



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. Han Qingping (*Chairman*)
Mr. Li Lei (*Chief Executive Officer*)
Mr. Xu Jun (*Financial Controller*)
Mr. Shen Jian (*Vice-Chief Executive Officer*)

Independent Non-executive Directors:

Mr. Lau Fai Lawrence
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:

Office B, 18th Floor,
Tower A, Billion Center,
1 Wang Kwong Road,
Kowloon Bay,
Hong Kong

22 February 2024

To the Shareholders

Dear Sir or Madam,

**CONNECTED TRANSACTIONS
RECEIPT OF FINANCIAL ASSISTANCE AND
PROVISION OF SECURITY
AND
NOTICE OF EGM**

INTRODUCTION

Reference is made to the announcements of the Company dated 1 December 2023, 21 December 2023, 12 January 2024 and 26 January 2024.

* for identification purpose only

The amount due to CALT amounted to HK\$1,191,872,000 as at 30 June 2023. The amount due to CALT represented financial assistance provided by connected persons of the Company for the benefit of the Group, which were on normal commercial terms or better and were not secured by the assets of the Group, and were therefore fully exempt from the reporting, announcement and Independent Shareholders' approval requirements for connected transactions pursuant to Rule 14A.90 of the Listing Rules.

On 30 November 2023, Crownpluss, a direct wholly-owned subsidiary of the Company, and CALT entered into Share Charge agreements, pursuant to which Crownpluss conditionally grants securities in favour of CALT by way of Shares Charge, as security for the amount due to CALT.

As the Share Charge constitutes security over the assets of the Group, the receipt of financial assistance by the Group would no longer be exempt from the reporting, announcement and Independent Shareholders' approval requirements for connected transactions under Rule 14A.90 of the Listing Rules, and thus compliance by the Company with requirements under Chapter 14A of the Listing Rules in relation to the amount due to CALT and the Share Charge becomes necessary.

The Transactions constitutes a connected transaction of the Company under the Listing Rules and is subject to announcement, circular and independent shareholders' approval requirements under the Listing Rules. The EGM will be held to seek the Independent Shareholders' approval of the Transactions.

The purpose of this circular is to provide you with, among others, (i) information in relation to the Transactions; (ii) letter of advice from the Independent Board Committee in relation to the Transactions; (iii) letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Transactions; and (iv) the notice convening the EGM, at which an ordinary resolution will be proposed to consider and, if thought fit, to approve the Transactions.

THE FINANCIAL ASSISTANCE

The amount due to CALT represented financial assistance provided by connected persons of the Company. The amount due to CALT is non-interest bearing, repayment on demand and amounted to HK\$1,191,872,000 as at 30 June 2023.

On 21 May 2021, CALT issued the Company a letter undertaking not to demand repayment from the Company and to provide all necessary financial support to the Company. Such undertakings are effective for 18 months from the issue date of the letter. On 14 March 2022, CALT, in response to the request from the Company, issued the Company another letter to grant extension of the undertaking for a further 24 months ending on 20 November 2024.

REASONS AND BENEFITS FOR OBTAINING THE FURTHER EXTENSION OF FINANCIAL ASSISTANCE

The extension of repayment of the amount due to CALT will be expired on 20 November 2024, the management have prepared a cash flow forecast for the year ending 31 December 2024 to monitor the Group's financial and liquidity position from time to time, and based on the cash flow forecast, the Company does not have the sufficient internal resources to repay the amount due to CALT on 20 November 2024. Therefore, the further extension of the undertaking from CALT is required for supporting the operations of the Group and the repayment of debts when they fall due during the year ending 31 December 2024. If the further extension of the undertaking is not granted by CALT, this is unlikely that the Company will have the sufficient internal resources to repay the amount due to CALT on 20 November 2024. The default on 20 November 2024 might trigger the winding up of the Company.

Pursuant to the negotiation with CALT in relation to the extension of the undertaking from CALT, CALT requested the Share Charge as a security for the amount due to CALT. CALT will not agree to extend the undertaking with the absence of the Share Charge, and the Share Charge is a necessary condition for striving for the further extension of the undertaking not to demand repayment from the Company.

Pursuant to the negotiation with CALT, CALT will only accept the proposal for the extension of undertaking to be submitted by the Company to CALT upon the Share Charge is provided to CALT. The Company will submit the proposal for the extension of undertaking to CALT within one week upon the Share Charge is provided to CALT. CALT will then commence the internal approval process of the extension of the undertaking immediately, and based on the feedback from CALT's business department, finance department and legal department, CALT will draw the conclusion on whether the further extension of the undertaking is approved within one month time. Based on the above timeline, this is expected that the approval process of CALT will be completed before 20 November 2024 as to mitigate the risk of default of the Company. Furthermore, if the further extension of the undertaking is granted, the extension of the undertaking will be effective until not earlier than April 2025.

On the other hand, in case the resolution to be proposed at the EGM to approve the Transactions is voted down or, in any event, the Company and CALT are unable to extend the undertaking, the existing undertaking ending on 20 November 2024 will not be revoked. However, without the further extension of the undertaking, this is unlikely that the Company will have sufficient internal resources to repay the amount due to CALT on 20 November 2024, the insolvency might trigger the winding up of the Company on or before 20 November 2024.

ACTION PLAN FOR THE REPAYMENT OF THE FINANCIAL ASSISTANCE

On 16 September 2022, CALT provided the Company a letter of intent confirming that CALT would agree to capitalise the amount due to CALT (the "Debt-to-Equity Swap") if certain criteria are met.

On the basis that the Company's financial and business performance have achieved substantial improvement, the management could facilitate the Debt-to-Equity Swap to be submitted to the relevant authority in the PRC for approval, but currently there is no substantial improvement in the Company's financial and business performance, the Company does not yet eligible to apply for Debt-to-Equity Swap approval from the relevant authority in the PRC, including but not limited to, the State-owned assets Supervision and Administration Commission. Therefore, the formal agreement for the Debt-to-Equity Swap has not been finalised and so the criteria have not been formally agreed between the parties but are expected to include the following:

- (1) The trading of the Company's shares has been resumed;
- (2) Beijing Energine liquidation procedures have been fully completed and the amount to be paid from Beijing Energine to CALT has been fixed;
- (3) Achievement by the Group of specified revenue, net profit and share price targets;
- (4) Approval of the Debt-to-Equity Swap by CASC and the relevant authority in the PRC

As of the date of this Circular, the first foresaid criteria was met and the remaining foresaid criteria are in progress.

For the second foresaid criteria, the management has cooperated and communicated proactively with the bankruptcy administrator to speed up the liquidation process. On 1 March 2023, Beijing Energine repaid approximately HK\$84,222,000 to CALT and the Company's amount due to CALT was reduced by the same amount, a gain was recognised and reflected in the consolidated statement of profit or loss and other comprehensive income of the Group. The management will continue to work closely with the bankruptcy administrator so that the bankruptcy administrator would complete the procedures of Beijing Energine liquidation as soon as possible.

For the third foresaid criteria, the management has strived the utmost effort in managing the existing businesses, including but not limited to, impose strict cost control and identify potential customers and business opportunities to enhance the operations and financial position of the Group.

For the fourth foresaid criteria, the management communicated and discussed with CASC regularly in relation the Debt-to-Equity Swap and seek the support from CASC, the management also acknowledge that CASC has sought policy advices and guidance in relation to the Debt-to-Equity Swap arrangement from the relevant authority in PRC, including but not limited to, State-owned Assets Supervision and Administration Commission.

Although the criteria as listed above are subjected to future events beyond control of the Company and only the first foresaid criteria was met as at Latest Practicable Date. Taken into account that i) the Beijing liquidation procedures will eventually be completed by the bankruptcy administrator; ii) the sales of electricity from our wind farm, which is one of existing businesses of the Group, remains stable in operation and profitability, and provides a fundamental for the Group to maintain a stable level of operations and also the ability to seek for further business development and opportunity related to the new energy project in the long term. The management has identified and currently assessing the feasibility of certain business opportunities, the management believe that the financial performance of the Group will be improved gradually when suitable business opportunities are identified; iii) CALT has shown support for the continuous development of the Group, including but not limited to, introducing potential business opportunities and confirmed the intention to execute the Debt-to-Equity Swap, the management is in view that the criteria will be possible to be completed with the continuous support from CALT, and therefore, the Board consider that the Debt-to-Equity Swap is the most feasible action plan for the repayment of the amount due to CALT.

The Board will continue the effort to work on the action plans as stated above until the remaining criteria are met. The audit committee of the Company acknowledge the progress of the action plans and consider that the action plans are adequate to address the Debt-to-Equity Swap for the repayment of the financial assistance. The audit committee will continue to proactively monitor the progress of the action plans.

PROVISION OF SECURITY

Pursuant to the negotiation with CALT in relation to the extension of the undertaking from CALT, CALT request the Share Charge as security for the amount due to CALT. CALT will not agree to extend the undertaking with the absence of the Share Charge, and the Share Charge is a necessary condition for striving for the further extension of the undertaking not to demand repayment from the Company.

On 30 November 2023, Crownpluss, a direct wholly-owned subsidiary of the Company, and CALT entered into Share Charge agreements, pursuant to which Crownpluss conditionally grants securities in favour of CALT by way of Shares Charges, as security for the amount due to CALT.

Based on the unaudited interim financial statements of the Subject Matter Companies and the Group for the six months ended 30 June 2023, the below table illustrates the contribution of revenue, net profit, total asset and net asset of the Subject Matter Companies to the Group's:

	Contribution of the Subject Matter Companies to the Group			
	Revenue	Profit after taxation	Total asset	Net asset (liability)
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Longyuan Benxi	12,404	993	125,708	117,269
Jiangsu Longyuan	–	4,549	112,218	112,218
Jilin Longyuan	–	–	77,707	77,707
The Subject Matter Companies	12,404	5,542	315,633	307,194
The Group	12,404	85,042	331,898	(912,442)
Contribution from the Subject Matter Companies to the Group for the six months ended 30 June 2023	100%	7%	95%	N/A

During the course of the Share Charge, the Company will retain i) control over the Longyuan Benxi as subsidiary of the Company; and ii) significant influence over the Jiangsu Longyuan and Jilin Longyuan as investment in associates of the Company. The Share Charge will have no impact to the Company's ownership of the Subject Matter Companies.

RISKS AND POTENTIAL IMPACT OF THE PROVISION OF SECURITY

In the event of default of the Company in relation to the amount due to CALT, CALT is entitled to enforce against the security under the Share Charge. This arrangement is in line with the general share charge arrangement customary to market practices.

According to the applicable PRC law and regulation and confirmed by the legal opinion from PRC lawyer, in the event that CALT is entitled to enforce against the security under the Share Charge, CALT shall not obtain the subject matter of the Share Charge at a discounted value but shall arrange for sales in open market, and the proceeds after payment of the amount owing to CALT will be returned to Crownpluss. Under the possible scenarios that there is no buyer for the Share Charge in the open market, the Subject Matter Companies might be forced to liquidate and the value of the Share Charge will be realized after the realization of assets of the Subject Matter Companies.

As disclosed under the Headline “PROVISION OF SECURITY”, based on the unaudited interim financial statements for six months ended 30 June 2023, the Subject Matter Companies contributed 100% and 95% of the revenue and total asset to the Group. In the event that the Share Charges are enforced by CALT, the Company will essentially loss the interests in its principal subsidiary and investment in associates.

REASONS FOR OBTAINING THE FURTHER EXTENSION OF FINANCIAL ASSISTANCE AND PROVISION OF SECURITY

As disclosed under the headlines “REASONS AND BENEFITS FOR OBTAINING THE FURTHER EXTENSION OF FINANCIAL ASSISTANCE” and “PROVISION OF SECURITY”, the Company does not have the sufficient internal resources to repay the amount due to CALT on 20 November 2024 and pursuant to the negotiation with CALT in relation to the extension of the undertaking from CALT, the Share Charge is a necessary condition for striving for the further extension of the undertaking not to demand repayment from the Company and CALT will not agree to extend the undertaking with the absence of the Share Charge. Pursuant to the negotiation with CALT, CALT will only accept the proposal for the extension of undertaking to be submitted by the Company to CALT upon the Share Charge is provided to CALT. The Company will submit the proposal for the extension of undertaking to CALT within one week upon the Share Charge is provided to CALT. CALT will then commence the internal approval process of the extension of the undertaking immediately, and based on the feedback from CALT’s business department, finance department and legal department, CALT will draw the conclusion on whether the further extension of the undertaking is approved within one month time. Based on the above timeline, this is expected that the approval process of CALT will be completed before 20 November 2024 as to mitigate the risk of default of the Company. Furthermore, if the further extension of the undertaking is granted, the extension of the undertaking will be effective until not earlier than April 2025.

On the other hand, in case the resolution to be proposed at the EGM to approve the Transactions is voted down or, in any event, the Company and CALT are unable to extend the undertaking, the existing undertaking ending on 20 November 2024 will not be revoked. However, without the further extension of the undertaking, this is unlikely that the Company will have sufficient internal resources to repay the amount due to CALT on 20 November 2024, the insolvency might trigger the winding up of the Company on or before 20 November 2024.

The Directors have considered other fund raising alternatives for the Group, including debt and equity financing. The Company has approached two financial institutions in June 2023 and December 2023, respectively, for a long term bank loan with the amount comparable to the amount due to CALT for the repayment in November 2024. The two financial institutions followed up on the discussion and conference calls were arranged for the Company, including but not limited to, present and discuss the background, business and the intended use of the bank loan as well as clarifying enquiries from the financial institutions. However, the Company was informed that based on the preliminary assessment of the Group, including but not limited to, the operations, financial performance, the financial position and the assets eligible for pledging at the material time. Even assume that all assets are pledged, the valuation of the pledged assets are unlikely to meet the minimum requirement of the financial institutions for a long term bank borrowing with the amount comparable to the amount due to CALT. Under the above circumstances, the Company will not be able to obtain bank loan with an amount comparable to the amount due to CALT unless i) the Company maintain the bank balance in the financial institution of the same amount of the loan drawn (the ratio of pledged bank balance to the loan size is 1:1), or ii) the loan is fully guaranteed by our controlling shareholder. The requirement of pledged bank balance is not feasible for the Company taken into account of the cash flow forecast as prepared for the year ending 31 December 2024; and the full guarantee to be provided by our controlling shareholder is not feasible because there is a requirement for all stated-owned entities (including our controlling shareholder) that stated-owned entities are only allowed to grant guarantee in proportion to the shareholding. In other word, this is not feasible for our controlling shareholder to provide full guarantee to the Company in relation to the bank loan of the Company. With regard to equity financing, the Company approached financial advisors in Hong Kong to explore the possibility of equity financing, including but not limited to, any placing, open offer or right issue, with the amount comparable to the amount due to CALT for the repayment in November 2024 the Company was informed that based on the preliminary assessment of the Group, including but not limited to, the market capacity of the Company at the material time, the Company will not be able to obtain the proceed from equity financing with an amount comparable to the amount due to CALT, which represent several multiples of the total market capitalisation of the Company. At the material time, the amount due to CALT was almost 3 time of the total market capitalization of the Company, and therefore, the Directors are of the view that any placing, open offer or rights issue will not enable the Company to repay the amount due to CALT on 20 November 2024.

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 other debt or equity financing activities, 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. 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.

In the absence of any immediate bank borrowings and equity financing available to the Group for the repayment of the amount due to CALT on 20 November 2024, the management considered that there is compelling need for the Transactions in return for the necessary condition for striving for further extension of the undertaking. Given that (i) the Subject Matter Companies under the Share Charge contributes the major parts of revenue and total assets of the Company, (ii) the Company may essentially lose all the control and/or stake of its material assets and business in the event of default and (iii) there is no alternative plan for the extension of undertaking in case the resolution is not approved. The management still considered that the terms of the Transactions are on normal commercial terms and are fair and reasonable to the shareholders and to the Company as a whole as elaborated in the below scenarios analysis below.

- In case the resolution to be proposed at the EGM to approve the Transactions is not approved, the extension of the undertaking will not be granted and without the extension of the undertaking, this is unlikely that the Company will have the sufficient internal resources to repay the amount due to CALT on 20 November 2024. Under this circumstance, the insolvency might trigger the winding up of the Company on or before 20 November 2024. The Company will lose all stake of its assets and business, including but not limited to the Subject Matter Companies for the repayment of debts.
- In case the resolution to be proposed at the EGM to approve the Transactions is approved, the Company will be able to submit the proposal for the extension of undertaking to CALT. Under the possible circumstance that CALT and the Company are unable to extend the undertaking, this will also lead to the winding up of the Company as elaborated in the above scenario. The Company will lose all stake of its assets and business, including not limited to the Subject Matter Companies for the repayment of debts.

- In case the resolution to be proposed at the EGM to approve the Transactions is approved and CALT approved the extension of undertaking with the Share Charge, the Company will be able to avoid the default of amount due to CALT on 20 November 2024 and hence avoid the immediate triggering of winding up of the Company. The management will have the additional time to turnaround the businesses of the Group and continue to push forward the Debt-to-Equity Swap.

The management consider that the winding up of the Company is the worst situation to the shareholders and to the Company as a whole. From the above scenarios analysis, the Transactions provides the possibility for the Company to avoid the worst situation to the shareholders and to the Company as a whole and allow the management to have additional time to turnaround the situation of the Group. Furthermore, under the possible circumstance that the extension of the undertaking is not granted after the provision of Share Charge to CALT, the shareholders and the Company as a whole would not result in a worse situation.

Taken into consideration of the above, the management considered that the terms of the Transactions are on normal commercial terms and are fair and reasonable to the shareholders and to the Company as a whole.

CONDITIONS PRECEDENT

The Transactions are conditional upon, the Company obtained the approval of Independent Shareholders and such condition cannot be waived.

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) Sales of electricity from operation of wind power field, (ii) Technical service income from new energy development operation; and (iii) Sales of new energy systems from new energy development operation.

Crownpluss, incorporated in Hong Kong with limited liability. It is a direct wholly-owned subsidiary of the Company and its principal activity is investment holding.

CASC, established in PRC with limited liability. It is the ultimate controlling shareholder of the Company. CASC is mainly engaged in the research, design, production, testing and launch services of carrier rockets, satellites, manned spaceships, cargo spaceships, deep space exploration rovers, space stations and other aerospace products and missile weapon systems, as well as the promotion and application of aerospace technology achievements in the national economy. As at the date of this Circular, CASC holds approximately 60.64% of the issued Share capital of the Company. The ultimate beneficial owner of CASC is state-owned Assets Supervision and Administration Commission of the State Council.

CALT, established in PRC with limited liability. It is a wholly owned subsidiary of CASC. CALT is mainly engaged in the research, design, production, testing and launch services of carrier rockets and missile weapon systems, as well as the transformation and application of the achievements in aerospace scientific research to national economic construction. As at the date of this Circular, CALT holds approximately 60.64% of the issued Share capital of the Company.

Astrotech, incorporated in the British Virgin Islands with limited liability. It is the immediate holding company of the Company and a wholly owned subsidiary of CALT. The principal activity of Astrotech is investment holding. As at the date of this Circular, Astrotech holds 60.64% of the issued Share capital of the Company.

Longyuan Benxi, a company established in PRC with limited liability. It is an indirectly 40% owned subsidiary of the Company. Its scope of business includes wind farm operation. As of the date of this Circular, Crownpluss holds 40% the registered capital of Longyuan Benxi. Set out below is the financial information represents amounts shown in the Longyuan Benxi's financial statements prepared in accordance with Hong Kong accounting standards:

	For the year ended 31 December 2022 (audited) HK\$'000	For the six months ended 30 June 2023 (unaudited) HK\$'000
Revenue	25,771	12,404
Profit before taxation	3,327	1,353
Profit after taxation	2,656	993
Total asset	129,785	125,708
Net asset	119,578	117,269

There are no material extraordinary items noted during the year ended 31 December 2022 and six months ended 30 June 2023.

Jiangsu Longyuan, a company established in PRC with limited liability. Its scope of business includes wind farm operation. As of the date of this Circular, Crownpluss holds 25% the registered capital of Jiangsu Longyuan. Set out below is the financial information represents amounts shown in the Jiangsu Longyuan's financial statements prepared in accordance with Hong Kong accounting standards:

	For the year ended 31 December 2022 (audited) HK\$'000	For the six months ended 30 June 2023 (unaudited) HK\$'000
Profit before taxation	28,718	24,614
Profit after taxation	20,718	18,197

There are no material extraordinary items noted during the year ended 31 December 2022 and six months ended 30 June 2023.

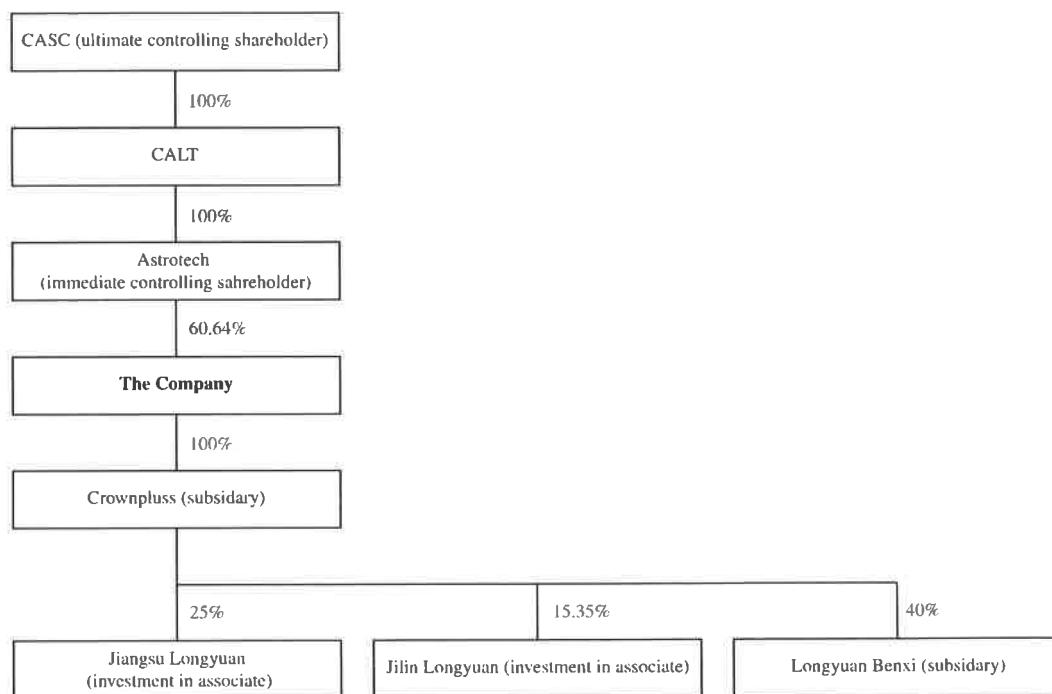
Jilin Longyuan, a company established in PRC with limited liability. Its scope of business includes wind farm operation. As of the date of this Circular, Crownpluss holds approximately 15.35% the registered capital of Jilin Longyuan. Set out below is the financial information represents amounts shown in the Jilin Longyuan's financial statements prepared in accordance with Hong Kong accounting standards:

	For the year ended 31 December 2022 (audited) HK\$'000	For the six months ended 30 June 2023 (unaudited) HK\$'000
Profit before taxation	2,004	1
Profit (loss) after taxation	241	(4)

There are no material extraordinary items noted during the year ended 31 December 2022 and six months ended 30 June 2023.

ORGANISATION CHART

Below set out the shareholding structure of the entities mentioned in this Circular.



LISTING RULES IMPLICATIONS

CALT is the controlling shareholder of the Company interested in approximately 60.64% of the issued Share capital of the Company as at the Latest Practicable Date, and is thus a connected person of the Company under the Listing Rules. Therefore, the Transactions constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

As the applicable percentage ratios in respect of the Transactions are more than 5%, the Transactions are subject to the reporting, announcement, circular (including independent financial advice) and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Any Shareholders who have a material interest in the Transactions will be required to abstain from voting on the ordinary resolution in respect of the Transactions at the EGM. Each of CASC, CALT and Astrotech, representing approximately 60.64% of the issued Share capital of the Company as at Latest Practicable Date, will abstain from voting on the ordinary resolution in respect of the Transactions at the EGM.

Save as disclosed above, to the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, as at the Latest Practicable Date, no other Shareholder has any material interest in the Transactions, and therefore no other Shareholder is required to abstain from voting on the relevant resolutions approving the Transactions contemplated thereunder at the EGM.

The EGM

The EGM will be held for the purpose of considering and, if thought fit, approving the Transactions. CASC, CALT and Astrotech with a material interest in the Transactions and their respective associates are required to abstain from voting on the resolution.

Apart from CASC, CALT and Astrotech, the Company is not aware of any other shareholders who have a material interest in the Transactions.

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 17/F., Far East Finance Centre, 16 Harcourt Road, 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.

Independent Board Committee

An Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Lau Fai Lawrence, Mr. Gordon Ng and Mr. Li Dapeng, has been established to advise the Independent Shareholders as to whether the terms of the Transactions 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 the Independent Financial Adviser.

None of the members of the Independent Board Committee has a material interest in the Transactions.

Your attention is drawn to the letter from the Independent Board Committee, which are set out on pages 19 to 20 of this Circular, containing its opinions as to whether the terms of the Transactions are fair and reasonable and in the interests of the Company and the Shareholders as a whole and their recommendations as to voting.

Independent Financial Adviser

The Company has appointed Dakin as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Transactions.

Your attention is drawn to the letter from Dakin, which are set out on pages 21 to 39 of this Circular, containing its opinions as to whether the terms of the Transactions are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole and their recommendations as to voting.

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 19 to 20 of this Circular) considers the Transactions to be on normal commercial terms, is of the view that their terms are fair and reasonable and the Transactions are in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Transactions. You are advised to read the letter from the Independent Board Committee and the letter from the Independent Financial Adviser mentioned above before deciding how to vote on such resolution to be proposed at the EGM.

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 Engene International (Holdings) Limited



Han Qingping

Chairman