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**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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

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

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**CHINA ENERGINE INTERNATIONAL (HOLDINGS) LIMITED**

**中國航天萬源國際（集團）有限公司\***

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1185)**

**FINANCIAL ASSISTANCE CONSTITUTING  
A CONNECTED TRANSACTION  
AND  
NOTICE OF EGM**

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



**Euto Capital Partners Limited**

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A letter from the Board is set out on pages 4 to 11 of this Circular. A letter of advice containing the recommendation from the Independent Board Committee to the Independent Shareholders is set out on pages 12 to 13 of this Circular. A letter of advice from Euto Capital, the Independent Financial Adviser, to the Independent Board Committee and the Independent Shareholders is set out on pages 14 to 29 of this Circular.

A notice of the EGM to be held at Suite 4701, 47/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Wednesday, 18 March 2020 at 10:00 a.m. is set out on pages EGM-1 to EGM-2 of this Circular. Whether or not you are able to attend and vote at the EGM in person, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's Hong Kong branch share registrar, Tricor Standard Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding the EGM or any adjournment thereof (as the case may be).

Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish and in such event, the form of proxy shall be deemed to be revoked.

28 February 2020

\* for identification purpose only

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## DEFINITION

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In this Circular, the following terms and expressions shall have the following meanings unless the context requires otherwise:

“ASTF”	Aerospace Science and Technology Finance Co. Ltd, a company established in the PRC with limited liability. It is a wholly owned subsidiary of CASC
“associates”	has the meaning given in the Listing Rules
“Beijing Engine”	Beijing Engine Industrial Co. Ltd., a company established in PRC with limited liability. It is an indirectly wholly-owned subsidiary of the Company.
“Board”	the board of Directors
“CASC”	China Aerospace Science and Technology Corporation, a company established in PRC with limited liability. It is the ultimate controlling shareholder of the Company. As at the date of this Circular, CASC holds approximately 60.64% of the issued Share capital of the Company
“Company”	China Engine International (Holdings) Limited, a company incorporated in Cayman Island with limited liability, the issued shares of which are listed on the main board of the Stock Exchange (stock code: 1185)
“connected person(s)”	has the meaning given in the Listing Rules
“Director”	a director of the Company
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Board comprising all the independent non-executive Directors, namely Ms. Kan Lai Kuen, Alice, Mr. Gordon Ng and Mr. Li Dapeng, established to advise the Independent Shareholders in respect of the Loan Agreement and the Share Charge

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## DEFINITION

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“Independent Financial Adviser” or “Euto Capital”	Euto Capital Partners Limited, a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activities under the SFO, being independent financial adviser to the Independent Board Committee for the purpose of advising the Independent Board Committee in respect of the terms of Loan Agreement and Share Charge
“Independent Shareholders”	all Shareholders other than CASC and its associates
“JV Company”	Beijing Delphi Wan Yuan Engine Management Systems Co., Ltd.
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Latest Practicable Date”	26 February 2020, being the latest practicable date prior to the printing of this Circular for ascertaining certain information contained therein
“Loan Agreement”	the loan agreement between the Company and ASTF in respect of a RMB300,000,000 (equivalent to approximately HK\$330,000,000) loan facility to be provided by ASTF to the Company
“PRC”	the People’s Republic of China
“EGM”	an extraordinary general meeting of the Company to be convened for the purpose of approving the Loan Agreement and the Share Charge
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Share Charge”	the share charge to be granted by Beijing Energine in favour of ASTF over all the shares held by Beijing Energine in the JV Company (representing 49% of the shares in the JV Company) as security for the loan facilities under the Loan Agreement
“Shareholders”	shareholders of the Company

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## DEFINITION

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“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent.

*Unless otherwise stated, the exchange rates adopted in this Circular for illustration purpose only are RMB1.00=HK\$1.1.*

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## LETTER FROM THE BOARD

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### CHINA ENERGINE INTERNATIONAL (HOLDINGS) LIMITED

中國航天萬源國際（集團）有限公司\*

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1185)**

*Executive Directors:*

Mr. Liu Zhiwei (*Chairman*)  
Mr. Han Qingping (*Chief Executive Officer*)  
Mr. Xu Jun (*Financial Controller*)  
Mr. Wang Guanghui

*Independent Non-executive Directors:*

Ms. Kan Lai Kuen, Alice  
Mr. Gordon Ng  
Mr. Li Dapeng

*Registered Office:*

Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman  
KY1-1111  
Cayman Islands

*Principal Place of Business:*

Suite 4701, 47/F  
Central Plaza  
18 Harbour Road  
Wanchai  
Hong Kong

28 February 2020

*To the Shareholders*

Dear Sir or Madam,

### **FINANCIAL ASSISTANCE CONSTITUTING A CONNECTED TRANSACTION AND NOTICE OF EGM**

#### **INTRODUCTION**

Reference is made to the announcement issued by the Company dated 25 December 2019 in relation to financial assistance constituting a connected transaction.

\* for identification purpose only

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## LETTER FROM THE BOARD

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### FINANCIAL ASSISTANCE FROM A CONNECTED PERSON

On 25 December, 2019, Beijing Energin, an indirect wholly-owned subsidiary of the Company, and ASTF entered into the Loan Agreement for a RMB300,000,000 (equivalent to approximately HK\$330,000,000) loan facility to be provided by ASTF to Beijing Energin, which are to be secured by the Share Charge over all the shares held by the Beijing Energin in the JV Company (representing 49% of the shares in the JV Company). The Loan Agreement and the Share Charge are subject to the Independent Shareholders' approval (the requirement for which cannot be waived).

The Group has been operating in a challenging market environment, and the regulation and policy continuous to have a negative impact on the wind energy business, as disclosed in the profit warning announcement of the Company dated 24 January 2020, a substantial loss for the year ended 31 December 2019 is expected.

The management have prepared a cash flow forecast for the year ending 31 December 2020 (the "Cash Flow Forecast") to monitor the Group's financial and liquidity position from time to time.

The major basis and assumptions of the Cash Flow Forecast are:

1. For the forecast operating cash flow, the forecast operating expenses has made reference to the respective amounts in prior years and the repayment schedule of relevant liabilities;
2. The expected receivables include the amounts to be recovered from existing projects only, for prudence purpose, the expected cash flow from the potential new projects during the year ending 31 December 2020 is not included in the Cash Flow Forecast;
3. the cash flow forecast for investing activities has taken account the expected dividend from the JV Company, the amount expected to be recovered from the investment in an associate which is undergoing liquidation and the recovering of a secured loan which the fair value of the underlying security exceeds the loan amount as supported by the valuation report on the fair value of the underlying security;
4. existing unsecured loans from ASTF amounted to approximately RMB 492 million will fall due during the year ending 31 December 2020, based on the ongoing discussion with CASC, this is expected that further extension of approximately RMB 451 million of the existing unsecured loans from ASTF will be granted to the Company;
5. the existing unutilized unsecured facility of approximately RMB 85 million granted by ASTF will continue available to the Group;

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## LETTER FROM THE BOARD

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6. the bank borrowing of approximately RMB 80 million will be repaid according to the maturity date during the year ended 31 December 2020.

As at 1 January 2020, the cash and cash equivalent available to the Group is approximately RMB 79 million, and based on the Cash Flow Forecast, the Group requires additional RMB 251 million for supporting its operations and thus consider that the Loan Agreement is crucial for supporting the operations of the Group and the repayment of debts when they fall due during the year ending 31 December 2020. The forecasted interest payable of the loan under the Loan Agreements repayable on the maturity date will be approximately RMB 8 million and thus the Group is expected to have cash and cash equivalent of approximately RMB 41 million as at 31 December 2020 assuming that the loan under the Loan Agreement is obtained.

Nonetheless, the Group may not be able to repay the loan principal of RMB 300 million by the maturity date and the Board could not draw the conclusion on the possibility for obtaining extension of the loan from ASTF or the possibility for the Group to obtain additional financing to repay the loan principal of RMB 300 million to ASTF.

The Share Charge was entered into as security for the loan, the Company will continue to optimize its capital management and prevent the debt repayment risk. The Company will report its financial position to ASTF regularly and in case there is any circumstance that the Company could not be able to repay the loan on the maturity date, the Company will notify ASTF immediately and start the negotiation on the extension. The Company will endeavor its best effort to prevent the default of loan. In the event that the extension is not granted and ASTF is entitled to enforce against the security under the Share Charge, in which case, as confirmed by the legal opinion from PRC lawyer, ASTF shall not obtain the subject matter of the Share Charge (i.e. shares held by Beijing Energine in the JV Company) at a discounted value but shall arrange for sales in the open market with the consent of the remaining 51% shareholder of the JV company, and the proceeds after payment of the amount owing to ASTF under the Loan Agreement will be returned to Beijing Energine. This arrangement is in line with the general share charge arrangement customary to market practices and is on normal commercial terms.

Under the possible scenarios that the remaining 51% shareholder of the JV Company refuse to acquire the 49% of the shares of the JV Company and do not grant the consent for sales of Share Charge, or such consent for the sales of Share Charge is granted but there is no buyer for the Share Charge in the open market, the JV Company might be forced to liquidate and the value of the Share Charge will be realized after the realization of assets of the JV Company.



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## LETTER FROM THE BOARD

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Based on the unaudited consolidated management accounts as at 30 November 2019, the approximate net asset value of the JV Company is RMB356.05 million on 100% basis and hence RMB174.47 million on 49% basis. Based on a valuation report conducted on 30 September 2019 by valuer, China Alliance Appraisal Co. Ltd. (北京中同華資產評估有限公司) the approximate value of the Share Charge is RMB1,535 million on 100% basis and hence RMB752 million on 49% basis. The investment in JV company is currently a major contributor of profit to the Group. The Share Charge is on a loan to security ratio of 40%. Given that the Group has a continuous loss-making track record in the past few years and in the absence of any immediate bank borrowings available to the Group on acceptable terms, the management considered that there is compelling need for the financing under the Loan Agreement which terms are in line with the market and are on normal commercial terms and are fair and reasonable to the shareholders and to the Company as a whole under the circumstance.

The loan under the Loan Agreement will be utilized as the working capital of the existing wind energy projects and operations of the Group.

Interest will accrue on the loan under the Loan Agreement at 4.1% per annum. Accrued interest is payable at one month intervals. The loan is repayable on the first anniversary of the date of the Loan Agreement which is 25 December 2020. If Beijing Energene fails to repay the loan at the due date or is not utilising the loan for working capital purpose, such events shall constitute an event of default and a default interest of 30% per annum and 50% per annum will be charged respectively.

The loan under the Loan Agreement will be utilized for the working capital of the wind energy projects and operations of the Group, so the related default interest will not be incurred.

The Directors have considered other fund raising alternatives for the Group, including debt and equity financing. The Company has approached two financial institutions. However, the Company was informed that unless the financial performance or the market landscape of the Group has turnaround, the Company will not be able to obtain bank borrowings with an amount comparable to the amount available under the Loan Agreement from commercial banks or financial institutions on terms acceptable to the Company. With regard to equity financing, the Directors are of the view that any placing, open offer or rights issue would either have a dilution effect to the shareholding interests of the existing Shareholders or require underwriting and be time-consuming. The Directors therefore consider the Loan Agreement to be the most appropriate fund raising method currently available to the Group. While the Company will assess its capital requirements from time to time and will continue to explore the possibility of obtaining external debt and/or equity financing as and when the need arises and the terms of such financing are in the interests of the Company, as at the Latest Practicable Date, it had no intention to conduct any debt or equity financing activities other than pursuant to the Loan Agreement, any bank facilities which the Company may obtain from time to time in the ordinary course of its business and exploring the funding alternatives as disclosed above, nor had it entered into or negotiated the terms of any such financing (other than the Loan Agreement). The Company may use any banking facilities which it may obtain from time to time in the ordinary course of its business to fund its operating funding needs.

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## LETTER FROM THE BOARD

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The Board considers that the terms of the Loan Agreement (including the interest rate, the event of default and the default interest rate) and the Share Charge are on normal commercial terms and are fair and reasonable. The Board also consider that the Loan Agreement and Share Charge are the most appropriate fund raising method currently available to the Group, however, if the resolution in relation to the loan under the Loan Agreement and Share Charge is not approved, the Group might have to enter into loan agreement with ASTF without the pledge of assets, however, a higher interest rate is expected to compensate for the increased default risk borne by ASTF.

ASTF is a wholly-owned subsidiary of CASC, CASC is the controlling shareholder and therefore a connected person of the Company. The Loan Agreement and the Share Charge constitute a connected transaction of the Company and are subject to the reporting and announcement requirements and the approval of the Independent Shareholders under Rule 14A.36 of the Listing Rules.

### GENERAL INFORMATION

The Company is incorporated in Cayman Island with limited liability, whose shares are listed on the main board of the Stock Exchange (stock code: 1185). It is an investment holding company whose subsidiaries are principally engaged in (i) manufacture and sales of wind energy related products, and (ii) sales of electricity from operation of wind power field.

Beijing Engene, established in PRC with limited liability. It is an indirect wholly-owned subsidiary of the Company and its principal activity is manufacturing and sales of wind energy related products.

CASC, established in PRC with limited liability. It is the ultimate controlling shareholder of the Company. As at the date of this Circular, CASC holds approximately 60.64% of the issued Share capital of the Company.

ASTF, established in PRC with limited liability. It is a wholly owned subsidiary of CASC and its principal activity is provision of financial assistance.

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## LETTER FROM THE BOARD

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JV Company, a sino-foreign joint entity enterprise established in the PRC with limited liability since 30 March 1994. Its scope of business includes production of automotive engine electronic control systems and key components, sales of self-produced products; provision of automotive parts technical services and technical consulting. As at the date of this Circular, Beijing Energin holds 49% of the registered capital of the JV Company, the remaining 51% of the registered capital of the JV Company is held by Delphi Singapore Holdings Pte. Ltd, which the ultimate beneficial owner is Delphi Technologies PLC (NYSE: DLPH). Set out below is the financial information represents amounts shown in the JV Company's financial statements prepared in accordance with PRC accounting standards:

	<b>For the year ended 31 December 2018 RMB'000</b>	<b>For the year ended 31 December 2017 RMB'000</b>
Profit before taxation	184,290	371,800
Profit after taxation	167,330	320,160

There are no material extraordinary items noted during the year ended 31 December 2018 and 2017.

Delphi Singapore Holdings Pte., Ltd., incorporated with limited liability since 8 August 2017, it is an investment company with portfolio concentrated in asia pacific, particularly PRC. It is a third party independent to the Company and its connected persons.

Delphi Technologies PLC (NYSE: DLPH), is a United Kingdom-based company that develops designs and manufactures vehicle propulsion systems. It is a third party independent to the Company and its connected persons.

### **1. The EGM**

The EGM will be held for the purpose of considering and, if thought fit, approving the Loan Agreement and the Share Charge. CASC and any other Shareholders with a material interest in the Loan Agreement and the Share Charge and their respective associates are required to abstain from voting on the resolution.

Apart from CASC, the Company is not aware of any other shareholders who have a material interest in the Loan Agreement or the Share Charge.

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## LETTER FROM THE BOARD

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A notice convening the EGM is set out on pages EGM-1 to EGM-2 of this Circular. Whether or not you intend to attend the meeting or any adjournment thereof, 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 appointed for holding the meeting or any adjournment thereof to the Hong Kong branch share registrar of the Company, Tricor Standard Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong. Completion and return of the form of proxy will not preclude you from attending and voting at the meeting or any adjournment meeting if you so wish.

### **2. Independent Board Committee**

An Independent Board Committee comprising all the independent non-executive Directors, namely Ms. Kan Lai Kuen, Alice, Mr. Gordon Ng and Mr. Li Dapeng, has been established to advise the Independent Shareholders as to whether the terms of the Loan Agreement and the Share Charge are fair and reasonable and in the interests of the Company and the Shareholders as a whole and to advise the Independent Shareholders on how to vote, taking into account the recommendations of Euto Capital, the Independent Financial Adviser.

None of the members of the Independent Board Committee has a material interest in the transactions contemplated under the Loan Agreement and the Share Charge.

Your attention is drawn to the letter from the Independent Board Committee, which are set out on pages 12 to 13 of this Circular, containing its opinions as to whether the terms of the the Loan Agreement and the Share Charge are fair and reasonable and in the interests of the Company and the Shareholders as a whole and their recommendations as to voting.

### **3. Independent Financial Adviser**

The Company has appointed Euto Capital as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Loan Agreement and the Share Charge.

Your attention is drawn to the letter from Euto Capital, which are set out on pages 14 to 29 of this Circular, containing its opinions as to whether the terms of the Loan Agreement and the Share Charge are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole and their recommendations as to voting.

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## LETTER FROM THE BOARD

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### RECOMMENDATION

The Board (other than the independent non-executive Directors whose view is set out in the letter from the Independent Board Committee on pages 12 to 13 of this Circular) considers the Loan Agreement and the Share Charge to be on normal commercial terms, is of the view that their terms are fair and reasonable and that Beijing Energin's entry into the Loan Agreement and the Share Charge is in the interest of the Company and the Shareholders as a whole, and accordingly recommends the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Loan Agreement and the Share Charge and the respective transactions contemplated thereunder.

### FURTHER INFORMATION

Your attention is also drawn to the additional information set out in the appendix to this Circular.

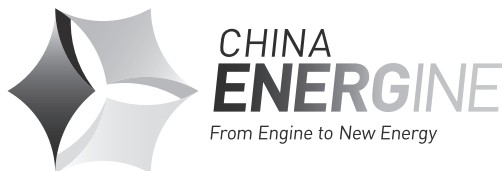
Yours faithfully,  
For and on behalf of the Board  
**China Energin International (Holdings) Limited**  
**Liu Zhiwei**  
*Chairman*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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*The following is the text of the letter of advice from the Independent Board Committee, prepared for the purpose of incorporation into this Circular, setting out its recommendation to the Independent Shareholders regarding the Loan Agreement and the Share Charge:*



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

**中國航天萬源國際（集團）有限公司\***

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1185)**

28 February 2020

*To the Independent Shareholders*

Dear Sir or Madam,

#### **FINANCIAL ASSISTANCE CONSTITUTING A CONNECTED TRANSACTION**

We refer to the circular of the Company to the Shareholders dated 28 February 2020 (the “Circular”), of which this letter forms a part. Unless the context requires otherwise, capitalised terms used in this letter will have the same meanings given to them in the section headed “DEFINITIONS” of the Circular.

We are members of the Independent Board Committee which has been formed by the Board to advise the Independent Shareholders as to whether the terms of the the Loan Agreement and the Share Charge are fair and reasonable so far as the Independent Shareholders are concerned.

We also wish to draw your attention to the letter of advice from Euto Capital, being the Independent Financial Adviser appointed to advise the Independent Board Committee and the Independent Shareholders on the terms of the Loan Agreement and the Share Charge, which contains, among other things, Euto Capital’s advice, opinions and recommendations regarding the terms of the Loan Agreement and the Share Charge, as set out on pages 14 to 29 of the Circular, and the Letter from the Board as set out on pages 4 to 11 of the Circular.

\* for identification purpose only

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Taking into account the reasons relating to the Loan Agreement, the Share Charge and their terms and to the advice and, in particular, the recommendations of Euto Capital stated in its letter of advice dated 28 February 2020, we consider that (i) the terms of the Loan Agreement and the Share Charge to be in ordinary course of business and are on normal commercial terms and, therefore, fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Loan Agreement and the Share Charge to be in the interests of the Company and the Shareholders as a whole and, accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Loan Agreement and the Share Charge and the respective transactions contemplated thereunder.

Yours faithfully,

Independent Board Committee of

**China Enginene International (Holdings) Limited**

**Kan Lai Kuen, Alice**

**Gordon Ng**

**Li Dapeng**

*Independent Non-executive*

*Independent Non-executive*

*Independent Non-executive*

*Director*

*Director*

*Director*

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## LETTER FROM EUTO CAPITAL

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Euto Capital Partners Limited  
Room 2418, Wing On Centre,  
111 Connaught Road Central,  
Hong Kong

T +852 3106 2393  
F +852 3582 4722  
www.eutocapital.com

28 February 2020

*To the Independent Board Committee and the Independent Shareholders of  
China Engene International (Holdings) Limited*

Dear Sirs and Madams,

### **FINANCIAL ASSISTANCE CONSTITUTING A CONNECTED TRANSACTION**

#### **INTRODUCTION**

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the terms of the Loan Agreement and the Share Charge, details of which are set out in the “Letter from the Board” (the “**Letter**”) contained in the circular of the Company to the Shareholders dated 28 February 2020 (the “**Circular**”), of which this letter forms a part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

On 25 December 2019, Beijing Engene, an indirect wholly-owned subsidiary of the Company, and ASTF entered into the Loan Agreement for a loan facility in the sum of RMB300,000,000 (equivalent to approximately HK\$330,000,000) to be provided by ASTF to Beijing Engene, which is to be secured by the Share Charge over all the shares held by Beijing Engene in the JV Company (representing 49% of the shares in the JV Company).

Interest will accrue on the loan under the Loan Agreement at 4.1% per annum. Accrued interest is payable on a monthly basis. The loan is repayable on the first anniversary of the date of the Loan Agreement. If Beijing Engene fails to repay the loan at the due date or is not utilising the loan according to the purpose of loan, such events shall constitute an event of default and a default interest of 30% per annum and 50% per annum will be charged respectively. The terms of the Loan Agreement and the Share Charge were negotiated between the parties on an arm’s length basis.

The loan facilities under the Loan Agreement are intended to replenish the Group’s working capital.



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## LETTER FROM EUTO CAPITAL

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### LISTING RULES IMPLICATION

ASTF is a wholly-owned subsidiary of CASC, which is the controlling shareholder of the Company, and therefore ASTF is a connected person of the Company. The Loan Agreement and the Share Charge will constitute a connected transaction of the Company and be subject to the reporting and announcement requirements and the approval of the Independent Shareholders under Rule 14A.36 of the Listing Rules.

### INDEPENDENT BOARD COMMITTEE

An Independent Board Committee comprising all the independent non-executive Directors, namely Ms. Kan Lai Kuen, Alice, Mr. Gordon Ng and Ms. Li Dapeng, has been established to advise the Independent Shareholders as to whether the terms of the Loan Agreement and the Share Charge are fair and reasonable and entering into the Loan Agreement and the Share Charge are in the interests of the Company and the Shareholders as a whole. In our capacity as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders for the purpose of the Listings Rules, our role is to give an independent opinion in such regard.

### OUR INDEPENDENCE

We, Euto Capital Partners Limited (“**Euto Capital**”), have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders. Mr. Manfred Shiu is the person signing off the opinion stated in this letter contained in the Circular. Mr. Shiu has been a responsible officer of Type 6 (advising on corporate finance) regulated activities under SFO since 2009 and has participated in and completed various independent financial advisory transactions in Hong Kong.

As at the Latest Practicable Date, we were not aware of any relationships or interest between Euto Capital and the Company or any other parties that could be reasonably be regarded as hindrance to Euto Capital’s independence as defined under Rule 13.80 of Listing Rules to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Loan Agreement and the Share Charge. We are not associated with the Company, its subsidiaries, its associates or their respective substantial shareholders or associates, and accordingly, are eligible to give independent advice and recommendations.

Apart from normal professional fees payable to us in connection with this appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, no arrangement exists whereby we will receive any fees from the Company, its subsidiaries, its associates or their respective substantial shareholders or associates. We are not aware of the existence of or change in any circumstances that would affect our independence.

Accordingly, we consider that we are eligible to give independent advice on the Loan Agreement and the Share Charge.

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## LETTER FROM EUTO CAPITAL

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### BASIS OF OUR OPINION

In formulating our opinion and recommendation to the Independent Board Committee and the Independent Shareholders in relation to the Loan Agreement and the Share Charge, we have relied on the information, facts and representations contained or referred to in the Circular and the information, facts and representations provided by, and the opinions expressed by the Directors, management of the Company and its subsidiaries (the “**Management**”).

We have assumed that all information, facts, opinions and representations made or referred to in the Circular were true, accurate and complete at the time they were made and continued to be true and that all expectations and intentions of the Directors and the Management, will be met or carried out as the case may be. We have no reason to doubt the truth, accuracy and completeness of the information, facts, opinions and representations provided to us by the Directors and the Management.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading. We have also sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed.

We consider that we have been provided with, and we have reviewed sufficient information to reach an informed view, to justify relying on the accuracy of the information contained in the Circular and to provide a reasonable basis for our opinion. We have no reason to doubt that any relevant material facts have been withheld or omitted from the information provided and referred to in the Circular or the reasonableness of the opinions and representations provided to us by the Directors and the Management. We have not, however, conducted any independent verification of the information provided, nor have we carried out any independent investigation into the business, financial conditions and affairs of the Group or its future prospects.

Based on the foregoing, we confirm that we have taken all reasonable steps, which are applicable to this transaction, as referred to in Rule 13.80 of the Listing Rules (including the notes thereof) in formulating our opinion and recommendation.

This letter is issued for the information for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Loan Agreement and Share Charge and except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

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# LETTER FROM EUTO CAPITAL

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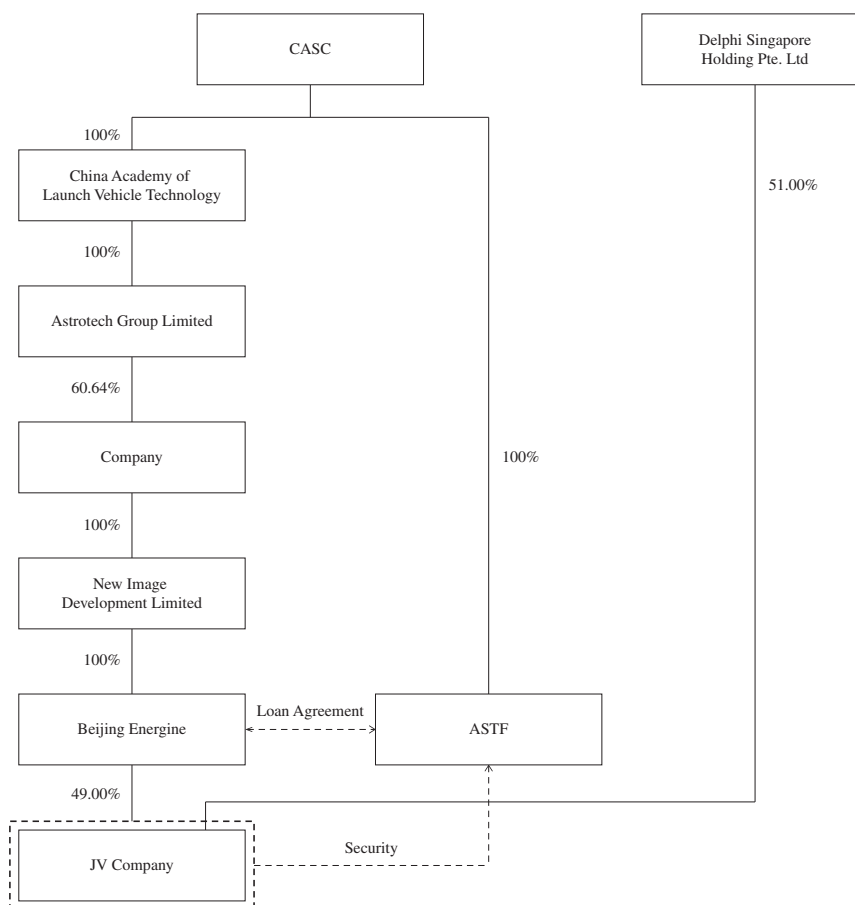
## PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendations, we have taken into account the following principal factors and reasons:

### 1. Background information of the Loan Agreement and the Share Charge

On 25 December 2019, Beijing Energin, an indirect wholly-owned subsidiary of the Company, and ASTF entered into the Loan Agreement for a loan facility in the sum of RMB300,000,000 (equivalent to approximately HK\$333,000,000) to be provided by ASTF to Beijing Energin, which is to be secured by the Share Charge over all the shares held by Beijing Energin in the JV Company (representing 49% of the shares in the JV Company while the remaining 51% of the registered capital of the JV Company is held by Delphi Singapore Holdings Pte. Ltd, which the ultimate beneficial owner is Delphi Technologies PLC (NYSE: DLPH)).

The following diagram illustrates the corporate structure of the Company, Beijing Energin, ASTF and the JV Company:



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## LETTER FROM EUTO CAPITAL

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As set out in the Letter, Delphi Singapore Holdings Pte., Ltd. was incorporated with limited liability since 8 August 2017 and is an investment company with portfolio concentrated in Asia Pacific, particularly PRC. It is a third party independent to the Company and its connected persons. Delphi Technologies PLC (NYSE: DLPH), being the ultimate beneficial owner of Delphi Singapore Holdings Pte. Ltd., is a United Kingdom-based company that develops designs and manufactures vehicle propulsion systems. It is also a third party independent to the Company and its connected persons.

Interest will accrue on the loan under the Loan Agreement at 4.1% per annum. Accrued interest is payable on a monthly basis. If Beijing Energine fails to repay the loan at the due date or is not utilising the loan according to the purpose of loan, such events shall constitute an event of default and a default interest of 30% per annum and 50% per annum will be charged respectively. The loan is repayable on the first anniversary of the date of the Loan Agreement. The terms of the Loan Agreement and the Share Charge were negotiated between the parties on an arm's length basis.

The loan facilities under the Loan Agreement are intended to replenish the Group's working capital.

## 2. Background information of the Group

### (a) *Wind Energy Product Segment*

The principal activity of the Group is investment holding, and through its subsidiaries, associates and joint ventures, the Group is principally engaged in (i) manufacture and sales of wind energy related products ("**Wind Energy Product Segment**") and (ii) sales of electricity from operation of wind power field ("**Wind Farm Segment**").

For the Wind Energy Product Segment, as advised by the Management, the Group is principally engaged in the production of 1.5MW excitation-magnetic direct-drive, 2MW permanent-magnetic direct-drive, 2MW excitation-magnetic direct-drive and 3MW permanent-magnetic direct-drive wind turbine units. The Group is stepping up with its efforts in the research and development of high-power direct-drive wind turbines with capacity of 3MW or above. Meanwhile, the Group also owns the technology and capacity for the manufacturing of core parts and components complementary to the technology for the assembly of wind turbines, such as power generators, blades and control systems. As disclosed in the annual report of the Company for the year ended 31 December 2018 ("**Annual Report 2018**"), the Company had obtained 163 valid patents, including 21 general invention patents, more than 140 utility model patents, 2 design patents and 11 software copyright registrations as at 31 December 2018.

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**LETTER FROM EUTO CAPITAL**

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**(b) Wind Farm Segment**

As disclosed in the Annual Report 2018, the Group operated the following four wind farms as at 31 December 2018 with a total capacity of 424,150KW.

No.	Name	Capacity (KW)	Details on Turbines
1	CASC Long Yuan (Benxi) Wind Farm	24,650	29 sets of 850KW wind turbines
2	Jilin Longyuan Tongyu Wind Farm	200,000	236 sets of 850KW wind turbines
3	Jiangsu Longyuan Rudong Wind Farm	150,000	100 sets of 1.5MW wind turbines
4	Inner Mongolia Datang Wanyuan Xinghe Wind Farm	49,500	55 sets of 900KW direct-drive wind turbines
<b>Total</b>		<u><u>424,150</u></u>	

**3. Financial information of the Group**

**(a) Historical financial performance**

Set out below is a summary of the financial information of the Group for the financial years ended 31 December 2017 (“FY2017”) and 31 December 2018 (“FY2018”) as extracted from the Annual Report 2018:

	For the year ended 31 December	
	2018 (audited) HK\$'000	2017 (audited) HK\$'000
<b>Segment Revenue</b>		
(1) Wind Energy Product Segment	33,678	234,028
(2) Wind Farm Segment	25,438	25,709
(3) Sales of energy storage and related products (“Energy Storage Segment”) (Note 1)	<u>16,643</u>	<u>3,677</u>
<b>Total Revenue</b>	<u><u>75,759</u></u>	<u><u>263,414</u></u>

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## LETTER FROM EUTO CAPITAL

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	<b>For the year ended 31 December</b>	
	<b>2018</b>	<b>2017</b>
	(audited)	(audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Segment Loss</b>		
(1) Wind Energy Product Segment	(1,099,698)	(222,383)
(2) Wind Farm Segment	(6,331)	10,431
(3) Energy Storage Segment ( <i>Note 1</i> )	(83,388)	(9,251)
Unallocated amounts	<u>(140,729)</u>	<u>(26,745)</u>
<b>Loss for the year</b>	<u><u>(1,330,146)</u></u>	<u><u>(247,948)</u></u>

*Note 1:* During the six months ended 30 June 2019, the Energy Storage Segment had discontinued.

In FY2018, the Group recorded revenue of approximately HK\$75.76 million, representing a significant decrease of approximately HK\$187.65 million (equivalent to a decrease of approximately 71.24%) from approximately HK\$263.41 million in FY2017.

As set out in the table above, such decrease in revenue was mainly attributable to the decrease in sales in the Wind Energy Product Segment by HK\$200.35 million (equivalent to a decrease of approximately of 85.61%) from HK\$234.03 million in FY2017 to HK\$33.68 million in FY2018. Based on the Annual Report 2018, such decrease was a result of the negative impacts from the issue of Document No.52 announced by the National Energy Administration in 2017 and the Notice of the National Energy Administration on Requirements relating to Wind Power Construction and Management in 2018 (Guo Neng Fa Xin Neng [2018] No.47) (the “**New Regulation and Policy**”) which brought the wind energy business of the PRC with intense price competition and thus the sales orders from customers in the Wind Energy Product Segment dropped substantially.

Facing these challenges, the Management estimated the future economic inflow from the Wind Energy Product Segment would be lowered, which resulted in an impairment loss of HK\$249.30 million recognized in relation to the intangible assets (HK\$163.60 million), the property, plant and equipment (HK\$23.50 million), and inventories (HK\$62.20 million). A further impairment loss of HK\$727.20 million also recognized on the expected credit loss of financial assets and contract assets because of the worsening market landscape.

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## LETTER FROM EUTO CAPITAL

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The following table set out the details of the impairment loss made for FY2018:

<b>Balances on which the impairment loss was made</b>	<b>Relevant Segment</b>	<b>Impairment loss made <i>HK\$(million)</i></b>
<b>1</b> Intangible assets		
– Development cost	Wind Energy Product Segment	57.5
– Technology know-how	Wind Energy Product Segment	89.9
– Licence right	Wind Energy Product Segment	16.2
Subtotal		163.6
<b>2</b> Wind energy plant and equipment	Wind Energy Product Segment	23.5
<b>3</b> Inventories	Wind Energy Product Segment	62.2
<b>4</b> Financial assets and contract assets		
– Receivables from Wuxi CASC Energine Xindali Co Ltd (“ <b>Wuxi CASC</b> ”), which is an associate of the Company	Wind Energy Product Segment	119.0
– Receivables from the other customers	Wind Energy Product Segment	608.2
Subtotal		<u>727.2</u>
 Total		 <u><u>976.5</u></u>

As seen from the table, impairment on the financial assets and contract assets contributed the largest portion for the Group’s total impairment loss in FY2018, which were mainly impairment on the receivables from (i) Wuxi CASC and (ii) the other customers.

For the impairment assessment of amount due from Wuxi CASC, we noted from the Annual Report 2018 that the New Regulation and Policy caused Wuxi CASC (which operates in the wind energy business) faced financial difficulty, and were filed for bankruptcy liquidation by creditors due to defaults of contract debt in FY2018, and a bankruptcy administrator was appointed by a local court in China on 2 January 2019. These resulted in the impairment recognized on the expected credit loss of financial assets and contract assets. For the relevant impairment assessment, the Group has engaged an independent third party valuer to assess the value of such associate using asset approach. The asset approach is applied due to the associate’s loss-making situation and may not be able to continue its operation due to its financial difficulty and legal issues. Under the asset approach, each asset item of the associate is evaluated and the impairment loss of approximately HK\$119.0 million is recognized.

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## LETTER FROM EUTO CAPITAL

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For the impairment assessment of receivables from customers, management assessed the expected recoverable amount of each customers individually on a continuous basis and an impairment was recognised on the expected credit loss of approximately HK\$608 million primarily taking into account the repayment history of each customer, aging of each receivables and the financial ability of each customers.

Coupling with the significant decrease in revenue and the large impairment loss as set out above, the Group recorded loss of approximately HK\$1,330.15 million in FY2018, representing an increase in loss of approximately HK\$1,082.20 million (equivalent to an increase of approximately 536.46%) from loss of approximately HK\$247.95 million in FY2017.

**(b) Historical financial position**

Set out below is the extract of financial position of the Group as at 31 December 2017 and 2018 as extracted from the Annual Report 2018:

	<b>For the year ended 31 December</b>	
	<b>2018</b>	<b>2017</b>
	(audited)	(audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets	1,769,397	2,322,070
Current assets	2,505,033	3,523,599
Current liabilities	1,883,635	3,204,238
Non-current liabilities	1,687,638	540,553
Net assets	703,157	2,100,878

The non-current assets of the Group as at 31 December 2018 amounted to HK\$1,769.40 million, representing a significant decrease of HK\$552.67 million (equivalent to a decrease of approximately 23.80%) from approximately HK\$2,322.07 million as at 31 December 2017. Such decrease was partly due to (i) the decrease of intangible assets by HK\$149.49 million mainly due to impairment loss of intangible assets of HK\$163.60 million as set out above and (ii) decrease of interests in the JV Company by HK\$176.99 million mainly due to the sharing of its operating loss.



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## LETTER FROM EUTO CAPITAL

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The current assets of the Group as at 31 December 2018 amounted to HK\$2,505.03 million, representing a significant decrease of HK\$1,018.57 million (equivalent to a decrease of approximately 28.91%) from approximately HK\$3,523.60 million as at 31 December 2017. Such decrease was mainly due to the decrease of trade and other receivables by HK\$1,162.88 million, having taken into account of the application of Hong Kong Financial Reporting Standard 15, which resulted in an amount of approximately HK\$413.27 million of trade and other receivables have been reclassified to contract assets as at 31 December 2018 as well as the impairment loss under the impairment assessment carried out by the Management.

The current liabilities of the Group as at 31 December 2018 amounted to HK\$1,883.64 million, representing a significant decrease of HK\$1,320.60 million (equivalent to a decrease of approximately 41.21%) from approximately HK\$3,204.24 million as at 31 December 2017. Such decrease was mainly due to the decrease of short-term borrowings by HK\$1,136.25 million due to the repayment of the loan due in 2018.

The non-current liabilities of the Group as at 31 December 2018 amounted to HK\$1,687.64 million, representing a significant increase of HK\$1,147.11 million (equivalent to an increase of approximately 212.22%) from approximately HK\$540.53 million as at 31 December 2017. Such increase was mainly due to the increase of long-term borrowings by HK\$1,153.09 million due to the acquirement of new loans from the ASTF which are repayable in 2020.

As a result of the aforesaid, the Group's net asset value amounted to HK\$703.16 million as at 31 December 2018, compared to approximately HK\$2,100.88 million as at 31 December 2017, representing a decrease of approximately HK\$1,397.72 million or 66.53%.

#### **4. Background information of ASTF, being the lender**

As advised by the Management, CASC is a state-owned company incorporated in PRC with limited liability and is the main contractor for the Chinese space program. It is the ultimate controlling shareholder of the Company. As at the Latest Practicable Date, CASC holds indirectly approximately 60.64% of the issued Share capital of the Company.

ASTF is a company incorporated in PRC with limited liability. It is a wholly-owned subsidiary of CASC and its principal activity is provision of loan financing services.

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## LETTER FROM EUTO CAPITAL

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### **5. Background information of Beijing Energin, being the borrower**

Beijing Energin is a company incorporated in PRC with limited liability and an indirect wholly-owned subsidiary of the Company. Beijing Energin engaged in manufacturing and sales of wind energy related products.

### **6. Reasons for and benefits of entering into the Loan Agreement**

As disclosed in the Letter, the loan facilities under the Loan Agreement are intended to replenish the Group's working capital. Based on the cashflow forecast of the Group for the year ending 31 December 2020, the Group is having a cashflow shortfall of approximately RMB251 million by the year ending 31 December 2020. As such, the loan facilities under the Loan Agreement are essential for the Group's operation in the year ahead.

We understand from the Company that before entering into the Loan Agreement, the Directors have considered other fund raising alternatives for the Group, including debt and equity financing.

For debt financing, the Company has approached two financial institutes. However, as the Group has been loss-making for the past two years and the market landscape of the Group was unfavorable as set out in the section headed "Financial information of the Group" above, the Company has not been able to obtain bank borrowings with an amount comparable to the amount available under the Loan Agreement from commercial banks or financial institutions on terms acceptable to the Company. We have reviewed the correspondence between the Company and two financial institutes and hence concur that the Group was facing great difficulties in obtaining debt financing.

With regard to equity financing, the Directors are of the view that any placing, open offer or rights issue would either have a dilution effect to the shareholding interests of the existing Shareholders or require underwriting and be time-consuming (which may not cater for the funding needs of the Company). The Directors therefore consider, and we concur, the Loan Agreement to be the most appropriate fund raising method currently available to the Group.

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## LETTER FROM EUTO CAPITAL

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### 7. Principal terms of the Loan Agreement

Set out below is a summary of the principal terms of the Loan Agreement and the Share Charge:

<b>Date</b>	:	25 December 2019
<b>Lender</b>	:	ASTF
<b>Borrower</b>	:	Beijing Energine
<b>Principal amount of the loan facility</b>	:	RMB300,000,000
<b>Interest</b>	:	4.1% per annum
<b>Maturity date</b>	:	the first anniversary of the date of the Loan Agreement
<b>Security</b>	:	Share Charge (being all the shares by Beijing Energine in the JV Company, representing 49% of the shares of the JV Company)

Pursuant to the terms of the Loan Agreements, interest will accrue on the loan under the Loan Agreement at 4.1% per annum. Accrued interest is payable on a monthly basis. If Beijing Energine fails to repay the loan at the due date or is not utilising the loan according to the purpose of loan, such events shall constitute an event of default and a default interest of 30% per annum and 50% per annum will be charged respectively. The loan is repayable on the first anniversary of the date of the Loan Agreement. The terms of the Loan Agreement and the Share Charge were negotiated between the parties on an arm's length basis.

In order to assess the fairness and reasonableness of the Loan Agreement, we have conducted independent research from the public domain on comparable transactions (the “**Comparables**”) (i) which were companies listed on the Stock Exchange primarily engaged in the generation and sales of wind power and other renewable energy (“**PRC Renewable Energy Provider**”); (ii) with over 50% of their revenue is generated from sales of wind power and its commentary products; and (iii) have obtained secured bank loans. To the best of our knowledge and as far as we are aware of, we found five companies which met these criteria. We consider that the Comparables are fair and representative samples to demonstrate the recent market practice and trend relating to the debts obtained by PRC Renewable Energy Providers. Table 1 below summarised our relevant findings:

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## LETTER FROM EUTO CAPITAL

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*Table 1: A summary of the Comparables*

	Name of company	Stock code	Year end	% of revenue from wind power business to total revenue (Note 1)	Interest rate per annum
1.	China Ruifeng Renewable Energy Limited	527	31 December 2018	100%	Average rate of 5.42%
2.	China Datong Corporation Renewable Power Co., Limited	1798	31 December 2018	99.95%	For long-term borrowing, the rate is in the range from: 2.82% to 5.50% (Note 2)  For short-term borrowing, the rate is in the range from: 4.33% to 4.75% (Note 2)
3.	Huaneng Renewables Corporation Limited	958	31 December 2018	99.96%	For long-term borrowing, the rate is in the range from: 4.31% to 4.90% (Note 2)  For short-term borrowing, the rate is in the range from: 3.92% to 4.35% (Note 2)
4.	Xinjiang Goldwind Science & Technology Co., Ltd	2208	31 December 2018	96.96%	For long-term borrowing, the rate is in the range from: 3.25% to 9.16%  For short-term borrowing, the rate is in the range from: 4.16% to 5.22%
5.	China Longyuan Power Group Corporation Limited	916	31 December 2018	69.07%	For long-term borrowing, the rate is in the range from: 0.75% to 10.80% (Note 2)  For short-term borrowing, the rate is in the range from: 1.94% to 4.90% (Note 2)
			<b>The Company and the Loan Agreement</b>	<b>100%</b>	<b>4.1%</b>
				<b>Minimum (for short-term borrowing)</b>	<b>1.94%</b>
				<b>Maximum (for short-term borrowing)</b>	<b>5.22%</b>
				<b>Minimum (for long-term borrowing)</b>	<b>0.75%</b>
				<b>Maximum (for long-term borrowing)</b>	<b>10.80%</b>

*Note 1:* Financial information obtained from the annual report for the year ended 31 December 2018 of each of the company listed on the table.

*Note 2:* the range is for all the bank loans (both secured and unsecured) as there is no segmental disclosure of interest rates of secured loans and unsecured loan.

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## LETTER FROM EUTO CAPITAL

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**(i) Interest rate**

As shown in Table 1 above, the interest rates of short-term borrowing (which the Loan Agreement falls within) of the Comparables ranged from 1.94% to 5.22% per annum. The interest rate of the Loan Agreement of 4.1% per annum is therefore within the interest rate range of the Comparables.

Apart from comparing the interest rate of the Loan Agreement with the interest rates of the Comparables, we have also reviewed the latest publication on the RMB Loan Prime Rate by the People's Bank of China and noted the current RMB Loan Prime Rate is 4.15% for one-year-loan.

Based on the interest rate of the Loan Agreement, the total interest payment payable by the Group under the Loan Agreement would be RMB12.45 million. The Management has prepared a cashflow forecast of the Group for the year ending 31 December 2020. It was indicated that the Group may require additional loan facility to repay the principal of RMB300 million if the loan was not further extended or repaid by the maturity day. As set out in the Letter, the Board could not draw the conclusion on the possibility for obtaining extension of the loan from ASTF or the possibility for the Group to obtain additional financing to repay the loan principal of RMB 300 million to ASTF.

As mentioned previously, in view of the Company were unable to obtain any loan facilities from any commercial banks or financial institutions as set out above given the loss-making track record and the significant impairment recorded of the Group and the interest rate under the Loan Agreement is within range of the Comparables and it is lower than the RMB Loan Prime Rate at 4.15%, we concur with the Directors' view and it is in the interests of the Company to enter into the Loan Agreement to meet with its funding needs and the interest rate under the Loan Agreement is acceptable and is fair and reasonable insofar as Shareholders are concerned.

**(ii) Event and default and default interest**

As disclosed in the Letter, if Beijing Energine fails to repay the loan at the due date or is not utilising the loan according to the purpose of loan, such events shall constitute an event of default and a default interest of 30% per annum and 50% per annum will be charged respectively.

We understand from the Management that such arrangement is required by ASTF to reduce the risk that the Company would conduct activities that ASTF believe will reduce the Company's ability to repay the loan and. We concur with the view of the Management that such terms are common when engaging into other loan arrangement with creditors. Therefore, we are of the view that these terms, as set out in the Loan Agreement, are on normal commercial terms and are fair and reasonable.

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## LETTER FROM EUTO CAPITAL

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### *(iii) Security*

As disclosed in the Letter, the loan facilities, and the obligations of the Beijing Energine under the Loan Agreement, are secured by the Share Charge, the target of which is the shares held by Beijing Energine in the JV Company representing 49% of the shares in the JV Company. The Company will report its financial position to ASTF regularly and in case there is any change of circumstances that the Company could not be able to repay the loan under the Loan Agreement at the due date, the Company will notify ASTF immediately and start the negotiation on the extension. In the event that the extension is not granted, ASTF is entitled to enforce against the security under the Share Charge, in which case, and as confirmed by the PRC lawyers of the Company, if ASTF is to enforce to the Share Charge against Beijing Energine, ASTF shall not obtain the subject matter of the Share Charge (i.e. shares held by Beijing Energine in the JV Company) at a discounted value but shall arrange the subject matter for sale in an equity transfer market (whether by bidding and listing). The proceeds from the sale after payment of the amount owing to ASTF under the Loan Agreement will be returned to Beijing Energine while any shortfall will be made up for by Beijing Energine.

Based on the unaudited consolidated management accounts as at 30 November 2019, the approximate net asset value of the JV Company is RMB356.05 million on 100% basis and hence RMB174.47 million on 49% basis. We have also reviewed a valuation report conducted on 30 September 2019 by a valuer, being China Alliance Appraisal Co. Ltd. (北京中同華資產評估有限公司) which was ranked fifth on the “2018年資產評估機構綜合評價前百家機構名單公告” (the unofficial English name being “The top 100 institutions for asset valuation in 2018”) based on the announcement published on 7 December 2018 by the Chinese Appraisal Society, the approximate value of the Share Charge is RMB1,535 million on 100% basis and hence RMB752 million on 49% basis and, after reviewing the valuation report, we consider that the determination value of the security is fair and reasonable. As such, the borrowing amount that will be provided by the loan facilities is approximately 39.9% (i.e. RMB300 million/RMB752 million) of the valuation amount of the security under the Share Charge.

As informed by the Management, the security arrangements under the Loan Agreement and the Share Charge are in line with market practice and are required by the lender in order to reduce their risk exposure and to provide an adequate level of protection against the Beijing Energine’s default. We have also discussed with the Management of the Company in relation to the value of the security compared with the borrowing amount provided from the loan facilities and understand that in the light of the Group’s loss-making track record and the significant impairment in asset in FY2018, the Company has not been able to obtain bank borrowings with an amount comparable to the valuation amount of the security available under the Loan Agreement and the Share Charge from commercial banks or financial institutions on terms acceptable to the Company. Also, we noted that in the event that ASTF is to enforce against the security under the Share Charge, the shares held by Beijing Energine in the JV Company will be arranged for sale in the open market and the proceeds therefrom after payment of the amount owing to ASTF under the Loan Agreement will be returned to the Company, which is in line with the general share charge arrangement. As such, we consider that such arrangement is fair and reasonable and in the interest of the Shareholder as a whole.

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## LETTER FROM EUTO CAPITAL

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### 8. Financial effects of the Loan Agreement

#### *(i) Net asset value*

According to the Company's Annual Report 2018, audited net asset value of the Group as at 31 December 2018 was approximately HK\$703.16 million. The Loan Agreement is not expected to have any material effect on the net asset value of the Group for the financial year ended 31 December 2019.

#### *(ii) Earnings*

Apart from the interest expenses arising from the Loan Agreement, the Loan Agreement is not expected to have any impact on the Group's financial results.

#### *(iii) Working Capital and gearing*

According to the Letter, it is the intention of the Directors to replenish the Company's working capital. According to the Annual Report 2018, the Group's gearing ratio (being total borrowings over the Group's equity attributable to the Shareholders) was approximately 272%. It is expected that the gearing ratio of the Group would increase subsequent to the completion of the Loan Agreement. Apart from the interest expenses arising from the Loan Agreement, the Loan Agreement is not expected to have any impact on the Group's financial results.

### RECOMMENDATIONS

Having taken into consideration the above principal factors and reasons in particular the Group is facing a difficult financial position, we are of the opinion that the Loan Agreement and the Share Charge from ASTF, being a wholly-owned subsidiary of the Company's controlling shareholder, contemplated thereunder (including the entering into of the Share Charge) are in the ordinary and usual courses of business, fair and reasonable and the terms are on normal commercial terms so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Loan Agreement and the Share Charge respectively contemplated thereunder (including the entering into of the Share Charge).

Yours faithfully,  
For and on behalf of  
**Euto Capital Partners Limited**  
**Manfred Shiu**  
*Director*

## 1. RESPONSIBILITY STATEMENT

This Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. 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

### (i) Directors and the Chief Executive of the Company

As at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as notified to the Company and the Hong Kong 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 as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the requirements in the Model Code.

### (ii) Substantial shareholders

As at the Latest Practicable Date, the following persons (other than the Directors and the chief executive of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO as follows:

Name of shareholder	Capacity	Number of Shares	Approximately percentage of shareholding
CASC	Interest of a controlled corporation ( <i>Note 2</i> )	2,649,244,000 (L)	60.64%
China Academy of Launch Vehicle Technology (“CALT”)	Interest of a controlled corporation ( <i>Note 2</i> )	2,649,244,000 (L)	60.64%
Astrotech Group Limited (“Astrotech”)	Beneficial owner ( <i>Note 2</i> )	2,649,244,000 (L)	60.64%



*Notes:*

1. The Letter "L" denotes the shareholders' long position in the Shares.
2. These Shares are held by Astrotech, a company wholly owned by CALT. CALT is a wholly-owned subsidiary of CASC. By virtue of the SFO, CASC and CALT are deemed to be interested in the 2,649,244,000 Shares held by Astrotech.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other person (other than the Directors and the chief executive of the Company) who had any interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

**3. MATERIAL ADVERSE CHANGES**

Saved as disclosed herein and in the profit warning announcement of the Company dated 24 January 2020, as at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial position or trading position of the Group since 31 December 2018, being the date to which the latest published audited financial statements of the Group were made up.

**4. INTERESTS OF DIRECTORS IN COMPETING BUSINESS**

As at the Latest Practicable Date, none of the Directors or their respective associates was interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

**5. DIRECTORS' INTERESTS IN ASSETS OR CONTRACTS**

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been acquired or disposed of by or leased to any member of the Group since 31 December 2018, being the date to which the latest published audited financial statements of the Group were made up or were proposed to be acquired or disposed of by or leased to any member of the Group; and none of the Directors or their respective associates was materially interested in any contract or arrangement subsisting as at the Latest Practicable Date which was significant in relation to the business of the Group.

**6. DIRECTORS' SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with any member of the Group which will not expire or is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

**7. EXPERTS AND CONSENT**

The following are the qualifications of the experts who have given opinion or advice contained in this Circular:

<b>Name</b>	<b>Qualification</b>
Euto Capital	a corporation licensed by the SFC to carry out Type 6 (advising on corporate finance) regulated activity under the SFO

Euto Capital has given and has not withdrawn its written consent to the issue of this Composite Document with the inclusion of the text of its letter, report, and/or references to its name in the form and context in which it appears. As at the Latest Practicable Date, Euto Capital did not have any shareholding, direct or indirect, in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group, nor did they have any direct or indirect interest in any assets which had been, since 31 December 2018, being the date of the latest published audited consolidated financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

**8. MISCELLANEOUS**

- (i) The registered office of the Company is situated at Cricket Square, Hutchins Drive, P.O Box 2681, Grand Cayman, KY1-1111, Cayman Islands.
- (ii) The registered office of the Independent Financial Adviser is situated at Room 2418, Wing On Centre, 111 Connaught Road Central, Hong Kong.
- (iii) The English text of this Circular prevails over the Chinese text.

**9. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the Company's principal place of business in Hong Kong at suite 4701, 47/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong during normal business hours from the date of this Circular up to and including 18 March 2020:

- (a) the letter from the Board, the text of which is set out on pages 4 to 11 of this Circular;
- (b) the letter from the Independent Board Committee, the text of which is set out on pages 12 to 13 of this Circular;
- (c) the letter of advice from Euto Capital, the text of which is set out on pages 14 to 29 of this Circular;
- (d) the Loan Agreement;
- (e) the Share Charge;
- (f) the written consents referred to in the paragraph headed "Experts and consent" in this Appendix;
- (g) this Circular.

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## NOTICE OF EGM

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### CHINA ENERGINE INTERNATIONAL (HOLDINGS) LIMITED

中國航天萬源國際（集團）有限公司\*

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1185)**

#### NOTICE OF EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting of China EnerGINE International (Holdings) Limited (the “Company”) will be held at Suite 4701, 47/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Wednesday, 18 March 2020 at 10:00 a.m. for the purpose of considering and, if thought fit, passing the following resolution as ordinary resolution of the Company:

#### ORDINARY RESOLUTION

1. “**THAT** the entry into by the Company of each of the Loan Agreement dated 25 December 2019 and the Share Charge and the respective transactions contemplated thereunder be and are hereby approved (terms defined in the circular of the Company dated 28 February 2020 having the same meanings when used in this resolution).”

By order of the Board  
**China EnerGINE International (Holdings) Limited**  
**Liu Zhiwei**  
*Chairman*

Hong Kong, 28 February 2020

*Notes:*

- (1) A shareholder entitled to attend and vote at the meeting convened by the above notice (or at any adjournment thereof) is entitled to appoint a proxy to attend and, on a poll, vote instead of him. A shareholder holding two or more shares is entitled to appoint more than one proxy. A proxy need not be a shareholder of the Company but must be present in person to represent the shareholder. Completion and return of an instrument appointing a proxy will not preclude a shareholder from attending and voting in person at the meeting (or any adjournment thereof).
- (2) Where there are joint registered holders of any shares, any one of such persons may vote at the meeting (or at any adjournment thereof), either personally or by proxy, in respect of such shares as if he were solely entitled thereto; but if more than one of such joint holders are present at the meeting (or at any adjournment thereof) personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.

\* for identification purpose only

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## NOTICE OF EGM

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- (3) In order to be valid, the proxy form, and any power of attorney (if any) or other authority (if any) under which it is signed (or a copy of such power or authority certified notarially), must be delivered to the Company's Hong Kong branch share registrar, Tricor Standard Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, not less than 48 hours before the time fixed for holding the meeting (or any adjournment thereof).
- (4) For determining the entitlement of the shareholders of the Company to attend and vote at the EGM, the register of members of the Company will be closed from Friday, 13 March 2020 to Wednesday, 18 March 2020 (both days inclusive), during which no transfer of shares of the Company can be registered. In order to be eligible to attend and vote at the EGM, unregistered holders of shares of the Company shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Standard Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:30 p.m. on Thursday, 12 March 2020.