenue from Telecommunication Business

4 The corresponding revenue did not contribute over 10% of the total sales of the Group, thus disclosure for the specific customers is not applicable (“N/A”).

7. OTHER INCOME

	2009	**2008**
	HK$'000	*HK$'000*
Other income comprises:		
CDM income	6,772	4,031
Government grants	2,555	339
Rental income	1,292	1,292
Interest income	3,288	4,971
Net exchange gain recognised	266	996
Others	5,160	2,051
	19,333	13,680

8. FINANCE COSTS

	2009	**2008**
	HK$'000	*HK$'000*
Interest on bank and other loans:		
— wholly repayable within five years	46,865	33,224
— not wholly repayable within five years	6,186	845
	53,051	34,069

9. TAXATION

	2009	2008
	HK$'000	*HK$'000*
Tax charge for the year comprises:		
PRC Enterprise Income Tax		
Current year	5,504	2,178
Overprovision in prior years	(1,050)	—
	4,454	2,178
Deferred tax charge (note 27)	2,637	5,243
	7,091	7,421

The reconciliation of tax charge for the year to the profit (loss) before taxation is as follows:

	2009	2008
	HK$'000	*HK$'000*
Profit (loss) before taxation	77,892	(488,507)
Tax charge (credit) at PRC Enterprise Income Tax rate of 25% (2008: 25%)	19,473	(122,127)
Share of results of associates and jointly controlled entities	(25,002)	(17,920)
Tax effect of expenses not deductible for tax purpose	9,139	122,296
Tax effect of deductible temporary differences not recognised	1,843	3,001
Tax effect of income not taxable for tax purpose	(16,860)	(1,947)
Tax effect of losses not recognised	14,931	16,823
Utilisation of tax losses previously not recognised	(456)	(3,725)
Tax effect of temporary differences attributable to undistributed profits of PRC subsidiaries	4,512	5,812
Effect of different tax rates of subsidiaries operating in other jurisdictions	2,048	6,307
Effect of tax concessions/exemptions granted to a subsidiary in the PRC	(1,487)	(801)
Overprovision in prior years	(1,050)	—
Others	—	(298)
Tax charge for the year	7,091	7,421

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore, Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years. No tax is payable on the profit for the year arising in Hong Kong since the assessable profit is wholly absorbed by tax losses brought forward.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

Pursuant to the relevant laws and regulations in the PRC, one of the Company's PRC subsidiaries is exempted from PRC income tax for two years starting from year 2007, which was their first profit-making year, followed by a 50% reduction for the next three years.

10. PROFIT (LOSS) FOR THE YEAR

	2009	**2008**
	HK$'000	*HK$'000*
Profit (loss) for the year has been arrived at after charging:		
Directors' emoluments	3,184	4,191
Other staff costs	46,664	34,244
Other staff's retirement benefits scheme contributions	4,955	1,457
	54,803	39,892
Amortisation of intangible assets (included in cost of sales)	—	4,900
Auditor's remuneration	2,800	2,800
Cost of inventories recognised as an expense (including allowance for obsolete inventories of HK$6,349,000 (2008: HK$12,738,000))	564,479	162,689
Depreciation of property, plant and equipment	28,120	9,627
Loss on disposal of property, plant and equipment	68	276
Minimum lease payments under operating leases in respect of land and buildings	7,554	7,205
Allowance for doubtful debts	5,538	11,441

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors

The emoluments paid or payable to each of the eight (2008: twelve) directors were as follows:

	2009				2008			
		Other emoluments				Other emoluments		
Name of director	Fees	Salaries and other benefits	Retirement benefits scheme contributions	Total	Fees	Salaries and other benefits	Retirement benefits scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Han Shuwang	—	1,530	—	1,530	—	1,704	—	1,704
Wang Xiaodong	—	1,130	12	1,142	—	1,262	12	1,274
Wu Jiang	—	—	—	—	—	—	—	—
Tang Guohong	—	—	—	—	—	—	—	—
Li Guang	—	212	—	212	—	913	—	913
Wang Dechen	100	—	—	100	100	—	—	100
Kan Lai Kuen, Alice	100	—	—	100	100	—	—	100
Gordan Ng	100	—	—	100	100	—	—	100
Moh Kwen Yung*	—	—	—	—	—	—	—	—
Zhu Shixiong*	—	—	—	—	—	—	—	—
Wang Fai, Philip*	—	—	—	—	—	—	—	—
Yiu Ying Wai*	—	—	—	—	—	—	—	—
	300	2,872	12	3,184	300	3,879	12	4,191

* *These directors resigned during the year ended 31 December 2008.*

No directors waived any emoluments in the year ended 31 December 2009 (2008: Nil).

(b) Five highest paid individuals

The five highest paid individuals included two (2008: three) directors. The emoluments of the three (2008: two) highest paid individuals were as follows:

	2009	2008
	HK$'000	*HK$'000*
Salaries and other benefits	2,544	1,826
Retirement benefits scheme contributions	—	—
	2,544	1,826

The aggregate emoluments paid to each of the above three (2008: two) highest paid individuals for both years did not exceed HK$1,000,000.

12. DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2009, nor has any dividend been proposed since the end of the reporting period (2008: Nil).

13. EARNINGS (LOSS) PER SHARE - BASIC

The calculation of the basic earnings (loss) per share attributable to owners of the Company is based on the following data.

	2009	2008
	HK$'000	*HK$'000*
Profit (loss) for the purpose of basic earnings (loss) per share	68,033	(499,626)

	Number of shares	
	2009	2008
Weighted average number of shares for the purposes of basic earnings (loss) per share	3,660,858,682	3,623,995,668

The weighted average number of shares in issue during the year ended 31 December 2009 had been adjusted for the effect of placing of existing shares and top-up subscription of new shares at a price of HK$0.80 per share issued in November 2009.

14. INVESTMENT PROPERTY

	2009	2008
	HK$'000	*HK$'000*
FAIR VALUE		
At beginning of the year	20,520	21,000
Exchange adjustment	—	1,800
Increase (decrease) in fair value recognised in profit or loss	3,420	(2,280)
At end of the year	23,940	20,520

The above investment property is located in Shenzhen, the PRC under medium lease term.

The fair value of the Group's investment property as at 31 December 2009 has been determined by the directors of the Company. No valuation has been performed by independent qualified professional valuers. The valuation performed by the directors of the Company was arrived at by reference to recent market prices for similar commercial properties in Shenzhen, the PRC.

The fair value of the Group's investment property at 31 December 2008 has been arrived at on the basis of a valuation carried out on that date by Knight Frank Petty Limited, independent qualified professional valuers not connected with the Group. Knight Frank Petty Limited is a member of the Institute of Valuers, and has appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation was arrived at by reference to market evidence of transaction prices for similar commercial properties in Shenzhen, the PRC.

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

15. PROPERTY, PLANT AND EQUIPMENT/DEPOSITS PAID FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings	Plant, equipment and machinery	Wind energy plant and equipment	Moulds and tools	Furniture and office equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST							
At 1 January 2008	202	37,302	—	3,142	18,310	6,550	65,506
Exchange adjustments	18	3,127	—	235	461	304	4,145
Additions	—	1,584	58,633	148	2,446	4,775	67,586
Acquired on acquisition of subsidiaries	12,652	9,495	198,638	—	434	1,240	222,459
Disposals	—	(1,361)	—	—	(3,659)	(803)	(5,823)
At 31 December 2008	12,872	50,147	257,271	3,525	17,992	12,066	353,873
Additions	—	5,081	79,183	17,856	2,776	3,229	108,125
Disposals	(220)	(318)	—	(91)	(1,110)	(122)	(1,861)
At 31 December 2009	12,652	54,910	336,454	21,290	19,658	15,173	460,137
DEPRECIATION							
At 1 January 2008	88	16,845	—	2,220	13,766	1,985	34,904
Exchange adjustments	8	876	—	155	205	62	1,306
Provided for the year	68	5,799	944	400	1,151	1,265	9,627
Eliminated on disposals	—	(172)	—	—	(973)	(80)	(1,225)
At 31 December 2008	164	23,348	944	2,775	14,149	3,232	44,612
Provided for the year	677	6,933	15,432	1,953	1,346	1,779	28,120
Eliminated on disposals	(114)	(159)	—	(51)	(956)	(5)	(1,285)
At 31 December 2009	727	30,122	16,376	4,677	14,539	5,006	71,447
CARRYING VALUES							
At 31 December 2009	11,925	24,788	320,078	16,613	5,119	10,167	388,690
At 31 December 2008	12,708	26,799	256,327	750	3,843	8,834	309,261

The above items of property, plant and equipment are depreciated on a straight line basis at the following rates per annum:

Leasehold land and buildings	4 - 5% or over the unexpired lease terms, whichever is shorter
Plant, equipment and machinery	9 - 15%
Wind energy plant and equipment	5 - 15%
Moulds and tools	25%
Furniture and office equipment	10 - 25%
Motor vehicles	18 - 25%

The Group's property interests shown above were held under medium-term leases in the PRC.

At 31 December 2009, the Group also had deposits paid for the acquisition of machineries that will be established in Wuxi, the PRC of HK$7,377,000 (2008: Nil).

A sum of approximately HK$107,194,000 as at 31 December 2008 was paid as deposit for the purchase of property, plant and equipment for the operation of wind farm by a subsidiary. During the year, the Group decided that such wind power energy operation will be operated by a newly established jointly controlled entity of the Group. Accordingly, the property, plant and equipment were used by the Group for the manufacture of wind turbines and subsequently sold to the jointly controlled entity.

16. GOODWILL

	HK$'000
COST	
At 1 January 2008	3,210
Acquisition of subsidiaries (note 31)	8,548
At 31 December 2008	11,758
Acquisition of additional interest in a subsidiary	704
At 31 December 2009	12,462
IMPAIRMENT	
At 1 January 2008, 31 December 2008 and 31 December 2009	3,210
CARRYING VALUES	
At 31 December 2009	9,252
At 31 December 2008	8,548

For the purposes of impairment testing, goodwill with indefinite useful lives has been allocated to two individual cash generating units ("CGUs") including the Operation of Wind Farm segment and the REPM Products segment. The carrying amounts of goodwill as at 31 December 2009 allocated to these units are as follows:

	2009	**2008**
	HK$'000	*HK$'000*
Operation of Wind Farm	1,968	1,968
REPM Products	7,284	6,580
	9,252	8,548

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the year. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGU. The growth rates are based on industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

During the year, the Group performed impairment review for goodwill based on cash flow forecasts derived from the financial budgets which was prepared by using the most recent financial results with projections approved by management covering a 5-year period at discount rates of 11.7% (2008: 11.7%) for Operation of Wind Farm and 13% (2008: 15%) for REPM Products, which reflects current market assessments of the time value of money and the risks specific to the CGUs. The growth rates being used for the 5-year period for Operation of Wind Farm and REPM Products are 3.5% and 19% respectively, in light of the Group's industry growth forecasts. Cash flows beyond the 5-year period are extrapolated using a steady growth rate of 3.5%. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount to exceed the aggregate recoverable amount. No impairment loss on goodwill was recognised in profit or loss for both years.

17. INTANGIBLE ASSETS

	Development costs	Technology license right	Total
	HK$'000	*HK$'000*	*HK$'000*
COST			
At 1 January 2008	8,618	35,100	43,718
Write-off	(8,618)	—	(8,618)
At 31 December 2008 and 31 December 2009	—	35,100	35,100
AMORTISATION AND IMPAIRMENT			
At 1 January 2008	8,618	30,200	38,818
Amortised for the year	—	4,900	4,900
Eliminated on write off	(8,618)	—	(8,618)
At 31 December 2008 and 31 December 2009	—	35,100	35,100
CARRYING VALUES			
At 31 December 2009	—	—	—
At 31 December 2008	—	—	—

Intangible assets are amortised on a straight line basis over the following periods:

Development costs	3 - 5 years
Technology license right	3 years

18. INTERESTS IN ASSOCIATES

	2009	2008
	HK$'000	*HK$'000*
Cost of unlisted investments	182,252	171,578
Exchange adjustments	16,644	17,230
Share of post-acquisition profits and other comprehensive income, net of dividend received	28,384	23,018
	227,280	211,826

Included in the cost of unlisted investments is goodwill of HK$4,644,000 (2008: HK$426,000) arising on the acquisition of associates.

The Group has discontinued recognition of its share of loss of an associate. The amount of unrecognised share of loss of the associate, extracted from the relevant management account of the associate, both for the year and cumulatively, are as follows:

	2009	**2008**
	HK$'000	*HK$'000*
Unrecognised share of loss of associate for the year	(284)	(1,260)
Accumulated unrecognised share of loss of an associate	(79,939)	(79,655)

The summarised financial information in respect of the Group's associates is set out below:

	2009	**2008**
	HK$'000	*HK$'000*
Total assets	3,722,803	3,980,907
Total liabilities	2,613,939	2,921,713
Net assets	1,108,864	1,059,194
Group's share of net assets of associates	222,636	211,400
Revenue	748,978	470,360
Profit for the year	126,962	149,783
Group's share of results of associates	25,095	29,371

Details of the principal associates of the Group at 31 December 2009 are set out in note 38.

19. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	2009	2008
	HK$'000	*HK$'000*
Cost of unlisted investments in jointly controlled entities, net of pre-acquisition dividend	1,763,643	1,716,789
Exchange adjustments	106,039	106,457
Share of post-acquisitions profits, net of dividend	28,204	25,407
Share of net assets	1,897,886	1,848,653
Less: Impairment loss recognised	(843,769)	(898,958)
	1,054,117	949,695

Included in the cost of unlisted investments is goodwill of HK$1,155,343,000 (2008: HK$1,155,343,000) arising on the acquisition of jointly controlled entities in 2007.

During the year, the Group made a reversal of impairment loss of HK$55,189,000 (out of the impairment loss previously recognised in prior years of HK$394,549,000) in relation to the carrying amount of an interest in a jointly controlled entity, Beijing Delphi Wanyuan Engine Management Systems Co. Ltd., which is engaged in the manufacturing of automotive engine management systems and components. During the year, the government of the PRC has introduced a number of policies and incentive subsidies to encourage the development and consumption of low emission automobile manufactured in the PRC from the years of 2009 to 2011, and the jointly controlled entity has recorded an increase in sales of products during the current year. The increase of the recoverable amount of the interest in the jointly controlled entity was mainly attributable to the increase of sales growth after the introduction of these new policies in the PRC. The recoverable amount of interest in the jointly controlled entity is determined by management from value in use calculation by estimating the Group's share of the present value of the estimated future cash flows expected to be generated by the jointly controlled entity covering a 5-year period at discount rate of 15%, which reflects current market assessments of the time value of money and the risk specific to the investment in the jointly controlled entity. The growth rate being used for the 5-year period for operation of the jointly controlled entity is 13% in light of the industry growth forecast. Cash flows beyond the 5-year period are extrapolated using a steady growth rate of 3.5%.

The Group recognised an impairment loss of HK$405,012,000 in 2008 in relation to the carrying amount of the interest in a jointly controlled entity, Nantong CASC Wanyuan Acciona Wind Turbine Manufacture Corporation Ltd. The recoverable amount was determined based on the value of the underlying assets attributable to the Group estimated by the directors.

The Group also recognised an impairment loss of HK$19,153,000 in 2008 in relation to the carrying amounts of interests in other jointly controlled entities. The recoverable amount is determined from value in use calculation by estimating the Group's share of the present value of the estimated future cash flows expected to be generated by the jointly controlled entities, using discount rates ranging from 12% to 13% in both years which reflects current market assessments of the time value of money and the risks specific to the jointly controlled entities. Thus, the excess of the carrying amount of these interests in jointly controlled entities over the recoverable amount is recognised as an impairment loss.

The summarised financial information in respect of the Group's jointly controlled entities attributable to the Group's interest which are accounted for using equity method is set out below:

	2009	**2008**
	HK$'000	*HK$'000*
Non-current assets	157,416	160,836
Current assets	694,605	494,302
Current liabilities	(481,806)	(351,441)
Net assets	370,215	303,697
Income	1,154,122	1,256,821
Expenses	(1,062,209)	(1,191,706)
Profit for the year	91,913	65,115

Details of the principal jointly controlled entities of the Group at 31 December 2009 are set out in note 38.

20. FIXED BANK DEPOSITS

At 31 December 2009, bank deposits that carry fixed interests rates which range from 2.25% to 3.33% per annum with carrying amounts of HK$148,200,000 (2008: Nil) are placed in a bank for general banking facilities granted to the Group which cannot be redeemed before their maturity dates. An analysis of the maturity of these deposits are as follows:

	2009	**2008**
	HK$'000	*HK$'000*
Amount due after one year	91,200	—
Amount due within one year	57,000	—
	148,200	—

21. INVENTORIES

	2009	2008
	HK$'000	*HK$'000*
Raw materials	30,381	16,757
Work-in-progress	21,735	13,561
Finished goods	24,712	24,922
	76,828	55,240

22. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are trade receivables of HK$50,770,000 (2008: HK$41,910,000). The Group allows credit periods for 90 days on average to its customers for sales of goods and rendering of services. At the discretion of the executive directors, several major customers were allowed to settle their balances beyond the credit terms up to one year. The following is an aged analysis of trade receivables, net of allowances, presented based on the invoice date at the end of the reporting period:

	2009	2008
	HK$'000	*HK$'000*
Within 30 days	18,604	29,246
Between 31 - 90 days	19,531	8,090
Between 91 - 180 days	833	3,361
Between 181 - 365 days	4,080	—
Over 1 year	7,722	1,213
	50,770	41,910

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK$12,635,000 (2008: HK$4,574,000) which are past due at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. The average age of these receivables is 365 days (2008: 180 days).

Ageing of trade receivables which are past due but not impaired:

	2009	**2008**
	HK$'000	*HK$'000*
Between 91 - 180 days	833	3,361
Between 181 - 365 days	4,080	—
Over 1 year	7,722	1,213
Total	12,635	4,574

The Group will normally provide fully for all receivables overdue 365 days because historical experiences is such that receivables that are past due 365 days are generally not recoverable, except for some major customers with longer credit terms at the discretion of the executive directors.

Movement in the allowance for doubtful debts:

	2009	**2008**
	HK$'000	*HK$'000*
Balance at beginning of the year	138,664	127,223
Impairment losses recognised in respect of trade receivables	5,538	11,441
Balance at end of the year	144,202	138,664

The balance of the allowance for doubtful debts are individually impaired trade receivables which have been overdue 365 days or/and have no material transactions with the Group during the year. The Group does not hold any collateral over these balances.

Before accepting any new customer, the Group's executive directors and marketing team would assess the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed regularly with reference to past settlement history. 70% (2008: 90%) of the trade receivables that are neither past due nor impaired have the best credit history managed by the Group's marketing team.

Included in the Group's other receivables at 31 December 2009 are advance to minority shareholder of a subsidiary of HK$8,459,000 (2008: HK$2,280,000), a dividend receivable from a jointly controlled entity of HK$9,884,000 (2008: HK$49,719,000), deposits on purchase of materials for subsidiaries in the PRC of HK$82,916,000 (2008: HK$42,393,000) and bills receivable of HK$12,308,000 (2008: HK$12,165,000).

In addition, other receivables at 31 December 2009 included amounts due from China Aerospace International Holdings Limited ("CASIL") and its subsidiaries, of HK$15,291,000 (2008: HK$15,291,000). CASIL, a subsidiary of CASC, is a fellow subsidiary of the Company. The amounts are unsecured, non-interest bearing and repayable on demand.

23. AMOUNTS DUE FROM/TO ASSOCIATES

The amounts due from/to associates are unsecured, non-interest bearing and are repayable on demand.

Movement in the allowance for amounts due from associates:

	2009	**2008**
	HK$'000	*HK$'000*
Balance at beginning of the year	35,335	17,498
Recovery of fully impaired receivable from an associate	(11,952)	—
Impairment losses recognised in respect of amounts due from associates	—	17,837
Balance at end of the year	23,383	35,335

24. BANK BALANCES/PLEDGED BANK DEPOSITS

Bank balances/pledged bank deposits

Bank balances carry interest at prevailing market rates which range from 0.01% to 0.81% (2008: 0.36% to 1.17%) per annum.

The pledged bank deposits carry fixed interest rate of 0.36% (2008: 0.36%) per annum. The pledged bank deposits, amounting to HK$97,851,000 (2008: HK$41,599,000), have been pledged to secure certain bank facilities and are therefore classified as current asset. It will be released in March 2010 upon the settlement of the related borrowings.

25. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK$47,429,000 (2008: HK$40,108,000). The following is an aged analysis of trade payables based on invoice date at the end of reporting period:

	2009	**2008**
	HK$'000	*HK$'000*
Within 30 days	20,489	20,476
Between 31 - 90 days	14,419	5,924
Between 91 - 180 days	2,721	2,166
Between 181 - 365 days	2,317	1,933
Over 1 year	7,483	9,609
	47,429	40,108

Included in the Group's other payables at 31 December 2009 are accrual for construction work of HK$33,925,000 (2008: Nil), receipt in advance from customers of HK$43,513,000 (2008: HK$2,632,000) and interest payable of HK$14,246,000 (2008: HK$15,664,000).

In addition, other payables at 31 December 2009 included amounts due to CASIL and its subsidiaries of HK$4,407,000 (2008: HK$4,407,000). The amounts are unsecured, non-interest bearing and are repayable on demand.

26. BORROWINGS

	2009	2008
	HK$'000	*HK$'000*
Short term bank loan *(note a)*	285,000	45,600
Short term shareholder's loans *(note b)*	—	125,000
Long term bank loan *(note c)*	130,000	—
Long term shareholder's loans *(note d)*	767,790	486,210
Long term other loans *(note e)*	94,620	104,880
	1,277,410	761,690
Less: Amount due within one year under current liabilities	(285,000)	(170,600)
Amount due after one year	992,410	591,090
The maturity of the Group's borrowings is as follows:		
Within one year	285,000	170,600
Between two to five years	897,790	486,210
Over five years	94,620	104,880
	1,277,410	761,690

Note:

(a) The amount at 31 December 2009 represents unsecured bank loan of RMB250,000,000 (2008: Nil). The amount bears fixed-rate interest at 5.31% per annum.

The amount at 31 December 2008 represented secured bank loan of RMB40,000,000. The amount bore fixed-rate interest at 5.31% per annum and was fully repaid during the year.

(b) The amount at 31 December 2008 represented unsecured loans advanced from Astrotech of HK$35,000,000 and HK$90,000,000 which carried fixed-rate interest at 5.58% per annum and 6% per annum respectively. The loans were fully repaid during the year.

(c) The amount represents unsecured bank loan of HK$130,000,000 (2008: Nil). The amount bears floating-rate interest at Hong Kong Interbank Offered Rates ("HIBOR") plus 1.95% per annum and is repayable in full on 31 March 2012. The amount was early repaid in full before maturity subsequent to 31 December 2009.

(d) The amounts represent loans advanced from CALT through CASC's subsidiary, Aerospace Science and Technology Finance Co., Ltd. ("ASTF") as the trustee, with HK$281,580,000 or RMB247,000,000 additionally raised in the year, totalling HK$767,790,000 or RMB673,500,000 (2008: HK$486,210,000 or RMB426,500,000).

The amounts are unsecured, bears fixed-rate interest ranging from 3.7% to 6% per annum. Loans of HK$543,210,000 or RMB476,500,000 (2008: HK$486,210,000 or RMB426,500,000) and HK$224,580,000 or RMB197,000,000 (2008: Nil) are repayable in April 2011 and April 2014 respectively.

(e) The amount represents a loan of HK$94,620,000 or RMB83,000,000 (2008: HK$104,880,000 or RMB92,000,000) advanced from a minority shareholder of a subsidiary. The amount is unsecured, bears fixed-rate interest at 6.2% per annum and is repayable in full in November 2020. Principal in the amount of HK$10,260,000 or RMB9,000,000 was early repaid during the year.

27. DEFERRED TAXATION

The followings are the major deferred tax liabilities (assets) recognised by the Group.

	Accelerated tax depreciation	Technology license right	Revaluation of properties	Tax losses	Undistributed profits of subsidiaries	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2008	124	857	2,146	(981)	—	2,146
(Credit) charge to income statement	(26)	(808)	(570)	835	5,812	5,243
Effect of change in tax rate	(7)	(49)	—	56	—	—
At 31 December 2008	91	—	1,576	(90)	5,812	7,389
(Credit) charge to income statement	(91)	—	855	90	4,512	5,366
Settlement upon dividend received and credit to income statement	—	—	—	—	(2,729)	(2,729)
At 31 December 2009	—	—	2,431	—	7,595	10,026

At 31 December 2009, the Group has estimated unused tax losses of approximately HK$410,639,000 (2008: HK$346,826,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately HK$545,000 of such tax losses in 2008. No deferred tax asset has been recognised in respect of the remaining tax losses of approximately HK$410,639,000 (2008: HK$346,281,000) due to unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK$253,884,000 (2008: HK$221,055,000) that may be carried forward indefinitely. The remaining unrecognised tax losses will expire within five years.

At 31 December 2009, the Group has deductible temporary difference of HK$82,700,000 (2008: HK$75,328,000). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary difference can be utilised.

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred taxation of HK$7,595,000 (2008: HK$5,812,000) has been provided in respect of temporary differences attributable to those undistributed profits of the PRC subsidiaries. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to undistributed profits of the PRC subsidiaries amounting to HK$14,661,000 (2008: HK$14,100,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

28. SHARE CAPITAL

	Number of shares	Amount
		HK$'000
Ordinary shares of HK$0.10 each		
Authorised:		
At 1 January 2008, 31 December 2008 and 31 December 2009	10,000,000,000	1,000,000
Issued and fully paid:		
At 1 January 2008 and 31 December 2008	3,623,995,668	362,400
Placing and subscription of shares (Note)	345,000,000	34,500
At 31 December 2009	3,968,995,668	396,900

Note:

On 10 November 2009, the Company issued 345,000,000 shares of HK$0.10 each for cash under the placing of existing shares and top-up subscription of new shares at the price of HK$0.80 each. The management intended to use the net proceeds for developing wind energy projects, improving the capital structure of the Group as well as enhancing market capitalisation.

29. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 26 and equity attributable to owners of the Company, comprising issued share capital, reserves and accumulated losses.

The management of the Group reviews the capital structure regularly. The management considers the cost of capital and the risks associated with each class of capital, and will balance its overall capital structure.

30. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2009	2008
	HK$'000	*HK$'000*
Financial assets		
Loans and receivables (including cash and cash equivalents)	1,235,471	413,976
Financial liabilities		
Amortised cost	1,335,756	860,684

Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, amounts due from/to associates, pledged bank deposits, fixed bank deposits, bank balances and cash, trade and other payables and borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below.

The financial instruments are fundamental to the Group's daily operations. The management manages and monitors the exposures to ensure appropriate measures are implemented on a timely and effective manner. There has been no change to the Group's exposure to credit risk, liquidity risk and market risks or the manner in which it manages and measures the risk.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2009 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. In order to minimise the credit risk, the management of the Group has formulated a credit policy and delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade receivable regularly to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

As at 31 December 2009, there was an amount due from an associate of the Group, Beijing EWT-CASC Directwind Marketing and Sales Co., Ltd. of HK$207,728,000 (2008: Nil). The management considered the financial position and good creditability of the associate and believed that there is no significant credit risk on the receivable from the associate.

The credit risk for bank deposits is considered minimal as such amounts are placed in banks with high credit ratings.

Market Risk

Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to floating-rate borrowings (note 26 for details) and variable-rate bank balances (note 24 for details). The management continuously monitors interest rate fluctuation and will consider further hedging interest rate risk should the need arise.

The Group is also exposed to fair value interest rate risk in relation to fixed-rate borrowings (note 26 for details) and fixed-rate bank balances (notes 20 and 24 for details). The management monitors interest rate exposure and will consider repaying the fixed-rate bank borrowings when significant interest rate exposure is anticipated.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of HIBOR.

The Group's bank balances have exposure to cash flow interest rate risk due to the fluctuation of the prevailing deposit rate on bank balances. The directors of the Company consider the Group's exposure to interest rate risk on the short-term bank deposits is not significant as interest bearing bank balances and deposits are within short maturity period.

Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to interest rates for bank balances and interest bearing bank borrowings at the end of the reporting period and the stipulated changes taking place at the beginning of the year and held constant throughout the year.

If the interest rates on floating-rate bank balances and bank borrowings have been 50 basis points higher/lower and all other variables were held constant, the Group's post-tax profit would have increased/decreased by approximately HK$2,337,000 (2008:HK$966,000).

Currency risk

The Group has minimal currency exposures as the majority of transactions and balances were denominated in respective functional currencies of group entities. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposures should the need arise.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of banking facilities and ensures compliance with loan covenants.

The Group relies on borrowings from CALT as a significant source of liquidity. In the opinion of directors, adequate sources of funding are available to enable the Group to meet in full its financial obligations due for the foreseeable future and manage its liquidity position.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

Liquidity and interest risk tables

	Weighted average effective interest rate	On demand	Less than 1 month	1 - 3 months	3 months to 1 year	1 - 5 years	Over 5 years	Total undiscounted cash flows	Carrying amount
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2009									
Non-derivative financial liabilities									
Trade and other payables	—	4,407	10,850	21,892	7,961	11,380	—	56,490	56,490
Borrowings - fixed rate	5.18	—	—	—	295,089	763,665	262,078	1,320,832	1,147,410
Borrowings - floating rate	2.08	—	225	451	2,028	133,380	—	136,084	130,000
Amounts due to associates	—	1,856	—	—	—	—	—	1,856	1,856
		6,263	11,075	22,343	305,078	908,425	262,078	1,515,262	1,335,756
2008									
Non-derivative financial liabilities									
Trade and other payables	—	23,195	44,701	29,646	—	—	—	97,542	97,542
Borrowings - fixed rate	5.6	—	—	5,656	205,043	546,552	149,228	906,479	761,690
Amounts due to associates	—	1,452	—	—	—	—	—	1,452	1,452
		24,647	44,701	35,302	205,043	546,552	149,228	1,005,473	860,684

Fair values

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate to their fair values.

31. ACQUISITION OF SUBSIDIARIES

On 27 May 2008, the Group entered into an agreement with Shanghai STEP Electric Co. Ltd., an independent third party, for the acquisition of additional 20% interest of an associate, Jiangsu Wan Yuan for a cash consideration of approximately HK$11,970,000 (RMB10,500,000). Jiangsu Wan Yuan is principally engaged in the manufacturing of hi-tech rare-earth permanent magnet motors for elevator in Jiangsu Province and distribution in Beijing. The transaction was completed on 1 July 2008. Upon the completion of the acquisition, the Group was entitled to appoint up to four out of seven directors to the board of directors of Jiangsu Wan Yuan and obtained control over Jiangsu Wan Yuan. Accordingly, Jiangsu Wan Yuan was accounted for as a 49% owned subsidiary of the Company. Details of the acquisition were set out in the Company's circular dated 11 June 2008.

On 27 October 2008, the Group also entered into an agreement with Wan Yuan Science and Technology Corporation ("WY Science and Technology"), a wholly-owned subsidiary of CALT, for the acquisition of additional 15% interest of an associate, Aerospace Long Yuan (Benxi) Wind Power Co., Ltd. ("Liaoning Benxi") for a cash consideration of approximately HK$19,456,000 (RMB17,060,000). Liaoning Benxi is principally engaged in the maintenance and operation of wind energy plants and facilities in Benxi, the PRC. The transaction was completed on 1 December 2008. Upon the completion of the acquisition, Liaoning Benxi was accounted for as a 55% owned subsidiary of the Company. Details of the acquisition were set out in the Company's circular dated 14 November 2008.

The net assets acquired in the transactions, and the goodwill arising, are as follows:

	Jiangsu Wan Yuan	Liaoning Benxi	Total
	HK$'000	*HK$'000*	*HK$'000*
Net assets acquired:			
Property, plant and equipment	10,315	212,144	222,459
Inventories	29,222	3,763	32,985
Trade and other receivables	23,799	8,287	32,086
Bank balances and cash	1,311	1,078	2,389
Trade and other payables	(37,698)	(1,526)	(39,224)
Other borrowings	—	(107,160)	(107,160)
	26,949	116,586	143,535
Minority interests	(13,744)	(52,464)	(66,208)
Goodwill	6,580	1,968	8,548
	19,785	66,090	85,875
Satisfied by:			
Cash	8,379	—	8,379
Consideration payable (included in trade and other payables)	3,591	19,456	23,047
Transfer from interests in associates	7,815	46,634	54,449
	19,785	66,090	85,875
Net cash (outflow) inflow arising on acquisition:			
Cash consideration paid	(8,379)	—	(8,379)
Bank balances and cash	1,311	1,078	2,389
	(7,068)	1,078	(5,990)

For Jiangsu Wan Yuan, goodwill arose in the business combination because the cost of the combination included a premium paid to acquire Jiangsu Wan Yuan. The consideration paid for the combinations effectively included amounts in relation to the benefit of future market development and the assembled workforce of Jiangsu Wan Yuan.

For Liaoning Benxi, goodwill arose in the business combination because the cost of the combinations included a premium paid to acquire Liaoning Benxi. The consideration paid for the combinations effectively included amounts in relation to the benefit of expected synergies, revenue growth and future development of wind energy operations.

Jiangsu Wan Yuan contributed HK$3,007,000 to the Group's profit for the period between the date of acquisition and 31 December 2008.

If the acquisition had been completed on 1 January 2008, total Group's revenue for the year ended 31 December 2008 would have been HK$195,026,000, and loss for the year ended 31 December 2008 would have been HK$498,037,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2008, nor is it intended to be a projection of future results.

Liaoning Benxi contributed HK$4,448,000 to the Group's profit for the period between the date of acquisition and 31 December 2008.

If the acquisition had been completed on 1 January 2008, total Group's revenue for the year ended 31 December 2008 would have been HK$211,570,000, and loss for the year ended 31 December 2008 would have been HK$486,303,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2008, nor is it intended to be a projection of future results.

32. CAPITAL COMMITMENTS

(a) At 31 December 2009, the Group was committed to capital expenditure contracted but not provided for of approximately HK$63,060,000 (2008: HK$53,067,000) relating to its investments in sino-foreign enterprises of the Group. In addition, capital commitment contracted but not provided for relating to the Group's interest in a jointly controlled entity established in Inner Mongolia in the PRC amounts to HK$18,535,000 as at 31 December 2009 (2008: Nil).

(b) At 31 December 2008, the Group was committed to capital expenditure contracted but not provided for of approximately HK$40,014,000 with Beijing CASC Wanyuan Construction Project Corporation Ltd. ("WY Construction Project"), a fellow subsidiary with 80% interest held by China Academy of Launch Vehicle Technology ("CALT"), an intermediate holding company of the Company, in which WY Construction Project was engaged to provide construction works of plants, offices, warehouses of direct-drive wind turbine blade plant and direct-drive wind turbine general assembly plant in Inner Mongolia in the PRC.

33. MAJOR NON-CASH TRANSACTIONS

A deposit of HK$34,072,000 was included in deposit paid for the acquisition of property, plant and equipment as at 31 December 2008. The amount was used to acquire property, plant and equipment for the year ended 31 December 2009.

34. OPERATING LEASE COMMITMENTS

The Group as lessee

At the end of the reporting period, the Group had future minimum lease payments payable under non-cancellable operating leases in respect of land and buildings as set out below:

	2009	2008
	HK$'000	*HK$'000*
Within one year	4,176	6,415
In the second to fifth year inclusive	2,702	2,238
	6,878	8,653

Leases are generally negotiated for an average term of two years and rentals are fixed for the lease period.

The Group as lessor

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	2009	2008
	HK$'000	*HK$'000*
Within one year	1,292	1,292
In the second to fifth year inclusive	—	1,292
	1,292	2,584

35. RETIREMENT BENEFITS SCHEMES

The Group operates a Mandatory Provident Fund Scheme (the "Scheme") for all qualifying employees in Hong Kong. The assets of the Scheme are held separately from those of the Group in funds under the control of trustee. The Group contributes 5% of relevant payroll costs to the Scheme, which contribution is matched by employees.

The employees of the Company's PRC subsidiaries are members of the state-managed retirement benefits scheme operated by the PRC government. The Company's PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

The total cost charged to income of HK$4,967,000 (2008: HK$971,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

36. RELATED PARTY TRANSACTIONS/BALANCES

(a) During the year, the Group had the following significant transactions with related parties:

	2009	**2008**
	HK$'000	*HK$'000*
Sales of goods to associates	314,565	3,801
Interest paid to ASTF	36,413	28,314

Other than the above, the Group also has balances with related parties disclosed in notes 22, 23, 25 and 26.

(b) On 29 December 2009, Inner Mongolia CASC Energine Composite Material Co. Ltd. ("IM Composite Material"), a subsidiary with 56.41% equity interest owned by the Company, entered into a framework agreement with Inner Mongolia CASC Energine Wind Turbine Manufacture Co. Ltd. ("IM Wind Turbine Manufacture"), a subsidiary with 95% equity interest owned by the Company in relation to the supply of wind turbine blades for wind turbines for the three financial years ending 31 December 2011. Aerospace Research Institute of Materials & Processing Technology, which is a subsidiary of CALT, has a 41.03% equity interest in IM Composite Material. During the year, IM Composite Material sold 55 sets of wind blades to IM Wind Turbine Manufacture amounted to RMB40,425,000 (equivalent to approximately HK$46,085,000). Details of the transaction are set out in the Company's announcement dated 29 December 2009.

(c) Compensation of key management personnel

The remuneration of key management during the year was as follows:

	2009	**2008**
	HK$'000	*HK$'000*
Short-term benefits	5,204	5,705
Post-employment benefits	12	12
	5,216	5,717

The remuneration of key management is determined by the remuneration committee having regard to the performance of individuals and market trends.

(d) Transactions/balances with other state-controlled entities in the PRC

The Group operates in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC government ("state-controlled entities"). In addition, the Group itself is part of a larger group of companies under CASC which is controlled by the PRC government.

The Group conducts business with other state-controlled entities. The directors consider those state-controlled entities are independent third parties so far as the Group's business with them are concerned:

(i) The Group has certain deposits placements and other general banking facilities with certain banks, which are stated-controlled entities in its ordinary course of business. In view of the nature of those banking transactions, the directors are of the opinion that separate disclosure would not be meaningful.

(ii) The Group also has certain sales and purchases transactions with certain customers and suppliers in which the directors are of the opinion that it is impracticable to ascertain the identity of the counterparties and accordingly whether the transactions are with other state-controlled entities.

Except as disclosed above, the directors are of the opinion that the transactions with other state-controlled entities are not significant to the Group's operations.

(e) On 3 June 2009, the Group entered into an agreement with 北京長征天民高科技有限公司, a wholly-owned subsidiary of CALT, for the acquisition of additional 3% equity of a subsidiary, Jiangsu Aerospace Wan Yuan REPM Motor Co., Ltd. for a cash consideration of approximately HK$1,540,000. The transaction was completed on the same date.

(f) Included in borrowings at 31 December 2009 were four loans advanced from CALT through CASC's subsidiary, ASTF, as the trustee totalling HK$767,790,000 or RMB673,500,000 (2008: HK$486,210,000 or RMB426,500,000) which are unsecured and bear fixed-rate interest ranging from 3.7% to 6% per annum. Loans of HK$543,210,000 or RMB476,500,000 (2008: HK$486,210,000 or RMB426,500,000) and HK$224,580,000 or RMB197,000,000 (2008: Nil) are repayable in April 2011 and April 2014 respectively.

(g) Included in borrowings at 31 December 2008 were two loans from Astrotech, of HK$35,000,000 and HK$90,000,000 which carried fixed-rate interest at 5.58% per annum and 6% per annum respectively and were fully repaid during the year.

(h) Included in borrowings at 31 December 2009 was a loan of HK$94,620,000 or RMB83,000,000 (2008: HK$104,880,000 or RMB92,000,000) advanced from a minority shareholder of a subsidiary. The amount is unsecured, bears fixed-rate interest at 6.2% per annum and is repayable in full in November 2020.

37. EVENT AFTER THE REPORTING PERIOD

On 10 February 2010, the Company has entered into an agreement with Energya Wind Technologies B.V., an independent third party to purchase additional 40% equity interest in Beijing EWT-CASC Directwind Marketing and Sales Co. Ltd. ("Directwind Sales"), an 25% owned associate of the Company established in Beijing, the PRC, at a consideration of RMB1,600,000 (equivalent to HK$1,820,000). Directwind Sales is principally engaged in the sales of wind turbines. Upon the completion of acquisition, the Company will hold 65% equity interest in Directwind Sales.

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

Details of the principal subsidiaries, associates and jointly controlled entities of the Company at 31 December 2009 and 2008 are as follows:

Name of company	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity held by the Company		Percentage of equity attributable to the Group		Principal activities
		2009	2008	2009	2008	
		%	%	%	%	
Subsidiaries						
Incorporated and operating in Hong Kong:						
China Aerospace Telecommunications Limited	HK$10,000	—	—	100	100	Distribution of broadband business
CASTEL Intelligent Transportation System Limited	HK$11,600,000	—	—	100	70	Distribution of ITS business
China Aerospace Telecommunications (Hong Kong) Limited	HK$10,000	—	—	100	100	Distribution of broadband business
Hung Nien Electronics Limited	HK$30,001,000	—	—	100	100	Distribution of telecommunication products
Tin Shun Industrial Limited	HK$2	—	—	100	100	Investment holding
New Image Development Limited	HK$1	—	—	100	100	Investment holding

Name of company	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity held by the Company 2009 %	held by the Company 2008 %	attributable to the Group 2009 %	attributable to the Group 2008 %	Principal activities
Incorporated and operating in British Virgin Islands:						
Advanced Grade Holdings Limited	US$1	100	100	—	—	Investment holding
Crownplus International Limited	US$1	—	—	100	100	Investment holding
Registered and operating in the PRC:						
Beijing Qihua Communications Co., Ltd.#	US$1,239,000	—	—	78	55	GPS applications services
Beijing Energine Industry Co., Ltd.##	RMB118,251,000	—	—	100	100	Investment holding
Jiangsu Aerospace WanYuan REPM Motor Co., Ltd.#	RMB50,000,000	—	—	52	49	Manufacture and distribution of elevator products
航天航通科技(北京)有限公司##	RMB15,000,000	—	—	100	100	Distribution of broadband business
Aerospace Long Yuan (Benxi) Wind Power Co., Ltd.#	RMB93,800,000	—	—	55	55	Operation of wind farm
航天萬源商貿(深圳)有限公司## (previously known as "航天科技通信(深圳)有限公司")	HK$20,000,000	—	—	100	100	Distribution of broadband business
Inner Mongolia Energine New Energy Development Co. Ltd.##	RMB80,000,000	—	—	100	100	Manufacture and distribution of wind turbine generators
Inner Mongolia CASC Energine Wind Turbine Manufacture Co. Ltd.#	RMB50,000,000	—	—	95	95	Manufacture and distribution of wind turbines and blades
Inner Mongolia CASC Energine Composite Material Co. Ltd.#	RMB80,000,000	—	—	56	55	Manufacture of wind turbine blades
航天科技通信設備製造(深圳)有限公司##	RMB20,000,000	—	—	100	100	Manufacture and distribution of telecommunication products

Name of company	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity held by the Company 2009 %	Percentage of equity held by the Company 2008 %	Percentage of equity attributable to the Group 2009 %	Percentage of equity attributable to the Group 2008 %	Principal activities
Associates						
Registered and operating in the PRC:						
CASIL Telecommunications (Shenzhen) Co., Ltd.##	HK$13,000,000	—	—	33	33	Manufacture and distribution of telecommunication products
Jiangsu Longyuan Wind Power Co., Ltd.#	RMB333,320,000	—	—	25	25	Operation of wind farm
Jilin Longyuan Wind Power Corp. Ltd.###	RMB438,200,000	—	—	15	15	Operation of wind farm
Beijing EWT-CASC Directwind Marketing and Sales Co., Ltd.#	RMB10,000,000	25	25	—	—	Distribution of wind turbine products
深圳市航通智能交通有限公司	RMB20,000,000	—	—	25	25	Development of computer software and GPS
深圳市航天無線通信技術有限公司	RMB20,000,000	—	—	25	100	Manufacture and distribution of GPS product
Jointly controlled entities						
Registered and operating in the PRC:						
Beijing Delphi Wan Yuan Engine Management Systems Co., Ltd.#	US$16,000,000	—	—	49	49	Manufacture of automotive engine management systems and components
Beijing Wanyuan-Henniges Sealing Systems Co., Ltd.#	RMB100,000,000	—	—	40	40	Manufacture of automotive sealing systems
Nantong CASC Wanyuan Acciona Wind Turbine Manufacture Corporation Ltd.#	RMB100,000,000	—	—	45	45	Manufacture of wind turbine
內蒙古大唐萬源新能源有限公司#	RMB92,610,000	—	—	49	—	Operation of wind farm

Sino-foreign joint entity enterprise registered in the PRC.

Wholly foreign-owned enterprises registered in the PRC.

The Group is entitled to appoint up to two out of seven directors to the board of directors of this company. Hence, in the opinion of the directors of the Company, the Group has significant influence over the company. Accordingly, the company is accounted for as a 15% owned associate of the Group.

Except for the companies established in the PRC, the classes of shares held by the Group in the above companies are ordinary shares issued by those companies.

The above table lists the subsidiaries, associates and jointly controlled entities of the Company which, in the opinion of the directors, principally affected the results or assets or form a substantial portion of the net assets of the Group. To give details of other subsidiaries and associates would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities at the end of the reporting period.

3. INDEBTEDNESS

At the close of business on 28 February 2010, being the latest practicable date prior to the printing of this circular, the Enlarged Group had outstanding loans of approximately HK$768 million from shareholder of CALT, a loan of approximately HK$93 million from a minority shareholder of a subsidiary and a bank borrowing of HK$285 million.

Save as aforesaid and apart from intra-group liabilities and normal trade payables, the Enlarged Group did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities at the close of business on 28 February 2010.

Foreign currency amounts have been translated at the approximate exchange rates prevailing at the close of business on 28 February 2010.

The Directors are not aware of any material adverse change in the indebtedness, contingent liabilities and commitments of the Enlarged Group since 28 February 2010.

4. WORKING CAPITAL

On 10 February 2010, the Company and EWT entered into an equity transfer agreement, pursuant to which the Company agreed to purchase, and EWT agreed to sell, a 40% equity of Directwind Sales for a consideration of RMB1.60 million (HK$1.82 million) in cash. The cash consideration will be financed by the internal resources of the Group.

The Directors are of the opinion that after taking into account the present available banking facilities, the Enlarged Group has sufficient working capital for its present requirements in the absence of unforeseen circumstances.

5. MATERIAL ADVERSE CHANGE

The Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2009, the date to which the latest audited consolidated financial statements of the Group were made up.

6. MANAGEMENT DISCUSSION AND ANALYSIS OF THE PERFORMANCE OF THE GROUP

(1) For the year ended 31 December 2009

RESULTS SUMMARY

As of 31 December 2009, the Group's turnover for the year 2009 amounted to HK$663.37 million with a profit for the year of HK$70.80 million in contrast to those for the year 2008 of HK$184.21 million with a loss for the year of HK$495.93 million respectively. The turnover for the year comprised sale of wind energy related products of HK$314.57 million, sale of electricity generated from wind farm of HK$31.54 million, sale of chemical materials of HK$170.84 million, sale of rare-earth permanent-magnet motor products of HK$56.14 million and sales of HK$90.28 million related to telecommunication business whereas the turnover in 2008 comprised sale of chemical materials of HK$47.77 million, sale of electricity of HK$3.99 million, sale of rare-earth permanent-magnet motor products of HK$35.18 million and sales of HK$97.26 million related to telecommunication business. The profit for the year was mainly attributable to profit contribution of jointly controlled entities relating to automotive component business of HK$89.07 million.

BUSINESS REVIEW

Internal Management System

In 2009, the Group has enhanced the internal management system substantially in order to well prepare the Group to capture high capital return in the course of applying the abundant undeveloped wind resources in various regions of China, especially Inner Mongolia.

Group Financing

In November 2009, the Group completed a placing and top-up subscription of 345 million shares at the placing price of HK$0.8 per share. The net proceeds of HK$266 million was primarily used for developing wind energy projects, improving the capital structure of the Group as well as enhancing market capitalisation. As a result, the shareholding of the controlling shareholder, China Academy of Launch Vehicle Technology, was diluted from 73.1% to 66.75%.

Business of Wind Energy Project

Development of wind farm in Jiuquan, Gansu Province

In October 2009, Gansu Industries and Information Management Committee, Jiuquan City People's Government ("Jiuquan Government"), the Company and China Huadian New Energy Development Co. Ltd. ("Huadian New Energy") entered into a strategic framework agreement, which provides, inter alia, that Jiuquan Government of Gansu Province will plan to grant wind resource development rights as to 200,000KW in the "eleventh five" period and 200,000KW each year in the "twelfth five" period to Huadian New Energy for its development and construction of wind farm in Jiuquan area; Huadian New Energy will apply the 900KW and 2MW direct-wind turbines of the Group to develop the said wind farm.

The wind energy inherent resources in Gansu Province rank the fifth in the whole China, mainly concentrated in Jiuquan area. The wind energy intensity in Jiuquan area amounts to more than 30 million KW, of which more than 20 million KW can be utilized. The construction of wind farm of tens of million KW wind power represents an important demonstrative leading function of the development of wind energy industry in Gansu.

Four platforms of direct-drive wind turbine project under steady development

In 2009, according to the development strategy of the Group, the Group actively worked together with Emergya Wind Technologies B.V. ("EWT") with four platforms of "Research and Development, Manufacture, Testing and Service" under steady development.

Inner Mongolia Wind Turbine General Assembling Plant

Inner Mongolia CASC Energine Wind Turbine Manufacture Co. Ltd. (the "Wind Turbine General Assembling Plant"), a joint venture between Beijing Energine Industry Co. Ltd. ("BEI", a wholly-owned subsidiary of the Group) and EWT with shareholding of 95% and 5% respectively, is primarily engaged in component purchase, general assembling, installation and testing, and technical service of large to medium direct-drive wind turbines. Equipped with advanced technical equipment and sophisticated manufacturing technicians, it has an annual production capacity of 400 900KW direct-drive wind turbines and 200 2MW permanent-magnet direct-drive wind turbines.

The aerospace direct-drive wind turbines manufactured by Wind Turbine General Assembling Plant has the following technological advantages over traditional gearbox-driven wind turbines: high transmission efficiency, which increases power generation by about 5%; less time and costs used for equipment maintenance; favorably assists in breaking through the bottleneck in manufacturing of components, thereby speeding up development in manufacturing of wind turbines; and high start-up torque of direct-drive wind turbines, especially permanent-magnet direct-drive wind turbines, being in the future development direction for large-sized wind turbines.

A number of management policies were established in 2009 and the Wind Turbine General Assembling Plant operated smoothly in that procurements of components were improved and comprehensive quality control was carried out, including in-factory supervision and ex-factory acceptance, process inspection and delivery inspection, while delivery issues were resolved. Besides, domestic production progressed smoothly, 55 direct-drive wind turbines were successfully produced and sold for carrying out related tuning and testing, thereby making profit contribution.

Inner Mongolia Wind Turbine Blade Plant

Inner Mongolia CASC Energine Composite Material Co. Ltd. (the "Blade Plant"), a joint venture between BEI (as to 35.9% shareholding), New Image Development Ltd. (a wholly-owned subsidiary of the Group) (as to 20.5% shareholding), Aerospace Research Institute of Materials & Processing Technology and EWT is primarily engaged in research and development, design, production and service of large structural composite material products with an annual production capacity of 400 900KW direct-drive wind turbine blades and 200 2MW permanent-magnet direct-drive wind turbine blades.

During the production process, the Blade Plant uses an advanced vacuum infusion technology, which avoids drawbacks such as uneven water absorption, lamination and resin content during the complex formation and solidification of the composite materials and which rather makes use of simple crafts and allows a clean production environment that produces products of higher stability, facilitating batch production and mass production.

In 2009, the Blade Plant finished a series of work such as corporate system establishment, staff recruitment and production material preparation. Two sets of moulds were smoothly installed, tested and adjusted, thus achieving a production schedule of a blade a day. A total of 186 pieces of 900KW direct-drive wind turbine blades were produced. Smooth purchase of blade materials and steady progress in domestic production of materials contributed to reduced costs, consolidating the market competitiveness edge of the Group.

China Energine Wind Power Industrial Park

Inner Mongolia Energine New Energy Development Co. Ltd., a wholly-owned subsidiary of the Group, occupied a site of 500 acres as an operating platform for the Inner Mongolia wind turbine base. It has constructed plants, offices and warehouses for the Wind Turbine General Assembling Plant and the Blade Plant in the Inner Mongolia Wind Power Industrial Park and started to provide them with property leasing and management service.

Research and development of technology

Wind power technology research and development center is responsible for absorption and adaptation work as to technologies of 900KW direct-drive wind turbine. It has completed the design of low-temperature 900KW direct-drive wind turbine and coped with the production of the Wind Turbine General Assembling Plant. Meanwhile, the research and development center in its best endeavour commenced domestic production of core components. Localisation of domestic productions of blades and wind turbines have been completed. Localization of domestic production of control systems and inverters are being implemented now. For the purpose of future development, the current focused tasks also include the research, development and innovation of high-power permanent-magnet direct-drive wind turbines, and the technological research of offshore high-power wind turbines.

Sales of wind turbines

Beijing EWT-CASC Directwind Marketing and Sales Co. Ltd., a joint venture between the Company, EWT and Beijing Direct Energy Corp. with shareholding of 25%, 60% and 15% respectively, is engaged in domestic and global market development and sales of wind turbines produced from the Wind Turbine General Assembling Plant. In February 2010, the Company entered into an Equity Transfer Agreement with EWT, pursuant to which the Company will acquire 40% of the sales company from EWT for a consideration of HK$1.82 million. After the acquisition, the sales company will become a 65% subsidiary of the Company, consummating the Company's strategy of controlling all the entities in the supply-chain of the wind turbines sales and production business. With respect to the whole process in the sales and production of wind turbines and wind blades utilising of the advanced direct-drive technology of the EWT direct-drive wind turbines, this enables the Group to benefit from the whole of the supply-chain, instead of only accounting for the share of profit of the sales company in the supply-chain through equity accounting.

Trading of materials

Since October 2008, BEI started carrying on trading business on pure terephthalic acid ("PTA"). PTA is an important organic raw material refined from crude oil. It can be used to produce polyester products, including synthetic fiber such as polyester fiber, while the main material used for the production of wind turbine blades is a variety of polyester fiber.

Given the rapid development of the polyester application industry in China, there were huge demands for PTA in China. In 2009, this business realised sales of HK$171 million, representing a stable increase of HK$123 million compared to 2008. In 2010, this business will further expand by building on this foundation to explore new customers.

Nantong Acciona

Nantong Acciona suffered from the intense competition in the domestic wind turbine market and sluggish progress made on domestic production of wind turbine. In order to bail Nantong Acciona out, BEI and International Commercial E Industria S.A. ("ICI") (replacing Chook Bo Group as stated in September 2009) acquired from Acciona Energia Internacional S.A. ("Acciona") its entire 45% interest (5% and 40% by BEI and ICI respectively) in Nantong Acciona in December 2009 at a consideration of 45% of the net asset value of Nantong Acciona as at 30 June 2009. As a result, BEI had to pay RMB2.766 million to increase its interest in Nantong Acciona from 45% to 50% for joint control of Nantong Acciona with ICI. Acciona bought all the inventory and dedicated equipment other than those required by the after-sale service at their book value and provided technical support to the sold wind turbines. Upon acquisition, the Group will be engaged in independent research and development of self-developed wind turbines, especially those high-power direct-drive wind turbines, in utilizing the comprehensive hardware facilities of Nantong Acciona and concentration of plants in Nantong, expecting Nantong Acciona will develop into a manufacture base of Energine wind turbines in Jiangsu province in the future.

Wind Farm Operations

Liaoning Benxi

The Aerospace Long Yuan (Benxi) wind farm project, controlled and operated by the Group, is installed with 29 sets of 850KW wind turbines with a capacity of 24,650KW in total.

An electricity level of 55.07 million kwh was realized during 2009, increased by 0.03 million kwh over last year. On-grid power generation amounted to 53.06 million kwh with realized income from principal activity of HK$31.54 million, increased by HK$0.19 million over last year, realizing a profit amounting to HK$14.87 million.

Jilin Longyuan

Jilin Tongyu wind farm, invested and constructed by the Group, is installed with 236 sets of 850KW wind turbines with a capacity of 200,000KW.

An electricity level of 344.51 million kwh was realized during 2009, increased by 29.51 million kwh over last year. On-grid power generation amounted to 207.21 million kwh with realized income from principal activity of HK$181.41 million, increased by HK$10.97 million over last year, realizing a profit amounting to HK$74.78 million.

Jiangsu Longyuan

The Jiangsu Yudong wind power field project, invested and constructed by the Group, is installed with 100 1.5MW wind turbines with a capacity of 150,000KW.

An electricity level of 344.37 million kwh was realized during 2009, decreased by 4.64 million kwh over last year. On-grid power generation amounted to 337.17 million kwh with realized income from principal activity of HK$184.96 million, decreased by HK$2.40 million over last year, realizing a profit amounting to HK$71.10 million.

Inner Mongolia Xinghe Energine Wind Farm

The total investment of the Inner Mongolia Xinghe Energine wind farm project, which is under investment and construction, amounts to HK$528 million with an installed capacity of 49,500KW. The first 55 900KW direct-drive wind turbines, which were installed in 2009, not only provide circumstances for technological upgrade of 900KW direct-drive wind turbines, but also a testing base for research and development of 2MW direct-drive wind turbines.

In May 2009, BEI and China Datong Corporation Renewable Power Co., Ltd. entered into a joint venture agreement to establish a jointly controlled entity, Inner Mongolia Datang Wanyuan New Energy Co. Ltd. (內蒙古大唐萬源新能源有限公司), with shareholding of 49% and 51% respectively. Its registered capital was HK$105.58 million, of which HK$51.73 million was to be contributed by BEI. It had completed its company registration. Its tenders in relation to major equipment, construction and supervision had completed and construction works had also completed. At the beginning of 2010, wind turbine installation and testing and on-grid power generation were carried out.

Business of New Materials

It is the plan of the Group to extensively use rare-earth materials in four areas: high-power rare-earth permanent-magnet synchronous generator and variable-flow drive system applied in wind turbines, rare-earth permanent-magnet gearless traction machines for elevators, special rare-earth permanent-magnet motor for dual military plus civil application and its drive system and permanent-magnet direct-drive electrical products.

Jiangsu Aerospace Wan Yuan REPM Motor Co., Ltd., controlled and operated by the Group, is a high-tech enterprise which specializes in research and development, manufacture, and sales of rare-earth permanent-magnet gearless traction machines for elevators, with a registered capital of HK$57 million. The "航天萬源" branded rare-earth permanent-magnet gearless traction machines for elevators, and its driving control system, whose independent research and development had filled up the technological gap of the domestic gearless elevator sector, realized external sales of HK$55.62 million in 2009.

As the company responsible for the oversea market of rare-earth permanent-magnet motor products, Tin Shun Industrial Ltd. (a wholly-owned subsidiary of the Group, "Tin Shun") aggressively expanded its oversea market with continuously strengthening product promotion.

In November 2009, Tin Shun entered into a joint venture contract with Wuxi New Great Power Electromotor Co., Ltd. to establish Wuxi CASC Energine Xindali Electricity Co. Ltd. as a subsidiary as to 62.5% and 37.5% shareholding by the parties respectively, with registered capital of HK$91.20 million, of which Tin Shun contributed HK$57 million. The total investment amount was HK$187 million and the subsidiary will be engaged in development and production of generators, rare-earth permanent-magnet motors and their drive systems customised for application in MW direct-drive wind turbines, with the purpose of self-producing custom-made generators for application in the 900KW and 2MW wind turbines manufactured by Wind Turbine General Assembly Plant, thereby exercising product cost control through reduction in reliance on upstream suppliers in the wind turbine supply-chain.

Business of Automotive Component Parts

Automotive engine management systems

Beijing Delphi Wan Yuan Engine Management Systems Co., Ltd, a jointly controlled entity, is a leading provider in the domestic automotive electronic fuel injection market with a stable market share, ranking the second nationwide. Its products are sold to automobile manufacturers in Europe and North America and supplied to almost all of the domestic leading automobile manufacturers.

As a result of the PRC government's implementation of the auto industry rejuvenation plan in 2009, the company's development of new models and some Euro 4-compliance old models for various customers as well as an increasing number of orders from new customers procured in recent years, the jointly controlled entity recorded better-than-budgeted sales revenue of HK$2,066.43 million with realized profit of HK$247.08 million in 2009. The company will further speed up its development on new models and ensure prompt production to boost sales, whilst committing to enhance collection of accounts receivable to maintain a healthy cash flow and further reducing its costs to keep its profit ratio.

Automotive sealing systems

Beijing Wanyuan-Henniges Sealing Systems Co., Ltd., a jointly controlled entity, is a company which specializes in manufacture of medium-to-high class automotive sealing products in the domestic market. Its quality control converges with those of international advanced level. The jointly controlled entity not only realizes the development on and complement to the medium-to-high class model in the domestic market, but also attain the standards applicable to Germany, France, the United States, Japan and South Korea with its products.

The jointly controlled entity recorded better-than-budgeted sales revenue of HK$343.67 million with realized profit of HK$12.65 million in 2009. The company will continuously take measures to enhance production efficiency by controlling its purchasing cost for materials, integrating logistics management, reducing its reject rate and keeping its expenses down and through technological innovation, Toyota Production System ("TPS") and Value Analysis/Value Engineering ("VAVE") in order to consistently realize profit.

Telecommunication Business

The telecommunication products of the Group fully cover various categories such as GPS mobile terminals, intelligent transport, wireless communication, television conference and image transmission, GPS automotive information service platform, bone-conduction hearing aid telephone products. The Group has become a provider of professional electronic equipment, communication products and system integration with extensive influence in the domestic market.

PROSPECTS

In looking forward, the Group will continue to actively build up its core component production system and accelerate the progress of domestic production of wind turbines. By exploiting wind resources of good quality both onshore and offshore, the Group will step on in pursuit of co-operation opportunities with other large power generation groups, and improve the batch production of rare-earth permanent-magnet motors. It will also appropriately arrange financing for the Group and take steps to strengthen its internal management, in order to ensure the sustainable development of the Group with greater return to its shareholders.

HUMAN RESOURCES AND REMUNERATION POLICY

As at 31 December 2009, the Group had 49 employees (2008: 43 employees) in the Hong Kong head office and 752 employees (2008: 417 employees) in the Mainland China offices. Remuneration of employee is determined according to individual employee's performance and the prevailing trends in different areas and reviewed on an annual basis. The Group also provides Mandatory Provident Fund and medical insurance to its employees. In addition, discretionary performance bonus is available at the discretion of the Directors.

FINANCIAL REVIEW

Liquidity and Financial Resources

Total borrowings of the Group as at 31 December 2009 were HK$1,277,410,000 (2008: HK$761,690,000), of which HK$130,000,000 (2008: Nil) was floating-rate borrowings and the remaining was fixed-rate. All borrowings of the Group were determined at market interest rate. The Group has not issued any financial instruments for hedging or other purposes.

Please refer to note 26 to the Consolidated Financial Statements included in Section 2 of this Appendix I for the details of the borrowings as of 31 December 2009.

Gearing ratio (total borrowings over shareholders' equity) as at 31 December 2009 was 83% (2008: 64%).

Pledge of Assets

As at 31 December 2009, certain assets of the Group of HK$97,851,000 (2008: HK$95,010,000) have been pledged to secure bank facility.

Capital Risk Management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior years.

The capital structure of the Group consists of debt, which includes the borrowings as disclosed herein and equity attributable to owners of the Company, comprising issued share capital, reserves and accumulated losses.

The management of the Group reviews the capital structure regularly. The management considers the cost of capital and the risks associated with each class of capital, and will balance its overall capital structure.

Exchange and Other Exposures

Most of the Group's business transactions were conducted in Renminbi. The Group expected that the exposure to exchange rates fluctuation was not significant and therefore has not engaged in any hedging activities.

The Group did not have any contingent liabilities as at 31 December 2009.

(2) For the year ended 31 December 2008

RESULTS SUMMARY

As of 31 December 2008, the Group's turnover for the year 2008 amounted to HK$184.21 million with a loss of HK$495.93 million in contrast to those for the year 2007 of HK$178.76 million with a loss of HK$572.03 million respectively. The turnover for the year comprised that related to telecommunications of HK$97.26 million, sales of wind energy related products of HK$47.77 million, sales of rare-earth permanent magnetic motor products of HK$35.18 million and sales of electricity of HK$3.99 million whereas that of 2007 wholly related to telecommunications, reflecting the Group's diversification of businesses. The loss for the year was primarily attributable to total impairment loss of HK$424.17 million on interests in jointly controlled entities mainly comprising the goodwill of HK$385.18 million included in the interest in Nantong CASC Wanyuan Acciona Wind Turbine Manufacture Corp. Ltd. ("Nantong Acciona"), and interests on loans regarding finances on wind energy projects of HK$34.07 million, allowances related to telecommunications business totaling HK$42.02 million comprising that for due from associates of HK$17.84 million, obsolete inventories of HK$12.74 million and doubtful debts of HK$11.44 million albeit shares of profits from businesses of automotive component parts amounting to HK$47.12 million and of wind energy projects amounting to HK$34.38 million.

BUSINESS REVIEW

Restructuring of the Group

The Company changed its name to China Energine International (Holdings) Ltd. from CASIL Telecommunications Holdings Ltd. on 15 May 2008, marking the milestone in stepping into a new era with diversification of business to businesses in respect of wind energy, new material application, automotive component parts and telecommunications. The new name with the word "Energine" therein signifies energy plus engine and energized engine with the close association with aerospace science and technology. In this connection, the Company published its new logo on the announcement thereon, conveying a new brand image blending windmill, energy, cooperation and from engine to new energy with attribute of environment conservation.

In this direction, Beijing Energine Industry Co. Ltd. ("BEI"), a wholly-owned subsidiary of the Group, acquired an additional 20% registered capital in Jiangsu Aerospace Wanyuan REPM Motor Co. Ltd. (formerly Hangzhou Aerospace Wan Yuan REPM Motor Application Co. Ltd.), turning the company into a subsidiary of 49% shareholding such that the company's business of development of prominent effective energy-saving rare-earth permanent magnetic motor project, which is not only an energy-saving project but also a new material application project, became one of the main businesses of the Group from July 2008. Further, BEI acquired an additional 15% registered capital in Aerospace Long Yuan (Benxi) Wind Power Co. Ltd., turning the company into a subsidiary of 55% shareholding such that the company's business of production and sales of electricity became another main business of the Group from December 2008. For details of the acquisitions, please refer to the Company's circulars of 11 June 2008 and 14 November 2008 respectively.

Business of Wind Energy Project

Further development on wind energy projects

In grasping the precious opportunity arising from the state policy propositioning on development of wind energy projects in China and leveraging the bright prospect of tremendous demand of energy whose production is hence required to be renewable and of environment conservation in the course of continuing economic growth of China in creating long-term income streams, the Group has set up an Inner Mongolia windmill general assembling plant company, an Inner Mongolia blade plant company, and a distribution company and is to set up an after-sales service company 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 including Emergya Wind Technologies B.V. ("EWT") from Netherlands, Beijing Direct Energy Corp. ("BDE") and Aerospace Research Institute of Materials & Processing Technology ("Aerospace Materials").

EWT is a Netherlands' company incorporated in February 2004 that 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. BDE 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 windmills. Aerospace Materials which is a wholly-owned subsidiary of CALT, hence a fellow subsidiary of the Group, is the leading research centre engaging research on aerospace material application and processing as well as fibers, fabric and composite material, with possession of material and art testing workshop and research centre of national class level.

Inner Mongolia Windmill General Assembly Plant

Inner Mongolia CASC Energine Directwind Turbine Manufacture Co. Ltd. ("IM Turbine Manufacture") is a joint venture between BEI and EWT with shareholding of 95% and 5% respectively, 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 under the joint venture agreement of 29 May 2008. It was planned that the capacity of the annual production of the plant with area of about 150 hectares in one of the richest wind resources territories, Xinghe County, Wulanchabu City, Inner Mongolia will reach 400 sets of 900KW direct-wind windmill turbines and 200 sets of 2 MW direct-drive windmill turbines. The registered capital and total investment of this company amount to RMB50 million and RMB100 million respectively. The Group's share of capital contribution amounts to RMB47.5 million. The subsidiary was established in September 2008. Thereafter, it proceeded the pre-production work in preparation for the commencement of production and sales in 2009.

Inner Mongolia Windmill Blade Plant

Inner Mongolia CASC Energine Composite Material Co. Ltd. ("IM Composite Material") is a joint venture between the Group (BEI's 35% and New Image Development Ltd.'s 20%), Aerospace

Material and EWT with shareholding of 55%, 40%, and 5% respectively, engaged in the businesses of production of tailored-made blades for IM Turbine Manufacture and other windmill manufacturers and of undergoing research and developments and quality recognition of blades with the technology research and development center under the joint venture agreement of 1 December 2008. It was planned that the capacity of the annual production of the plant with area of about 180 hectares to be established in one of the richest wind resources territories (adjacent to windmill general assembly plant), 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 registered capital and total investment of this company amount to RMB80 million and RMB100 million respectively. The Group's share of capital contribution amounts to RMB44 million.

Inner Mongolia Windmill Property Park Development Company

Inner Mongolia CASC Energine New Energy Development Co. Ltd., the wholly-owned subsidiary of the Group, engaged in development of Inner Mongolia windmill property park, has commenced the construction works of plants, offices, warehouses of direct-drive windmill composite material plant and direct-drive windmill turbine plant regarding the said park in relation to rendering of the property management service to IM Turbine Manufacture and IM Composite Material.

Research and development of technology

Wind energy research and development center is to handle the technical issues on local mass production of direct-drive windmills as to 750 to 1,000KW and core parts such as techniques on windmill general assembling, blade and generator as well as issues on local production in China.

Sales of windmills

Beijing EWT-CASC Direct Wind Marketing and Sales Co. Ltd. is a joint venture associate between the Company and EWT and BDE with their respective shareholding of 25%, 60% and 15%, engaged in business of market exploitation and distribution of windmills produced from windmill general assembling subsidiary domestically and globally and coordination of sales support services to be provided by direct wind service company. The registered capital and total investment as to this company amount to RMB10 million and RMB14 million respectively. The Company's share of capital contribution amounts to RMB2.5 million. The associate was established in August 2008 and started its business thereafter in preparation of sales made in 2009.

Nantong Acciona

Nantong Acciona (established in June 2005 between BEI, Acciona Energina Internacional S.A. ("Acciona") and International Commercial E. Industria with their respective shareholding of 45%, 45% and 10%) commenced its production of 1.5MW wind turbine from June 2006. In 2008, it manufactured and delivered 68 wind turbines, contributing share of profit before amortisation of intangible asset of HK$1.79 million.

The Group acquired 100% interest in BEI which held 45% equity of Nantong Acciona on 16 October 2007, in which time the global wind turbine market was in the phase of demand well exceeding supply such that the sale orders made to Nantong Acciona were plentiful in such peak season of production with very promising future. In light of this, the attributable value of HK$448.10 million relating to Nantong Acciona out of the final consideration value of HK$2.044 billion (where the 2.2 billion consideration shares were valued at market price of HK$0.87 each at the acquisition date in applying HKFRS 3 Business Combinations) was arrived at based on their then estimated future cash flows as opposed to the claimed attributable value of HK$44.93 million incorporated in the original HK$900 million consideration (where the consideration share was agreed at HK$0.35) at the time of entering into the acquisition in February 2007. This gave rise of variance of fair value attributable to Nantong Acciona amounting to HK$403.17 million in terms of goodwill.

Yet from mid 2008, mass production of domestic wind turbines of MW class in meeting the market demand began, changing the scenario of demand exceeding supply. Despite the quality of certain domestic wind turbines yet to be stable, they started to be the mainstream wind turbines thanks to their low selling prices. Due to the demanding technical conditions of the main components of the Nantong Acciona's wind turbines, the process of localization of their production was sluggish and the main components were still required to be imported from Europe, leading to the high cost and persistent high price as opposed to those of domestic wind turbines, resulting in reduction of competitiveness albeit of assured high quality.

The three joint venture parties underwent several discussions on handling the issues of accelerating the speed of localisation of supply of components and procuring sales by lowering selling price, but with no solutions thereof derived. Currently, the three joint venture parties are continuing discussions. The Group has consideration of selling of its equity in effort to reduce loss.

Wind Field Operations

Jilin Longyuan

Jilin Longyuan had sold electricity generated of 320 million kwh from 235 windmills installed with the total capacity of 200.6 MW in Tongyu County, giving the share of profit amounting to HK$13.27 million. There were additions of 59 windmills installed during the year, bringing the capacity to 200.6 MW from its original 100.3 MW.

Jiangsu Longyuan

Following further investment of RMB30.43 million to Jiangsu Longyuan for development of Phase II of the project with capacity 50 MW, the project company installed 100 1.5MW windmills with capacity of 150 MW in total, becoming the first and biggest windmill field of megawatt level in PRC known as Yudong wind power field with 3 sub-fields, namely, Huangang wind power field, Dongling wind power field and Lingyang wind power field. By selling 342 million kwh through that capacity, the company had achieved revenue of HK$187.36 million, contributing the share of profit of HK$17.26 million.

Liaoning Benxi

Liaoning Benxi had a capacity 24.65 MW wind power field and achieved sales of electricity of 53 million kwh, contributing share of profits of HK$3.85 million for the eleven months to November

2008. This company became our Group's subsidiary from 1 December 2008, making the first move in turning wind power generation as one of our main businesses, bringing the first HK$3.99 million revenue and HK$4.49 million profit in December 2008 to the Group.

50MW testing wind field

The testing wind field part of Wind Energy Project will comprise an associate to be engaged in generation of electricity from 55 windmills of 900KW being installed in a windmill electricity generation field of total capacity of 49.5MW in Xinghe County, Inner Mongolia in provision of electricity to the public at large at more than 110 million kwh per annum in northern China. Currently, all of the approvals issued by state authorities were obtained; and the strategic investors are being sought.

Business of New Materials

Jiangsu REPM (formerly Hangzhou REPM) became the Group's subsidiary on 1 July 2008 when the Group took effective control thereon in wake of entering into an equity assignment contract with Shanghai STEP Electric Co. Ltd. ("Shanghai Electric") on 27 May 2008 whereby BEI acquired a 20% registered capital of Jiangsu REPM from Shanghai Electric at consideration of RMB10.5 million so as to take effective control of the board of Jiangsu REPM through its new shareholding of 49%. During the year, the company achieved revenue of HK$46.01 million and made a profit of HK$0.91 million ie successful in turning this company to profit making from loss incurring since taking up of the operation of the subsidiary in Liyang County, Jiangsu.

Business of Automotive Component Parts

The jointly controlled entities, Beijing Delphi and Wanyuan Henniges (formerly Wanyuan GDX) performed well as expected, contributing share of profits before amortisation of intangible asset amounting to HK$64.40 million in total. In tackling the automotive petrol price rise and high-emission car acquisition tax and the decrease in automotive manufacturing leading to sales decrease, Beijing Delphi further reinforces its capacity of design and of engineering research and development so as to maintain its market competitiveness and its cost control in maintaining profitability in maintaining the sales levels to its customers including Shanghai GM, and Brilliance. Wanyuan Henniges has always been positioning as the leading distinguished supplier supplying sealing systems to key customers of medium to high end sedan market such as FAW-VW, Shanghai VW and Shanghai GM with leading edge of engineering techniques, realizing various tailored-made sealing systems to them in facing the said issues of automotive industry.

Telecommunication Business

The Group continued the sales of communication equipment of high capacity to price value and those rendering the application services of global positioning system to our customers with good after-sales service. Having said that, the telecommunication business under the circumstances of financial tsunami is facing keen competition in the market, reducing the competitive edge gradually, leading to making various allowances.

PROSPECTS

The global financial tsunami as triggered by the sub-prime loan crisis in U.S. has brought the Group lower pace of growth in light of decrease in the overall demands decrease, price rise of raw materials, rise of labour wages and appreciation of RMB, reducing the profitability of enterprises in general. Nevertheless, the group's diversification strategy does render the Group a cornerstone in standing against such wave. As such, the Group is to speed up the process of development of the wind energy projects as well as energy-saving and new material project in terms of rare-earth magnetic motor application in the year 2009.

Other developments

In the meantime, the Group is also exploring other opportunities in the diversified businesses for our Group's further development thereon.

HUMAN RESOURCES AND REMUNERATION POLICY

As at 31 December 2008, the Group had 43 employees (2007: 43 employees) in the Hong Kong head office and 417 employees (2007: 362 employees) in the Mainland China offices. Remuneration of employee is determined according to individual employee's performance and the prevailing trends in different areas and reviewed on an annual basis. The Group also provides Mandatory Provident Fund and medical insurance to its employees. In addition, discretionary performance bonus is available at the discretion of the Directors.

FINANCIAL REVIEW

Liquidity and Financial Resources

Total borrowings of the Group as at 31 December 2008 were HK$761,690,000 (2007: HK$583,005,000), which were fixed rate borrowings. All borrowings of the Group were determined at market interest rate. The Group has not issued any financial instruments for hedging or other purposes.

Please refer to note 26 to the Consolidated Financial Statements included in Section 2 of this Appendix I for the details of the borrowings as of 31 December 2008.

Gearing ratio (total borrowings over shareholders' equity) as at 31 December 2008 was 64% (2007: 37%).

Pledge of Assets

As at 31 December 2008, certain assets of the Group of HK$95,010,000 (2007: HK$1,400,000) have been pledged to secure bank facility.

Exchange and Other Exposures

Most of the Group's business transactions were conducted in Renminbi. The Group expected that the exposure to exchange rates fluctuation was not significant and therefore has not engaged in any hedging activities.

Capital Risk Management

Please refer to the above corresponding paragraph of the year 2009 relating to policy on the capital risk management which remains unchanged for the 3 years to 31 December 2009.

The Group did not have any contingent liabilities as at 31 December 2008.

(3) For the year ended 31 December 2007

RESULTS SUMMARY

As of 31 December 2007, the Group¡¦s turnover for the year 2007 amounted to HK$178.8 million with a loss of HK$572.0 million in contrast to those for the year 2006 of HK$156.2 million and HK$65.2 million respectively. The loss for the year was primarily attributable to impairment losses recognised in respect of interest in an associate and jointly controlled entities arising on acquisition of Advanced Grade Holdings Ltd. ("Advanced Grade" amounting to HK$484.0 million and various allowances relating to the telecommunication business made. The impairment loss recognised represented the difference of carrying amounts of an associate and jointly controlled entities and their recoverable amounts. In applying HKFRS 3 Business Combinations, the basis for computing the fair value of 2.2 billion consideration shares be the market price of the shares at the acquisition date of HK$0.87 albeit the value of HK$0.35 as agreed during the course of negotiation. This gave rise of variance of fair value of net assets acquired amounting to HK$1.16 billion in terms of goodwill which is subject to impairment test annually though. The HK$484.0 million impairment was in effect an adjustment of the portion of fair value of the business acquired attributable to the rise of share price as aforesaid in the context. The allowances made included allowances for doubtful debts of HK$26.3 million and for aged inventory of HK$38.7 million.

BUSINESS REVIEW AND PROSPECTS

In continuing the sales of communication equipment, and the application services of Global Positioning System for 2007, the Group was pursuing the acquisition of different businesses with the aim of exploring diversified operations and diversified earning sources for its future development in the years ahead. On 15 February 2007 and 27 March 2007, the Group entered into agreements whereby the Group was to acquire from CALT businesses comprising three segments, namely, the automotive component parts, rare-earth permanent magnetic motor business and alternate energy through acquisition of Advanced Grade and its wholly-owned subsidiary, Beijing Wan Yuan Industry Corporation ("Wan Yuan Industry") at a purchase consideration of HK$900 million which was satisfied by cash of HK$130 million and allotment and issue of 2.2 billion consideration shares at HK$0.35 per share. Wan Yuan Industry holds a 49% equity interest in Beijing Delphi Wan Yuan Engine Management Systems Co., Ltd. ("Beijing Delphi"), a 40% equity interest in Beijing Wanyuan GDX

Automotive Sealing Products Co. Ltd. (“Wanyuan GDX”), a 29% equity interest in Hangzhou Aerospace Wan Yuan REPM Motor Application Technology Co., Ltd. (“Hangzhou REPM”), a 45% equity interest in Nantong CASC Wanyuan Accoina Wind Turbine Manufacture Corp. Ltd. (“ Nantong Accoina”) and a 45% equity interest in Beijing CASC Wanyuan Accoina Renewable Energy Corp. Ltd. (“Beijing Accoina”) (the entities engaging the acquired businesses). The said cash consideration was raised by an open offer in issuing 406,855,905 offer shares at a price of HK$0.35 per offer share on the basis of 4 offer shares for every 10 existing shares in issue on 18 September 2007.

The business of automotive component parts

The automotive component parts comprise a wide range of components of automobiles such as brakes, clutch, fuel tank, muffler and tires. The automotive engine management systems and components manufactured by Beijing Delphi and the car body sealing system, vessel sealing system and accessories manufactured by Wanyuan GDX are also classified as automotive component parts.

Beijing Delphi is principally engaged in the manufacture and sale of automotive engine management systems and components for mini-vehicles and vehicles. Beijing Delphi has captured a market share of one fifth of the domestic market of passenger vehicle engine management systems. The customers of Beijing Delphi are primarily domestic automobile manufacturers in the PRC, two of which were ranked among the top ten PRC automobile manufacturers in 2006 by the China Association of Automobile Manufacturers. Delphi is also the second largest automotive parts suppliers in the world.

Wanyuan GDX is principally engaged in the manufacture and sale of car body sealing system, vessel sealing system and accessories. Its car body sealing systems, which target the medium to high end sedan market, have been widely adopted by the major automobile manufacturers in the PRC in a wide range of brands such as Volkswagen, General Motors, Audi, Toyota, BMW, Mazda, Peugeot, Citrogen and other domestic brands such as 紅旗. Six customers of Wanyuan GDX were ranked among the top ten PRC automobile manufacturers in 2006 by the China Association of Automobile Manufacturers. Wanyuan GDX was also awarded, among others, by FAW-VW Automobile Co., Ltd. (一汽大), FAW Car Co., Ltd.(一汽轎車) and China FAW Group Corporation (一汽集團) as one of the “Ten Best Suppliers” in 2005 and by Shanghai Volkswagen as “Distinguished Supplier”.

The business of rare-earth permanent magnetic motors

Rare earth of contemporary science and technology, when added to materials, either improves the quality of the materials, or creates totally new materials. The rare-earth permanent magnetic motors manufactured by Hangzhou REPM are considered innovative products to the market and the business is at its incubation stage with many rooms of growth. With their weight and size generally of more than 50% lighter and smaller than those of conventional motors, rare-earth permanent magnetic motors offer high performance in terms of high precision, low noise, high stability and heavy load as well as their significant energy saving. Yet their prices are of that level comparable to those of the conventional motors such that rare-earth-permanent magnetic motors will have the potential to tap into the conventional motors market.

The business of alternate energy

The market of alternate energy in the PRC was boosted by the new Renewable Energy Law coming into force on 1 January 2006, which was promulgated with a view to (i) promoting the development and utilization of renewable energy (including non-fossil energy of wind energy, solar energy, water energy, biomass energy, geothermal energy, and ocean energy), (ii) improving the energy structure, (iii) diversifying energy supplies, (iv) safeguarding energy security, (v) protecting the environment, and (vi) realizing the sustainable development of the economy and society. The Law covers areas such as (i) economic incentives and supervisory measures, (ii) price management and fee sharing, and (iii) industry guidance and technology support.

The acquisitions were made on 16 October 2007 when the Group took over control of Advanced Grade and the acquired businesses started to make profit contribution to the Group therefrom.

The details of the acquisitions are set out in a circular thereon of 1 June 2007 and a prospectus on open offer of 406,855,905 offer shares in relation thereto of 20 September 2007. After the acquisitions, the Group is to further develop these businesses intensively for bringing better future on the foundation of the businesses acquired. The first move in this regard is to set up a production base in Liyang County, Changzhou City, Jiangsu for production and distribution of rare-earth permanent motors of medium to small size in the strategic location of the county with ready availability of materials and labour.

Telecommunication business

In keeping the Group’ s edge on provision of communication equipment of high capability to price value, the Group maintains the sales made to our customers including telecommunication operators, government authorities and system engineering companies and other public organizations.

Wind energy projects

The wind energy projects of Jiangsu Longyuan project and Jilin Longyuan project in building, maintenance and operation of wind energy plants and facilities have started to generate profit contributions during the year whereas the Liaoning Benxi project completed its final phase of implementation in the first half of the year and has since started to generate revenue in preparation for making profit contribution.

Further, in penetrating these investments of conservation of environment, Crownplus International Ltd. (“Crownplus”), a wholly-owned subsidiary of the Company, on 21 January 2008, entered into agreement with the original joint-venture parties of Jiangsu Longyuan project to develop the Phase II thereof whose details are as follows:

Operation period	:	25 years
Production capacity	:	49.5 megawatt
Total investment	:	RMB486,850,000
Total registered capital	:	RMB121,710,000 (Crownplus’ share : 25% RMB30,427,500)

In addition, before the acquisition of Advanced Grade, Wan Yuan Industry had entered into an agreement for purchase of 55 900KW wind energy units at RMB 326.7 million in establishing foundation for its future development of wind energy plant and facilities in Xinghe, Inner Mongolia. In November 2007, Wan Yuan Industry paid total deposits of RMB 100.5 million of the purchase. The Group will announce more on this development when the detailed plan for this development is formulated.

HUMAN RESOURCES AND REMUNERATION POLICY

As at 31 December 2007, the Group had 43 employees (2006: 37 employees) in the Hong Kong head office and 362 employees (2006: 428 employees) in the Mainland China offices. Remuneration of employee is determined according to individual employee's performance and the prevailing trends in different areas and reviewed on an annual basis. The Group also provides Mandatory Provident Fund and medical insurance to its employees. In addition, discretionary performance bonus and share option schemes (expired on 23 July 2007) are available and are at the discretion of the Directors.

FINANCIAL REVIEW

Liquidity and Financial Resources

Total borrowings of the Group as at 31 December 2007 were HK$583,005,000 (2006: HK$265,667,000), which were fixed rate borrowings. All borrowings of the Group were determined at market interest rate. The Group has not issued any financial instruments for hedging or other purposes.

The total borrowings comprised short term shareholder's loan of HK$43,050,000 representing RMB41,000,000 from CALT through CASC's subsidiary, Aerospace Science and Technology Finance Co. Ltd ("ASTF"), as the trustee; short term other loans of HK$92,130,000 comprising an advance from China Great Wall Industry Corporation, a subsidiary of CASC amounting to HK$58,742,000 or US$7,531,000, which included advances of HK$46,800,000 or US$6,000,000 and accrued interests of HK$11,942,000 or US$1,531,000, plus a loan from a third party of HK$33,388,000 or US$4,280,000; and long term shareholder's loans of HK$447,825,000 representing two loans from CALT through ASTF as the trustee amounting to HK$231,000,000 (RMB220,000,000) and HK$216,825,000 (RMB206,500,000) repayable within 5 years.

Gearing ratio (total borrowings over shareholders' equity) as at 31 December 2007 was 37% (2006: 294%).

Pledge of Assets

As at 31 December 2007, certain assets of the Group of HK$1,400,000 (2006: HK$1,537,000) have been pledged to secure bank facility.

Exchange and Other Exposures

Most of the Group's business transactions were conducted in Hong Kong dollars, Renminbi and United States dollars. The Group expected that the exposure to exchange rates fluctuation was not significant and therefore has not engaged in any hedging activities

Capital Risk Management

Please refer to the above corresponding paragraph of the year 2009 relating to policy on the capital risk management which remains unchanged for the 3 years to 31 December 2009.

The Group did not have any contingent liabilities as at 31 December 2007.

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from Beijing EWT-CASC Directwind Marketing and Sales Co., Ltd.'s reporting accountants, KPMG, Certified Public Accountants, Hong Kong. As described in the section headed "Documents Available for Inspection" in Appendix IV to this circular, a copy of the following accountants' report is available for inspection.

KPMG

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

30 April 2010

The Board of Directors
China Energine International (Holdings) Limited

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information relating to Beijing EWT-CASC Directwind Marketing and Sales Co., Ltd. ("Directwind Sales") including the statements of comprehensive income, the statements of changes in equity and the statements of cash flows of Directwind Sales, for the period from 4 August 2008 (date of establishment) to 31 December 2008 and for the year ended 31 December 2009 (the "Relevant Period"), and the statements of financial position of Directwind Sales as at 31 December 2008 and 2009, together with the notes thereto (the "Financial Information"), for inclusion in the circular of China Energine International (Holdings) Limited ("CEI") dated 30 April 2010 (the "Circular") in connection with the proposed acquisition of 40% equity interests in Directwind Sales (the "Proposed Acquisition").

Directwind Sales was established in the People's Republic of China (the "PRC") as a limited liability company with a business license issued by Beijing Administration of Industry and Commerce of the PRC on 4 August 2008.

Directwind Sales is principally engaged in the wholesale, import and export of the wind turbine generators and relevant spare parts, and the provision of supervision service for erection, installation and commissioning of the wind turbine generators, project management service as well as quality management service in the PRC.

The statutory financial statements of Directwind Sales for the Relevant Period were prepared in accordance with Accounting Standards for Business Enterprise (2006) issued by the Ministry of Finance of the PRC and were audited by its statutory auditors KPMG Huazhen for the period from 4 August 2008 (the date of establishment) to 31 December 2008 and Ascenda Certified Public Accountants ("天健正信會計師事務所") for the year ended 31 December 2009.

For the purpose of this report, the directors of Directwind Sales have prepared the financial statements of Directwind Sales for the Relevant Period (the "Underlying Financial Statements") in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). We have audited the Underlying Financial Statements for the Relevant Period in accordance with Hong Kong Standards on Auditing.

The Financial Information has been prepared based on the Underlying Financial Statements of Directwind Sales with no adjustment made thereon and in accordance with the accounting policies as set out in Note 1 of Section B below.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS

The directors of Directwind Sales are responsible for the preparation and true and fair presentation of the Financial Information in accordance with HKFRSs issued by the HKICPA, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Financial Information that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Our responsibility is to form an opinion on the Financial Information based on our procedures.

BASIS OF OPINION

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have examined the Underlying Financial Statements and have carried out such appropriate procedures as we considered necessary in accordance with Auditing Guideline "Prospectuses and the Reporting Accountant" (Statement 3.340) issued by the HKICPA.

OPINION

In our opinion, for the purpose of this report, the Financial Information, in accordance with the accounting policies set out in Note 1 of section B below, gives a true and fair view of Directwind Sales' results and cash flows for the Relevant Period, and the state of affairs of Directwind Sales as at 31 December 2008 and 2009.

EMPHASIS OF MATTER

Without qualifying our opinion, we draw attention to Note 1(b) of Section B to the Financial Information.

Directwind Sales incurred losses of RMB 4,944,471 and RMB 3,653,661, and net operating cash outflows of RMB 3,065,175 and RMB 683,876 for the period from 4 August 2008 (date of establishment) to 31 December 2008 and for the year ended 31 December 2009 respectively. As at 31 December 2008 and 2009, the accumulated losses of Directwind Sales amounted to RMB 4,944,471 and RMB 8,598,132 respectively. These conditions indicate the existence of a material uncertainty which may cast significant doubt on Directwind Sales' ability to continue as a going concern. After negotiating with Directwind Sales' major creditor, the directors of Directwind Sales believe that they can be granted extended credit term by its major creditor when necessary.

As disclosed in Note 1(b) of Section B, the Financial Information has been prepared on the going concern basis, the validity of which depends upon the extended credit term granted by Directwind Sales' major creditor. The Financial Information does not include any adjustments that would result from the failure of such measures.

A FINANCIAL INFORMATION

STATEMENTS OF COMPREHENSIVE INCOME FOR THE PERIOD FROM 4 AUGUST 2008 (DATE OF ESTABLISHMENT) TO 31 DECEMBER 2008 AND FOR THE YEAR ENDED 31 DECEMBER 2009

(Expressed in Renminbi)

	Note	Period from 4 August 2008 (date of establishment) to 31 December 2008	Year ended 31 December 2009
		RMB	*RMB*
Turnover	2	—	285,021,855
Cost of sales		—	(282,287,433)
Gross profit		—	2,734,422
Selling expenses		(1,505,319)	(1,972,623)
Administrative expenses		(3,038,744)	(4,972,157)
Other expenses		(12,077)	(42)
Loss from operations		(4,556,140)	(4,210,400)
Finance income	3(a)	1,193	565,965
Finance costs	3(a)	(389,524)	(9,226)
Loss before taxation	3	(4,944,471)	(3,653,661)
Income tax	4	—	—
Loss for the period/year		(4,944,471)	(3,653,661)
Other comprehensive income for the period/year		—	—
Total comprehensive loss for the period/year		(4,944,471)	(3,653,661)

The accompanying notes form part of the Financial Information.

STATEMENTS OF FINANCIAL POSITION AT 31 DECEMBER 2008 AND 2009

(Expressed in Renminbi)

	Note	**2008** *RMB*	**2009** *RMB*
Non-current assets			
Property, plant and equipment, net	8	219,802	1,120,194
Current assets			
Trade and other receivables	9	4,558,912	189,637,693
Cash and cash equivalents	10	2,691,178	5,000,849
		7,250,090	194,638,542
Current liabilities			
Trade and other payables	11	2,411,944	194,004,283
Provision	12	—	349,821
		2,411,944	194,354,104
Net current assets		4,838,146	284,438
Total assets less current liabilities		5,057,948	1,404,632
Net assets		5,057,948	1,404,632
Capital and reserves			
Paid-in capital	13	10,000,000	10,000,000
Reserves		(4,942,052)	(8,595,368)
Total equity		5,057,948	1,404,632

The accompanying notes form part of the Financial Information.

STATEMENTS OF CHANGES IN EQUITY
FOR THE PERIOD FROM 4 AUGUST 2008 (DATE OF ESTABLISHMENT) TO
31 DECEMBER 2008 AND FOR THE YEAR ENDED 31 DECEMBER 2009
(Expressed in Renminbi)

	Note	**Paid-in capital**	**Capital reserve**	**Accumulated losses**	**Total equity**
Balance at 4 August 2008 (date of establishment)		—	—	—	—
Capital contributions by owners	13	10,000,000	2,419	—	10,002,419
Total comprehensive loss for the period		—	—	(4,944,471)	(4,944,471)
Balance at 31 December 2008 and 1 January 2009		10,000,000	2,419	(4,944,471)	5,057,948
Total comprehensive loss for the year		—	—	(3,653,661)	(3,653,661)
Contribution by owners	13	—	345	—	345
Balance at 31 December 2009		10,000,000	2,764	(8,598,132)	1,404,632

The accompanying notes form part of the Financial Information.

STATEMENTS OF CASH FLOWS
FOR THE PERIOD FROM 4 AUGUST 2008 (DATE OF ESTABLISHMENT) TO 31 DECEMBER 2008 AND FOR THE YEAR ENDED 31 DECEMBER 2009
(Expressed in Renminbi)

	Note	Period from 4 August 2008 (date of establishment) to 31 December 2008	Year ended 31 December 2009
		RMB	*RMB*
Operating activities			
Loss before taxation		(4,944,471)	(3,653,661)
Adjustments for:			
Depreciation		18,903	249,556
Interest income		(1,193)	(264,636)
Net foreign exchange losses/(gains)		308,554	(178,514)
		(4,618,207)	(3,847,255)
Increase in trade and other receivables due from third parties		(366,459)	(6,348,502)
Increase in amounts due from related parties		(492,453)	(182,430,279)
Increase in trade and other payables due to third parties		554,687	8,308,313
Increase in amounts due to related parties		1,857,257	183,284,026
Increase in provisions		—	349,821
Net cash used in operations		(3,065,175)	(683,876)
Investing activities			
Interest received		1,193	264,636
Payments for purchase of property, plant and equipment		(238,705)	(1,149,948)
Net cash used in investing activities		(237,512)	(885,312)

	Note	Period from 4 August 2008 (date of establishment) to 31 December 2008 RMB	Year ended 31 December 2009 RMB
Financing activities			
Proceeds from capital contributions by owners		6,302,419	3,700,345
Net cash generated from financing activities		6,302,419	3,700,345
Net increase in cash and cash equivalents		2,999,732	2,131,157
Cash and cash equivalents at 4 August 2008 (date of establishment)/1 January 2009		—	2,691,178
Effect of foreign exchange rate changes		(308,554)	178,514
Cash and cash equivalents at 31 December	10	2,691,178	5,000,849

The accompanying notes form part of the Financial Information.

B NOTES TO THE FINANCIAL INFORMATION

(Expressed in Renminbi unless otherwise indicated)

1 Significant accounting policies

(a) ***Statement of compliance***

The Financial Information set out in this report has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted is set out below.

The HKICPA has issued a number of new and revised HKFRSs. For the purpose of preparing this Financial Information, Directwind Sales has adopted all these new and revised HKFRSs applicable to the Relevant Period, except for any new standards or interpretations that are not yet effective for the accounting year ended 31 December 2009. The revised and new accounting standards and interpretations issued but not yet effective for the accounting year ended 31 December 2009 are set out in Note 18.

(b) ***Basis of measurement***

The Financial Information is presented in Renminbi ("RMB"), which is the functional currency of Directwind Sales.

The measurement basis used in the preparation of the Financial Information is the historical cost basis.

The Financial Information set out in this report is prepared on a going concern basis.

Directwind Sales incurred losses of RMB 4,944,471 and RMB 3,653,661, and net operating cash outflows of RMB 3,065,175 and RMB 683,876 for the period from 4 August 2008 (date of establishment) to 31 December 2008 and for the year ended 31 December 2009 respectively. As at 31 December 2008 and 2009, the accumulated losses of Directwind Sales amounted to RMB 4,944,471 and RMB 8,598,132 respectively. These conditions indicate the existence of a material uncertainty which may cast significant doubt on Directwind Sales' ability to continue as a going concern. After negoting with Directwind Sales' major creditor, the directors of Directwind Sales believe that they can be granted extended credit term by its major creditor when necessary.

Having regard to the above circumstances and events, the directors of Directwind Sales consider that Directwind Sales will be able to obtain the necessary funding to support the operations of Directwind Sales for the foreseeable future. The Financial Information has been prepared on the going concern basis, the validity of which depends upon the extended credit term granted by Directwind Sales' major creditor. However, uncertainties which could cast significant doubt on Directwind Sales' ability to operate as a going concern still exist. Should Directwind Sales be unable to continue as a going concern, adjustment would be made to restate the values of assets to their net recoverable values, to provide for any further liabilities which might arise and to reclassify non-current assets as current assets. The effects of these potential adjustments have not been reflected in the Financial Information.

(c) ***Use of estimates and judgements***

The preparation of the Financial Information in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have a significant effect on the Financial Information and major sources of estimation uncertainty are discussed in Note 17.

(d) ***Property, plant and equipment***

Property plant and equipment are stated in the balance sheets at cost less accumulated depreciation and impairment losses (see Note 1(f)).

Cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to working condition for its intended use. Expenditure incurred after the asset has been placed into operations is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditures are charged to profit or loss in the period incurred.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

- Leasehold improvement	3 years
- Office equipment	5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(e) ***Operating lease charges***

Leases which do not transfer substantially all the risks and rewards of ownership to Directwind Sales are classified as operating leases.

Where Directwind Sales has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of rental payment under an operating lease is amortised on a straight-line basis over the period of the lease term.

(f) ***Impairment of assets***

(i) *Impairment of trade and other receivables*

Trade and other receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of Directwind Sales about one or more of the following loss events:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, an impairment loss is determined and recognised as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade and other receivables included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When Directwind Sales is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade and other receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) *Impairment of other assets*

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment

If any such indication exists, the asset's recoverable amount is estimated.

— Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. cash-generating unit).

— Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount.

Impairment losses recognised in respect of cash-generating units are allocated, to reduce the carrying amount of the assets in the cash generating unit (or group of units) on a pro-rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

— Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(g) ***Inventories***

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(h) ***Trade and other receivables***

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see Note 1(f)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(i) ***Trade and other payables***

Trade and other payables are initially recognised at fair value, and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(j) ***Cash and cash equivalents***

Cash and cash equivalents comprise cash at bank and on hand, demand deposit with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(k) ***Employee benefits***

(i) *Short-term employee benefits and contributions to defined contribution retirement plans*

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contributions to defined contributions retirement scheme as required under relevant PRC laws and regulations are charged to profit or loss when incurred.

(ii) *Termination benefits*

Termination benefits are recognised when, and only when, Directwind Sales demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(l) ***Income tax***

Income tax comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the period/year, using tax rates enacted or substantively enacted at the balance sheet dates, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination).

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet dates. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if Directwind Sales has the legally enforceable right to set off current tax assets against current tax liabilities and Directwind Sales intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(m) ***Provisions and contingent liabilities***

Provisions are recognised for liabilities of uncertain timing or amount when Directwind Sales has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Provisions are also recognised for the expected losses of onerous contracts where it is probable that total contract costs will exceed total contract revenue.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(n) *Revenue recognition*

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to Directwind Sales and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) *Sales of goods*

Revenue is recognised when goods are delivered at the customers' premises which are taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) *Supervision and project management service income*

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue from the rendering of services is recognised in the income statement by reference to the stage of completion of the transaction based on the proportion of costs incurred to date to the estimated total costs.

Where the outcome of rendering of services cannot be estimated reliably, if the costs incurred are expected to be recoverable, revenues are recognised to the extent that the costs incurred that are expected to be recoverable.

(iii) *Interest income*

Interest income is recognised as it accrues using the effective interest method.

(o) *Translation of foreign currencies*

Foreign currency transactions during the period/year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet dates. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

(p) ***Related parties***

For the purposes of the Financial Information, a party is considered to be related to Directwind Sales if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control Directwind Sales or exercise significant influence over Directwind Sales in making financial and operating policy decisions, or has joint control over Directwind Sales;

(ii) Directwind Sales and the party are subject to common control;

(iii) the party is an associate of Directwind Sales or a joint venture in which Directwind Sales is a venturer;

(iv) the party is a member of key management personnel of Directwind Sales or Directwind Sales' parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of Directwind Sales or of any entity that is a related party of Directwind Sales.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(q) ***Segment reporting***

Operating segments are identified based on the financial information provided regularly to Directwind Sales' most senior executive management for the purposes of allocating resources to, and assessing the performance of Directwind Sales' various lines of business and geographical locations.

2 Turnover

The principal activities of Directwind Sales are wholesale, import and export of the wind turbine generators and relevant spare parts, and provision of supervision service for erection, installation and commissioning of the wind turbine generators, project management service as well as quality management service in the PRC.

	Period from 4 August 2008 (date of establishment) to 31 December 2008	Year ended 31 December 2009
	RMB	*RMB*
Sales of wind turbine generators	—	281,452,991
Supervision and project management service	—	3,568,864
	—	285,021,855

The revenue of Directwind Sales in 2009 comes from a single customer of Directwind Sales, Inner Mongolia Datang Wanyuan New Energy Co., Ltd. ("Datang Wanyuan"), which is owned by China Datang Corporation Renewable Power Co., Ltd. and CEI.

3 Loss before taxation

Loss before taxation is arrived at after charging/(crediting):

(a) *Finance income and costs*

	Period from 4 August 2008 (date of establishment) to 31 December 2008	Year ended 31 December 2009
	RMB	*RMB*
Finance income		
Interest income	(1,193)	(264,636)
Net foreign exchange gains	—	(301,329)
	(1,193)	(565,965)
Finance costs		
Net foreign exchange losses	386,035	—
Bank charges	3,489	9,226
	389,524	9,226

(b) *Staff costs*

	Period from 4 August 2008 (date of establishment) to 31 December 2008	Year ended 31 December 2009
	RMB	*RMB*
Contributions to defined contribution retirement plan	27,566	170,058
Salaries, wages and other benefits	1,959,130	3,732,433
	1,986,696	3,902,491

Pursuant to the relevant labour rules and regulations in the PRC, Directwind Sales participates in a defined contribution retirement benefit scheme (the "Scheme") organised by the local government authorities whereby Directwind Sales is required to make contributions to the Schemes at 20% of the eligible employees' salaries during the period/year. The local government authorities are responsible for the entire retirement plan obligation payable to retired employees. For those forfeited contributions under the Scheme, the amounts could not be used by Directwind Sales to reduce the existing level of contributions.

(c) ***Other items***

	Period from 4 August 2008 (date of establishment) to 31 December 2008	Year ended 31 December 2009
	RMB	*RMB*
Depreciation	18,903	249,556
Auditors' remuneration		
— audit services	100,000	53,936
— tax services	26,000	41,044
Operating lease charges	137,019	896,961
Cost of inventories	—	277,568,113

4 Income tax

(a) ***Taxation in profit and loss***

In accordance with the Corporate Income Tax Law of the PRC, the income tax rate applicable to Directwind Sales is 25% for the Relevant Period. Directwind Sales incurred tax losses for the Relevant Period and accordingly, no income tax expenses were recorded.

(b) ***Reconciliation between tax expense and accounting loss at applicable tax rate:***

	Period from 4 August 2008 (date of establishment) to 31 December 2008	**Year ended 31 December 2009**
	RMB	*RMB*
Loss before taxation	(4,944,471)	(3,653,661)
Income tax computed by applying the applicable tax rate of 25% to loss before taxation	(1,236,118)	(913,415)
Tax effect of non-deductible expenses	109,857	731,571
Tax effect of unused tax losses not recognised	1,126,261	181,844
Actual tax expenses	—	—

(c) ***Deferred tax not recognised***

Directwind Sales has not recognised the deferred tax assets attributable to the cumulative tax losses of RMB 1,126,261 and RMB 1,308,105 as at 31 December 2008 and 2009 respectively as it is not probable that future taxable profits against which the losses can be utilised will be available.

The tax losses of Directwind Sales incurred in 2008 and 2009 expire in 2013 and 2014 respectively under current tax law.

5 Directors' remuneration

Details of directors' remuneration are as follows:

	Directors' fees *RMB*	Salaries, allowances and benefits in kind *RMB*	Retirement scheme contributions *RMB*	Year ended 31 December 2009 Total *RMB*
Chairman				
G.van der Sluys	—	—	—	—
Vice chairman				
Wei Zhang	—	—	—	—
Other directors				
Peter Pronk	—	1,780,993	—	1,780,993
Eric Bakker (i)	—	—	—	—
Lin Hu	—	337,160	17,158	354,318
	—	2,118,153	17,158	2,135,311

	Directors' fees *RMB*	Salaries, allowances and benefits in kind *RMB*	Retirement scheme contributions *RMB*	Period from 4 August 2008 (date of establishment) to 31 December 2008 Total *RMB*
Chairman				
G.van der Sluys	—	—	—	—
Vice chairman				
Wei Zhang	—	—	—	—
Other directors				
Peter Pronk	—	1,582,824	—	1,582,824
N.C.F.Bolleman (ii)	—	—	—	—
Lin Hu	—	121,586	1,993	123,579
	—	1,704,410	1,993	1,706,403

(i) Pursuant to the minutes of board of directors of Directwind Sales, Mr Eric Bakker was appointed as the director of Directwind Sales effective from 2 July 2009.

(ii) Pursuant to the minutes of board of directors of Directwind Sales, Mr N.C.F. Bolleman resigned from the board of directors of Directwind Sales effective from 2 July 2009.

During the Relevant Period, no emoluments were paid by Directwind Sales to the directors as an inducement to join or upon joining Directwind Sales or as compensation for loss of office. No directors of Directwind Sales waived or agreed to waive any remuneration during the Relevant Period.

6 Individuals with highest emoluments

Of the five individuals with the highest emoluments, two (2008: two) are directors whose emoluments are disclosed in Note 5. The aggregate of the emoluments in respect of the other three (2008: three) individuals are as follows:

	Period from 4 August 2008 (date of establishment) to 31 December 2008	**Year ended 31 December 2009**
	RMB	*RMB*
Salaries and other emoluments	193,147	746,750
Retirement scheme contributions	22,373	71,400
	215,520	818,150

The emoluments of the three (2008: three) individual with the highest emoluments are within the following bands:

	Period from 4 August 2008 (date of establishment) to 31 December 2008	**Year ended 31 December 2009**
	Number of individuals	*Number of individuals*
Nil to HKD 1,000,000	3	3

During the Relevant Period, no emoluments were paid by Directwind Sales to the five highest paid individuals as an inducement to join or upon joining Directwind Sales or as compensation for loss of office.

7 Segment reporting

For the Relevant Period, the senior executive management reviewed regularly the overall operating results of Directwind Sales to assess the performance. In addition, in 2009, all the revenue of Directwind Sales comes from its current single customer, Datang Wanyuan and the operations of Directwind Sales are all located in the PRC. Accordingly, no segment information is presented.

8 Property, plant and equipment, net

	Leasehold improvement	Office equipment	Total
Cost:			
At 4 August 2008 (date of establishment)	—	—	—
Additions	—	238,705	238,705
At 31 December 2008 and 1 January 2009	—	238,705	238,705
Additions	663,620	486,328	1,149,948
At 31 December 2009	663,620	725,033	1,388,653
Accumulated depreciation:			
At 4 August 2008 (date of establishment)	—	—	—
Charge for the period	—	(18,903)	(18,903)
At 31 December 2008 and 1 January 2009	—	(18,903)	(18,903)
Charge for the year	(156,146)	(93,410)	(249,556)
At 31 December 2009	(156,146)	(112,313)	(268,459)
Net book value:			
At 31 December 2009	507,474	612,720	1,120,194
At 31 December 2008	—	219,802	219,802

9 Trade and other receivables

	Note	**2008**	**2009**
		RMB	*RMB*
Trade receivables due from a related party	(a)	—	181,685,569
Amounts due from related parties		4,192,453	1,237,163
VAT deductible		—	5,447,293
Deposits		240,331	1,023,063
Others		126,128	244,605
		4,558,912	189,637,693
Less: allowance for doubtful debts	(b)	—	—
		4,558,912	189,637,693

All the above receivables, except for deposits, are expected to be settled within one year.

(a) ***Ageing analysis***

The ageing analysis of trade receivables are as follows:

	2008	**2009**
	RMB	*RMB*
Current		32,930,000
Overdue	—	148,755,569
	—	181,685,569

(b) ***Impairment***

Impairment losses in respect of trade and other receivables are recorded using an allowance account unless Directwind Sales is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and other receivables.

According to the contract entered into by Datang Wanyuan and Directwind Sales, 30% of contract amount shall be paid within one week after signing the contract, 60% of contract amount shall be paid against the delivery of equipment on site and 10% of contract amount shall be paid after the 240-hour test of the wind turbine generators. According to these payment terms, RMB151,906,482 was overdue as at 31 December 2009, with RMB148,755,569 included in the trade receivables due from Datang Wanyuan as at 31 December 2009. Directwind Sales had been advised by Datang Wanyuan that Datang Wanyuan would make the payment when its application for bank facilities was completed. Given the operation scale of Datang Wanyuan's owners, CEI and China Datang Corporation Renewable Power Co., Ltd., the management believed that no impairment was required for the receivable.

10 Cash and cash equivalents

	2008	2009
	RMB	*RMB*
Deposits with banks	2,650,397	4,969,666
Cash in hand	40,781	31,183
	2,691,178	5,000,849

All Directwind Sales' cash and bank balances were placed with banks in the PRC. RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

11 Trade and other payables

	Note	2008	2009
		RMB	*RMB*
Trade payables			
- due to related parties	(i)	—	184,053,855
- due to third parties	(i)	—	868,628
Advances received		—	963,241
Other taxes payable	(ii)	282,574	6,756,315
Other amounts due to related parties		1,857,257	1,087,428
Others		272,113	274,816
		2,411,944	194,004,283

All trade and other payables of Directwind Sales are expected to be settled within one year or are repayable on demand.

(i) The ageing analysis of trade payables is as follows:

	Note	**2008**	**2009**
		RMB	*RMB*
Due within 1 month or on demand	(a)	—	184,922,483

(a) As Directwind Sales' single customer, Datang Wanyuan, delayed its payment to Directwind Sales as mentioned in Note 9(b), Directwind Sales' major supplier, Inner Mongolia CASC Energine Wind Turbine Manufacture Co., Ltd. indicated to Directwind Sales that Directwind Sales could pay the above payable after receipt of payment from Datang Wanyuan.

(ii) Other taxes payable mainly represent value added tax and withholding individual income tax payables.

12 Provision

The balance of provision as at 31 December 2009 represents the expected losses recognised for a service contract where the management considers it is probable that total contract costs will exceed contract revenue. The contract revenue and the total contract costs estimated by the management are approximately RMB5,130,000 and RMB6,280,000 respectively.

13 Capital

(a) *Paid-in capital*

Registered capital

	Note	**2008**	**2009**
		RMB	*RMB*
Paid		6,300,000	10,000,000
Confirmed but not paid	(i)	3,700,000	—
		10,000,000	10,000,000

(i) As at 31 December 2008, as the owners of Directwind Sales had confirmed the full payment of the 100% registered capital, the management considered that Directwind Sales had a contractual right to receive the amount in respect of an equity contribution of RMB 3,700,000 outstanding as at 31 December 2008. Therefore, a capital of RMB 3,700,000 and a corresponding receivable were recognised in the statement of financial position as at 31 December 2008.

Capital contributions in foreign currency have been translated into RMB at the exchange rates as quoted by the People's Bank of China prevailing at the dates of each contribution received. The foreign exchange differences resulted from the translated capital contributions and their corresponding registered capital were recorded in the reserves. Up to 31 December 2009, all registered capital had been paid up by the owners.

(b) *Capital management*

Directwind Sales' primary objectives when managing capital are to safeguard Directwind Sales' ability to continue as a going concern, so that it can continue to provide returns for owners, access finance at a reasonable cost.

14 Financial risk management and fair values

Directwind Sales has exposure to the following risks in the normal course of Directwind Sales' business:

- Credit risk
- Liquidity risk
- Foreign currency risk
- Concentration risk

Directwind Sales' exposure to these risks and the financial risk management policies and practices used by Directwind Sales to manage these risks are described below.

(a) *Credit risk*

Directwind Sales' credit risk is primarily attributable to trade and other receivables. Exposure to these credit risks are monitored by management on an ongoing basis.

The trade receivables at 31 December 2009 represent the amount due from a single customer of Directwind Sales, Datang Wanyuan.

The details of the trade and other receivables as at 31 December 2008 and 2009 are set out in Note 9.

The maximum exposure to credit risk is represented by the carrying amount of trade and other receivables in the statements of financial position after deducting any impairment allowance. Directwind Sales does not provide any guarantees which would expose Directwind Sales to credit risk.

(b) ***Liquidity risk***

Directwind Sales is responsible for its own cash management. Directwind Sales' policy is to forecast the cash flow from short term and long term view, regularly monitor its liquidity requirements and take financing measures when necessary to ensure adequate funding to meet its liquidity requirements in the short and longer term.

The details of the remaining contractual maturities of trade and other payables at the balance sheet dates are set out in Note 11.

(c) ***Foreign currency risk***

RMB is not freely convertible into foreign currencies. All foreign exchange transactions involving RMB must take place through the People's Bank of China ("PBOC") or other institutions authorised to buy and sell foreign exchange. The exchange rate adopted for the foreign exchange transactions are the rates of exchange quoted by the PBOC that would be based on market supply and demand with reference to a basket of currencies or subject to a managed float against an unspecified basket of currencies.

All the sales of Directwind Sales are transacted in RMB. Directwind Sales is exposed to currency risk through services received from foreign supplier and payments made by the related parties on behalf of Directwind Sales are denominated in foreign currencies. The currency giving rise to this risk is primarily Euros. Depreciation or appreciation of RMB against Euros can affect Directwind Sales' results. Directwind Sales did not hedge its foreign currency exposure during the Relevant Period.

The following table details Directwind Sales' exposure at the balance sheet dates to currency risk arising from recognised assets or liabilities denominated in currency other than the functional currency of Directwind Sales to which they relate.

	2008	**2009**
	EUR	*EUR*
Cash and cash equivalents	31,272	9,699
Trade and other receivables	—	1,000
Trade and other payables	(192,282)	(323,236)
Net exposure	(161,010)	(312,537)

A 5% increase or decrease in Euros exchange rate against RMB, assuming such change had occurred at the balance sheet date, would not have a significant impact on Directwind Sales' results of operation and financial position.

(d) *Concentration risk*

As Directwind Sales was established in 2008 and just commenced its operations, Directwind Sales' revenue for the year ended 31 December 2009 comes from a single customer, Datang Wanyuan.

(e) *Fair values*

In respect of cash and cash equivalents, trade and other receivables, trade and other payables, the carrying amounts approximate fair value due to the relatively short-term nature of these financial instruments.

15 Commitments and contingent liabilities

(a) *Operating lease commitment*

As at 31 December, the total future minimum lease payments under non-cancellable operating leases of properties were payable as follows:

	2008	**2009**
	RMB	*RMB*
Within 1 year	227,360	1,529,899
After 1 year but within 5 years	—	1,955,317
	227,360	3,485,216

(b) *Warranty*

The generators purchased by the customer in 2009 are provided with warranty term of five years which are covered by back-to-back warranties provided by the relevant supplier, Inner Mongolia CASC Energine Directwind Turbine Manufacture Co., Ltd. Therefore, the management considered it not probable that an outflow of economic benefits in respect of Directwind Sales' obligations under the warranty term will be required.

16 Material related party transactions

During the Relevant Period, the directors are of the view that related parties of Directwind Sales with transactions include the following companies:

Name of party	Relationship
Emergya Wind Technologies B.V. ("EWT")	Owner of Directwind Sales
China Energine International (Holdings) Limited ("CEI")	Owner of Directwind Sales
Beijing Direct Energy Corp.	Owner of Directwind Sales
Inner Mongolia CASC Energine Wind Turbine Manufacture Co., Ltd.	Entity controlled by CEI
Beijing IPPEC Corporation	Entity controlled by the key management personnel of Directwind Sales
Inner Mongolia Datang Wanyuan New Energy Co., Ltd.	Entity owned by China Datang Corporation Renewable Power Co., Ltd. and CEI

(a) ***Key management personnel remuneration***

Remuneration for key management personnel of Directwind Sales, including amounts paid to Directwind Sales' directors as disclosed in Note 5 is as follows:

	Period from 4 August 2008 (date of establishment) to 31 December 2008	**Year ended 31 December 2009**
	RMB	*RMB*
Contributions to defined contribution retirement plan	1,993	17,158
Salaries, wages and other benefits	1,704,410	2,118,153
	1,706,403	2,135,311

Total remuneration is included in "Staff cost" (see Note 3(b)).

(b) ***Transactions with related parties***

Particulars of significant transactions between Directwind Sales and the above related parties during the Relevant Period are as follows:

	Period from 4 August 2008 (date of establishment) to 31 December 2008	**Year ended 31 December 2009**
	RMB	*RMB*
Sales of goods to a related party	—	281,452,991
Service rendered to a related party	—	3,568,864
Service received from a related party	1,319,715	2,005,900
Purchase of goods	—	275,934,305
Payments made by related parties on behalf of Directwind Sales	2,531,235	848,334
Payments made by Directwind Sales on behalf of related parties	504,036	992,357

In the opinion of the directors of Directwind Sales, the above related party transactions were conducted in the ordinary and usual course of business and on normal commercial terms.

(c) ***Balances with related parties:***

At 31 December 2008 and 2009, Directwind Sales had the following balances with related parties:

	2008	**2009**
	RMB	*RMB*
Trade and other receivables	4,192,453	182,922,732
Trade and other payables	1,857,257	185,141,283

17 Critical accounting judgements and estimates

Information about the assumptions and their risk factors relating to financial instruments is included in Note 14. Other key sources of estimation uncertainty are as follows:

Impairment of trade and other receivables

As described in Note 1(f)(i), receivables are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, impairment loss is provided. Objective evidence of impairment includes observable data that comes to the attention of Directwind Sales about loss events such as a significant decline in the estimated future cash flow of an individual debtor or the portfolio of debtors, and significant changes in the financial condition that have an adverse effect on the debtor. If there is an indication that there has been a change in the factors used to determine the provision for impairment, impairment losses may be required to be made in the future.

Deferred tax

Directwind Sales has not recognised the deferred tax assets attributable to the cumulative tax losses as at 31 December 2008 and 2009 respectively as it is not probable that future taxable profits against which the losses can be utilised will be available. The deferred tax assets attributable to the cumulative tax losses as at 31 December 2008 and 2009 may be recognised if there are significant changes from previous estimates.

18 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2009

Up to the date of issuance of the Financial Information, the HKICPA has issued a number of amendments, new standards and Interpretations which are not yet effective for the year ended 31 December 2009 and which have not been adopted in the Financial Information.

	Effective for accounting periods beginning on or after
HKFRS 3, Business combinations (revised 2008)	1 July 2009
HKAS 27, Consolidated and separate financial statements (amended 2008)	1 July 2009
Amendments to HKAS 39, Financial instrument: Recognition and measurement — Eligible hedged items	1 July 2009
HK (IFRIC) 17, Distributions of non-cash assets to owners	1 July 2009
Improvements to HKFRSs 2009	1 July 2009 or 1 January 2010
Amendments to HKFRS 2, Share-based payment — Group cash-settled share-based payment transactions	1 January 2010
Amendments to HKAS 32, Financial instruments: Presentation — Classification of rights issues	1 February 2010
HK (IFRIC) 19, Extinguishing financial liabilities with equity instruments	1 July 2010
Amendments to HKFRS 1, First-time adoption of Hong Kong Financial Reporting Standards — Limited exemption from comparative HKFRS 7 disclosures for first-time adopters	1 July 2010
HKAS 24, Related party disclosures (revised 2009)	1 January 2011
Amendments to HK (IFRIC) 14, HKAS 19 — The limit on a defined benefit assets, minimum funding requirements and their interaction — Prepayments of a minimum funding requirement	1 January 2011
HKFRS 9, Financial instruments	1 January 2013

Directwind Sales is in the process of making an assessment of what the impact of these amendments, new standards and Interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on Directwind Sales' results of operations and financial position.

C SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of Directwind Sales have been prepared in respect of any period subsequent to 31 December 2009.

Yours faithfully,
KPMG
Certified Public Accountants
Hong Kong

The accompanying unaudited pro forma financial information of China Energine International (Holdings) Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") and Beijing EWT-CASC Directwind Marketing and Sales Co. Ltd. ("Directwind Sales") (together with the Group hereinafter collectively referred to as the "Enlarged Group") has been prepared in relation to the proposed acquisition of additional 40% equity interest in Directwind Sales from an independent third party, Emergya Wind Technologies B.V. ("EWT") (the "Acquisition"). Before the Acquisition, the Group has 25% equity interest in Directwind Sales that has been classified as an interest in an associate.

I. THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

1. Unaudited pro forma consolidated statement of financial position of the Enlarged Group

The unaudited pro forma consolidated statement of financial position of the Enlarged Group is prepared in accordance with Rule 4.29 of the Listing Rules for the purposes of illustrating how the Acquisition might have affected the consolidated financial position of the Group had such transaction been completed on 31 December 2009.

The unaudited pro forma consolidated statement of financial position of the Enlarged Group is prepared by the directors based upon (i) the audited consolidated statement of financial position of the Group as at 31 December 2009, which has been extracted from the Company's annual report for the year ended 31 December 2009; and (ii) the audited statement of financial position of Directwind Sales, which has been extracted from the accountants' report on Directwind Sales for the year ended 31 December 2009 as set out in Appendix II to the Circular, after making pro forma adjustments relating to the Acquisition that are (i) directly attributable to the transaction; and (ii) factually supportable, as if the Acquisition had been completed on 31 December 2009.

The unaudited pro forma consolidated statement of financial position of the Enlarged Group is prepared by the directors to provide information of the Group upon completion of the Acquisition. As it is prepared for illustration purposes only, it does not purport to give a true picture of the consolidated financial position of the Group following completion of the Acquisition.

	The Group	Directwind Sales	Total before adjustments	Pro forma adjustments			Pro forma total for the Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Note a)	*(Note b)*	*(Notes c & f)*	
Non-current assets							
Investment property	23,940	—	23,940	—	—	—	23,940
Property, plant and equipment	388,690	1,277	389,967	—	—	—	389,967
Deposits paid for acquisition of property, plant and equipment	7,377	—	7,377	—	—	—	7,377
Goodwill	9,252	—	9,252	1,183	—	—	10,435
Interests in associates	227,280	—	227,280	(400)	—	—	226,880
Interests in jointly controlled entities	1,054,117	—	1,054,117	—	—	(1,723)	1,052,394
Fixed bank deposits	91,200	—	91,200	—	—	—	91,200
	1,801,856	1,277	1,803,133	783	—	(1,723)	1,802,193
Current assets							
Inventories	76,828	—	76,828	—	—	—	76,828
Trade and other receivables	239,448	214,776	454,224	—	(207,122)	—	247,102
Amounts due from related companies	—	1,410	1,410	—	(701)	—	709
Amounts due from associates	212,583	—	212,583	—	(207,728)	—	4,855
Amount due from a jointly controlled entity	—	—	—	—	207,122	—	207,122
Pledged bank deposits	97,851	—	97,851	—	—	—	97,851
Fixed bank deposits	57,000	—	57,000	—	—	—	57,000
Bank balances and cash	643,613	5,701	649,314	(1,824)	—	—	647,490
	1,327,323	221,887	1,549,210	(1,824)	(208,429)	—	1,338,957
Current liabilities							
Trade and other payables	194,739	10,502	205,241	—	—	—	205,241
Amounts due to related companies	—	211,061	211,061	—	(208,429)	—	2,632
Amounts due to associates	1,856	—	1,856	—	—	—	1,856
Taxation payable	350	—	350	—	—	—	350
Borrowings - amount due within one year	285,000	—	285,000	—	—	—	285,000
	481,945	221,563	703,508	—	(208,429)	—	495,079
Net current assets	845,378	324	845,702	(1,824)	—	—	843,878
Total assets less current liabilities	2,647,234	1,601	2,648,835	(1,041)	—	(1,723)	2,646,071

	The Group	Directwind Sales	Total before adjustments	Pro forma adjustments			Pro forma total for the Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Note a)	*(Note b)*	*(Notes c & f)*	
Non-current liabilities							
Borrowings - amount due after one year	992,410	—	992,410	—	—	—	992,410
Deferred taxation	10,026	—	10,026	—	—	—	10,026
	1,002,436	—	1,002,436	—	—	—	1,002,436
Net assets	1,644,798	1,601	1,646,399	(1,041)	—	(1,723)	1,643,635
Capital and reserves							
Share capital	396,900	11,400	408,300	(11,400)	—	—	396,900
Reserves	1,135,832	(9,799)	1,126,033	9,799	—	(1,120)	1,134,712
Equity attributable to equity owners of the Company	1,532,732	1,601	1,534,333	(1,601)	—	(1,120)	1,531,612
Minority interests	112,066	—	112,066	560	—	(603)	112,023
Total equity	1,644,798	1,601	1,646,399	(1,041)	—	(1,723)	1,643,635

2. Unaudited pro forma consolidated statement of comprehensive income and statement of cash flows of the Enlarged Group

The unaudited pro forma consolidated statement of comprehensive income and statement of cash flows of the Enlarged Group are prepared in accordance with Rule 4.29 of the Listing Rules for the purposes of illustrating how the Acquisition might have affected the results and cash flows of the Group had such transaction been completed on 1 January 2009.

The unaudited pro forma consolidated statement of comprehensive income and statement of cash flows of the Enlarged Group are prepared by the directors based upon (i) the audited consolidated statement of comprehensive income and statement of cash flows of the Group as at 31 December 2009, which have been extracted from the Company's annual report for the year ended 31 December 2009; and (ii) the audited statement of comprehensive income and statement of cash flows of Directwind Sales, which have been extracted from the accountants' report on Directwind Sales for the year ended 31 December 2009 as set out in Appendix II to the Circular, after making pro forma adjustments relating to the Acquisition that are (i) directly attributable to the transaction; and (ii) factually supportable, as if the Acquisition had been completed on 31 January 2009.

The unaudited pro forma consolidated statement of comprehensive income and statement of cash flows are prepared by the directors to provide information of the Group upon completion of the Acquisition. As it is prepared for illustration purposes only, it does not purport to give a true picture of the results and cash flows of the Group following completion of the Acquisition.

A. Unaudited pro forma consolidated comprehensive income of the Enlarged Group

	The Group for the year ended 31.12.2009	Directwind Sales for the year ended 31.12.2009	Total before adjustments	Pro forma adjustments			Pro forma total for the Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Note c)	*(Note d)*	*(Note f)*	
Turnover	663,373	324,925	988,298	(314,565)	—	—	673,733
Cost of sales	(584,259)	(321,808)	(906,067)	312,842	—	—	(593,225)
Gross profit	79,114	3,117	82,231	(1,723)	—	—	80,508
Other income	19,333	645	19,978	—	—	—	19,978
Selling and distribution expenses	(20,437)	(2,249)	(22,686)	—	—	—	(22,686)
Administrative expenses	(117,637)	(5,679)	(123,316)	—	—	—	(123,316)
Increase in fair value of investment property	3,420	—	3,420	—	—	—	3,420
Recovery of fully impaired receivable from an associate	11,952	—	11,952	—	—	—	11,952
Finance costs	(53,051)	—	(53,051)	—	—	—	(53,051)
Share of results of associates	25,379	—	25,379	—	1,042	—	26,421
Share of results of jointly controlled entities	74,630	—	74,630	—	—	—	74,630
Impairment loss reversed in respect of interests in jointly controlled entities	55,189	—	55,189	—	—	—	55,189
Profit (loss) before taxation	77,892	(4,166)	73,726	(1,723)	1,042	—	73,045
Taxation	(7,091)	—	(7,091)	—	—	—	(7,091)
Profit and total comprehensive income (expense) for the year	70,801	(4,166)	66,635	(1,723)	1,042	—	65,954
Profit and total comprehensive income (expense) attributable to:							
Owners of the Company	68,033	(4,166)	63,867	(1,723)	1,042	2,061	65,247
Minority interests	2,768	—	2,768	—	—	(2,061)	707
	70,801	(4,166)	66,635	(1,723)	1,042	—	65,954

B. Unaudited pro forma consolidated statement of cash flows of the Enlarged Group

	The Group for the year ended 31.12.2009	Directwind Sales for the year ended 31.12.2009	Total before Adjustments	Pro forma adjustments				Pro forma total for the Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Note b)	*(Note c)*	*(Note d)*	*(Note e)*	
Operating activities								
Profit (loss) before taxation	77,892	(4,166)	73,726	—	(1,723)	1,042	—	73,045
Adjustments for:								
Interest income	(3,288)	(302)	(3,590)	—	—	—	—	(3,590)
Interest expenses	53,051	—	53,051	—	—	—	—	53,051
Share of results of associates	(25,379)	—	(25,379)	—	—	(1,042)	—	(26,421)
Share of results of jointly controlled entities	(74,630)	—	(74,630)	—	—	—	—	(74,630)
Depreciation of property, plant and equipment	28,120	284	28,404	—	—	—	—	28,404
Impairment reversed recognised in respect of interests in jointly controlled entities	(55,189)	—	(55,189)	—	—	—	—	(55,189)
Recovery of fully impaired receivable from an associate	(11,952)	—	(11,952)	—	—	—	—	(11,952)
Increase in fair value of investment property	(3,420)	—	(3,420)	—	—	—	—	(3,420)
Allowance for doubtful debts	5,538	—	5,538	—	—	—	—	5,538
Allowance for obsolete inventories	6,349	—	6,349	—	—	—	—	6,349
Loss on disposal of property, plant and equipment	68	—	68	—	—	—	—	68
Unrealised profit eliminated on sales to a jointly controlled entity	—	—	—	—	1,723	—	—	1,723
Operating cash flows before movements in working capital	(2,840)	(4,184)	(7,024)	—	—	—	—	(7,024)
Increase in inventories	(27,937)	—	(27,937)	—	—	—	—	(27,937)
(Increase) decrease in trade and other receivables	(74,796)	(218,577)	(293,373)	207,122	—	—	—	(86,251)
Increase in amounts due from related companies	—	3,369	3,369	701	—	—	—	4,070
(Increase) decrease in amounts due from associates	(83,641)	—	(83,641)	207,728	—	—	—	124,087
Increase in amount due from a jointly controlled entity	—	—	—	(207,122)	—	—	—	(207,122)
Increase (decrease) in amounts due to related companies	—	208,944	208,944	(208,429)	—	—	—	515
Increase in trade and other payables	76,870	9,871	86,741	—	—	—	—	86,741
Increase in amounts due to associates	404	—	404	—	—	—	—	404

	The Group for the year ended 31.12.2009	Directwind Sales for the year ended 31.12.2009	Total before Adjustments	Pro forma adjustments				Pro forma total for the Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Note b)	*(Note c)*	*(Note d)*	*(Note e)*	
Cash used in operations	(111,940)	(577)	(112,517)	—	—	—	—	(112,517)
Income taxes paid	(4,104)	—	(4,104)	—	—	—	—	(4,104)
Net cash used in operating activities	(116,044)	(577)	(116,621)	—	—	—	—	(116,621)
Investing activities								
Increase in fixed bank deposits	(148,200)	—	(148,200)	—	—	—	—	(148,200)
Increase in pledged bank deposits	(97,851)	—	(97,851)	—	—	—	—	(97,851)
Purchase of property, plant and equipment	(74,053)	(1,310)	(75,363)	—	—	—	—	(75,363)
Capital injection in a jointly controlled entity	(51,732)	—	(51,732)	—	—	—	—	(51,732)
Investments in associates	(14,820)	—	(14,820)	—	—	—	—	(14,820)
Deposits paid for acquisition of property, plant and equipment	(7,377)	—	(7,377)	—	—	—	—	(7,377)
Acquisition of additional interest in a subsidiary	(1,540)	—	(1,540)	—	—	—	—	(1,540)
Dividend received from a jointly controlled entity	112,453	—	112,453	—	—	—	—	112,453
Release of pledged bank deposits	41,599	—	41,599	—	—	—	—	41,599
Dividend received from associates	24,745	—	24,745	—	—	—	—	24,745
Interest received	3,288	302	3,590	—	—	—	—	3,590
Acquisition of a subsidiary, net of cash and cash equivalents acquired	—	—	—	—	—	—	1,244	1,244
Proceeds from disposal of property, plant and equipment	508	—	508	—	—	—	—	508
Net cash (used in) from investing activities	(212,980)	(1,008)	(213,988)	—	—	—	1,244	(212,744)

	The Group for the year ended 31.12.2009	Directwind Sales for the year ended 31.12.2009	Total before Adjustments	Pro forma adjustments				Pro forma total for the Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Note b)	*(Note c)*	*(Note d)*	*(Note e)*	
Financing activities								
New loans raised	901,780	—	901,780	—	—	—	—	901,780
Proceeds from issue of new shares/ paid-in capital	276,000	4,218	280,218	—	—	—	—	280,218
Capital contribution from minority shareholders of a subsidiary	38,762	—	38,762	—	—	—	—	38,762
Repayment of loans	(386,060)	—	(386,060)	—	—	—	—	(386,060)
Interest paid	(54,469)	—	(54,469)	—	—	—	—	(54,469)
Expenses incurred in connection with the issue of new shares	(10,130)	—	(10,130)	—	—	—	—	(10,130)
Dividend paid to minority interests	(5,711)	—	(5,711)	—	—	—	—	(5,711)
Net cash from financing activities	760,172	4,218	764,390	—	—	—	—	764,390
Net increase in cash and cash equivalents	431,148	2,633	433,781	—	—	—	1,244	435,025
Cash and cash equivalents at beginning of the year	212,465	3,068	215,533	—	—	—	(3,068)	212,465
Cash and cash equivalents at end of the year, representing bank balances and cash	643,613	5,701	649,314	—	—	—	(1,824)	647,490

Notes:

(a) Directwind Sales is a 25% owned associate of the Group established in Beijing, the People's Republic of China since 2008 and is principally engaged in the sales of wind turbines. Pursuant to the conditional acquisition agreement dated 10 February 2010, the Group will purchase an additional 40% equity interest in Directwind Sales from EWT.

The adjustments below are to reflect the combined effect of the Acquisition in accordance with Hong Kong Financial Reporting Standard 3 (Revised) "Business Combination" ("HKFRS 3 (Revised)") as if the Acquisition had taken place on 31 December 2009.

HKFRS 3 (Revised) is effective for business combination for which the acquisition date is on or after the beginning of accounting periods beginning on or after 1 July 2009. The Acquisition will be completed in 2010 and hence for the purposes of the preparation of the unaudited pro forma consolidated statement of financial position, it is assumed that the Enlarged Group has adopted HKFRS 3 (Revised).

The adjustments reflect (i) the recognition of the cash consideration for the Acquisition of HK$1,824,000; (ii) the transfer of interest in an associate amounting to HK$400,000; and (iii) the elimination of the paid-in capital and pre-acquisition reserves of Directwind Sales.

The adjustment to goodwill represents the excess of (i) over (ii) below:

(i) the aggregate of:

- the cash consideration transferred measured at fair value at the date of the Acquisition;
- the amount of the minority interest's proportionate share of the net identifiable assets of Directwind Sales; and
- the fair value of previously held equity interest.

(ii) the fair values of the identifiable assets acquired and the liabilities assumed at the date of the Acquisition.

For the purposes of the preparation of the unaudited pro forma financial information, the fair value of the 25% previously held equity interest is assumed to be equal to the carrying amount of the interest in the associate as at 31 December 2009 and the fair values of the identifiable net assets of Directwind Sales are assumed to be the same as their carrying amounts as at 31 December 2009.

On the completion date, the fair values of the identifiable net assets and contingent liabilities to be acquired and of the previously held equity interest will have to be determined in accordance with HKFRS 3 (Revised), and the amounts of adjustments are therefore subject to change. Accordingly, the actual goodwill at the completion date will also be different from the amount presented above.

The adjustment to minority interests of HK$560,000 represents the minority interest's proportionate share of the net identifiable assets of Directwind Sales.

(b) During the year ended 31 December 2009, the Group entered into sales transaction to sell wind turbines to Directwind Sales and these wind turbines were subsequently sold to a jointly controlled entity of the Group. The adjustments represent (i) the elimination of the current balances between the Group and Directwind Sales upon the completion of the Acquisition; (ii) the reclassification of trade and other receivables to amount due from a jointly controlled entity.

(c) The adjustments represent (i) the elimination of sales made to Directwind Sales of HK$314,565,000; and (ii) the elimination of unrealised profit arising from sales from Directwind Sales to a jointly controlled entity of the Group amounted to HK$1,723,000.

(d) For the purposes of the preparation of the pro forma consolidated statement of comprehensive income and statement of cash flows, adjustment was made to reverse the recognition of the share of result of an associate attributed from Directwind Sales as if the Acquisition had taken place on 1 January 2009.

(e) For the purposes of the preparation of the pro forma consolidated statement of cash flows, the adjustments were made for (i) the cash outflow of HK$1,824,000; and (ii) the cash inflow of HK$3,068,000 arising on the Acquisition as if it had taken place on 1 January 2009.

(f) The adjustment represents 35% minority interest in the profit of Directwind Sales after taking into account Note (c (ii)) as per above.

(g) Basis of translation

Translation of Renminbi ("RMB") into HK$ is made in the Unaudited Pro Forma Financial Information at the rate of HK$1 = RMB1.14.

II. ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of an accountants' report received from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for inclusion in this Circular, in respect of the unaudited pro forma financial information of the Enlarged Group as set out in this Appendix III.

ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION TO THE DIRECTORS OF CHINA ENERGINE INTERNATIONAL (HOLDINGS) LIMITED

We report on the unaudited pro forma financial information of China Energine International (Holdings) Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") and Beijing EWT-CASC Directwind Marketing and Sales Co. Ltd. (together with the Group hereinafter collectively referred to as the "Enlarged Group"), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the proposed acquisition might have affected the financial information presented, for inclusion in this Appendix of the circular dated 30 April 2010 (the "Circular"). The basis of preparation of the unaudited pro forma financial information is set out on pages III-1 and III-4 to the Circular.

Respective responsibilities of directors of the Company and reporting accountants

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The unaudited pro forma financial information is for illustrative purpose only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of:

- the financial position of the Group as at 31 December 2009 or any future date; or

- the earnings per share, results and cash flows of the Group for the year ended 31 December 2009 or any future period.

Opinion

In our opinion:

- the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;

- such basis is consistent with the accounting policies of the Group to the extent that such accounting policies are applicable to transactions which occur on or after 1 January 2010; and

- the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
30 April 2010

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 misleading.

2. DISCLOSURE OF INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE

(a) 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 corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or to be recorded in the register 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 Listed Companies in the Listing Rules.

(b) As at the Latest Practicable Date, none of the Directors had any direct or indirect interest 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 by or leased to the Enlarged Group.

(c) 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.

(d) None of the Directors as at the Latest Practicable Date, had any interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

3. 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 Group (except those expiring or determinable by the Company within a year without payment of compensation other than statutory compensation).

4. COMPETING INTEREST 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 Enlarged Group pursuant to the Listing Rules.

5. MATERIAL CONTRACTS

In addition to the Equity Transfer Agreement, the following contracts have been entered into by members of the Enlarged Group (otherwise than in the ordinary course of business) within the two years immediately preceding the Latest Practicable Date and are or may be material:

(a) a joint venture agreement dated 22 May 2009 entered into between Beijing Energine Industry Co. Ltd. ("Beijing Energine") (a wholly-owned subsidiary of the Company), and China Datong Corporation Renewable Power Co. Ltd. in respect of establishment of a jointly controlled entity, Inner Mongolia Datang Wanyuan New Energy Co. Ltd. (內蒙古大唐萬源新能源有限公司), in relation to which Beijing Energine's 49% share of investment in registered capital of the joint venture company amounted to RMB45,380,000 out of the total capital of RMB92,610,000 for development of Inner Mongolia Xinghe Energine Wind Farm;

(b) a trust loan contract entered into on 17 July 2009 of RMB130 million from CALT through the trustee, Aerospace Science & Technology Finance Co. Ltd ("Aerospace Finance") to Beijing Energine, being unsecured and bearing interest at 3.70% per annum;

(c) a trust loan contract entered into on 17 July 2009 of RMB67 million from CALT through the trustee, Aerospace Finance to Beijing Energine, being unsecured and bearing interest at 3.70% per annum;

(d) a loan contract entered into on 11 September 2009 of RMB300 million from Agricultural Bank of China to IM Turbine Manufacture being unsecured and bearing interest at 5.3% per annum.

(e) A joint venture agreement of 11 November 2009 between Tin Shun Industrial Ltd ("Tin Shun") and Wuxi New Great Power Electromotor Co., Ltd. to establish Wuxi CASC Energine Xindali Electricity Co. Ltd. as a subsidiary with registered capital of RMB80 million of which Tin Shun contributed RMB50 million representing 62.5% thereof.

Save as aforesaid, no material contracts (not being contracts entered into in the ordinary course of business carried on by the Enlarged Group) have been entered into by any member of the Enlarged Group within the two years preceding the date of this circular.

6. EXPERTS AND CONSENT

(a) The qualification of the expert who have given opinion or advice of the date of this circular which are contained in this circular is as follows:

Name	Qualification
KPMG	Certified Public Accountants
Deloitte Touche Tohmatsu ("Deloitte")	Certified Public Accountants

(b) As at the Latest Practicable Date, none of KPMG and Deloitte had any shareholding in the Enlarged Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Enlarged Group, nor did any of them 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 by or leased to the Enlarged Group.

(c) Each of KPMG and Deloitte has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its report and references to its name in the form and context in which they appear.

7. LITIGATION

As at the Latest Practicable Date, no member of the Enlarged Group 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 any member of the Enlarged Group.

8. 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 and the Chartered Institute of Management Accountants.

(b) The registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

(c) The principal place of business of the Company is Suite 4701, 47th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

(d) The English texts of this circular shall prevail over the Chinese texts.

(e) So far as is known to the Directors, as at the Latest Practicable Date, there was (i) no voting trust or other agreement or arrangement or understanding entered into by or binding upon any Shareholders; and (ii) no obligation or entitlement of any Shareholders, whereby he/she/it has or may have temporarily or permanently passed control over the exercise of the voting rights in respect of his/her/its Shares to a third party, either generally or on a case-by-case basis.

(f) So far as is known to the Directors, as at the Latest Practicable Date, there was no discrepancy between any Shareholder's beneficial shareholding interest in the Company as disclosed in this circular and the number of Shares in respect of which it will control or will be entitled to exercise control over the voting rights at the EGM.

9. 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 up to the date of the EGM (both dates inclusive):

(a) this circular;

(b) the memorandum and articles of association of the Company;

(c) the annual reports of the Company for the two years ended 31 December 2009;

(d) the accountants' reports on Directwind Sales from KPMG as set out in Appendix II to this circular;

(e) the report from Deloitte on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to this circular;

(f) the letters of consents referred to under the paragraph headed "Experts and consents" in this Appendix;

(g) the Equity Transfer Agreement;

(h) the material contracts referred to the paragraph headed "Material Contracts" in this Appendix; and

(i) the circular of 15 January 2010 on continuing connected transactions: framework agreement in relation to supply of wind turbine blades.

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 Energine 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 24 May 2010 at 12:30 p.m. for the purposes of considering and, if thought fit, passing the ordinary resolution set out as follows:—

ORDINARY RESOLUTION

"**THAT:**

(a) the equity transfer agreement dated 10 February 2010 (the "Equity Transfer Agreement") entered into between the Company and Emergya Wind Technologies B.V., ("EWT") (a copy of the Equity Transfer Agreement is tabled at the meeting and marked "A" and initialed by the chairman of the meeting for identification purposes) pursuant to which the Company will acquire from EWT a 40% registered capital of Beijing EWT-CASC Directwind Marketing and Sales Co. Ltd. be and is hereby approved, confirmed and ratified; and

(b) the execution of the Equity Transfer Agreement 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 Equity Transfer Agreement."

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

Hong Kong, 30 April 2010

* *For identification purpose only*

Note:

1. The votes to be taken at the meeting of the Company by the above notice will be taken by poll.

2. 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.

3. 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.

4. 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.

5. 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.

6. 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.

7. As at the date of this notice, the Board comprises Mr. Han Shuwang, Mr. Wang Xiaodong as Executive Directors, Mr. Wu Jiang, Mr. Tang Guohong and Mr. Li Guang as Non-executive Directors and Mr. Wang Dechen, Ms. Kan Lai Kuen, Alice and Mr. Gordon Ng as Independent Non-executive Directors.