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)

PROPOSED MANDATE FOR VERY SUBSTANTIAL DISPOSAL POSSIBLE DISPOSAL OF ALL 40% EQUITY IN A JOINT VENTURE BEIJING WANYUAN-HENNIGES SEALING SYSTEMS CO. LTD.

A letter from the Board is set out on pages 4 to 8 of this circular.

A notice convening the EGM to be held at Conference Hall 2, G/F, Core Building 1, Phase 1, No. 1 Science Park East Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong on 24 December 2013 at 12:00 noon 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*

6 December 2013

CONTENTS

DEFINITIONS

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

"Asset Valuation Report"	the Asset Valuation Report of Wanyuan Henniges as of 31 August 2013 prepared by PC Appraisal
"associate(s)"	having the meaning ascribed thereto in the Listing Rules
"ASTF"	Aerospace Science and Technology Finance Co. Ltd. (航天科技財務有限責任公司), a wholly-owned subsidiary of CASC established in Beijing, the PRC
"Beijing Energine"	Beijing Energine Industry Co. Ltd. (北京萬源工業有限公司), a wholly-owned subsidiary of the Company established in Beijing, the PRC
"Beijing Equity Exchange"	China Beijing Equity Exchange, an approved equity exchange
"Board"	the board of Directors
"CALT"	China Academy of Launch Vehicle Technology, the major shareholder of the Company holding 66.75% shareholding of the Company, a state-owned entity established in the PRC and wholly-owned by CASC
"CASC"	China Aerospace Science and Technology Corporation, a state-owned entity established in the PRC and 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
"Connected Person(s)"	having the meaning ascribed thereto in the Listing Rules
"Consideration"	the consideration for disposal of Transfer Equity
"Director(s)"	the director(s) of the Company
"EGM"	extraordinary general meeting to be held for granting Proposed Mandate to Directors
"Equity Transfer Agreement"	the equity transfer agreement to be entered into at end of the tender process between Beijing Energine and the successful bidder in relation to equity transfer of all 40% equity in Wanyuan Henniges held by Beijing Energine

"Group"	the Company and its subsidiaries
"Henniges"	Henniges Automotive Sealing Systems North America, Inc., a company incorporated in U.S.
"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
"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
"Latest Practicable Date"	3 December 2013, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"PC Appraisal"	Beijing Pan-China Assets Appraisal Co. Ltd., the PRC independent asset valuer for appraisal of asset value of Wanyuan Henniges
"Possible Disposal"	disposal of Transfer Equity through open tender process which may or may not complete as far as open tender process in Beijing Equity Exchange is concerned
"PRC"	the People's Republic of China
"Proposed Mandate"	a mandate to be granted to the Directors to enter into and complete the Possible Disposal by Shareholders at EGM
"Remaining Group"	the Group immediately after the Possible Disposal
"RMB"	Renminbi, the legal currency of the PRC
"SFO"	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 Ltd.
"subsidiary(ies)"	having the meaning ascribed thereto in the Listing Rules

"Transfer Equity"	40% equity of Wanyuan Henniges
"Trustee"	the trustee in the tender process, which is Beijing Equity Exchange acting as the trustee to collect the consideration monies on behalf of vendor through a trustee account and release the monies to vendor when all the procedures for change of owner of the Transfer Equity completes under consideration monies trustee and settlement agreement to be entered into between Beijing Equity Exchange, the bank with which the trustee account is opened, Beijing Energine and the purchaser
"Wanyuan Henniges"	Beijing Wanyuan-Henniges Sealing Systems Co. Ltd. (北京萬源瀚德汽車密封系統有限公司), a sino-foreign joint entity enterprise incorporated in Beijing, PRC
"%"	per cent

The exchange rates for RMB:HK$ for translation for 2010, 2011, 2012 and 2013 are 1.16, 1.2, 1.233 and is 1.255 respectively.

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 (*Vice-Chairman*)
Mr. Li Guang
Mr. Wang Lijun

Non-executive Directors:
Mr. Fang Shili
Ms. Zhang Jianhua

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

6 December 2013

To the shareholders of the Company

Dear Sir or Madam,

PROPOSED MANDATE FOR VERY SUBSTANTIAL DISPOSAL POSSIBLE DISPOSAL OF ALL 40% EQUITY IN A JOINT VENTURE BEIJING WANYUAN-HENNIGES SEALING SYSTEMS CO. LTD.

INTRODUCTION

It was announced on 30 October 2013 that Beijing Energine, a wholly-owned subsidiary of the Company, intended to proceed with a Possible Disposal of all its 40% equity of the joint venture, Wanyuan Henniges through an open tender process in Beijing Equity Exchange commencing in early November 2013 for a consideration of no less than RMB207,137,000 payable in cash. The open tender process had commenced on 26 November 2013 and is expected to be completed on 23 December 2013.

* *For identification purpose only*

The purpose of this circular is (i) to provide you with further information in relation to, amongst other things, the Possible Disposal, and (ii) to give you a notice of EGM with resolution approving the Proposed Mandate to proceed with the open tender process of the Possible Disposal.

The Equity Transfer Agreement (to be entered into at the end of the tender process)

Parties:

1. Beijing Energine, as vendor, a wholly-owned subsidiary of the Company; and

2. successful bidder of the tender process (not yet known as of today), which is expected to be an independent third party of the Company since all Connected Persons of the Company had advised to the Company that they would not bid in the tender process

Expected Date: 24 December 2013 after the tender process ends on 23 December 2013, the 20th working day after the tender announcement date of 25 November 2013

Assets to be disposed:

All 40% equity of Wanyuan Henniges being held by Beijing Energine, the Transfer Equity

From the date of payment of the consideration mentioned hereinafter in full to the Trustee in the tender process, the purchaser, that is the successful bidder, will be entitled to exercise 40% equity interest over Wanyuan Henniges in taking up all of the directorship of Beijing Energine as the transfer of the control relating to the 40% equity in effecting the disposal.

Consideration:

The Consideration for the Transfer Equity amounts to no less than RMB207,137,000 (HK$259,957,000), the initial bidding price in the bidding process, which will be paid by the purchaser in cash to the Trustee in the tender process within about 30 days from the date of the entering into the Equity Transfer Agreement.

The Consideration will be the highest bid price dependent upon the bid price to be offered by the successful bidder in the tender process, which will not be lower than the initial bidding price that is based on a valuation report as to valuation base date of 31 August 2013 produced by a PRC qualified independent valuer, PC Appraisal, whose summary with details of assumptions in relation thereto is set out in Appendix IV of this circular.

The Company will make separate announcement on the above expected date of entering into the Equity Transfer Agreement of 24 December 2013 for the purpose of announcing the details thereof as to the successful bidder i.e. the purchaser and the final bidding price of the tender i.e. the Consideration of the Possible Disposal according to the Listing Rules.

Completion:

Completion will take place on the later of EGM to be held for grant of such mandate to the Directors for the Possible Disposal or payments of all Consideration to the Trustee in the tender process by the purchaser.

Information on Wanyuan Henniges:

Wanyuan Henniges was established on 28 December 1995 with registered capital of RMB100 million. Its registered shareholders as of the date of this circular are Henniges and Beijing Energine with respective shareholding of 60% and 40%, a sino-US joint venture.

Wanyuan Henniges specializes in manufacturing of medium-to-high class automotive sealing products in the domestic markets. Its products are classified into sealing systems, glass encapsulation and modular systems. The products' quality control standards are on par with the international advanced level.

Wanyuan Henniges has 5 plants located in Beijing, Tianjin, Changchun, Tieling, and Chengdu. It supplies sealing systems to the various makes of auto manufacturers including FAW-Volkswagen, Shanghai Volkswagen, Dongfeng Citroen, Shanghai General Motors, FAW, BAIC, and Geely.

Wanyuan Henniges has been a joint venture of the Company, whose results and share of net assets have been equity accounted for in the Company's consolidated financial statements. This equity accounting therefor will cease upon disposal of the joint venture.

According to the reviewed financial statements of Wanyuan Henniges prepared under Hong Kong Financial Reporting Standards as set out in the Appendix II to this circular, the profits before and after taxation for the year 2011 were HK$28,471,000 and HK$24,080,000 respectively; and those for the year 2012 were HK$36,804,000 and HK$32,953,000 respectively. As at 31 August 2013, the reviewed net asset value of Wanyuan Henniges prepared under Hong Kong Financial Reporting Standards amounted to HK$326,876,000.

REASONS AND BENEFITS FOR THE POSSIBLE DISPOSAL

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

The reason of the Possible Disposal is to realize the capital appreciation of Wanyuan Henniges and to procure working capital for the Group for the expansion of its core business of manufacture and sales of wind turbines in making purchases of the components of wind turbines.

The unaudited pro forma gain arising out of the Possible Disposal for the Company, representing the difference between the initial bidding price of the Possible Disposal of RMB207,137,000 and the carrying value of the interest in Wanyuan Henniges of RMB101,169,000 in the unaudited consolidated financial statements of the Group as of 31 August 2013 less the estimated cost relating to the Possible Disposal of HK$1,500,000 will amount to approximately HK$131,490,000.

Upon disposal, the total asset value or net asset value of the Group (with no change of total liabilities) will increase by approximately HK$131,490,000 and gain of approximately HK$131,490,000 will be recognized in the accounts of the Group.

In addition, the audited consolidated net asset value of the Group as at 31 December 2012 as extracted from the consolidated statement of financial position of the Group as at 31 December 2012 amounted to HK$1,981 million, representing the difference of total assets of HK$4,561 million and total liabilities of HK$2,580 million.

According to the unaudited pro forma financial information of the Remaining Group as set out in Appendix III to this circular, assuming the Possible Disposal had been completed on 31 December 2012, the unaudited pro forma net assets of the Remaining Group would have been HK$2,127 million, representing the difference of unaudited pro forma total assets of HK$4,707 million and unaudited pro forma total liabilities of HK$2,580 million.

The audited consolidated profit of the Group for the year ended 31 December 2012 attributable to owners of the Company as extracted from the consolidated statement of comprehensive income of the Group for the year ended 31 December 2012 amounted to HK$26.60 million.

According to the unaudited pro forma financial information of the Remaining Group as set out in Appendix III to this circular, assuming the Possible Disposal had been completed on 1 January 2012, the unaudited pro forma profit of the Remaining Group attributable to owners of the Company would be HK$167.03 million.

The Directors, including the independent non-executive directors, consider that the terms of the Possible Disposal are fair and reasonable, on normal commercial terms, and in the interest of the Company and the Shareholders as a whole.

IMPLICATIONS UNDER THE LISTING RULES

Since the applicable percentage ratio under the Chapter 14 of the Listing Rules in respect of the Proposed Mandate is more than 75%, the Possible Disposal constitutes a very substantial disposal thereunder. The Possible Disposal is subject to the approval of the Company's Shareholders at an EGM. In this connection, the Company is to seek to obtain a mandate from the Shareholders to authorize the Directors to proceed with the open tender process of the Possible Disposal which had commenced on 26 November 2013. The Possible Disposal shall not be a connected transaction of the Company since all Connected Persons of the Company had advised to the Company that they would not bid in the tender process.

FINANCIAL AND TRADING PROSPECTS OF THE REMAINING GROUP

The directdrive wind turbine developed by the Group with proprietary intellectual property rights participated in fierce competition in the domestic market which is currently a buyers' market, and was highly recognized by wind farm developers within the industry for its simple structure, high reliability, high efficiency and low operation and maintenance costs. The Group continued to give full play to the advantages of technology, quality and service of CASC directdrive wind turbines. On this basis, the Group capitalised on its products' leading edge and achieved cost control by adopting the strategy of technology enhancement and batch production through research and development, thereby achieving high supply chain performance and enhanced cost effectiveness to proactively address challenges.

EGM

Set out on pages N1 to N2 is a notice convening the EGM to be held at Conference Hall 2, G/F., Core Building 1, No.1 Science Park East Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong on 24 December 2013 at 12:00 noon at which an ordinary resolution will be proposed to the Shareholders to consider and, if thought fit, approve the Possible Disposal through open tender and authorise the Directors to proceed with the open tender for the Possible Disposal.

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 Possible Disposal. No Shareholders are accordingly required to abstain from voting at the EGM. The Company's major shareholder, CALT, holding 66.75% shareholding of the Company, had given a confirmation to the Company that they would vote for the Proposed Mandate in the EGM for grant of the Mandate in this regard.

RECOMMENDATION

The Directors, including the independent non-executive directors, of the Company are of the view that the Possible Disposal is fair and reasonable and in the interests of the Company and of the Shareholders as a whole. The Directors therefore recommend the Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Proposed Mandate.

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. FINANCIAL INFORMATION

The audited consolidated financial statements of the Group for the years ended 31 December 2010, 2011 and 2012 and the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2013 are disclosed in the 2010 (pages 61 to 172), 2011 (pages 59 to 172) and 2012 (pages 56 to 168) annual reports and 2013 interim report (pages 19 to 48) of the Company respectively, all of which have been published on the website of the Hong Kong Stock Exchange (www.hkex.com.hk) and of the Company (www.energine.hk).

II. MANAGEMENT DISCUSSION AND ANALYSIS OF THE REMAINING GROUP

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

Capital Management

The Remaining Group manages its capital to ensure that entities in the Remaining 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 Remaining Group's overall strategy remains unchanged throughout the period from 1 January 2010 to the Latest Practicable Date.

The capital structure of the Remaining 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 Remaining 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.

Set out below is the management discussion and analysis on the Remaining Group:

(i) ***For the six months ended 30 June 2013***

RESULTS SUMMARY

As of 30 June 2013, the Remaining Group's turnover for the first half of 2013 amounted to HK$282.61 million as compared to that of 2012 of HK$248.06 million, representing HK$34.55 million, or 14%, increase in turnover; the loss attributable to the Company's owners for the period amounted to HK$6.30 million. The turnover for the period comprised sale of wind energy related products of HK$165.44 million, sale of electricity generated from wind farm of HK$15.67 million, sale of rare-earth permanent magnet motor products of HK$23.51 million, sale of chemical materials of HK$63.70 million and sales of HK$14.29 million related to telecommunication business whereas that of the same period last year comprised sale of wind energy related products of HK$128.43 million, sale of electricity generated from wind farm of HK$15.83 million, sale of rare-earth permanent magnet motor products of HK$14.56 million, sale of chemical materials of HK$73.53 million and sales of HK$15.71 million related to telecommunication business.

BUSINESS REVIEW

Business of Wind Energy

In 2013, the directdrive wind turbine developed by the Remaining Group with proprietary intellectual property rights participated in fierce competition in the domestic market which is currently a buyers' market, and was highly recognized by wind farm developers within the industry for its simple structure, high reliability, high efficiency and low operation and maintenance costs. The Remaining Group continued to give full play to the advantages of technology, quality and service of CASC directdrive wind turbines. On this basis, the Remaining Group capitalised on its products' leading edge and achieved cost control by adopting the strategy of technology enhancement and batch production through research and development, thereby achieving high supply chain performance and enhanced cost effectiveness to proactively address challenges. Through Inner Mongolia Wind Turbine General Assembling Plant, and Gansu Wind Turbine General Assembling Plant, the Remaining Group realized mass production of a number of self-developed models (especially 1.5MW excitation magnetic directdrive wind turbine, 2MW permanent magnet directdrive wind turbine and 2MW excitation magnetic directdrive wind turbine), and adopted the strategy of establishing good relationship with several provincial and autonomous regions' governments to gain their supports and leveraging on provincial and autonomous regions' quotas for wind energy to obtain more wind resources in seeking more production orders for wind turbines, thereby increasing our market share. At present, the Remaining Group has considerable wind energy resources in various major wind power bases planned by the State, including Wulatehouqi in Inner Mongolia, Jiuquan City and Wuwei City in Gansu, Ningde City in Fujian, Tieling City in Liaoning, Suihua City in Heilongjiang and Tangshan City in Hebei, effective pushing sales of wind turbines and bringing in promising income to the Remaining Group continually.

In 2013, the marketing strategy was adjusted. The Remaining Group's wind power operations were expanding gradually in scale, while the industrial layout tended to rationalise, with gradual improvements in technology and product series, and performance of products was gradually stabilized. Under such new trends, the strategy of "walking on two legs" was implemented, while exchanging resources for orders, developing and maintaining key areas and key customers, we also participated in market competition on a large scale to expand the sales regions and increase our sales efforts.

The Remaining Group had formulated market development strategies for key regions and key customers. As of to date, in terms of customers, the Remaining Group has established more stable and secure business relationship with large power companies such as Huadian, Guodian and Datang, all of which have become our key customers. In terms of sales regions, the Remaining Group has made substantial progress in the key regions of Inner Mongolia, Gansu and Liaoning, paving a solid foundation for future developments.

Since the directdrive wind turbines are characterized by gearless drive, the use of low-speed large-torque generators, full-power convertor and strong resistance to grid voltage fluctuations, their advantages include low wear and tear, high efficiency of electricity generation, small size, light weight, easy to maintain and low operating cost when compared with the traditional wind turbines. As such, the directdrive wind turbines, in particular, the 1.5MW and 2MW excitation magnetic directdrive wind turbines being launched mainly by the Remaining Group have visible optimism in the market. In addition, the AC-DC-AC total inverter grid-connection technology employed by directdrive wind turbines can meet the standards under the "Design regulations for grid-connection technology of large-scale wind farms" issued by National Energy Administration in 2011, which provided a series of requirements such as low-voltage ride-through, grid compatibility and power test, bringing rare opportunities to the Remaining Group's wind turbine business.

In 2013, the Remaining Group is producing 70 sets of 140,000KW 2MW excitation magnetic directdrive wind turbine which are to be delivered in this year and 50 sets of 100,000KW 2MW excitation magnetic directdrive wind turbine to be delivered in the first quarter of next year, including the sales contract for 200,000KW 2MW excitation magnetic wind turbines in Yumen City, Gansu, with Huadian New Energy and the sales contract for 40,000KW 2MW excitation magnetic wind turbines in Xiapu City, Fujian, with Energine Min Jian. In addition, the Remaining Group entered into a sales contract for 150 sets of 1.5MW wind turbines in the first half of this year. The wind turbines are being produced, expecting to be delivered in the second half of this year.

In April 2013, the Remaining Group, according to strategy of focusing on our Group's main products of 1.5MW and 2MW excitation directdrive wind turbines, reduced resources on development and production of 2MW double-fed wind turbines in reducing appointing 1 director to the board of Suzhou Energine Tepu Wind Energy Technology Co. Ltd. ("Suzhou Wind Energy"), a 41.28% equity subsidiary to appointing 2 directors, being less than half of the 5-director board. The Remaining Group therefore lost its control over Suzhou Wind Energy. Suzhou Wind Energy accordingly became an associate of the Remaining Group.

Research and Development of Technology

In early 2013, the research on storage technology was established as a project, researching graphene extraction technology in an effort to realize batch production of high-quality graphene and high-performance energy storage battery pack leveraging on their proprietary. Graphene, a kind of new material with singular flake structure composed of carbon atoms, is one of the best conductive materials in the world. The anode material of lithium ion battery made by graphene is able to significantly increase the energy storage capacity and shorten charging time of the battery, thus effectively resolving the bottleneck problem of applying lead-acid battery and traditional lithium ion battery to electric vehicles. The energy storage device of graphene is characterized by extra-long recycling life and high current during the process of charging and discharging, therefore there is huge market room of graphene-based new battery anode material and super capacitor under the research and development. In the meantime, the Company's Research and Development Centre has achieved a breakthrough progress on research and development area relating to energy storage system integration and intelligent power grip, enabling us to obtain market orders shortly in September to October this year.

During the same period, research and development on the 3MW permanent magnet directdrive wind turbines commenced officially. Currently, the technical development route and concept design plan for the 3MW permanent magnet wind turbines have been ascertained, and organizing preliminary survey and research on the ancillary market for wind turbine components has been completed.

In June, technical solutions regarding the research and development as well as localisation of production of the 2MW excitation magnetic wind turbine control system have been ascertained, and the design, production and commissioning of the control system prototype hardware for localisation have been initially completed, which will reduce the procurement costs of wind turbines effectively.

In the first half of the year, the Remaining Group had put forth improvement and optimization plans for 2MW excitation magnetic wind turbines in tackling low wind speed conditions, the theoretical model of the improved turbine prototype was completed and the adaptability design of the 2MW wind turbine for low wind speed commenced officially.

In the first half of the year, the Remaining Group's telecommunication business, as encouraged by China's state policies, invested funds in the research and development of Beidou GPS terminal technology.

Production Management

In 2013, the Remaining Group proceeded cost control rigorously with strengthening analyses of wind turbine costs and further reduction of purchasing costs of wind turbines in striving to realize the reduction of the purchasing cost of the localised control systems by no less than 15%. The supply chain relating to wind turbine components were further improved with system on conducting appraisals and dynamic assessments of eligible suppliers, establishing management structure on eligible suppliers.

Trading of Materials

In 2013, Beijing Energine continued the trading business of chemical raw materials.

Wind Farm Operations

The Remaining Group's wind farm operations comprise a wind farm controlled and operated by the Remaining Group: the CASC Long Yuan (Benxi) wind farm of Liaoning Benxi, installed with 29 sets of 850KW wind turbines with a capacity of 24,650KW; three wind farms invested and constructed by the Remaining Group: the Jilin Tongyu wind farm of Jilin Longyuan, installed with 236 sets of 850KW wind turbines with a capacity of 200,000KW; the Jiangsu Rudong wind farm of Jiangsu Longyuan, installed with 100 sets of 1.5MW wind turbines with a capacity of 150,000KW and the Datang Wanyuan Xinghe wind farm of Inner Mongolia Xinghe, installed with 55 sets of 900KW directdrive wind turbines with a capacity of 49,500KW.

In addition, Energine Min Jian New Energy Investment Co., Ltd., the Remaining Group's associated company, formally engaging in offshore and land wind power projects in eastern Fujian through its subsidiary, Yingkou Wind Power Generation Co., Ltd., secured market orders for the Remaining Group for the purchase of 2MW directdrive wind turbine models produced by the Remaining Group.

Business of New Materials

Jiangsu Aerospace Wan Yuan REPM Motor Co., Ltd., controlled and operated by the Remaining Group, is a high-tech enterprise which specializes in the research and development, manufacture, and sales of rare-earth permanent magnet gearless traction machines for elevators. The "航天萬源" branded rare-earth permanent magnet gearless traction machines and its driving control system researched and developed by the company itself had filled the technological gap of the domestic gearless elevator sector.

Wuxi CASC Energine Xindali Electricity Co., Ltd. ("Wuxi Generator Plant"), the Remaining Group's associated company, is engaged in batch production of 900KW and 1.5MW generators. Its self-developed 1.5MW excitation magnetic directdrive wind power generator, with application of many new technologies, was awarded the First Prize of Outstanding Contribution to Science and Technology Progress in 2011 by CALT. Therefore, the Remaining Group is equipped with the internal capacity to supply core parts and components of wind turbines, including blades and generators, thereby reducing its reliance on upstream suppliers of the wind turbine supply chain for purchasing generators and controlling the supply risk of the wind turbine supply chain and production cost.

Business of Automotive Component Parts

Automotive engine management systems

Beijing Delphi Wan Yuan Engine Management Systems Co. Ltd, a joint venture, is a leading supplier in the domestic automotive electronic fuel injection market with a stable market share, ranking the second nationwide and supplies to almost all major domestic automobile manufacturers. As for export sales, its products are sold to automobile manufacturers in Europe and North America.

The joint venture recorded sales revenue of HK$1,751.34 million in the first half of 2013, representing an increase of HK$97.59 million period-on-period. Its sales expansion and costs reduction were successfully achieved.

PROSPECTS

Looking ahead, the Remaining Group will continue to improve the progress in domestic production of wind turbines, focus on the development of 3MW and 5MW wind turbines in line with the Twelfth Five-year Plan to capture the future market share of wind turbines and increase cooperation opportunities with other large-scale power generation groups, primarily develop new markets of graphene energy storage technology devices, refine the batch production of rare-earth motors and secure financing for the Remaining Group. We will further expand the scale of energy conservation and environmental protection business as well as strengthen our internal management to ensure the sustainable development of the Remaining Group and create greater benefits for shareholders in wealth and good reputation.

HUMAN RESOURCES AND REMUNERATION POLICY

As at 30 June 2013, the Remaining Group had 34 employees in the Hong Kong head office and 658 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 Remaining 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 Remaining Group as at 30 June 2013 were HK$1,795,107,000, of which HK$71,295,000 was floating-rate borrowing and the remaining was fixed-rate borrowing. All borrowings of the Remaining Group were determined at market interest rate. The Remaining Group has not issued any financial instruments for hedging or other purposes.

The total borrowings comprised (a) unsecured bank loans of HK$430,736,000 or RMB343,103,000; (b) shareholder's loans in aggregate amounting to HK$1,293,076,000 or RMB1,030,000,000 representing short term loans advanced from CALT, the intermediate holding company of the Group, through CASC's subsidiary, Aerospace Science and Technology Finance Co., Ltd. ("ASTF") of HK$313,853,000 or RMB250,000,000 plus long term loans of HK$979,223,000 or RMB780,000,000; (c) a long term other loan of HK$71,295,000 or RMB56,790,000 advanced from a non-controlling shareholder of a subsidiary, repayable in full in November 2020.

Gearing ratio (total borrowings to shareholders' equity) as at 30 June 2013 was 98%.

Pledge of Assets

As at 30 June 2013, certain assets of the Remaining Group of HK$11,571,000 have been pledged to secure bank facility.

Exchange and Other Exposures

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

Contingent Liabilities

As at 30 June 2013, the Remaining Group issued guarantees to banks in respect of banking facilities with amounts of HK$22,979,000 and HK$25,108,000 granted to a third party and an associate respectively, of which HK$25,108,000 has been utilised.

(ii) ***For the year ended 31 December 2012***

RESULTS SUMMARY

As of 31 December 2012, the Remaining Group's turnover for the year 2012 amounted to HK$989.89 million with a profit for the year attributable to the Company's owners of HK$11.50 million as compared to the turnover of HK$406.29 million for the year 2011, representing an increase of 144% in turnover. The turnover for the year comprised sales of wind energy related products of HK$734.69 million, sales of electricity generated from wind farms of HK$29.43 million, sales of rare-earth permanent-magnet motor products of HK$31.26 million, sales of chemical materials of HK$166.79 million and sales of HK$27.71 million related to telecommunication business, whereas the turnover in 2011 comprised sales of wind energy related products of HK$196.79 million, sales of electricity generated from wind farms of HK$28.42 million, sales of rare-earth permanent-magnet motor products of HK$28.95 million, sales of chemical materials of HK$106.77 million and sales of HK$45.36 million related to telecommunication business. The increase in turnover was mainly due to the increase in sales of the Remaining Group's wind energy related products by HK$537.90 million, representing an increase of 273% year-on-year, with wind turbines sold in 2012 increased by 143 sets of 1.5MW wind turbines.

BUSINESS REVIEW

Business of Wind Energy

In 2012, the directdrive wind turbine developed by the Remaining Group with proprietary intellectual property rights participated in fierce competition in the domestic market which is currently a buyers' market, and was highly recognized by wind farm developers within the industry for its simple structure, high reliability, high efficiency and low operation and maintenance costs. The Remaining Group continued to give full play to the advantages of technology, quality and service of CASC directdrive wind turbines. On this basis, the Remaining Group capitalised on its products' leading edge and achieved cost control by adopting the strategy of technology enhancement and batch production through research and development, thereby achieving high supply chain performance and enhanced cost effectiveness to proactively address challenges. Through Inner Mongolia Wind Turbine General Assembling Plant, Gansu Wind Turbine General Assembling Plant and Jiangsu Energine Wind Turbine General Assembling Plant, the Remaining Group realized mass production of a number of self-developed models (especially 1.5MW excitation magnetic directdrive wind turbine, 2MW permanent magnet directdrive wind turbine and 2MW excitation magnetic directdrive wind turbine), and adopted the strategy of establishing good relationship with several provincial and autonomous regions' governments to gain their supports and leveraging on provincial and autonomous regions' quotas for wind energy to obtain more wind resources in seeking more production orders for wind turbines, thereby increasing our market share. At present, the Remaining Group has considerable wind energy resources in various major wind power bases planned by the State, including Wulatehouqi in Inner Mongolia, Jiuquan City and Wuwei City in Gansu, Ningde City in Fujian, Chuxiong City in Yunnan and Tieling City in Liaoning, laying a robust foundation for the Remaining Group's batch production of wind turbines during the year, which in turn will bring in promising income to the Remaining Group.

Since the directdrive wind turbines are characterized by gearless drive, the use of low-speed large-torque generators, full-power convertor and strong resistance to grid voltage fluctuations, their advantages include low wear and tear, high efficiency of electricity generation, small size, light weight, easy to maintain and low operating cost when compared with the traditional wind turbines. As such, the directdrive wind turbines, in particular, the 1.5MW and 2MW excitation magnetic directdrive wind turbines being launched mainly by the Remaining Group from now onwards have visible optimism in the market. In addition, the AC-DC-AC total inverter grid-connection technology employed by directdrive wind turbines can meet the standards under the "Design regulations for grid-connection technology of large-scale wind farms" issued by National Energy Administration in 2011, which provided a series of requirements such as low-voltage ride-through, grid compatibility and power test, bringing rare opportunities to the Remaining Group's wind turbine business.

In 2012, the Remaining Group sold a total of 16 sets of 2MW wind turbine and 143 sets of 1.5MW wind turbine. Meanwhile, the Remaining Group also successfully entered into sales contracts for 240,000 KW 2MW excitation magnetic directdrive wind turbine (120 sets) which will be delivered in 2013, including the sales contract for 200,000 KW 2MW excitation magnetic wind turbines in Yumen City, Gansu, with Huadian New Energy and the sales contract for 40,000 KW 2MW excitation magnetic wind turbines in Xiapu City, Fujian, with Energine Min Jian.

Research and Development of Technology

During the first half of 2012, the Remaining Group has identified 1.5MW and 2MW excitation magnetic directdrive wind turbines as its flagship products in the future.

Based on wind farm conditions such as wind speed, air density and altitude, we researched and developed 1.5MW excitation magnetic directdrive wind turbines with wind wheel diameters of 77, 83 and 88 meters and 2MW excitation magnetic directdrive wind turbines with wind wheel diameters of 90, 93, 97 and 101 meters.

In September 2011, the Remaining Group established a science and technology committee, which formed a research and development project team on 2MW excitation magnetic directdrive wind turbines to undertake the special research on intellectual property of 2MW excitation magnetic directdrive wind turbines. The Remaining Group has applied for 4 patents for invention and 7 patents for utility model and registered 5 softwares in relation to wind energy in 2012. One of the invention patents was recognized as an outstanding invention by the China Academy of Launch Vehicle Technology ("CALT"). We completed the installation of the prototype of 2MW excitation magnetic directdrive wind turbine in June 2012, which is currently in good operating condition at full capacity. In 2013, a project on the research and development of 3MW permanent-magnet directdrive wind turbine is being pursued.

Production Management

In 2012, during the process of batch production of 1.5MW excitation magnetic and 2MW permanent magnetic directdrive wind turbines, the management system and business process suitable for batch production were further improved. The Remaining Group has clearly clarified the driving department for the management of scientific research and production with enhanced management planning. Through special project plan and deployment manoeuvring, orderly batch production of wind turbines was ensured under the guidance of the plans. The management procedure was reorganized with clearcut definition of responsibilities and duties between different departments.

Thus we can achieve efficient operation of personnel movement, logistics, cash flows and information flows in the various processes of sales, planning, design, production, purchasing and finance, as well as effective closed-loop management and control.

In 2012, the Remaining Group's focus of production management was on the strengthening of quality assurance management. The Remaining Group improved all aspects of quality control according to the characteristics of directdrive wind turbines and formulated the Procedures for the Treatment of Parts and Components with Quality Issues, Procedures for the Treatment of Wind Farm Quality Issues and Procedures for the Treatment of Plant Quality Issues.

Also, the Remaining Group established the Quality Tracking System for the Installation of Wind Turbines which needed measures to be taken to follow up and confirm the effects in a timely manner. Furthermore, the Remaining Group organized quality engineers to prepare the quality control requirements for parts and components according to the degree of importance and the level of risk of various parts and components, and specified the quality requirements for, among others, the manufacturing, testing, inspection, packaging and delivery of parts and components, based on the national standards and technical specifications. In addition, the Remaining Group included the quality requirements for parts and components in contracts, which resulted in the advancement of quality control and the increased emphasis on product quality by suppliers, hence product quality was effectively improved, quality disputes were reduced and product quality risk was lowered. The Remaining Group successively completed the preparation of the quality control requirements for key parts and components of the 1.5MW excitation magnetic wind turbines, 2MW permanent magnetic wind turbines and 2MW excitation magnetic wind turbines, and established a team of quality engineers in order to enhance the detection capacities for the parts and components through purchase of the detection equipment, providing scientific basis for the evaluation of quality of large parts and components for acceptance such as the nacelle, hub and tower of wind turbines and ensured the quality of the wind turbine assembling.

The Remaining Group focused its efforts on the strengthening of the safety check and risk management. The Remaining Group implemented the comprehensive supervision and inspection on subsidiaries and investigated 29 potential safety risks, carried out the monthly safety self-inspection activities and thoroughly investigated the potential safety risks down-to-the-ground with "zero tolerance", organized the staff to study the safety risks at various posts, proper preventive measures and emergency treatment measures, and carried out drills on the fire safety emergency plan in the Inner Mongolia Industrial Park which effectively improved the emergency treatment capacities of the front-line staff. Safety slogans and logos were posted, and various safety promotion materials were distributed at public places, staff dormitory and production workshops of each plant zone of subsidiaries. Experienced safety officers were hired to give safety training lectures. Safety knowledge tests were carried out on all middle-level executives of the Remaining Group and all the staff were educated on safety during festival days. Subsidiaries under the Remaining Group had signed production safety notifications with all of their staff, which not only enhanced the safety awareness of the staff, but also further refined the production safety management in detail and ensured that no material accidents occurred throughout the year.

Trading of Materials

In 2012, BEI continued the trading business of chemical raw materials in connection with production of wind turbine blades and recorded a significant increase.

Wind Farm Operations

The Remaining Group's wind farm operations comprise a wind farm controlled and operated by the Remaining Group: the CASC Long Yuan (Benxi) wind farm of Liaoning Benxi, installed with 29 sets of 850KW wind turbines with a capacity of 24,650KW; three wind farms invested and constructed by the Remaining Group: the Jilin Tongyu wind farm of Jilin Longyuan, installed with 236 sets of 850KW wind turbines with a capacity of 200,000KW; the Jiangsu Rudong wind farm of Jiangsu Longyuan, installed with 100 sets of 1.5MW wind turbines with a capacity of 150,000KW and the Datang Wanyuan Xinghe wind farm of Inner Mongolia Xinghe, installed with 55 sets of 900KW directdrive wind turbines with a capacity of 49,500KW.

In addition, Energine Min Jian New Energy Investment Co., Ltd., the Remaining Group's associated company, formally engaging in offshore and land wind power projects in eastern Fujian through its subsidiary, Yingkou Wind Power Generation Co., Ltd., secured market orders for the Remaining Group for the purchase of 2MW directdrive wind turbine models produced by the Remaining Group.

Business of New Materials

Jiangsu Aerospace Wan Yuan REPM Motor Co., Ltd., controlled and operated by the Remaining Group, is a high-tech enterprise which specializes in the research and development, manufacture, and sales of rare-earth permanent-magnet gearless traction machines for elevators. The "航天萬源" branded rare-earth permanent-magnet gearless traction machines and its driving control system researched and developed by the company itself had filled the technological gap of the domestic gearless elevator sector.

Wuxi CASC Energine Xindali Electricity Co., Ltd. ("Wuxi Generator Plant"), the Remaining Group's associated company, is engaged in batch production of 900KW and 1.5MW generators. Its self-developed 1.5MW excitation magnetic directdrive wind power generator, with application of many new technologies, was awarded the First Prize of Outstanding Contribution to Science and Technology Progress in 2011 by CALT. Therefore, the Remaining Group is equipped with the internal capacity to supply core parts and components of wind turbines, including blades and generators, thereby reducing its reliance on upstream suppliers of the wind turbine supply chain for purchasing generators and controlling the supply risk of the wind turbine supply chain and production cost.

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 supplier in the domestic automotive electronic fuel injection market with a stable market share, ranking the second nationwide and supplies to almost all major domestic automobile manufacturers. As for export sales, its products are sold to automobile manufacturers in Europe and North America.

The jointly controlled entity recorded sales revenue of HK$3,351.56 million in 2012, representing an increase of HK$302.11 million year-on-year. Its sales expansion and costs reduction were successfully achieved.

PROSPECTS

Research and development on graphene technology

In May 2012, the Company entered into agreements on joint research and development with various international and domestic renowned colleges, institutions and corporations in an effort to realize batch production of high-quality graphene and high-performance energy storage battery pack leveraging on their proprietary graphene extraction technology. Graphene, a kind of new material with singular flake structure composed of carbon atoms, is one of the best conductive materials in the world. The anode material of lithium ion battery made by graphene is able to significantly increase the energy storage capacity and shorten charging time of the battery, thus effectively resolving the bottleneck problem of applying lead-acid battery and traditional lithium ion battery to electric vehicles. The energy storage device of graphene is characterized by extra-long recycling life and high current during the process of charging and discharging, therefore there is huge market room of graphene-based new battery anode material and super capacitor under the research and development. Currently, the above research work has achieved certain stage results, and industrial production of the establishing project will commence after substantive results have been achieved later this year.

Looking ahead, the Remaining Group will continue to improve the progress in domestic production of wind turbines, focus on the development of 3MW and 5MW wind turbines in line with the Twelfth Five-year Plan to capture the future market share of wind turbines and increase cooperation opportunities with other large-scale power generation groups, refine the batch production of rare-earth motors and secure financing for the Remaining Group. We will further expand the scale of energy conservation and environmental protection business as well as strengthen our internal management to ensure the sustainable development of the Remaining Group and create greater benefits for shareholders in wealth and good reputation.

HUMAN RESOURCES AND REMUNERATION POLICY

As at 31 December 2012, the Remaining Group had 33 employees in the Hong Kong head office and 674 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 Remaining 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 Remaining Group as at 31 December 2012 were HK$1,836,702,000, of which HK$530,048,000 was floating-rate borrowings and the remaining was fixed-rate. All borrowings of the Remaining Group were determined at market interest rate. The Remaining Group has not issued any financial instruments for hedging or other purposes.

The total borrowings comprised (a) unsecured bank loans of HK$724,548,000 or RMB587,500,000 and a secured bank loan of HK$30,832,000 or RMB25,000,000 secured by land and buildings with carrying amount of the land and buildings at 31 December 2012 of HK$86,932,000; (b) long term shareholder's loans from CALT through CALT's fellow subsidiary, ASTF as the trustee in aggregate amounting to HK$961,954,000 or RMB780,000,000; (c) a short term other loan of HK$36,998,000 or RMB30,000,000 from a financial institution in the PRC; (d) a long term other loan of HK$82,370,000 or RMB66,790,000 advanced from a non-controlling shareholder of a subsidiary, repayable in full in November 2020.

Gearing ratio (total borrowings over shareholders' equity) as at 31 December 2012 was 103%.

Pledge of Assets

As at 31 December 2012, certain assets of the Remaining Group of HK$24,947,000 have been pledged to secure bank facility.

Exchange and Other Exposures

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

Contingent Liabilities

As at 31 December 2012, the Remaining Group has issued guarantees to banks in respect of banking facilities in the amount of HK$22,573,000 and HK$24,665,000 granted to a third party and an associate respectively, of which HK$24,665,000 has been utilized.

(iii) ***For the year ended 31 December 2011***

RESULTS SUMMARY

As of 31 December 2011, the Remaining Group's turnover for the year 2011 amounted to HK$406.29 million with a profit for the year attributable to the Company's owners of HK$4.30 million as compared to the turnover for the year 2010 of HK$698.08 million representing 42% decrease in turnover. The turnover for the year comprised sale of wind energy related products of HK$196.79 million, sale of electricity generated from wind farm of HK$28.42 million, sale of rare-earth permanent-magnet motor products of HK$28.95 million, sale of chemical materials of HK$106.77 million and sales of HK$45.36 million related to telecommunication business whereas the turnover in 2010 comprised sale of wind energy related products of HK$264.74 million, sale of electricity generated from wind farm of HK$32.23 million, sale of rare-earth permanent-magnet motor products of HK$52.58 million, sale of chemical materials of HK$272.55 million and sales of HK$75.98 million related to telecommunication business.

The decrease in turnover was mainly due to the Remaining Group's focusing resources on core wind energy main business and controlling the impact arising from strong price volatility of trading material resulting in the scale reduction of trading material and telecommunication business by HK$196.41 million in total plus the impact on wind turbine sales from the control on the delivery progress thanks to the rise of rare earth magnetic steel price.

BUSINESS REVIEW

Business of Wind Energy

In 2011, the directdrive wind turbine, on the strength of its simple structure, high reliability, high efficiency and low operation and maintenance costs, had participated in the fierce competition in the domestic wind turbine market. Facing price drops in the market, the

Remaining Group proactively addressed these challenges by giving full play to the advantages of the technology, quality and service of CASC directdrive wind turbines. In line with this, the Remaining Group capitalised on its products' leading edge and achieved cost control by adopting the strategy of technology advancement and batch production through research and development, thereby achieving high supply chain performance and cost effectiveness. In addition, through Inner Mongolia Wind Turbine General Assembling Plant, Gansu Wind Turbine General Assembling Plant and Jiangsu Energine Wind Turbine General Assembling Plant, the Remaining Group adopted the strategy of establishing good relationship with several provincial and autonomous region governments and leveraging provincial and autonomous regions' quotas for wind energy to obtain more wind resources in seeking more production orders for wind turbines, thereby increasing our market share.

In 2011, the Remaining Group attained wind energy resource reserves of more than 1 million KW in the environment of slowdown of the industrial growth, laying a solid foundation for the future business development of the Remaining Group.

Since the directdrive wind turbines have gearless drive and are characterised with the use of low-speed large-torque generators and full-power convertor and strong resistance to grid voltage fluctuation, their advantages include low wear and tear, high efficiency of electricity generation, small size, light, ready to repair and low operating cost as compared to the traditional wind turbines. As such, the directdrive wind turbines, in particular, the permanent-magnet directdrive wind turbines featuring proprietary intellectual property rights, high quality and renowned Aerospace brand names, have well been received by domestic and foreign large-scale wind farm developers.

2011 saw the strong price volatility of rare-earth materials, the major materials of wind turbines. Before October, the price of rare-earth magnet significantly rose. The Remaining Group developed excitation magnet directdrive makes in effort to avoid the greater impact thereof on the results of the Remaining Group. Meanwhile, the Remaining Group proactively controlled the progress of wind turbine production and delivery, thereby the sales falling short of the expectation. In 2011, the Remaining Group sold a total of 24 2MW wind turbines to the wind farms in Baiyin City and Gaizhou City. Currently, the price of rare-earth magnet has fallen by around 50% such that the impact has been substantially reduced. The deliveries relating to contracts entered into in 2011 by the Remaining Group are expected to commence in 2012 gradually.

In December 2011, Beijing Energine Industry Co. Ltd. ("BEI", a wholly-owned subsidiary of the Remaining Group) entered into an agreement on the establishment of a joint venture, namely Gaizhou Energine Wind Power Co. Ltd. ("Gaizhou Wind Power") for the development and operation of wind farms. Gaizhou Wind Power has a registered capital of RMB171.07 million which are held as to 40%, 30%, 28% and 2% respectively by BEI, Zhongneng Huali Investment Co. Ltd., Suzhou Tepu Wind Energy Technology Co. Ltd. ("Suzhou Tepu"), and Liaoning Juzi Industrial Co., Ltd. in which BEI contributed RMB68.43 million. Gaizhou Wind Power is to construct and operate two wind farms in Gaizhou City, Liaoning, i.e. Gaizhou Xutun Aerospace Wind Farm and Gaizhou Tazigou Wind Farm, each having a capacity of 48MW, securing production orders of wind turbines for the Remaining Group. According to the agreement, Zhongneng Huali is obliged to purchase 30% equity out of the 40% equity of Gaizhou Wind Power to be held by BEI within 12 months after connection of grid for electricity delivery has commenced operation at a consideration equal to an appraisal value but no less than the apportioned capital amount plus its capital gain to be calculated at a rate of 10% per annum from the capital injection date, leaving BEI holding 10% equity thereafter.

In the same month, BEI entered into a shareholder agreement for establishing Suzhou Energine Tepu Wind Energy Technology Ltd. ("Suzhou Wind Energy") in relation to manufacture and sales of directdrive wind turbines. The joint venture has a registered capital of RMB200 million and was held as to 35%, 30%, 15%, 15% and 5% respectively by BEI, Suzhou Tepu, Suzhou Technology Town Start-up Business Investment Co. Ltd., Suzhou Sanke Investment Management Co. Ltd. and Suzhou Sanhuan Investment Management Co. Ltd.. in which BEI contributed RMB70 million. BEI has the right to assign 3 directors out of the total 5-director board, i.e. more than 50% directorship therein of Suzhou Wind Energy, which therefore became a non-wholly owned subsidiary of the Remaining Group.

Suzhou Wind Energy is to be engaged in the manufacture and sales of wind turbines in Suzhou, Jiangsu in production of 2MW double-fed and 1.5MW excitation magnet directdrive wind turbines. The capacity of the annual production of the plant of Suzhou Wind Energy will reach 500 sets of 2MW double-fed directdrive wind turbines and 200 sets of 1.5MW excitation magnet directdrive wind turbines, reflecting the Remaining Group's expansion of its core business in terms of markets in Jiangsu and the East China region and of wind turbine makes offering to customers.

In 2011, the Remaining Group's subsidiary, Gansu Wind Turbine Assembling Plant commenced its operation and completed the production missions of 1.5MW and 2MW wind turbines together with another subsidiary, Inner Mongolia Wind Turbine Assembling Plant smoothly, further laying the solid foundation for the Remaining Group's northern market business.

Research and Development of Technology

As to the Remaining Group's self-developed turbine control systems, grid connection for operation of 900KW wind turbines with self-developed control system has commenced. The success of the self-developed control systems enabled the Remaining Group to stop relying on foreign control systems and respond promptly to customer needs, thereby greatly reduced the costs of production for wind turbines and technical services relating thereto.

As to the 2MW permanent-magnet wind turbines, the machine loading calculation, turbine tower design, assembling parts design and blade design passed the evaluation and appraisal by German Wind Power Certification Center (DEWI-OCC) and were granted certifications in relation thereto in 2010, and would be granted design certification by China General Certification Center ("CGC") after going through the design documents evaluation and completing the blade testing. In 2011, for certification of 2MW permanent-magnet directdrive wind turbine, the Remaining Group had completed power quality testing, power curve testing, blade fatigue testing with 2 million swings, plant manufacturing capacity evaluation and prototype safety and functional testing.

For 1.5MW wind turbine, the Remaining Group had carried out control strategy optimisation as well as made specific modifications on technical documents including the batch production drawings for 1.5MW wind turbine. The certification program of 1.5MW wind turbine prototype had already been confirmed by CGC, and the Remaining Group had completed amendment on the relevant mechanical and electrical drawings and the structural parts loading calculations according to the certification requirements, and had submitted all the information necessary for wind turbine design certification to CGC. At present, the 1.5MW wind turbine,with the initial optimisation completed and technology status confirmed, has commenced batch production of a total of 66 sets of 100,000 KW 1.5MW wind turbines. As regards 2MW wind turbine, batch production has commenced as the Remaining Group had determined the product make series adapt to wind farms of middle-to-low wind capacity as well as seashore environment, with adaptable technological design to cope with the needs of different wind farms and wind conditions.

In September 2011, the Remaining Group established a science and technology committee, which formed a research and development project team on 2MW excitation magnetic directdrive wind turbine to conduct an in-depth research and study. Meanwhile, the preliminary design and feasibility study on 3MW new directdrive wind turbine has commenced.

Production Management

In 2011, pursuant to the Remaining Group's production and operation plans, the Remaining Group had set up task forces for different makes to strengthen the management and control of personnel, technology, progress, quality and risk in ensuring the smooth completion of projects relating to the batch production of 2MW and 1.5MW wind turbines with the planned cost, schedule and quality. A series of regulated procedures formulated by the Remaining Group, including "the Methods for the Implementation and Management of Batch Production of Wind Turbines", "Methods for Deployment Management of Production Plans" and "Detailed Plan on Batch Production of Wind Turbines", had been continuously improved during the implementation process in clarifying the job responsibilities and progress requirements, thus ensuring the completion of production of directdrive wind turbines.

Trading of materials

In 2011, BEI continued the trading business of chemical raw materials in connection with production of wind turbine blades. However, the scale of the material trading business significantly shrunk in effort to control the risk arising from the strong price volatility of the material trade. The sale recorded a considerable decrease consequently.

Wind Farm Operations

Liaoning Benxi

The CASC Long Yuan (Benxi) wind farm project, controlled and operated by the Remaining Group, is installed with 29 sets of 850KW wind turbines with a capacity of 24,650KW in total. An electricity level of 47.27 million kwh was realised during 2011, representing a decrease of 8.18 million kwh over last year. On-grid power generation amounted to 45.90 million kwh with realised income from principal activity of HK$29.14 million, representing a decrease of HK$3.09 million over last year, realising a profit amounting to HK$7.58 million.

Jilin Longyuan

The Jilin Tongyu wind farm, invested and constructed by the Remaining Group, is installed with 236 sets of 850KW wind turbines with a capacity of 200,000KW in total. An electricity level of 281.55 million kwh was realised during 2011, representing a decrease of 60.55 million kwh from last year. On-grid power generation amounted to 275.44 million kwh with realised income from principal activity of HK$155.64 million, representing a decrease of HK$27.30 million over last year, realising a profit amounting to HK$30.34 million.

Jiangsu Longyuan

The Jiangsu Rudong wind power field project, invested and constructed by the Remaining Group, is installed with 100 sets of 1.5MW wind turbines with a capacity of 150,000KW. An electricity level of 335.90 million kwh was realised during 2011, representing a decrease of 13.98 million kwh over last year. On-grid power generation amounted to 328.09 million kwh with realised income from principal activity of HK$189.45 million, representing a decrease of HK$1.50 million over last year, realising a profit amounting to HK$73.25 million.

Inner Mongolia Xinghe Wind Farm

The Inner Mongolia Xinghe wind farm of Datang Wanyuan, which is jointly controlled by BEI and Inner Mongolia Datang Wanyuan New Energy Co., Ltd., is installed with an installed capacity of 49,500KW. The first 55 self-manufactured 900KW directdrive wind turbines had been installed. The wind farm provided not only an environment for technological improvement of 900KW directdrive wind turbines, but also a testing base for research and development of 2MW directdrive wind turbines. An electricity level of 100.09 million kwh was realised during 2011, representing an increase of 38.89 million kwh over last year. On-grid power generation amounted to 97.99 million kwh with realised income from principal activity of HK$52.88 million, representing an increase of HK$25.64 million over last year, realising a profit amounting to HK$11.84 million.

Fujian Min Jian

Energine Min Jian New Energy Investment Co., Ltd., the Remaining Group's associated company, through its subsidiary, Yinkou Wind Power Generation Co., Ltd., had formally been engaged in offshore and land wind power projects in eastern Fujian. It secured market orders for the Remaining Group for purchase of the Remaining Group's existing make of 2MW directdrive wind turbines, as well as 3MW and 5MW offshore directdrive wind turbines being developed by the Remaining Group.

Business of New Materials

It is the plan of the Remaining Group to extensively utilise rare-earth materials in four major 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 directdrive electrical products.

Jiangsu Aerospace Wan Yuan REPM Motor Co., Ltd., controlled and operated by the Remaining Group, is a high-tech enterprise which specialises in research and development, manufacture, and sales of rare-earth permanent-magnet gearless traction machines for elevators. The "航天萬源" branded rare-earth permanent-magnet gearless traction machines for elevators, and its driving control system self-developed by the company's research and development had filled up a technological gap of the domestic gearless elevator sector.

Wuxi CASC Energine Xindali Electricity Co., Ltd. ("Wuxi Wind Turbine Plant"), the Remaining Group's associated company, is engaged in batch production of 900KW and 1.5MW generators and has realised income from sales.

Therefore, the Remaining Group is equipped with the capacity to supply key components of wind turbines, including blades and generators, thereby reducing its reliance on upstream suppliers of the wind turbine supply chain for purchasing generators and perfecting the wind turbine supply chain in effort to control the production cost.

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 supplier in the domestic automotive electronic fuel injection market with a stable market share, ranking the second nationwide and supplied to almost all major domestic automobile manufacturers. As for export sales, its products are sold to automobile manufacturers in Europe and North America.

The jointly controlled entity recorded sales revenue of HK$3,049.45 million in 2011, representing an increase of HK$283.43 million over last year with realised profit of HK$322.36 million. Its sales expansion and lower cost targets were successfully achieved.

Telecommunication Business

The telecommunication products of the Remaining Group fully cover various categories such as GPS mobile terminals, intelligent transport, wireless communication, GPS automotive information service platform. It is planned to gradually scale down this business so as to focus resources on the Remaining Group's principal wind energy business.

Following the disposal of its 22.5% equity interest in Castel Qihua Ltd. ("Castel Qihua"), a provider of GPS mobile terminals and GPS automotive information services platform in 2010, China Aerospace Telecommunications Limited (a wholly-owned subsidiary of the Remaining Group) sold its remaining 47.5% equity interest in Castel Qihua at a consideration of HK$12.00 million in July 2011, officially leaving the business.

PROSPECTS

Looking ahead, the Remaining Group will speed up the progress in domestic production of wind turbines; focus on the development of 3MW and 5MW wind turbines to tie in with the Twelfth Five-year Plan, capture the share of the potential wind turbine market in future and identify cooperation opportunities with other large-scale power generation groups; refine the batch production of rare-earth motors; and secure financing for the Remaining Group. We shall broaden the scale of energy conservation and environmental protection business, as well as strengthen its internal management to ensure the sustainable development of the Remaining Group and create greater shareholder worth and repute.

HUMAN RESOURCES AND REMUNERATION POLICY

As at 31 December 2011, the Remaining Group had 35 employees in the Hong Kong head office and 463 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 Remaining 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 Remaining Group as at 31 December 2011 were HK$1,326,948,000, of which HK$374,400,000 was floating-rate borrowings and the remaining was fixed rate. All borrowings of the Remaining Group were determined at market interest rate. The Remaining Group has not issued any financial instruments for hedging or other purposes.

The total borrowings comprised (a) unsecured bank loan of HK$254,400,000 or RMB212,000,000 and secured bank loan of HK$120,000,000 or RMB100,000,000; (b) shareholder's loans from CALT through CASC's subsidiary, ASTF as the trustee in aggregate amounting to HK$872,400,000 or RMB727,000,000 with short term loan of HK$156,000,000 or

RMB130,000,000 and long term loan of HK$716,400,000 or RMB597,000,000; (c) a short term other loan of HK$36,998,000 or RMB30,000,000 from a financial institution in the PRC; (d) a long term other loan of HK$80,148,000 or RMB66,790,000 advanced from a non-controlling shareholder of a subsidiary, repayable in full in November 2020.

Gearing ratio (total borrowings over shareholders' equity) as at 31 December 2011 was 77%.

Pledge of Assets

As at 31 December 2011, certain assets of the Remaining Group of HK$22,606,000 have been pledged to secure bank facility.

Exchange and Other Exposures

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

The Remaining Group did not have any contingent liabilities as at 31 December 2011.

(iv) ***For the year ended 31 December 2010***

RESULTS SUMMARY

As of 31 December 2010, the Remaining Group's turnover for the year 2010 amounted to HK$698.08 million with profit for the year attributable to the owners of the Company of HK$88.25 million as compared to turnover for the year 2009 of HK$663.37 million, representing 5.2% increase in turnover. The turnover for the year comprised sale of wind energy related products of HK$264.74 million, sale of electricity generated from wind farm of HK$32.23 million, sale of rare-earth permanent-magnet motor products of HK$52.58 million, sale of chemical materials of HK$272.55 million and sales of HK$75.98 million related to telecommunication business whereas the turnover in 2009 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 rare-earth permanent-magnet motor products of HK$56.14 million, sale of chemical materials of HK$170.84 million and sales of HK$90.28 million related to telecommunication business.

BUSINESS REVIEW

Business of Wind Energy

In 2010, directdrive wind turbine, a new make, had been well received in the market on the strength of its simple structure, high reliability, high efficiency, low operation and maintenance costs. Facing fierce competition in the domestic market, the Remaining Group proactively addressed these challenges by giving full play to the advantages of the technology, quality and service of CASC directdrive wind turbines. In line with this, the Remaining Group capitalized on its products' leading edge and achieved cost control by adopting the strategy of technology advancement and batch production through research and development. In addition, the Remaining Group adopted the strategy of establishing good relationship with several provincial governments to obtain more wind resources in seeking more production orders for wind turbines, thereby increasing our market share.

To meet the needs of our expanding production and operation, optimize the procurement channels, reduce purchasing cost and regulate our purchasing management, the Remaining Group has established a Purchasing Management Department, which promptly arranged the delivery of the key components of 900KW directdrive wind turbines of the Bai Yin Project and the tender invitation and bidding for the Gansu Jiuquan General Assembling Plant Project; and organized the business negotiations and contract execution work for batch purchase of key components of 2MW directdrive wind turbines, and etc. As to the mere part of products delivery in the implementation of the Bai Yin Project, since standardized and meticulous tender procedures were adopted with the participation of the Company's legal adviser in the entire tender and bidding process, the tender exercise for delivery service of the Bai Yin Project was successfully completed with making the purchasing cost 30% lower than budgeted, representing a good start for centralized purchasing management.

As to the enhancement of quality management, a Quality Technology Department was established with completion of preparation of documents including the Wind Turbine Products Design Documentation Management System, Measures for the Management of Technology Status, Classification and Quality Management Requirements of Wind Power Product Components, and Administrative Measures for Evaluation of Qualified Sub-suppliers. which not only strengthened the quality control of critical areas, but also refine and regulate our design workflow. To meet the evaluation requirements of the quality experts and the 1.5MW direct-drive wind turbine design experts, the electronic control system design, product specifications and design of 2MW direct-drive wind turbine were organized; organisation of domestic production of the master controller of wind turbines and converters was completed, and batch production will commence after a high quality brand and market positioning has been established.

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 Remaining Group) and Emergya Wind Technologies B.V. ("EWT") with shareholding of 95% and 5% respectively, is primarily engaged in production of 900KW directdrive wind turbines and 2MW directdrive wind turbines.

In July 2010, leveraging on the research and development of 2MW directdrive wind turbine technology with CASC proprietary intellectual property, the Remaining Group completed the system design verification, assembling system simulation and model behaviour analysis of 2MW directdrive wind turbine, and obtained the machine loading evaluation report, the blade design evaluation report, appraisal report on the mechanical components of wind turbine issued by German Wind Power Certification Center (DEWI - OCC) and was granted certifications in relation thereto. The 2MW directdrive wind turbine prototype was successfully hoisted and installed in Xinghe wind farm of Inner Mongolia Datang Wanyuan New Energy Co. Ltd ("Datang Wanyuan") in November 2010, and in December 2010, grid-connected power generation was realized for the first time; remote linkage was successfully realized in the control system of wind turbine, making automatic remote control possible and signifying wind turbines formally entered into the stage of grid-connection operation and commissioning. The breakthrough in the development of 2MW directdrive wind turbine signifies CASC's mastery and ownership of the permanent-magnet directdrive wind turbine technology, thereby laying a solid foundation for CASC's entry into the wind power market.

In the second half of 2010, the Wind Turbine General Assembling Plant completed production of the second batch of 60 sets of 900KW wind turbines by utilizing the Company's self-developed extended-type blade, refitted generators and low voltage transmission feature, indicating that 900KW wind turbine has become increasingly mature and will progress smoothly to the next phase of batch production.

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 Remaining 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 of 900KW and 2MW wind turbine blades.

In 2010, after undergoing a comprehensive review of the quality control process of its first batch production of blades in 2009, the Blade Plant turned its focus to the pre-production preparation of 900KW extended type blade mould which comprised strengthening quality control work and commenced the batch production thereof, with the aim of increasing the power generation capacity of each wind turbine by 10%. A total of 135 sets of 900KW lengthened blades were produced in 2010. As to the production preparation and craft tests of 2MW blades scheduled for 2010, installation of 2MW blade moulds, process layout and trial tests of raw materials were completed in June. In July, the Blade Plant achieved an important target for the year: the self-developed 2MW directdrive turbine prototype blades with CASC proprietary intellectual property were successfully released. The Blade Plant utilizes advanced manufacturing technology during production to ensure a clean production environment and high stability of products. It also utilizes domestic raw materials for production, which provides robust support and assurance in batch production of 2MW turbines with CASC proprietary intellectual property.

The localisation of batch production of this blade make was commenced in September 2010, which signifies a major step forward of the Remaining Group's production of 2MW directdrive turbines, assuring the Remaining Group's strength in the industries of blade production and turbine manufacture.

Gansu Wind Turbine General Assembling Plant

In November 2010, the Remaining Group established Gansu CASC Wanyuan Wind Power Equipment Manufacturing Co. Ltd. (the "Gansu General Assembling Plant"), a wholly-owned subsidiary of the Remaining Group with registered capital of RMB80 million, to develop the Gansu Jiuquan General Assembling Plant, with the objective of gaining a share of the 7.7 million KW resources market allocated by the Gansu Government in relation to its 750KVA ultra-high voltage lines in operation. The production capacity of the Gansu General Assembling Plant is 300 sets of 2MW wind turbines per year, which will not only meet the demand of Jiuquan's tens of million KW class wind power base, but also the demands from wind farms in Wuwei City, Baiyin City and Jiayu Pass in Gansu and in Xinjiang regions.

Jiangsu Energine Wind Turbine General Assembling Plant

Nantong CASC Wanyuan Acciona Wind Turbine Manufacture Corp. Ltd., a jointly controlled entity owned by the Remaining Group as to 50%, was renamed as Jiangsu Energine Wind Turbine Manufacture Co. Ltd. (the "Jiangsu General Assembling Plant") in September 2010. It is the strategic wind power plant of the Remaining Group in South China which mainly provides assembling service for 1.5MW directdrive wind turbines developed by the Remaining Group, serving to expand the wind turbine make series and optimize make offerings to cater for the needs of different wind farms.

Sales of wind turbines

In May 2010, the Company completed the acquisition of 40% equity interests in Beijing EWTCASC Directwind Marketing and Sales Co. Ltd. ("Directwind Sales", subsequently renamed as Beijing CASC Energine Wind Turbine Co. Ltd.) for a consideration of HK$1.82 million.

Upon acquisition, the Company, EWT and Beijing Direct Energy Corp. held 65%, 20% and 15% respectively of Directwind Sales, and Directwind Sales had become a 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. This enabled the Remaining Group to devise and consider its strategic plan from a macro perspective of the entire supply chain, and account for the overall profits of the entire supply chain from the whole process in the sales and production of wind turbines and wind blades in utilising the advanced directdrive technology of EWT. It also allowed the Remaining Group to officially engage in the marketing and sales businesses of wind turbines manufactured by the Wind Turbine General Assembling Plant in China and all over the world. In 2010, Directwind Sales sold 60 sets of 900KW directdrive turbines to wind farms in Baiyin City, Gansu and Tianjin Binhai New Area.

Joint Promotion and Development of Large Wind Turbine Manufacturing Base on the Western Coast of the Taiwan Strait

Pursuant to a Strategic Cooperation Agreement of Joint Promotion and Development of the State's Offshore Wind Power Demonstration Project in Ningde City and Large Wind Turbine Manufacturing Base on the Western Coast of the Taiwan Strait entered into between Ningde City People's Government, China Technology Market Association, the Company and Fujian Mindong Electric Power Company Limited ("Mindong Electric Power") in 2009, BEI entered into an agreement to jointly establish a new energy company Energine Min Jian New Energy Investment Co., Ltd. ("Min Jian New Energy") on 15 July 2010 for the joint investment, development, construction and operation of offshore and land wind farm projects with a view to achieving emission reduction targets and promoting local economic development. The joint venture has a registered capital of RMB150 million with shareholding of 20% and 80% held by BEI and Mindong Electric Power respectively. BEI contributed RMB30 million.

Min Jian New Energy, established in October 2010, had formally been engaged in offshore and land wind power projects in eastern Fujian. The offshore and land wind power projects being developed by Min Jian New Energy will mainly purchase the Remaining Group's existing makes such as 900KW, 1.5MW, 2MW directdrive wind turbines, as well as 3MW and 5MW offshore directdrive wind turbines being developed by the Remaining Group, on the same terms being offered to other customers. The establishment of Min Jian New Energy, especially, provides intensive impetus for securing of more market orders for the Remaining Group.

Trading of materials

In 2010, BEI continued the trading business of chemical raw materials in connection with production of wind turbine blades. A steady growth in sales was recorded for this business in 2010.

Wind Farm Operations

Liaoning Benxi

The CASC Long Yuan (Benxi) wind farm project, controlled and operated by the Remaining Group, is installed with 29 sets of 850KW wind turbines with a capacity of 24,650KW in total. An electricity level of 55.45 million kwh was realized during 2010, representing an increase of 0.38 million kwh over last year. On-grid power generation amounted to 53.29 million kwh with realized income from principal activity of HK$32.23 million, representing an increase of HK$690,000 over last year, realizing a profit amounting to HK$13.99 million.

Jilin Longyuan

The Jilin Tongyu wind farm, invested and constructed by the Remaining Group, is installed with 236 sets of 850KW wind turbines with a capacity of 200,000KW in total. An electricity level of 342.1 million kwh was realized during 2010, representing a decrease of 2.41 million kwh from last year. On-grid power generation amounted to 334.44 million kwh with realized income from principal activity of HK$182.94 million, representing an increase of HK$1.53 million over last year, realizing a profit amounting to HK$91.86 million.

Jiangsu Longyuan

The Jiangsu Rudong wind power field project, invested and constructed by the Remaining Group, is installed with 100 sets of 1.5MW wind turbines with a capacity of 150,000KW. An electricity level of 349.88 million kwh was realized during 2010, representing an increase of 5.51 million kwh over last year. On-grid power generation amounted to 342.09 million kwh with realized income from principal activity of HK$190.95 million, representing an increase of HK$5.99 million over last year, realizing a profit amounting to HK$84.85 million.

Inner Mongolia Xinghe Wind Farm

The Inner Mongolia Xinghe wind farm of Datang Wanyuan, which is jointly controlled by BEI and Inner Mongolia Datang Wanyuan New Energy Co., Ltd., is installed with an installed capacity of 49,500KW. The first 55 self-manufactured 900KW directdrive wind turbines being installed therein have passed the 240 hour inspection and acceptance test and duly commenced operation during the warranty period. The wind farm provided not only an environment for technological improvement of 900KW directdrive wind turbines, but also a testing base for research and development of 2MW directdrive wind turbines. An electricity level of 61.2 million kwh was realized in 2010, successfully achieving the target of Datang CASC wind farm for 2010; the client was very satisfied and gave a high compliment on the delivery work. Annual on-grid power generation amounted to 59.83 million kwh with realized income from principal activity of HK$27.24 million, realizing a profit amounting to HK$15.47 million.

Business of New Materials

It is the plan of the Remaining Group to extensively utilise rare-earth materials in four major 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 directdrive electrical products.

Jiangsu Aerospace Wan Yuan REPM Motor Co., Ltd., controlled and operated by the Remaining Group, is a high-tech enterprise which specialises in research and development, manufacture, and sales of rare-earth permanent-magnet gearless traction machines for elevators. The "航天萬源" branded rare-earth permanent-magnet gearless traction machines for elevators, and its driving control system self-developed by the company's research and development had filled up a technological gap of the domestic gearless elevator sector.

In December 2010, Wuxi CASC Energine Xindali Electricity Co., Ltd. ("Wuxi CASC"), the Remaining Group's controlling company, introduced three strategic investors, namely, Jiangsu Jin Ding Investment Co. Ltd., Lamax Ltd. and Chang Zhou Jie Tong Pipeline Co. Ltd., with contributed capital of RMB18 million (comprising a premium of RMB3 million, representing 12.5% equity), RMB18 million (comprising a premium of RMB3 million, representing 12.5% equity), and RMB12 million (comprising a premium of RMB2 million, representing 8.33% equity), respectively, increasing the registered capital to RMB120 million. The equity interests held by the original shareholders, Tin Shun Industrial Ltd. (a wholly-owned subsidiary of the Remaining Group) and Wuxi Great Power Electromotor Co., Ltd. have therefore been diluted to 41.67% and 25.0% respectively. Wuxi CASC was accordingly turned into an associated company.

Wuxi CASC produced 2 sets of 1.5 MW generator prototype during the year. It is planned that Wuxi Rare-earth Motor Industrial Base will duly commence its production in 2011. Thereafter, the Remaining Group will reduce its reliance on upstream suppliers of the wind turbine supply chain for purchasing generators in effort to control the production cost.

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 supplier in the domestic automotive electronic fuel injection market with a stable market share, ranking the second nationwide and supplied to almost all major domestic automobile manufacturers. As for export sales, its products are sold to automobile manufacturers in Europe and North America.

The jointly controlled entity recorded sales revenue of HK$2,766.02 million in 2010, representing an increase of HK$699.59 million over last year with realized profit of HK$317.62 million. Its sales expansion and lower cost targets were successfully achieved.

Telecommunication Business

The telecommunication products of the Remaining Group fully cover various categories such as GPS mobile terminals, intelligent transport, wireless communication, GPS automotive information service platform. The Remaining Group has become a provider of professional electronic equipment, communication products and system integration with extensive influence in the domestic market.

In June and December 2010, the Remaining Group successively sold a total of its 22.5% controlling interest in Castel Qihua Ltd. ("Castel Qihua"), a provider of GPS mobile terminals and GPS automotive information services platform, at total considerations of HK$12.02 million. Upon disposal, Castel Qihua became the Remaining Group's associated company of 47.5% equity.

PROSPECTS

Looking ahead, the Remaining Group will speed up the progress in domestic production of wind turbines; focus on the development of 3MW and 5MW wind turbines to tie in with the Twelfth Five-year Plan, capture the share of the potential wind turbine market in future and identify cooperation opportunities with other large-scale power generation groups; refine the batch production of rare-earth motors; and secure financing for the Remaining Group. We shall broaden the scale of energy conservation and environmental protection business, as well as strengthen its internal management to ensure the sustainable development of the Remaining Group and create greater shareholder worth and repute.

HUMAN RESOURCES AND REMUNERATION POLICY

As at 31 December 2010, the Remaining Group had 48 employees in the Hong Kong head office and 704 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 Remaining 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 Remaining Group as at 31 December 2010 were HK$1,046,320,000, all of which were of fixed rate borrowings. All borrowings of the Remaining Group were determined at market interest rate. The Remaining Group has not issued any financial instruments for hedging or other purposes.

The total borrowings comprised (a) unsecured bank loan of HK$116,000,000 or RMB100,000,000; (b) shareholder's loans from CALT through CASC's subsidiary, ASTF as the trustee in aggregate amounting to HK$843,320,000 or RMB727,000,000 with short term loan of HK$614,800,000 or RMB530,000,000 and long term loan of HK$228,520,000 or RMB197,000,000; (c) a long term other loan of HK$87,000,000 or RMB75,000,000 advanced from a non-controlling shareholder of a subsidiary, repayable in full in November 2020.

Gearing ratio (total borrowings over shareholders' equity) as at 31 December 2010 was 63%.

Pledge of Assets

As at 31 December 2010, certain assets of the Remaining Group of HK$32,644,000 have been pledged to secure bank facility.

Exchange and Other Exposures

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

The Remaining Group did not have any contingent liabilities as at 31 December 2010.

3. INDEBTEDNESS

At the close of business on 31 October 2013, being the latest practicable date for the purpose of this indebtedness statement, the Group had outstanding (i) unsecured bank borrowings of approximately HK$502 million, (ii) other unsecured borrowings advanced from CALT, immediate holding of the Company, of approximately HK$1,293 million and (iii) an unsecured borrowing advanced from a non-controlling shareholder of a subsidiary of the Company of HK$71 million. In addition, the Group had outstanding at that date contingent liabilities in respect of guarantees given to banks of approximately HK$25 million.

Save as aforesaid or otherwise disclosed herein, and apart from intra-group liabilities, the Group did not have outstanding at the close of business on 31 October 2013 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.

Foreign currency amounts have been translated at the approximate exchange rates prevailing at the close of business on 31 October 2013.

The Directors are not aware of any material adverse change in the indebtedness, contingent liabilities and commitments of the Remaining Group since 31 October 2013.

4. WORKING CAPITAL

The Directors are of the opinion that, after taking into account the financial resources available to us including our internally generated funds, our Group has sufficient working capital to satisfy our requirements for at least the next 12 months following the date of this circular.

5. MATERIAL ADVERSE CHANGE

The Directors were not aware of any material adverse change in the financial or trading position of the Remaining Group since 31 December 2012, the date to which the latest audited consolidated financial statements of the Remaining Group were made up.

Deloitte.
德勤

REPORT ON REVIEW OF UNAUDITED FINANCIAL INFORMATION

TO THE BOARD OF DIRECTORS OF
CHINA ENERGINE INTERNATIONAL (HOLDINGS) LIMITED

Introduction

We have reviewed the unaudited financial information of Beijing Wanyuan-Henniges Sealings Systems Co., Ltd. ("Wanyuan Henniges") set out on pages II-3 to II-7 which comprises the unaudited statements of financial position as of 31 December 2010, 2011 and 2012 and 31 August 2013 and the related unaudited statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows for each of the years/period then ended (the "Relevant Periods") and explanatory notes (the "Unaudited Financial Information"). The Unaudited Financial Information has been prepared solely for the purpose of inclusion in the circular to be issued by China Energine International (Holdings) Limited (the "Company") in connection with the proposed disposal of its entire 40% equity in Wanyuan Henniges in accordance with Rule 14.68(2)(a)(i)(A) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The directors of the Company are responsible for the preparation and presentation of the Unaudited Financial Information of Wanyuan Henniges in accordance with the basis of preparation set out in note 2 to the Unaudited Financial Information and Rule 14.68(2)(a)(i) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The directors of the Company are also responsible for such internal control as management determines is necessary to enable the preparation of unaudited financial information that is free from material misstatement, whether due to fraud or error. The Unaudited Financial Information does not contain sufficient information to constitute a complete set of financial statements as defined in Hong Kong Accounting Standard 1 "Presentation of Financial Statements" or an interim financial report as defined in Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). Our responsibility is to express a conclusion on this Unaudited Financial Information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" and with reference to Practice Note 750 "Review of Financial Information under the Hong Kong Listing Rules for a Very Substantial Disposal" issued by the HKICPA. A review of the unaudited financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the Unaudited Financial Information of Wanyuan Henniges for the Relevant Periods is not prepared, in all material respects, in accordance with the basis of preparation set out in note 2 to the Unaudited Financial Information.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
6 December 2013

UNAUDITED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE THREE YEARS ENDED 31 DECEMBER 2012 AND EIGHT MONTHS ENDED 31 AUGUST 2012 AND 2013

	For the years ended 31 December			For the eight months ended 31 August	
	2010	**2011**	**2012**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	434,658	577,240	763,477	445,131	701,680
Cost of sales	(355,239)	(476,512)	(626,578)	(369,654)	(541,535)
Gross profit	79,419	100,728	136,899	75,477	160,145
Other income	143	231	151	84	65
Other gains and losses	415	601	(4,366)	400	(34)
Selling and distribution expenses	(19,782)	(26,542)	(34,846)	(19,393)	(29,301)
Administrative expenses	(37,559)	(44,258)	(58,726)	(37,451)	(44,404)
Research expenses	—	—	—	—	(19,024)
Finance costs	(1,683)	(2,289)	(2,308)	(1,621)	(3,270)
Profit before taxation	20,953	28,471	36,804	17,496	64,177
Taxation	(4,142)	(4,391)	(3,851)	(2,856)	(9,615)
Profit for the year/period	16,811	24,080	32,953	14,640	54,562
Other comprehensive income					
Items that will not be subsequently reclassified to profit or loss:					
Exchange differences arising on translation to presentation currency	3,203	6,985	6,478	—	4,857
Total comprehensive income for the year/period	20,014	31,065	39,431	14,640	59,419

UNAUDITED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2010, 2011 AND 2012 AND 31 AUGUST 2013

	As at 31 December			As at 31 August
	2010	2011	2012	2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current asset				
Property, plant and equipment	156,330	184,365	221,601	274,990
Deposits paid for acquisition of property, plant and equipment	—	—	—	9,362
	156,330	184,365	221,601	284,352
Current assets				
Inventories	53,637	60,394	76,656	73,694
Trade and other receivables	90,534	126,587	147,158	213,697
Bank balances and cash	14,986	11,521	29,033	83,530
	159,157	198,502	252,847	370,921
Current liabilities				
Trade and other payables	79,054	113,703	167,034	204,091
Taxation payable	1,392	1,938	2,322	2,531
Bank borrowings - due within one year	32,480	33,600	34,532	46,450
	112,926	149,241	203,888	253,072
Net current assets	46,231	49,261	48,959	117,849
Total assets less current liabilities	202,561	233,626	270,560	402,201
Non-current liabilities				
Bank borrowings - due after one year	—	—	—	75,325
Net assets	202,561	233,626	270,560	326,876
Capital and reserves				
Share capital	105,000	105,000	105,000	105,000
Reserves	97,561	128,626	165,560	221,876
Total equity	202,561	233,626	270,560	326,876

UNAUDITED STATEMENTS OF CHANGES IN EQUITY FOR THE THREE YEARS ENDED 31 DECEMBER 2012 AND EIGHT MONTHS ENDED 31 AUGUST 2012 AND 2013

	Share capital	Exchange reserve	Capital reserve	Accumulated profits	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2010	105,000	12,949	6,854	57,744	182,547
Profit for the year	—	—	—	16,811	16,811
Exchange difference arising on translation to presentation currency	—	3,203	—	—	3,203
At 31 December 2010	105,000	16,152	6,854	74,555	202,561
Profit for the year	—	—	—	24,080	24,080
Exchange difference arising on translation to presentation currency	—	6,985	—	—	6,985
At 31 December 2011	105,000	23,137	6,854	98,635	233,626
Profit for the year	—	—	—	32,953	32,953
Exchange difference arising on translation to presentation currency	—	6,478	—	—	6,478
Dividend paid	—	—	—	(2,497)	(2,497)
At 31 December 2012	105,000	29,615	6,854	129,091	270,560
Profit for the year	—	—	—	54,562	54,562
Exchange difference arising on translation to presentation currency	—	4,857	—	—	4,857
Dividend paid	—	—	—	(3,103)	(3,103)
At 31 August 2013	105,000	34,472	6,854	180,550	326,876
At 31 December 2011	105,000	23,137	6,854	98,635	233,626
Profit for the period	—	—	—	14,640	14,640
Dividend paid	—	—	—	(2,430)	(2,430)
At 31 August 2012	105,000	23,137	6,854	110,845	245,836

UNAUDITED STATEMENTS OF CASH FLOWS
FOR THE THREE YEARS ENDED 31 DECEMBER 2012
AND EIGHT MONTHS ENDED 31 AUGUST 2012 AND 2013

	For the years ended 31 December			For the eight months ended 31 August	
	2010	**2011**	**2012**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Operating activities					
Profit before taxation	20,953	28,471	36,804	17,496	64,177
Adjustments for:					
Interest expenses	1,683	2,289	2,308	1,621	3,270
Depreciation of property, plant and equipment	23,950	27,163	28,002	20,226	18,612
Impairment loss recognised in respect of property, plant and equipment	3,820	—	3,921	—	349
Loss (gain) on disposal of property, plant and equipment	732	197	—	—	(5)
Operating cash flows before movements in working capital	51,138	58,120	71,035	39,343	86,403
(Increase) decrease in inventories	(10,375)	(4,907)	(14,587)	(1,829)	4,338
Increase in trade and other receivables	(9,406)	(32,931)	(17,061)	(14,379)	(63,900)
Increase in trade and other payables	8,543	31,875	50,124	20,962	34,017
Income tax paid	(3,831)	(3,891)	(3,520)	(3,022)	(9,447)
Net cash from operating activities	36,069	48,266	85,991	41,075	51,411
Investing activities					
Purchase of property, plant and equipment	(35,422)	(50,013)	(64,047)	(33,757)	(68,371)
Deposits paid for acquisition of property, plant and equipment	—	—	—	—	(9,362)
Proceeds on disposal of property, plant and equipment	90	8	—	—	5
Net cash used in investing activities	(35,332)	(50,005)	(64,047)	(33,757)	(77,728)
Financing activities					
New loans raised	32,480	33,600	34,532	33,600	109,221
Repayment of bank borrowings	(32,480)	(33,600)	(34,532)	(33,600)	(22,597)
Interest paid	(1,683)	(2,289)	(2,308)	(1,621)	(3,270)
Dividend paid to shareholders	—	—	(2,497)	(2,430)	(3,103)
Net cash (used in) from financing activities	(1,683)	(2,289)	(4,805)	(4,051)	80,251

	For the years ended 31 December			For the eight months ended 31 August	
	2010	**2011**	**2012**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Net (decrease) increase in cash and cash equivalents	(946)	(4,028)	17,139	3,267	53,934
Effect of foreign exchange rate changes	289	563	373	—	563
Cash and cash equivalents at beginning of the year/period	15,643	14,986	11,521	11,521	29,033
Cash and cash equivalents at end of the year, representing bank balances and cash	14,986	11,521	29,033	14,788	83,530

NOTES TO THE UNAUDITED FINANCIAL INFORMATION FOR THE THREE YEARS ENDED 31 DECEMBER 2012 AND EIGHT MONTHS ENDED 31 AUGUST 2012 AND 2013

1. GENERAL

Beijing Wanyuan-Henniges Sealings Systems Co., Ltd. ("Wanyuan Henniges") is a company established in the People's Republic of China (the "PRC") which is a sino-foreign joint entity enterprise. Wanyuan Henniges is principally engaged in manufacture of medium-to-high class automotive sealing products in domestic markets.

Beijing Energine Industry Co., Ltd., a subsidiary of China Energine International (Holdings) Limited (the "Company") proposes to sell its entire 40% equity in a joint venture, Wanyuan Henniges, through an open tender process in Beijing Equity Exchange in November 2013 (the "Disposal"). The Disposal is subject to certain conditions before completion amongst which, includes the approval by the government regulatory bodies in the PRC.

The functional currency of Wanyuan Henniges is Renminbi. The unaudited financial information is presented in Hong Kong dollars for management review on the proposed very substantial disposal of Wanyuan Henniges.

2. BASIS OF PREPARATION OF THE UNAUDITED FINANCIAL INFORMATION

The unaudited financial information of Wanyuan Henniges for the three years ended 31 December 2012 and the eight-month ended 31 August 2013 (together the "Unaudited Financial Information") has been prepared in accordance with paragraph 68(2)(a)(i) of Chapter 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, and solely for the purposes of inclusion in the circular to be issued by the Company in connection with the Disposal.

The amounts included in the Unaudited Financial Information of Wanyuan Henniges have been recognised and measured in accordance with the relevant accounting policies of the Company adopted in the preparation of the consolidated financial statements of the Company and its subsidiaries for the relevant years or periods, which conform with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The Unaudited Financial Information does not contain sufficient information to constitute a complete set of financial statements as defined in Hong Kong Accounting Standard (the "HKAS") 1 "Presentation of Financial Statements" nor an interim report as defined in HKAS 34 "Interim Financial Reporting" issued by the HKICPA.

Deloitte.
德勤

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

TO THE DIRECTORS OF CHINA ENERGINE INTERNATIONAL (HOLDINGS) LIMITED

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of China Energine International Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consisted of the unaudited pro forma consolidated statement of financial position as at 31 December 2012, the unaudited pro forma consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2012, the unaudited pro forma consolidated statement of cash flows for the year ended 31 December 2012 and related notes as set out on pages III-6 to III-14 of the circular issued by the Company dated 6 December 2013 (the "Circular"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on pages III-4 to III-5 of the Circular.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed disposal of its entire 40% equity in Beijing Wanyuan-Henniges Sealing Systems Co., Ltd. ("Wanyuan Henniges") on the Group's financial position as at 31 December 2012 and the Group's financial performance and cash flows for the year ended 31 December 2012 as if the transaction had taken place at 31 December 2012 and 1 January 2012 respectively. As part of this process, information about the Group's financial position, financial performance and cash flows has been extracted by the Directors from the Group's consolidated financial statements for the year ended 31 December 2012, on which an audit report has been published.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 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 ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) 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.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements ("HKSAE") 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 31 December 2012 or 1 January 2012 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related unaudited pro forma adjustments give appropriate effect to those criteria; and

- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
6 December 2013

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP

Introduction

The following is a summary of an illustrative and unaudited pro forma consolidated statement of financial position, unaudited pro forma consolidated statement of profit or loss and other comprehensive income and unaudited pro forma consolidated statement of cash flows (collectively referred to as the "Unaudited Pro Forma Financial Information") of China Energine International (Holdings) Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") excluding Beijing Wanyuan-Henniges Sealing Systems Co., Ltd. ("Wanyuan Henniges") (hereinafter referred to as the "Remaining Group"), which have been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the possible disposal of its entire 40% equity in a joint venture, Wanyuan Henniges through an open tender process in Beijing Equity Exchange (the "Disposal"), as if the Disposal were completed on 31 December 2012 for the unaudited pro forma consolidated statement of financial position and as if the Disposal were completed on 1 January 2012 for the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and the unaudited pro forma consolidated statement of cash flows.

This Unaudited Pro Forma Financial Information of the Remaining Group has been prepared by the directors of the Company in accordance with Paragraph 4.29 of the Listing Rules for illustrative purposes only, based on their judgments, estimations and assumptions, and because of its hypothetical nature, it may not give a true picture of the financial position of the Group as at 31 December 2012 or at any future date or the results and cash flows of the Group for the year ended 31 December 2012 or for any future period.

The Unaudited Pro Forma Financial Information of the Remaining Group should be read in conjunction with the audited consolidated financial statements of the Group for the year ended 31 December 2012 as disclosed in the 2012 annual report of the Company, and other financial information included elsewhere in the Circular.

Unaudited pro forma consolidated statement of financial position of the Remaining Group

The unaudited pro forma consolidated statement of financial position of the Remaining Group has been prepared based on the audited consolidated statement of financial position of the Group as at 31 December 2012, which has been extracted from the annual report of the Company for the year then ended, with the pro forma adjustments relating to the Disposal, which include, amongst others, the derecognition of the 40% equity in a joint venture, Wanyuan Henniges under equity method of accounting as explained in notes below and other adjustments directly attributable to the transaction and factually supportable.

Unaudited pro forma consolidated statement of profit or loss and other comprehensive income and unaudited pro forma consolidated statement of cash flows of the Remaining Group

The unaudited pro forma consolidated statement of profit or loss and other comprehensive income and unaudited pro forma consolidated statement of cash flows of the Remaining Group have been prepared based on the audited consolidated statement of comprehensive income and audited consolidated statement of cash flows of the Group for the year ended 31 December 2012, which has been extracted from the annual report of the Company for the year then ended, with the pro forma adjustments relating to the Disposal, which include, amongst others, the derecognition of share of result and the exclusion of the cash flows attributable to Wanyuan Henniges respectively, as explained in notes below and other adjustments directly attributable to the transaction and factually supportable.

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2012

	The Group as at 31 December 2012	Pro forma adjustment	Pro forma Remaining Group
	HK$'000	*HK$'000*	*HK$'000*
	(Audited)	*(Note 1)*	*(Unaudited)*
Non-current assets			
Investment properties	38,725	—	38,725
Property, plant and equipment	501,383	—	501,383
Deposits paid for acquisition of property, plant and equipment	22,851	—	22,851
Goodwill	2,004	—	2,004
Intangible assets	68,776	—	68,776
Deferred tax assets	3,090	—	3,090
Interests in associates	399,975	—	399,975
Interests in joint ventures	1,416,222	(108,224)	1,307,998
Available-for-sale financial asset	102,944	—	102,944
	2,555,970	(108,224)	2,447,746
Current assets			
Inventories	482,686	—	482,686
Trade and other receivables	879,697	—	879,697
Amounts due from associates	15,448	—	15,448
Amounts due from joint ventures	140,460	—	140,460
Pledged bank deposits	24,947	—	24,947
Consideration receivable	—	255,400	255,400
Bank balances and cash	462,393	(1,500)	460,893
	2,005,631	253,900	2,259,531
Current liabilities			
Trade and other payables	526,986	—	526,986
Amount due to associates	134,584	—	134,584
Amount due to joint ventures	22,573	—	22,573
Government grants	502	—	502
Taxation payable	489	—	489
Warranty provision	31,218	—	31,218
Bank borrowings - amount due within one year	755,380	—	755,380
Other borrowings - amount due within one year	36,998	—	36,998
	1,508,730	—	1,508,730
Net current assets	496,901	253,900	750,801
Total assets less current liabilities	3,052,871	145,676	3,198,547

	The Group as at 31 December 2012	Pro forma adjustment	Pro forma Remaining Group
	HK$'000	*HK$'000*	*HK$'000*
	(Audited)	*(Note 1)*	*(Unaudited)*
Non-current liabilities			
Other borrowings - amount due after one year	1,044,324	—	1,044,324
Deferred tax liabilities	18,823	—	18,823
Government grants	8,531	—	8,531
	1,071,678	—	1,071,678
Net assets	1,981,193	145,676	2,126,869
Capital and reserves			
Share capital	396,900	—	396,900
Reserves	1,387,007	145,676	1,532,683
Equity attributable to owners of the Company	1,783,907	145,676	1,929,583
Non-controlling interests	197,286	—	197,286
Total equity	1,981,193	145,676	2,126,869

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2012

	The Group for the year ended 31 December 2012	Pro forma adjustment			Pro forma Remaining Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Audited)	*(Note 2)*	*(Note 3)*	*(Note 5)*	*(Unaudited)*
Turnover	989,885	—	—	—	989,885
Cost of sales	(1,010,356)	—	—	—	(1,010,356)
Gross profit	(20,471)	—	—	—	(20,471)
Other income	44,552	—	—	—	44,552
Other gains and losses	14,960	—	—	—	14,960
Selling and distribution expenses	(50,687)	—	—	—	(50,687)
Administrative expenses	(161,923)	—	—	—	(161,923)
Finance costs	(88,011)	—	—	—	(88,011)
Share of result of an associates	16,896	—	—	—	16,896
Share of results of joint ventures	169,038	(13,181)	—	—	155,857
Gain on disposal of a joint venture	—	—	—	153,614	153,614
Reversal of impairment loss recognised in respect of interest in a joint venture	89,000	—	—	—	89,000
Profit (loss) before taxation	13,354	(13,181)	—	153,614	153,787
Taxation	(7,933)	—	—	—	(7,933)
Profit (loss) for the year	5,421	(13,181)	—	153,614	145,854
Other comprehensive income (expense):					
Exchange differences arising on translation to presentation currency	52,890	—	(2,591)	—	50,299
Change in fair value of available-for-sale financial asset	(14,881)	—	—	—	(14,881)
	43,430	(13,181)	(2,591)	153,614	181,272
Profit (loss) for the year attributable to:					
Owners of the Company	26,598	(13,181)	—	153,614	167,031
Non-controlling interests	(21,177)	—	—	—	(21,177)
	5,421	(13,181)	—	153,614	145,854
Total comprehensive income (expense) attributable to:					
Owners of the Company	58,758	(13,181)	(2,591)	153,614	196,600
Non-controlling interests	(15,328)	—	—	—	(15,328)
	43,430	(13,181)	(2,591)	153,614	181,272

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2012

	The Group for the year ended 31 December 2012	Pro forma adjustment			Pro forma Remaining Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Audited)	*(Note 2)*	*(Note 4)*	*(Note 5)*	*(Unaudited)*
Operating activities					
Profit before taxation	13,354	(13,181)	—	153,614	153,787
Adjustments for:					
Interest income	(10,307)	—	—	—	(10,307)
Interest expenses	88,011	—	—	—	88,011
Share of profit of associates	(16,896)	—	—	—	(16,896)
Share of profit of joint ventures	(169,038)	13,181	—	—	(155,857)
Government grants recognised	(502)	—	—	—	(502)
Amortisation of intangible assets	12,330	—	—	—	12,330
Depreciation of property, plant and equipment	33,844	—	—	—	33,844
Gain on disposal of a joint venture	—	—	—	(153,614)	(153,614)
Impairment loss reversed in respect of interest in a joint venture	(89,000)	—	—	—	(89,000)
Gain on disposal of a property development project	(23,280)	—	—	—	(23,280)
Gain on disposal of interests in associates	(11,802)	—	—	—	(11,802)
Impairment loss recognised in respect of goodwill	2,899	—	—	—	2,899
Impairment losses recognised in respect of trade receivables	45	—	—	—	45
Recovery of impairment loss in respect of trade receivables	(5,018)	—	—	—	(5,018)
Allowance for obsolete inventories	1,058	—	—	—	1,058
Gain on disposal of property, plant and equipment	(9)	—	—	—	(9)
Utilisation of warranty provision	(5,987)	—	—	—	(5,987)

	The Group for the year ended 31 December 2012	Pro forma adjustment			Pro forma Remaining Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Audited)	*(Note 2)*	*(Note 4)*	*(Note 5)*	*(Unaudited)*
Operating cash flows before movements in working capital	(180,298)	—	—	—	(180,298)
Decrease in inventories	72,677	—	—	—	72,677
Increase in trade and other receivables	(230,790)	—	—	—	(230,790)
Increase in trade and other payables	30,304	—	—	—	30,304
Increase in warranty provision	14,204	—	—	—	14,204
Increase in amounts due to associates	70,876	—	—	—	70,876
Decrease in amounts due from associates	31,679	—	—	—	31,679
Cash used in operations	(191,348)	—	—	—	(191,348)
Income taxes paid	(8,710)	—	—	—	(8,710)
Net cash used in operating activities	(200,058)	—	—	—	(200,058)
Investing activities					
Purchase of available-for-sale financial asset	(118,399)	—	—	—	(118,399)
Investments in associates	(25,314)	—	—	—	(25,314)
Purchase of property, plant and equipment	(19,443)	—	—	—	(19,443)
Deposits paid for acquisition of property, plant and equipment	(15,417)	—	—	—	(15,417)
Purchase of intangible assets	(81,166)	—	—	—	(81,166)
Placement of pledged bank deposits	(2,341)	—	—	—	(2,341)
Investment in a joint venture	(1,480)	—	—	—	(1,480)
Dividend received from joint ventures	97,813	—	(999)	—	96,814
Proceeds on disposal of a property development project	36,998	—	—	—	36,998
Repayment of loan from a joint venture	29,599	—	—	—	29,599
Guarantee deposit received from a joint venture	22,573	—	—	—	22,573
Proceeds on disposal of associates	13,610	—	—	—	13,610
Decrease in fixed bank deposits	12,409	—	—	—	12,409
Interest received	5,709	—	—	—	5,709

	The Group for the year ended 31 December 2012	Pro forma adjustment			Pro forma Remaining Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Audited)	*(Note 2)*	*(Note 4)*	*(Note 5)*	*(Unaudited)*
Dividend received from associates	4,191	—	—	—	4,191
Estimated transaction costs directly attributable to the Disposal	—	—	(1,500)	—	(1,500)
Proceeds on disposal of property, plant and equipment	1,229	—	—	—	1,229
Net cash used in investing activities	(39,429)	—	(2,499)	—	(41,928)
Financing activities					
New loans raised	1,056,916	—	—	—	1,056,916
Repayment of borrowings	(583,955)	—	—	—	(583,955)
Interest paid	(88,011)	—	—	—	(88,011)
Repayment of loan to a non-controlling shareholder of a subsidiary	(68,114)	—	—	—	(68,114)
Dividend paid to non-controlling shareholders of a subsidiary	(5,220)	—	—	—	(5,220)
Capital contribution from a non-controlling shareholder of a subsidiary	9,866	—	—	—	9,866
Net cash from financing activities	321,482	—	—	—	321,482
Net increase in cash and cash equivalents	81,995	—	(2,499)	—	79,496
Effect of foreign exchange rate changes	23,836	—	—	—	23,836
Cash and cash equivalents at beginning of the year	356,562	—	—	—	356,562
Cash and cash equivalents at end of the year, representing bank balances and cash	462,393	—	(2,499)	—	459,894

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

For the purpose of Unaudited Pro Forma Financial Information, the exchange rates for currency conversion into HK$ are at RMB 1 to HK$1.233 and HK$1.2 as at 31 December 2012 and 1 January 2012 respectively.

(1) The adjustment represents the derecognition of its entire 40% equity in a joint venture, Wanyuan Henniges as at 31 December 2012, from the audited consolidated statement of financial position of the Group and the estimated gain arising from the Disposal as if the Disposal was completed and the joint control over Wanyuan Henniges by the Group were lost on 31 December 2012. The calculation shows as follows:

	HK$'000
The proposed bidding price (*Note 1a*)	255,400
The net asset value of Wanyuan Henniges attributable to the Group as at 31 December 2012 (*Note 1b*)	(108,224)
Estimated transaction costs directly attributable to the Disposal (*Note 1c*)	(1,500)
Estimated gain on the Disposal (*Note 1d*)	145,676

Notes:

(1a) The Company intends to proceed with the Disposal through an open tender process in China Beijing Equity Exchange for a consideration of no less than HK$255,400,000 (equivalent to RMB207,137,000), the initial bidding price in the bidding process, which will be paid by the purchaser in cash to a trustee account as instructed by China Beijing Equity Exchange within a specified period in accordance with the Equity Transfer Agreement. China Beijing Equity Exchange will transfer back the consideration to the Company via the trustee account upon the completion of the change of business registration in Wanyuan Henniges. The Company will lose control on Wanyuan Henniges when the change of directors is completed, which will take place before the change of business registration.

(1b) The amount represents the net asset value of Wanyuan Henniges of HK$270,560,000, as set out in Appendix II to this Circular, in proportion to 40% equity held by the Group as at 31 December 2012.

(1c) The estimated costs directly attributable to the Disposal are mainly legal and professional fees and transaction cost paid to Beijing Equity Exchange.

(1d) No taxation is provided on the Disposal of Wanyuan Henniges as Beijing Energine has unused tax loss to be utilised.

The financial effect and actual amount of gain from the Disposal will be determined based on the Group's share of interest in Wanyuan Henniges and the final bidding price upon completion of the Disposal, and may be different from the above calculation.

(2) The adjustment represents the derecognition of share of result of Wanyuan Henniges in proportion to 40% equity held by the Group, from the audited consolidated statement of profit or loss and other comprehensive income of the Group for the year ended 31 December 2012 as if the Disposal had taken place on 1 January 2012. This adjustment is not expected to have a continuing effect on the Remaining Group.

(3) The adjustment represents the reversal of exchange differences arising on translation of the investment in Wanyuan Henniges to presentation currency, from the audited consolidated statement of profit or loss and other comprehensive income of the Group for the year ended 31 December 2012 as if the Disposal had taken place on 1 January 2012. The adjustment is not expected to have a continuing effect on the Remaining Group.

(4) The adjustment represents the exclusion of the dividend received from Wanyuan Henniges from the audited consolidated statement of cash flows of the Group for the year ended 31 December 2012 and the inclusion of the estimated costs directly attributable to the Disposal of HK$1,500,000 as if the Disposal had taken place on 1 January 2012. The adjustment is not expected to have a continuing effect on the Remaining Group.

(5) The adjustment represents the derecognition of its entire 40% equity in a joint venture, Wanyuan Henniges, as at 1 January 2012, from the audited consolidated statement of financial position of the Group and the estimated gain arising from the Disposal as if the Disposal was completed on 1 January 2012. The calculation shows as follows:

	HK$'000
The proposed bidding price (*Note 5a*)	248,564
The net asset value of Wanyuan Henniges attributable to the Group as at 1 January 2012 (*Note 5b*)	(93,450)
Estimated transaction costs directly attributable to the Disposal (*Note 5c*)	(1,500)
Estimated gain on the Disposal (*Note 5d*)	153,614

Notes:

(5a) The Company intends to proceed with the Disposal through an open tender process in China Beijing Equity Exchange for a consideration of no less than HK$248,564,000 (equivalent to RMB207,137,000), the initial bidding price in the bidding process, which will be paid by the purchaser in cash to a trustee account as instructed by China Beijing Equity Exchange within a specified period in accordance with the Equity Transfer Agreement. China Beijing Equity Exchange will transfer back the consideration to the Company via the trustee account upon the completion of the change of business registration in Wanyuan Henniges. The Company will lose control on Wanyuan Henniges when the change of directors is completed, which will take place before the change of business registration.

(5b) The amount represents the net asset value of Wanyuan Henniges of HK$233,626,000, as set out in Appendix II to this Circular, in proportion to 40% equity held by the Group as at 1 January 2012.

(5c) The estimated costs directly attributable to the Disposal are mainly legal and professional fees and transaction cost paid to Beijing Equity Exchange.

(5d) No taxation is provided on the Disposal of Wanyuan Henniges as Beijing Energine has unused tax loss to be utilised.

The financial effect and actual amount of gain from the Disposal will be determined based on the Group's share of interest in Wanyuan Henniges and the final bidding price upon completion of the Disposal, and may be different from the above calculation.

Summary of Asset Valuation Report on the proposed transfer by Beijing Energine of its 40% equity in Wanyuan Henniges

I. Purpose of Valuation

Beijing Energine Industry Co. Ltd. intends to transfer 40% equity held by it in Beijing Wanyuan-Henniges Sealing Systems Co. Ltd., therefore, it is necessary to evaluate the 100% equity of Wanyuan Henniges so as to provide a basis for reference regarding such economic behaviour.

II. Subject and Scope of Valuation

The subject of this valuation shall be the 100% equity of Beijing Wanyuan-Henniges Sealing Systems Co. Ltd.

The scope of this asset valuation covers all assets and liabilities of Beijing Wanyuan-Henniges Sealing Systems Co. Ltd. as at the base date of valuation of 31 August 2013.

Book value of the net assets reported by Wanyuan Henniges to be included in the valuation amounts to RMB260,374,412.53 ten-thousand, see the following table for details:

Unit: RMB ten-thousand

Item	**Book value**
Current assets	302,916,062.55
Non-current assets	219,043,233.30
Of which:	
Fixed assets	142,938,184.10
Construction in process	76,105,049.20
Total assets	521,959,295.85
Current liabilities	201,584,883.32
Non-current liabilities	60,000,000.00
Total liabilities	261,584,883.32
Net assets	260,374,412.53

Each asset and liability within the scope of the valuation was audited by Zhongcai Certified Public Accountants Co., Ltd. which has issued a standard unqualified audit report.

The equity transfer economic behaviour refers to the intended transfer of 40% equity held by Beijing Energine Industry Co. Ltd. in Beijing Wanyuan-Henniges Sealing Systems Co. Ltd. Therefore, we shall evaluate the 100% equity of Beijing Wanyuan-Henniges Sealing Systems Co. Ltd. regardless of any premium of the controlling interests or discount to minority interests.

III. **Type and Definition of Value**

Based on the purpose of valuation and the profile of assets, we confirm that the type of the value in the asset valuation is market value.

The "market value" referred to in this report is defined to be the projected value at which the subject asset is traded in a normal and fair transaction on the base date of valuation while the purchaser and the seller voluntarily enter into the transaction based on their rationality and not being under compelling situation. The choice of such value type is in consistent with the need of the purpose of valuation.

IV. **Base Date of Valuation**

The base date for this asset valuation is 31 August 2013.

The base date of valuation is a basic time point at which valuers verify and collect information for valuation purpose. Any alternation of the base date of valuation will inevitably cause a change in the valuation results. The base date selected for this valuation represents an end time point of an accounting period, which can give a full picture of the overall profile of the subject of valuation.

The base date for this asset valuation is determined by principles in consideration of the purpose of valuation in a spirit of ensuring that valuation results effectively serve the purpose of valuation to eliminate and avoid any adjustment events subsequent to the base date of valuation.

V. **Basis of Valuation**

Laws and regulations of the state, local governments and the relevant departments we follow during the asset valuation work, as well as document materials we refer to in the valuation mainly include:

(1) Basis of valuation standards

1. Asset valuation standard — basic standard;

2. Asset valuation professional ethics standard — basic standard;

3. Asset valuation standard — valuation report;

4. Asset valuation standard — valuation procedures;

5. Asset valuation standard — working papers;

6. Asset valuation standard — engagement letter;

7. Asset valuation standard — machinery and equipment;

8. Asset valuation standard — enterprise value;

9. Guiding opinions of certified asset valuers on legal ownership of the subject of valuation;

10. Guiding opinions on value type of asset valuation;

11. Guidance on the valuation report of state-owned assets of an enterprise;

(2) Basis of property rights

1. Purchase contracts of major equipment;

2. Driving license;

3. Patent right certificate and patent application materials;

4. Relevant contracts and agreement;

5. Other supporting documents of legal ownership.

(3) Major basis of valuation

1. Market research and enquiry information;

2. Brochure of Quotation for Electromachanical Products in the PRC (2013);

3. Commonly Used Data and Coefficient Handbook in Asset Valuation;

4. Relevant information inspected, investigated and collected on-site by valuers;

5. Relevant financial information and other materials regarding basis of charging provided by the enterprise;

6. Information provided by Wind Information.

(4) Reference material and others

1. Asset Valuation Reporting Breakdown commissioned for valuation;

2. Various contracts, relevant accounting evidences, recent accounting statements, audit reports and other accounting materials relating to the access and use of the subject assets provided by Wanyuan Henniges;

3. Accounting policies, asset management documents, operating results, development planning and other relevant information of the enterprise provided by Wanyuan Henniges;

4. Future business plans and development planning and profit forecast information of the enterprise;

5. Relevant business contracts, purchase contracts and sales contracts of the enterprise;

6. Relevant information on operating conditions of the enterprise;

7. Other valuation related information provided by the evaluated entity;

8. Record papers of on-site inspection carried out by valuers and other valuation related information obtained through market research.

VI. **Valuation Methodologies**

There are three approaches to evaluate the overall asset value of the company (or enterprise value), i.e. asset based approach, market comparison approach and income approach. The asset based approach is a method to arrive at the market value of net recognizable assets of an enterprise by reasonably evaluating the market value of each asset and liability of the enterprise and summing them up. The market comparison approach is a method to determine the value of the subject of valuation by comparing with comparable enterprises, enterprises with comparable market transactions and equity assets such as shareholding interests and securities. Income approach is a method in determining the value of the subject of valuation through capitalizing or discounting an enterprise's prospective income. Valuation results with the income approach include the value of tangible assets, recognizable intangible assets and unrecognizable intangible assets held by the enterprise.

For evaluating the value of the 100% equity interest of Wanyuan Henniges, we have analyzed the ideas and using conditions of the above three approaches, respectively, and finally select the income approach and asset based approach to estimate its value.

(1) ***Income Approach Valuation***

In the course of adopting the income approach to evaluate, we follow free cash flow discount model of the enterprise. Firstly, we reasonably forecast the income profile of the target company in the future in light of volatility of the industry development and the development status of the enterprise, with a detailed forecast period determined to be 5 years. Secondly, we adopt constant growth model to calculate the final value of the company as at the end of the forecast period. Finally, we discount its income and the final value to the present value to determine operating value of the company. It is necessary to clarify that, due to its different asset allocation, the company's value shall also include the value of excessive residual assets and non-operating assets less the value of excessive residual liabilities and non-operating liabilities. Such approach is specifically divided into five steps as below:

- Determining net income and free cash flow of the company during the detailed forecast period;

- Determining the final value of the company as at the end of the forecast period;

- Adopting appropriate discount rates to discount the net income and final value to the present value. The discount rate shall consider corresponding risk factors that generate such income and risks such as timing value of funds;

- Adding up the present value to determine operating value of the company;

- Deducting the value of the company's investment capital by the value of interest-bearing debts as at the base date, which is added by the net value of excessive residual assets (less excessive residual liabilities) and non-operating assets (less liabilities), to arrive at the value of all equity interest of the company.

Formula used during the valuation course is:

$$\text{Value of the company's principal business} = \sum_{i=1}^{n} \frac{Ri}{(1+r)^{i}} + \frac{Vn}{(1+r)^{n}}$$

Of which:

n — detailed forecast period;

Ri — net profit of the company or free cash flow of the company;

i — income duration;

r — discount rate, that is weighted average capital cost of the company;

Vn — forecast final value of the company as at the end of the period.

Free cash flow of the company = profit before interest and tax x (1 - income tax rate) + depreciation and amortization - capital expenditure - increase of working capital = net profit + interest x (1 - income tax rate) + depreciation and amortization - capital expenditure - increase of working capital

(2) ***Asset Based Approach Valuation***

The asset based approach first adopts appropriate methods to evaluate the market value of each asset, then sums them up to deduct the liabilities for which the company should undertake, and finally arrives at the overall asset value of the company.

The valuation process for each type of asset and liability included within the scope of the valuation is clarified as below:

1. **Current assets**

(1) Monetary funds. The carrying amount of cash, Renminbi-dominated banking deposits and other monetary funds as at the base date of valuation are verified. The verified book value is taken as valuation. For foreign-dominated banking deposits, the valuation is determined by multiplying verified foreign-dominated book value by foreign exchange rate as at the base date of valuation.

(2) Creditor assets which mainly include trade receivables, prepayments, dividends receivable and other receivables. Receivables are appraised as their recoverable amount based on the verification result after analyzing the business activities, aging and repayment details relating thereto and conducting a focused investigation and understanding of the fund usage by, and the operation condition of, main debtors.

(3) Inventories. Inventories mainly include raw materials, commodity stocks and unfinished products. All inventories are appraised using the cost approach and the market approach to the extent that their quantity, quality and value-in-use are verified.

2. **Equipment assets**

Equipment assets included in this evaluation comprise machinery equipment, vehicles and electronic devices and are appraised using the replacement cost approach and the market approach.

(A) the replacement cost approach, i.e. multiply the replacement cost (as the full replacement cost of the equipment) by the integrated depreciation rate to derive the appraised value of the equipment. Basic formula is as follows:

Appraised value = Full replacement cost × Depreciation rate

Based on the application form for equipment evaluation as well as the information on equipment operation and maintenance provided by Wanyuan Henniges, our appraisers verify the actual condition of equipment on site and determine the full replacement cost and depreciation rate of equipment units on a case-by-case basis after endeavoring to understand the historical and actual conditions of such units as much as possible. The appraised value is calculated eventually.

(1) Determination of full replacement cost

1) full replacement cost of machinery equipment and electronic devices

Full replacement cost of such equipment is determined based on recent market price information including local market information by reference to purchase prices.

For electronic devices that are purchased earlier and no relevant models are currently available in the market but are still usable, full replacement costs are determined by reference to the prices quoted in the second-hand equipment market.

2) full replacement cost of vehicles

Prevailing cum-tax purchase prices of vehicles are primarily determined based on recent price information on the vehicle market including the sales statistics on the vehicle market of Beijing city. On this basis, the full replacement cost is determined by taking into account the vehicle purchase tax and other expenses pursuant to the Provisional Regulations on Vehicle Purchase Tax of the People's Republic of China and relevant local regulations. The calculation formula is as follows:

Full replacement cost = prevailing cum-tax purchase price + vehicle purchase tax + other expenses

(2) Determination of residue rate

1) Machinery equipment and electronic devices

For those equipment of smaller value, depreciate rate is determined primarily using the useful life method. For that equipment featuring short life-span, rapid change in price and substantial functional depreciation, the residue rate is determined according to a combination of factors including the useful economic life of equipment and the technical upgrading cycle.

Residue rate = (useful economic life - used life)/useful economic life $\times$ 100%

2) Vehicles

Based on the trip distance of vehicles, we determine the theoretical residue rate by using the lower of useful economic life, and adjust the determined residue rate having regard to the on-site inspection results.

Residue rate = Theoretical residue rate $\pm$ Adjustment coefficient;

Theoretical residue rate = MIN (useful life residue rate, mileage residue rate)

Useful life residue rate = (useful economic life - used life)/useful economic life × 100%

Mileage residue rate = (designated mileage - mileage already traveled)/designated mileage x 100%

Adjustment coefficient: we judge the manufacturing quality of vehicles (manufacturing coefficient), the usage and maintenance condition (usage coefficient) and the on-site inspection result (individual coefficient, including various factors which are known in the on-site inspection process to have an impact on the values, such as the occurrence of accident) and consider the aforesaid factors affecting the values to derive the integrated adjustment coefficient for the theoretical residue rate.

(3) Determination of appraised value

Appraised value = full replacement cost × residue rate

(B) **Market comparison approach**

The market comparison approach is used to determine the price of the appraisal target based on the prices of reference subjects currently available in the open market that are similar or comparable to the appraisal target. If the reference subjects and the appraisal target are not exactly the same, adjustment needs to be made according to the effect of the difference between them on the appraised value.

For that equipment which does not have the same type of new equipment available for sale in the market but have second-hand market quotations of homogeneous or similar equipment, we adjust the appraised value by reference to the market price of second-hand equipment.

3. **Current liabilities and long-term liabilities**

The liabilities of Wanyuan Henniges mainly include trade payables, receipts in advance, payroll payables, tax payables, dividends payable, other payables and special accounts payable. The appraisers have reviewed and verified the liabilities of the entity. Based on the verification, the actual amount of liability attributable to the entity as at the valuation base date is accounted for as the appraised value of the liability.

VII. **Process and Status of Implementation of Valuation Procedures**

By complying with the regulations on asset valuation of the relevant authorities of the PRC and the general principles on accounting, conforming with the relevant laws and regulations and standardization requirements of the relevant authorities of the PRC and performing the tasks assigned by the entrusting party under the letter of engagement of asset valuation, Beijing Pan-China Assets Appraisal Co. Ltd. has conducted the validation and examination of the legal documents as well as accounting records and related data provided by the entrusting party. Based on the assets list submitted by the appraised entity, we have conducted necessary ownership verification, on-site inspection and checking on the related assets, carried out necessary market researches and transaction price comparisons, and implemented other necessary procedures for asset valuation such as financial analysis and prediction. The asset valuation process is detailed as follows:

1. ***Stage of acceptance of engagement and preparation***

(1) In September 2013, Beijing Pan-China Assets Appraisal Co. Ltd accepted the engagement by the entrusting party to carry out this asset valuation project. Upon acceptance of the engagement, Beijing Pan-China Assets Appraisal Co. Ltd had earnest discussions with the entrusting party on a number of issues affecting the asset valuation scheme, such as the purpose of the valuation, the appraisal target and the scope of the valuation, the valuation base date, and the characteristics of assets that are entrusted to be evaluated.

(2) Taking into account the characteristics of assets that are entrusted to be evaluated, we have targeted the layout of the asset valuation reporting schedules. The Major Assets Questionnaire and the Questionnaire for Profits from Main Businesses have also been designed. Business training has been provided to the coordinators of the entrusting party involved in the asset valuation. Thorough check lists and all kinds of survey forms are filled out.

(3) *Design of the valuation scheme*

Based on our understanding of the characteristics of the assets, we have drawn up a plan for the performance of the valuation. Appraisers are identified to form an on-site working group for the asset valuation. The appraisers of this project are grouped into two teams, including the present earnings team and the asset-based approach valuation team, which are despatched to the valuation site.

(4) *Preparation of appraisal data*

This task relates to the collection and collation of the market trading price information of the appraisal target, market price information on major raw materials and the supporting documents of the property right of the appraisal target.

The tasks in this stage cover the period from 12 September to 16 September 2013.

2. ***Stage of on-site thorough check***

(1) *Validation of the truthfulness and legitimacy of the appraisal target*

According to the reporting schedules of assets and liabilities provided by the entrusting party and the appraised entity, appraisers have adopted different investigation methods to verify physical assets and monetary claims and debts, so as to confirm the truthfulness and accuracy of assets and liabilities.

We verify monetary assets by checking daily accounts, taking stock of cash on hand and reviewing bank statements and the reconciliation statements of the balance of bank deposits.

As for claims and debts, the appraisers confirm the truthfulness of assets and liabilities by checking the general account and itemized account and conducting random inspection of contractual evidences.

Fixed assets are investigated using the principle of combination of focused and general investigations, with a focus on assets such as building structures and substantial assets. The appraisers have checked relevant construction contracts and equipment purchase contracts and invoices in order to confirm the truthfulness of assets.

(2) *Survey of the actual status of the assets*

The operation status of equipment is investigated using the principle of combination of focused and general investigations. The survey is mainly conducted by way of inspecting the operating record of equipment, and by carrying out an on-site observation of the operating status of equipment under the cooperation of the equipment management personnel of the appraised entity. The important equipment survey forms have been optimized on the basis of survey.

(3) *Survey of value composition of physical assets and status of business development*

In view of the characteristics of the assets of the appraised entity, we have investigated the reasonableness and compliance of value composition of assets. The survey focuses on the truthfulness, accuracy, completeness and compliance of the carrying amounts of fixed assets. Data including the relevant accounting documents, accounting books, construction contracts and equipment procurement contracts are inspected and reviewed.

(4) *Survey of the production and operation condition of the entity including income and costs*

Profit and loss accounting information of relevant entity for prior years are collected for calculation and analysis purposes. We also investigate the actual operation status of various entities and businesses and the composition of their revenue, costs and expenses as well as future development trend through interviews, so as to prepare for the compilation of future cash flow forecast.

Through the collection of relevant information, we can analyze and forecast the market environment, future competition landscape and development trend for the principal businesses of Wanyuan Henniges.

The tasks in this stage cover the period from 16 September to 30 September 2013.

3. ***Selection of valuation methods, collection of market information and estimation procedures***

Based on the working plans which are formulated according to the characteristics of the project and taking into consideration pricing principles and valuation models which are determined with respect to the actual condition, the appraisers have commenced their valuation and estimation tasks on an on-site basis by referring to historical data and future operational forecasts provided by the enterprise upon clear identification of valuation parameters and price criteria.

4. ***Stage of valuation summary***

(1) *Determination of valuation results*

The valuation results of the assets that are entrusted to be evaluated using the income approach and the asset-based approach are reached based on the on-site survey of by the appraisers of Beijing Pan-China Assets Appraisal Co. Ltd and all necessary market researches and estimates which have been performed.

(2) *Analysis of valuation results and preparation of valuation report*

This valuation report of the relevant assets is prepared in accordance with the standardized requirements of Beijing Pan-China Assets Appraisal Co. Ltd. A three-tier review is conducted on the valuation results and the related asset valuation report pursuant to prescribed procedures of Beijing Pan-China Assets Appraisal Co. Ltd. Upon signing and final approval by the certified asset valuers, the report is completed and submitted by the project team.

VIII. **Valuation Assumptions and Restrictive Conditions**

In the course of appraisal, we have adopted the following valuation assumptions and restrictive conditions:

(I) ***General assumptions***

1. Transaction assumption: It is assumed that all assets to be appraised are in the process of transaction. The appraiser conducts the valuation according to simulated market conditions such as the trading conditions of the assets to be appraised.

2. Open market assumption: Open market assumption is a hypothesis made on the conditions of the market which the assets are intended to enter as well as on the kinds of impact on the assets in such market conditions. Open market is a market where there are fully-developed and flawless conditions, and also refers to a competitive market where there are a voluntary buyer and a voluntary seller and where each of the

buyer and the seller is offered equal status in terms of the opportunity and time to have access to sufficient market information in this market, in which the transaction between both the buyer and the seller is conducted in a voluntary and rational way, without compulsion or unrestricted conditions.

3. Continued use assumption: The continued use assumption is a hypothesis made on the conditions of the market which the assets are intended to enter as well as the state of the assets in such market conditions. It is assumed that the assets to be appraised are in use, and it is further assumed that the assets that are in use will be in a state of continued use. For the continued use assumption, no consideration is given to the conversion of the use of the assets or the best use of the assets. Thus, the valuation results derived from the use of this assumption are subject to a restricted scope of applicability.

4. Going concern assumption: it is assumed that the appraised entity does not experience any material change in its business scope during the future period and continues to operate under the condition existing on the valuation base date.

   In the course of valuation, we did not take into account the influence on the appraisal value of the additional price possibly paid by the special transaction parties in case of any change in the property right or the influence on the assets price caused by the changes in the national macro-economic policies and any natural disasters or other events of force majeure.

(II) ***Appraisal assumptions for the income approach***

1. There are no material changes in relevant existing laws, regulations and policies and macroeconomic conditions of the PRC; there are no material changes in the political, economic and social environment of the regions where the parties involved in this transaction are situated; and there is also no material adverse effect caused by other non-predictable and force majeure factors.

2. In view of the actual condition of assets as at the base date of valuation, we assume that the appraised entity operates on a going concern basis.

3. We assume that the operators of the appraised entity are responsible and the management of the appraised entity is capable of performing their own roles.

4. Unless otherwise stated, we assume that the appraised entity fully complies with all applicable laws and regulations.

5. We assume that the accounting policies adopted by the appraised entity in the future and those applied in preparing this valuation report will be consistent in material respects.

6. We assume that the scope of business and pattern are in the same direction with that applied currently, on the basis of the existing mode and level of management.

7. There would be no material fluctuations in the interest rate, exchange rate, tax base and tax rate and policy-imposed levies.

8. There would be no other force majeure and unforeseeable circumstances to affect the appraised entity materially and adversely.

9. We note that the premises, plants and land occupied by Wanyuan Henniges are classified as operating lease, and the lease terms for part of the plants will expire in the coming 3 years and the operating premises in Beijing cannot renew their leases upon their expiry. We assume that the appraised entity would continue to operate in the manner of operating the leased plant. In view of the relocation of the operating premises in Beijing, we reasonably forecast the loss of relocation in accordance with the information provided by the appraised entity.

10. The main raw material used for Wanyuan Henniges's production process is ethylene-propylene-diene monomer. Before July 2013, Wanyuan Henniges purchased this material mainly through Beijing Century International Trade Co. Ltd. (importer agent). After July 2013, Beijing Energine began to import ethylene-propylene-diene monomer as agent for Wanyuan Henniges. The change of purchase logistics increased the competition in the middle process, resulting in lowering purchasing price and increasing the gross profit ratio level of products. We assume that Wanyuan Henniges will continue to obtain the raw material through Beijing Energine.

11. The company value and equity interest of the appraised entity are assessed on the basis of its equity structure and capital structure as at the base date of valuation.

12. The development plan and production and operation plan of the appraised entity will be fulfilled as scheduled.

13. We assume that the appraised entity continues to control all its resources (including human resource) and maintains its core competitiveness.

14. Wanyuan Henniges can still obtain the high-tech enterprise certificate in the future years and is entitled to the preferential tax rate of 15%.

15. We assume that Wanyuan Henniges can achieve the product structure, unit price, product volume and sales revenue in the future revenue forecast.

The appraisal officers believe that these assumption conditions are established as at the base date of valuation based on the requirements of the income approach for valuation of the enterprise, and deduce the corresponding valuation conclusion based on these assumptions. The result of valuation will change significantly if there is material change in the future economic environment or other assumption conditions are unjustifiable.

IX. **Valuation Conclusion**

By adhering to the principle of independence, fairness, science and objection, we adopt income approach and asset-based approach to appraise all the equity interest of the shareholders of Beijing Wanyuan-Henniges Sealing Systems Co. Ltd. after implementing legal procedures for asset valuation, and form the following conclusion of valuation:

(i) ***Valuation conclusions obtained by adoption of the income approach***

The specific method selected when making the valuation on Beijing Wanyuan-Henniges Sealing Systems Co. Ltd. by adopting the income approach is discounted cash flow (DCF) method, namely, the entire shareholders' equity is based on the free cash flow of an enterprise for certain years in the future, then discounting it to the value of operating assets at appropriate discounting rate, adding the value of excess assets and non-operating assets which have not been taken into account in the investment income, and less the interest-bearing debts.

By adoption of the income approach, the value of the entire equity interest of Beijing Wanyuan-Henniges Sealing Systems Co. Ltd. is RMB517,825,700.

(ii) ***Valuation conclusions obtained by adoption of the asset-based approach***

On the premise of going concern, as at 31 August 2013, being the base date of valuation, the aggregate carrying amount of the assets of Beijing Wanyuan-Henniges Sealing Systems Co. Ltd. amounted to RMB521,959,300 and the aggregate appraised value of the assets amounted to RMB533,984,400, representing an increase in appraised value of RMB12,025,100 or 2.30%; the aggregate carring value of the liabilities amounted to RMB261,584,900 and the aggregate appraised value of the liabilities amounted to RMB261,584,900; the net carrying amount of the assets amounted to RMB260,374,400 and the appraised value of the same amounted to

RMB272,399,500, representing an increase in the appraised value of RMB12,025,100 or 4.62%. The valuation results of the assets and liabilities are set out in the table below:

Currency unit: RMB ten-thousand

Item		Carrying amount A	Appraised value B	Amount increased/ decreased C=B-A	Rate of increase D=C/A×100%
1	Current assets	30,291.61	30,364.40	72.79	0.24
2	Non-current assets	21,904.32	23,034.04	1,129.72	5.16
	Of which:				
3	Fixed assets	14,293.82	15,075.47	781.65	5.47
4	Construction in progress	7,610.50	7,958.57	348.07	4.57
5	**Total assets**	52,195.93	53,398.44	1,202.51	2.30
6	Current liabilities	20,158.49	20,158.49	—	—
7	Non-current liabilities	6,000.00	6,000.00	—	—
8	**Total liabilities**	26,158.49	26,158.49	—	—
9	**Net assets (Interests of owners)**	26,037.44	27,239.95	1,202.51	4.62

(iii) ***Final valuation conclusions***

The valuation result is RMB517,825,700 and RMB272,399,500, respectively, by adoption of two different valuation approaches, namely the income approach and the asset-based approach, representing a difference of RMB 245,426,200 and a difference rate of 190.10%. The income approach is in theory a relatively complete and comprehensive method, which provides a way to determine the value of the assets of an enterprise by analysing and measuring its overall profitability. This approach not only takes into account the income from basic tangible assets, but also takes into account the income from intangible assets, especially certain inassignable intangible assets. In this valuation, as Wanyuan Henniges's strengths on customer orders, technologies and scale cannot be reasonably reflected by the asset-based approach, we have selected the valuation results obtained by adoption of the income approach as final valuation results, that is, the value of the entire equity of Wanyuan Henniges as at the base date of valuation was RMB517,825,700.

To sum up, we have selected the valuation results obtained by adoption of the income approach as final valuation results, that is, as at 31 August 2013, being the base date of valuation, the value of the entire equity of Beijing Wanyuan-Henniges Sealing Systems Co. Ltd. was RMB517,825,700 and the value of its 40% equity was RMB207,130,300.

X. **Explanation of Special Issues**

1. The reference to "appraised value" in this report represents our opinion of the fair value of the assets under appraisal in their existing use as a going concern under the conditions and external economic environment prevailing on the base date of valuation for the purposes set out in this appraisal report and we are not responsible for other purposes.

2. The appraisal has been conducted in an objective, independent, fair and scientific manner. Neither the company nor any of the officers participating in the appraisal have any special relationships or interests with the assets under appraisal or relevant parties, and the valuation is completed under the regulation of the relevant laws. The appraisal officers have complied with professional ethical standards and performed their duties with their best effort.

3. During the course of valuation, this report is issued on the basis of title ownership, financial and accounting information, operation information provided by the principal and the appraised entity. The principal and the appraised entity shall be responsible for the reliability, truthfulness, accuracy and comprehensiveness of such relevant information. The principal and the appraised entity shall bear the legal consequences arising from deliberately withholding or providing false information which misleads the appraisal officers in investigating the ownership of the appraised assets and appraisal.

4. The appraisal officers examined the title document of the appraised assets provided by the appraised entity in accordance with the relevant requirements of the appraisal and made the necessary verification. However, authentication of the title of the appraised assets is beyond our scope of appraisal work. We do not express the opinion on the title ownership of the appraised assets.

5. The conclusion of this valuation reflects the object under this appraisal purpose and is determined in the open-market principle according to current fair market price, without considering the expenses and taxes arising from the title registration or title change of these assets, making provisions for taxation adjustment in view of the appreciation of the asset valuation, considering the mortgage, security, contingent liabilities, any influence resulted from pending litigation or any other possible litigation, and the influence of the price possibly to be extra paid by the special trading party over appraisal result. And further, the conclusion also does not take into account the impact on the value of assets brought by significant changes in national macroeconomic policy, meeting with natural forces and other force majeure. The conclusion of valuation shall not be deemed as a guarantee to achieve the appraised price of the appraised objects.

6. The result of this appraisal is based on the relevant assumptions set out in this report and its elucidation. Such data will be subject to changes as a result of various market factors. We disclaim the responsibility for expressing the opinions on the market fluctuations, and we have no obligation for any variation to reflect events after the date of this report. In case of changes in aforesaid conditions and various principles adopted in the valuation, the conclusion normally has no further effect.

7. Due to its early establishment and unsound management of the fixed assets of Wanyuan Henniges, the card book of the fixed-assets and the physical assets cannot be matched completely. During the course of this valuation, the appraisal officers, financial staff of the company and equipment administrators have verified the physical assets and made an inventory. We conduct this appraisal based on the breakdown of the assets after verification and inventory.

8. The main raw material used for Wanyuan Henniges's production process is ethylene-propylene-diene monomer. Before July 2013, Wanyuan Henniges purchased this material mainly through Beijing Century International Trade Co. Ltd. (importer agent). After July 2013, Beijing Energine began to import ethylene-propylene-diene monomer as agent for Wanyuan Henniges. The change of purchase logistics increased the competition in the middle process, resulting in lowering purchasing price and increasing the gross profit ratio level of products. We assume that Wanyuan Henniges will continue to obtain the raw material through Beijing Energine.

9. The operation premises leased by Wanyuan Henniges in Beijing will expire in January 2016. By reasons of environmental conservation and etc., Wanyuan Henniges is exposed to relocation. We take into account relocation expenses in 2015 and 2016, and the facts that the sales volume will be affected to a degree during the year. The table below sets out lease contracts of Wanyuan Henniges:

No. of Contract	Place	Term of lease	Area	Rental
S2012-055	Beijing	Three years in total from 1 May 2011 to 30 April 2014	756.00	RMB70000 per year
S2012-052	Beijing	20 years from the date on which the leasee begins to operate to 11 January 2016	14,740.00	RMB3,600,000 per year
S2012-051	Beijing	Three years in total from 1 May 2011 to 30 April 2014	8,103.00	RMB850,000 per year
S2012-050	Beijing	Three years in total from 1 October 2011 to 30 September 2014	1,785.00	RMB165,000 per year
S2012-049	Beijing	Three years in total from 1 May 2011 to 30 April 2014	126.00	RMB42,000 per year
S2012-053	Changchun	10 years from 1 November 2006 to 31 October 2016	6,689.62	RMB1,040,000 per year
	Changchun	10 years from 1 November 2003 to 31 October 2013	3,130.07	RMB16 per square metre per month

No. of Contract	Place	Term of lease	Area	Rental
S2013-022	Tieling	20 years in total from 1 June 2013 to 31 May 2033	8,800.00	RMB12.1 per square metre per month for the first 7 years after the delivery of properties
S2012-054	Chengdu	10 years in total from 31 August 2011 to 31 August 2021 (the first 5-year period expires on 31 August 2016)	9,379.00	RMB10 per square metre per month for the first 5-year period and RMB15 per square metre per month for the second 5-year period
S2012-044	Tianjin	Five years in total from 30 August 2012 to 30 August 2017	6,573.24	RMB11 per square metre per month for the first 3 years of the term of lease, after the first 3 years, increase by 10% annually

10. The capital contributors as shown on the Registration Form of Property Rights (i.e. Registration Certificate of Property Rights on State-owned Assets) of Beijing Wanyuan-Henniges Sealing Systems Co. Ltd. are Beijing Energine Industry Co. Ltd. and Germany Henniges Automotive Limited Company (德國瀚德汽車有限公司) with capital contribution in an amount of RMB40,000,000 and RMB60,000,000, respectively. The shareholders or their names have been changed. For reasons of timing, the Registration Form of Property Rights has not been changed. "Beijing Energine Industry Co. Ltd." and "Henniges Automotive Sealing Systems North America, Inc.", the current shareholders of Beijing Wanyuan-Henniges Sealing Systems Co. Ltd., are shareholders with legal qualification and consistent with those as shown on Wanyuan Henniges' business license, but not consistent with those as shown on the Registration Form of Property Rights, which is only attributable to the fact that the Registration Form of Property Rights has not been changed. There is no property or other legal disputes.

11. This report consists of certain documents available for inspection, which is an important part of this report and has the same legal effects as the text of this report.

12. This report has not taken into account premiums over Wanyuan Henniges's controlling interests and discounts to minority interests.

XI. **Limitations on the use of the Valuation Report**

1. This report shall only be used for the principal's economic behaviour corresponding to the purpose of valuation and delivery to the competent administrative department for examination; the principal shall reserve the right to use this report.

2. This report shall only be used by the users as specified herein.

3. The principal shall not publish all or part of this report to any public media without the consent of the company; the company shall not assume any legal liability for any result due to improper use of the conclusions for any other economic behaviour.

4. This report shall be valid from 31 August 2013 (base date of valuation) to 30 August 2014. This report will be reissued after one year.

XII. **Date of the Valuation Report**

The date of putting forward of this valuation report is 26 October 2013.

Set out below are the texts of the letters from Deloitte Touche Tohmatsu and from the Company's Board in connection with the cash flow forecast underlying the valuation of Wanyuan Henniges dated 31 August 2013 prepared by Beijing Pan-China Assets Appraisal Co. Ltd. for the purpose of inclusion in this circular.

Deloitte.
德勤

ACCOUNTANTS'REPORT ON CALCULATIONS OF DISCOUNTED FUTURE ESTIMATED CASH FLOWS IN CONNECTION WITH THE VALUATION OF EQUITY INTEREST IN A JOINT VENTURE, BEIJING WANYUAN-HENNIGES SEALING SYSTEMS CO. LTD.

TO THE DIRECTORS OF
CHINA ENERGINE INTERNATIONAL (HOLDINGS) LIMITED

We have examined the calculations of the discounted future estimated cash flows on which the valuation prepared by Beijing Pan-China Assets Appraisal Co., Ltd. (北京天健興業資產評估有限公司) dated 26 October 2013, of a 40% equity interest in Beijing Wanyuan-Henniges Sealing Systems Co. Ltd. as at 31 August 2013 (the "Valuation") is based. The Valuation based on the discounted future estimated cash flows is regarded as a profit forecast under Rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and will be included in a circular dated 6 December 2013 to be issued by China Energine International (Holdings) Limited (the "Company") in connection with the possible disposal of 40% equity interest in a joint venture, Beijing Wanyuan-Henniges Sealing Systems Co. Ltd. (the "Circular").

Directors' responsibility for the discounted future estimated cash flows

The directors of the Company are responsible for the preparation of the discounted future estimated cash flows in accordance with the bases and assumptions determined by the directors and set out in the Appendix IV of the Circular (the "Assumptions"). This responsibility includes carrying out appropriate procedures relevant to the preparation of the discounted future estimated cash flows for the Valuation and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

Reporting accountants' responsibility

It is our responsibility to form an opinion on the arithmetical accuracy of the calculations of the discounted future estimated cash flows on which the Valuation is based and to report solely to you, as a body, as required by Rule 14.62(2) of the Listing Rules, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Our engagement was conducted in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. This standard requires that we comply with ethical requirements and plan and perform the assurance engagement to obtain reasonable assurance on whether the discounted future estimated cash flows, so far as the calculations are concerned, have been properly compiled in accordance with the Assumptions. Our work does not constitute any valuation of Beijing Wanyuan-Henniges Sealing Systems Co. Ltd.

Because the Valuation relates to discounted future estimated cash flows, no accounting policies of the Company have been adopted in its preparation. The Assumptions include hypothetical assumptions about future events and management actions which cannot be confirmed and verified in the same way as past results and these may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Valuation and the variation may be material. Accordingly, we have not reviewed, considered or conducted any work on the reasonableness and the validity of the Assumptions and do not express any opinion whatsoever thereon.

Opinion

Based on the foregoing, in our opinion, the discounted future estimated cash flows, so far as the calculations are concerned, have been properly compiled, in all material respects, in accordance with the Assumptions.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
6 December 2013

6 December 2013

To the shareholders of the Company

Dear Sir or Madam,

VALUATION OF BEIJING WANYUAN-HENNIGES SEALING SYSTEMS CO. LTD.

We refer to the Asset Appraisal Report prepared by Beijing Pan-China Assets Appraisal Co., Ltd. ("PC Appraisal") in relation to the appraisal of the value of 40% equity of Beijing Wanyuan-Henniges Sealing Systems Co. Ltd. as of 31 August 2013 ("Valuation"). As stated in the Asset Appraisal Report from the valuer, PC Appraisal, the Valuation has been arrived at based on the income approach, taking into account the future cash flow projection ("Projection") made. As such, the Projection is regarded as a profit forecast under Rule 14.61 of the Listing Rules in Hong Kong. We have discussed with PC Appraisal on the bases and assumptions of the Valuation as set out in Appendix IV to the circular dated 6 December 2013 ("Circular"), upon which the Projection had been made. In addition, we have considered, and relied upon, the report addressed to the Board from Deloitte Touche Tohmatsu as set out in the Appendix V to the Circular regarding the calculations upon which the Projection had also been made. In this connection, we hereby confirm that the Projection has been made after due and careful enquiry.

By order of the Board of
China Energine International (Holdings) Limited
Han Shuwang
Chairman

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS 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 Group, or were proposed to be acquired or disposed of by or leased to the Group.

(c) None of the Directors is materially interested in any contract or arrangement entered into by any member of the Group subsisting at the date of this circular which is significant in relation to the business of the 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 Group pursuant to the Listing Rules.

5. MATERIAL CONTRACTS

The following contracts have been entered into by members of the 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 of 9 December 2011 between Beijing Energine, Zhongneng Huali Investment Co., Ltd., Suzhou Tepu Wind Energy Technology Co. Ltd. ("Suzhou Tepu") and Liaoning Juzi Industrial Co. Ltd. to establish Gaizhou Energine Wind Power Co. Ltd. as an associate with registered capital of RMB171.07 million of which Beijing Energine contributed RMB68,428,000 representing 40% thereof.

(b) A shareholder agreement of 16 December 2011 between Beijing Energine, Suzhou Tepu, Suzhou Technology Town Start-up Business Investment Co. Ltd., Suzhou Sanke Investment Management Co. Ltd. ("Suzhou Sanke") and Suzhou Sanhuan Investment Management Co. Ltd. to establish Suzhou Energine Tepu Wind Energy Technology Ltd. as a subsidiary with registered capital of RMB200 million of which Beijing Energine contributed RMB70 million representing 35% thereof.

(c) A trust loan contract entered into on 3 July 2012 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 5.0% per annum for a term of 5 years.

(d) A transfer agreement dated 3 February 2013 entered into between Beijing Energine and Suzhou Sanke in respect of transfer of a directorship of Suzhou Wind Energy to Suzhou Sanke from Beijing Energine.

(e) A trust loan contract entered into on 28 April 2013 of RMB250 million from CALT through the trustee, Aerospace Finance to Beijing Energine, being unsecured and bearing interest at 5.0% per annum for a term of almost 2 years.

Save as aforesaid, no material contracts (not being contracts entered into in the ordinary course of business carried on by the Group) have been entered into by any member of the 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
Deloitte Touche Tohmatsu ("Deloitte")	Certified Public Accountants
PC Appraisal	PRC independent asset valuer

(b) As at the Latest Practicable Date, none of Deloitte and PC Appraisal had any shareholding in the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Group, nor did 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 Group, or were proposed to be acquired or disposed of by or leased to the Group.

(c) Each of Deloitte and PC Appraisal 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 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 Group.

8. GENERAL

(a) The secretary of the Company is Mr. Au-Yeung Keung Steve LLB(Hons) LLM MSc(ECom&IComp) 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 transfer office of the Company is at the office of Tricor Standard Limited of 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

(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.

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

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 2012;

(d) the interim report of the Company for the six months ended 30 June 2013;

(e) the review report and financial information for the three years ended 31 December 2012 and eight months ended 31 August 2012 and 2013 on Wanyuan Henniges from Deloitte as set out in Appendix II to this circular;

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

(g) the Asset Valuation Report from PC Appraisal , whose summary as set out in Appendix IV to this circular;

(h) the letters on projection underlying the valuation of the assets as set out in Appendix V to this circular;

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

(j) the material contracts referred to the paragraph headed "Material Contracts" in this Appendix.

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 Conference Hall 2, G/F., Core Building 1, Phase 1, No.1 Science Park East Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong on 24 December 2013 at 12:00 noon for the purposes of considering and, if thought fit, passing the ordinary resolution set out as follows:—

ORDINARY RESOLUTION

"**THAT:**

(a) the disposal of a 40% equity of Beijing Wanyuan-Henniges Sealing Systems Co. Ltd. by Beijing Energine Industry Co. Ltd. ("the Disposal") through open tender with the major terms as set out in the Company's circular of even date in relation thereto is hereby approved, confirmed and ratified; and

(b) any one director of the Company be and is hereby authorised to proceed with the open tender for the Disposal, and, should there be a successful bidder, to complete the Disposal and 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 Disposal."

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

Hong Kong, 6 December 2013

* *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, Mr. Li Guang and Mr. Wang Lijun as Executive Directors, Mr. Fang Shili and Ms. Zhang Jianhua as Non-executive Directors and Mr. Wang Dechen, Ms. Kan Lai Kuen, Alice and Mr. Gordon Ng as Independent Non-executive Directors.