HONG KONG ENERGY (HOLDINGS) LIMITED

香港新能源(控股)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 987)

(website: www.hkenergy.com.hk)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31ST DECEMBER 2009

HIGHLIGHTS

- Profit before income tax was HK$2.7 million in 2009.
- The Group's cash as at 31st December 2009 was HK$172.2 million. Cash per share as at 31st December 2009 was HK22.29 cents.
- Net asset value per share was HK39.74 cents in 2009.
- Loss attributable to equity holders HK$10.4 million in 2009, a significant improvement from HK$89.7 million in 2008.
- Bonus issue of 1 share of HK$0.01 credited as fully paid out of the retained earnings for every existing 10 ordinary shares to be held on 12th May 2010 (the "Record Date") which is subject to certain conditions, such as, the shareholders's approval at the annual general meeting of the Company to be convened.
- Bonus issue of 1 warrant for every existing 10 ordinary shares to be held on the Record Date which is subject to certain conditions.

The board of directors (the "Board") of Hong Kong Energy (Holdings) Limited (the "Company") announces the consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31st December 2009 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31st December 2009

	Note	2009 HK$'000	2008 HK$'000
Revenue	3	**10,609**	13,877
Cost of sales	5	**(4,896)**	(5,889)
Gross profit		**5,713**	7,988
Selling and distribution costs	5	**(1,552)**	(2,914)
Administrative expenses	5	**(36,161)**	(50,964)
Other expenses	4	**(817)**	(58,694)
Operating loss		**(32,817)**	(104,584)
Finance income	6	**443**	3,074
Finance cost	6	**–**	(160)
Finance income – net	6	**443**	2,914
Gain on disposal of subsidiaries		**7,624**	–
Excess of fair value of net assets acquired over cost of acquisition of an associated company	7	**27,693**	–
Share of loss of an associated company		**(289)**	–
Profit/(loss) before income tax		**2,654**	(101,670)
Income tax (expense)/credit	7	**(14,336)**	6,963
Loss for the year		**(11,682)**	(94,707)
Other comprehensive income:			
Currency translation differences		**32**	1,085
Other comprehensive income for the year, net of tax		**32**	1,085
Total comprehensive income for the year		**(11,650)**	(93,622)
Loss attributable to:			
Equity holders of the Company		**(10,431)**	(89,720)
Minority interest		**(1,251)**	(4,987)
		(11,682)	(94,707)
Total comprehensive income attributable to:			
Equity holders of the Company		**(10,399)**	(88,635)
Minority interest		**(1,251)**	(4,987)
		(11,650)	(93,622)
Dividends	9	**–**	–
Loss per share for loss attributable to the equity holders of the Company, expressed in (HK cents per share) – Basic and diluted	8	**(1.36)**	(11.75)

CONSOLIDATED BALANCE SHEET

As at 31st December 2009

	Note	2009 HK$'000	2008 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment		**442**	762
Construction in progress		**3,311**	–
Intangible assets		**5,539**	35,557
Investment in associated companies		**208,076**	–
Deferred income tax assets		**–**	203
Total non-current assets		**217,368**	36,522
Current assets			
Trade and other receivables	*10*	**6,457**	2,383
Cash and cash equivalents		**172,226**	289,095
Total current assets		**178,683**	291,478
Total assets		**396,051**	328,000
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital		**7,726**	7,635
Reserves		**299,288**	301,176
Equity attributable to equity holders of the Company		**307,014**	308,811
Minority interest		**–**	13,913
Total equity		**307,014**	322,724
LIABILITIES			
Non-current liabilities			
Convertible note		**76,007**	–
Deferred income tax liabilities		**4,643**	1,709
Total non-current liabilities		**80,650**	1,709
Current liabilities			
Other payables		**8,387**	3,520
Current income tax liabilities		**–**	47
Total current liabilities		**8,387**	3,567
Total liabilities		**89,037**	5,276
Total equity and liabilities		**396,051**	328,000
Net current assets		**170,296**	287,911
Total assets less current liabilities		**387,664**	324,433

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

Hong Kong Energy (Holdings) Limited ("the Company" or "HKE") is an exempted company incorporated in the Cayman Islands with limited liability. The address of the registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited. The ultimate holding company is HKC (Holdings) Limited ("HKC"), a company incorporated in Bermuda and listed in Hong Kong.

The Company and its subsidiaries (collectively "the Group") are principally engaged in the alternative energy business and software development business. The Group has operations mainly in Mainland China.

The consolidated financial statements are presented in thousands of units of Hong Kong dollars (HK$ thousand or HK$'000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 22nd March 2010.

2 BASIS OF PREPARATION

The consolidated financial statements of Hong Kong Energy (Holdings) Limited have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). They have been prepared under the historical cost convention.

In 2009, the Group adopted the following amendments which are relevant to its consolidated financial statement.

(a) Amendments effective in 2009

- HKAS 1 (Revised), "Presentation of financial statements". The revised standard prohibits the presentation of items of income and expense (that is 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity to be presented separately from owner changes in equity. All 'non-owner changes in equity' are required to be shown in a performance statement.

  Entities can choose whether to present one performance statement (the consolidated statement of comprehensive income) or two statements (the consolidated income statement and consolidated statement of comprehensive income).

  The Group has elected to present one performance statement: a consolidated statement of comprehensive income. The consolidated financial statements have been prepared under the revised disclosure requirements.

- HKFRS 8, "Operating segments". HKFRS 8 replaces HKAS 14, "Segment reporting". It requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (the "CODM"). The CODM makes strategic decisions.

- Amendment to HKFRS 7, "Financial instruments: disclosures". The amendment increases the disclosure requirements about fair value measurement and amends the disclosure about liquidity risk. The amendment introduces a three-level hierarchy for fair value measurement disclosures about financial instruments and requires some specific quantitative disclosures for those instruments classified in the lowest level in the hierarchy. These disclosures will help to improve comparability between entities about the effects of fair value measurements. In addition, the amendment clarifies and enhances the existing requirements for the disclosure of liquidity risk primarily requiring a separate liquidity risk analysis for derivative and non-derivative financial liabilities. It also requires a maturity analysis for financial assets where the information is needed to understand the nature and context of liquidity risk.

- "Improvements to HKFRSs" (issued in October 2008). The improvements include 35 amendments across 20 different standards that largely clarify the required accounting treatment where previous practice had varied. The adoption of the improvements in the current year did not have any significant impact on the Group's consolidated financial statements.

(b) Interpretations effective in 2009 but not relevant

The following interpretations to published standards are mandatory for accounting periods beginning on or after 1st January 2009 but are not relevant to the Group's operations:

- HKAS 23 (Revised), "Borrowing costs"

- HKAS 32 and HKAS 1 (Amendment), "Puttable financial instruments and obligations arising on liquidation"

- HKFRS 1 and HKAS 27 (Amendment), "Cost of an investment in a subsidiary, jointly controlled entity or associate"

- HKFRS 2 (Amendment), "Share based payment – vesting conditions and cancellations"

- HK(IFRIC)-Int 15, "Agreements for the construction of real estate"

(c) Standards, amendments and interpretations to existing standards that are not yet effective for the year ended 31st December 2009 and have not been early adopted by the Group

		Effective for accounting periods beginning on or after
New or revised standards, interpretations and amendments		
HKAS 24 (Revised)	"Related party disclosures"	1st January 2011
HKAS 27 (Revised)	"Consolidated and separate financial statements"	1st July 2009
HKAS 32 (Amendment)	"Classification of rights issue"	1st February 2010
HKAS 39 (Amendment)	"Eligible hedge items"	1st July 2009
HK(IFRIC)-Int 14 (Amendment)	"Prepayments of a minimum funding requirement"	1st January 2011
HK(IFRIC)-Int 17	"Distribution of non-cash assets to owners"	1st July 2009
HK(IFRIC)-Int 18	"Transfer of assets from customers"	1st July 2009
HK(IFRIC)-Int 19	"Extinguishing financial liabilities with equity instruments"	1st July 2010
HKFRS 1 (Revised)	"First-time adoption of HKFRSs"	1st July 2009
HKFRS 3 (Revised)	"Business combinations"	1st July 2009
HKFRS 9	"Financial Instruments"	1st January 2013
HKFRS 1 (Amendment)	"Additional exemptions for first-time adopters"	1st January 2010
HKFRS 2 (Amendment)	"Group cash-settled share-based payment transaction"	1st January 2010
HKFRSs Amendment	Improvements to HKFRSs 2009	1st July 2009 or 1st January 2010

The Group has not early adopted the above standards, amendments and interpretations and is not yet in a position to state whether substantial changes to the Group's accounting policies and presentation of the financial statements will result.

3 SEGMENT INFORMATION

The chief operating decision maker has been identified as the directors of the Company (the "Directors"). The Directors review the Group's internal reporting in order to assess performance, allocate resources and make strategic decisions. The Directors determine that the operating segments are the same as the business segments previously identified under HKAS 14, "Segment Reporting". The reportable operating segments are alternative energy and software development.

The Directors assess the performance of operating segments based on a measure of segment results. This measurement basis excludes the effects of non-recurring expenditure from the operating segments, such as gain on disposal of subsidiaries, excess of fair value of net assets acquired over cost of acquisition of an associated company and provision for impairment losses. Other information provided to the Directors is measured in a manner consistent with that in the financial statements.

Total segment assets exclude deferred tax assets and corporate assets which are centrally managed. This is part of the reconciliation to total consolidated balance sheet assets.

The segment information provided to the Directors for the reportable segments for the years ended 31st December 2009 and 2008 are as follows:

	2009			2008		
	Alternative energy	**Software development**	**Total reportable segments**	Alternative energy	Software development	Total reportable segments
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	**–**	**10,609**	**10,609**	–	13,877	13,877
Segment results	**(5,369)**	**(3,135)**	**(8,504)**	(11,879)	(8,034)	(19,913)
Provision for impairment losses	**–**	**(817)**	**(817)**	–	(58,694)	(58,694)
Gain on disposal of subsidiaries	**7,624**	**–**	**7,624**	–	–	–
Share of loss of an associated company	**(289)**	**–**	**(289)**	–	–	–
Excess of fair value of net assets acquired over cost of acquisition of an associated company	**27,693**	**–**	**27,693**	–	–	–
Finance income – net	**8**	**106**	**114**	1	330	331
Profit/(loss) before income tax	**29,667**	**(3,846)**	**25,821**	(11,878)	(66,398)	(78,276)
Income tax (expense)/credit	**(14,862)**	**526**	**(14,336)**	–	5,871	5,871
Profit/(loss) for the year	**14,805**	**(3,320)**	**11,485**	(11,878)	(60,527)	(72,405)
Depreciation	**–**	**512**	**512**	9	1,167	1,176
Amortisation	**2,456**	**2,023**	**4,479**	4,200	6,170	10,370
Provision for impairment losses						
– goodwill	**–**	**–**	**–**	–	42,044	42,044
– customer relationship and software technology	**–**	**817**	**817**	–	16,650	16,650

The segment assets as at 31st December 2009 and 2008 are as follows:

	2009			2008		
	Alternative energy	**Software development**	**Total reportable segments**	Alternative energy	Software development	Total reportable segments
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*
Total segment assets	**217,863**	**20,985**	**238,848**	43,914	24,933	68,847
Total segment assets include:						
Investment in associated companies	**208,076**	**–**	**208,076**	–	–	–
Additions to non-current assets	**6,495**	**358**	**6,853**	31,500	166	31,666

A reconciliation of profit/(loss) for the year of reportable segments to profit/(loss) for the year of the Group is provided as follows:

	2009	2008
	HK$'000	*HK$'000*
Profit/(loss) for the year of reportable segments	**11,485**	(72,405)
Unallocated amounts – Corporate expenses	**(23,167)**	(22,302)
	(11,682)	(94,707)

Reportable segments assets are reconciled to total assets as follows:

	2009	2008
	HK$'000	*HK$'000*
Total segment assets	**238,848**	68,847
Deferred income tax assets	**–**	203
Corporate assets		
– cash and cash equivalents	**156,967**	258,560
– others	**236**	390
Total assets	**396,051**	328,000

The total non-current assets (excluding deferred tax assets) by geographical location are detailed below:

	2009	2008
	HK$'000	*HK$'000*
Hong Kong	**335**	27,300
The PRC	**217,033**	9,001
Japan	**–**	18
Total non-current assets	**217,368**	36,319

For the years ended 31st December 2009 and 2008, the Group's revenue for reportable segments are solely from external customers and are attributable to the Japan market.

For the year ended 31st December 2009, the Group has one customer with revenue exceeding 10% of the Group's total revenue (2008: one customer). Revenue from that customer amounted to HK$10,013,000 (2008: HK$13,281,000). These revenues are attributable to software development.

4 OTHER EXPENSES

	2009	2008
	HK$'000	*HK$'000*
Provision for impairment losses on		
– goodwill	**–**	42,044
– customer relationship and software technology	**817**	16,650
	817	58,694

5 EXPENSES BY NATURE

	2009	2008
	HK$'000	*HK$'000*
Auditor's remuneration	**950**	1,219
Amortisation of intangible assets	**4,529**	10,390
Depreciation of property, plant and equipment	**512**	1,176
Net exchange losses	**57**	377
Loss on disposal of property, plant and equipment	**–**	4
Employee benefit expenses (including directors' emoluments)	**16,457**	17,662
Operating lease rental	**1,140**	1,563
Research and development expenditure	**323**	6,870
Corporate expenses	**1,647**	2,982
Donations	**–**	2,500
Legal and professional fees	**5,437**	7,578
Management service fee	**5,875**	4,216
Other expenses	**5,682**	3,230
	42,609	59,767

6 FINANCE INCOME AND COSTS

	2009	2008
	HK$'000	*HK$'000*
Finance costs :		
– interest expenses on bank borrowings wholly repayable within 5 years	**–**	(160)
Finance income:		
– interest income on bank deposits	**443**	3,074
Finance income – net	**443**	2,914

7 INCOME TAX (EXPENSE)/CREDIT

No provision for Hong Kong profits tax has been made as the Group has no assessable profit for the year (2008: Nil). Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

	2009	2008
	HK$'000	*HK$'000*
Current income tax		
– Overseas tax credit/(expense)	**23**	(37)
– Over provision in prior years	**–**	1,092
*Deferred income tax expense in respect of excess of fair value of net assets acquired over cost of acquisition of an associated company	**(12,385)**	–
Deferred income tax (expense)/credit, net	**(1,974)**	5,908
Income tax (expense)/credit	**(14,336)**	6,963

* Deferred income tax was provided for the excess of the fair value of the net assets acquired over cost of acquisition of an associated company based on a tax rate of 25%. On a net basis, the excess of the fair value of the net assets acquired over the cost of acquisition is HK$15,308,000, being the fair value gain of the net assets acquired of HK$27,693,000 less attributable deferred income tax of HK$12,385,000.

8 LOSS PER SHARE

(a) Basic

Basic loss per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of ordinary shares on issue during the year.

	2009	2008
Loss attributable to equity holders of the Company (HK$ thousand)	**(10,431)**	(89,720)
Weighted average number of ordinary shares on issue	**765,863,051**	763,534,755
Basic loss per share (HK cents per share)	**(1.36)**	(11.75)

(b) Diluted

Diluted loss per share for the year ended 31st December 2009 is equal to the basic loss per share as the bonus warrants and convertible note outstanding during the year had anti-dilutive effects on the basic loss per share.

Diluted loss per share for the year ended 31st December 2008 has not been disclosed as there were no dilutive potential shares in issue for the year ended 31st December 2008.

9 DIVIDENDS

No dividend was proposed and paid for the year ended 31st December 2009 (2008: Nil).

10 TRADE AND OTHER RECEIVABLES

	2009	2008
	HK$'000	*HK$'000*
Trade receivables	**867**	1,686
Other receivables	**5,590**	697
	6,457	2,383

At 31st December 2009 and 2008, the ageing analysis of trade receivables is as follows:

	2009	2008
	HK$'000	*HK$'000*
Less than 30 days	**867**	1,686

The Group's policy is to allow credit periods ranging from 30 days to 90 days to its trade customers. There were no trade receivables being past due as at 31st December 2009 and 2008.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the year ended 31st December 2009, the turnover for Hong Kong Energy (Holdings) Limited ("HKE" or "the Company", with its subsidiary companies, collectively, the "Group") amounted to HK$10.61 million, a decrease of 24% from HK$13.88 million compared to the same period in 2008. Gross profit for the year was HK$5.71 million, a decrease of 29% from last year HK$7.99 million. The drop in revenue and gross profit reflected primarily the slowdown in the software business resulted from the continuous stagnant market conditions in Japan. Although the Group's alternative energy business was making progress on its development, it was still too early to have a meaningful income contribution. HKE recorded a profit before tax of HK$2.65 million compared to a loss before tax of HK$101.67 million in 2008. Such improvement was mainly the result of a reduction of impairment loss on goodwill and intangible assets related to the software business. In addition, the Group recognized a HK$7.62 million gain from the disposal of the cellulosic ethanol pilot project in May 2009; and a HK$27.69 million fair value gain from acquiring 10% effective equity interest in the project company holding the Danjinghe wind farm project from the parent company, HKC (Holdings) Limited ("HKC", with its subsidiary companies "HKC Group") in December 2009. Net loss after tax attributable to equity holders of the Group reduced to HK$10.43 million for the year from a net loss of HK$89.72 million in 2008.

For the year ended 31st December 2009, basic loss per share was HK1.36 cents as compared to basic loss per share of HK11.75 cents in 2008.

Liquidity and Financial Resources

As at 31st December 2009, the Group did not have any bank borrowing as all repayments were made in 2008.

Convertible notes of principal amount RMB73.50 million (equivalent to HK$83.06 million) were issued to HKC for the acquisition of an effective 10% equity interest of the Danjinghe wind farm project company. The notes were issued on 30th December 2009 for a three-year period with zero-interest coupon and a fixed conversion price of HK$1.1388 per share. The notional loan amount of the convertible notes was HK$76.01 million as at 31st December 2009.

The Group's unrestricted cash and cash equivalents were HK$172.23 million as at 31st December 2009 as compared to HK$289.10 million in 2008. The decrease was mainly a result of the equity injection of HK$110.01 million into the associated company for the Lunaobao wind farm project in July 2009. The Group estimated a total capital expenditure of HK$545.90 million for the alternative energy project in Inner Mongolia as at 31st December 2009. Due to project delay, the original contracts for these capital expenditure became ineffective. New contract terms and conditions were made to allow the Group controlling the incurring time. For future projects, the Group will first rely on its internal sources and will actively seek bank financing to fund its future capital expenditure commitments. The Group's parent company, HKC, will also provide financial support whenever necessary.

The Group did not use financial instruments for financial hedging purposes during the year under review.

Details of Charges in Group Assets

During the year under review, the Group did not have any charges over the Group's assets same as 2008.

Gearing Ratio

As at 31st December 2009, the Group maintained a net cash position of HK$96.22 million as compared to HK$289.10 million in 2008. It represented the Group's cash and cash equivalents HK$172.23 million less the notion loan amount of the convertible note HK$76.01 million.

Contingent Liabilities

The Group did not have any contingent liabilities as at 31st December 2009 same as 2008.

BUSINESS REVIEW

During 2009, HKE made several important moves to transform the Group into HKC Group's alternative energy flagship. Fully aware of the strong support given by the People's Republic of China ("PRC", or "China") government on alternative energy, in particular wind and solar power, HKE refined the business strategy and disposed of the cellulosic ethanol pilot project in May 2009. Resources and focus were redirected to wind energy project development.

The equity for the Lunaobao wind farm project was fully injected and construction was well underway. The 100.5 megawatt ("MW") wind farm is located in Lunaobao, Hebei Province, adjacent to Danjinghe, where another promising wind farm of the Group was being developed. HKE owns 30% of the joint venture with the rest of the stake held by the wind division subsidiary of China Energy Conservation Investment Corporation (collectively "CECIC"). The project comprises 67 sets of 1,500 kilowatt ("KW") PRC domestic manufactured wind turbines and the total investment cost is around RMB950.78 million. At as 31st December 2009, all 67 foundations had been completed and a total of 24 sets wind turbine and towers had been installed. Other peripheral and logistical infrastructure, such as the central control room, staff quarter and substation were completed. Work on power transmission and connection to the grid was in progress. Remaining wind turbines installation and peripheral construction are expected to be completed for trial run in mid 2010, well ahead of schedule and under budget.

A new Executive Director and Managing Director, Dr. Bruce Yung, who has worked in the energy industry for more than 20 years, joined HKE in August 2009. His joining has strengthened the Group's ability to source new, high return wind farms and improved HKE's awareness to the investor community. The Group's technical wind resources evaluation and micro-site setting capabilities were further enhanced through the signing of a framework agreement with Garrad Hassan Limited ("Garrad Hassan"), a highly reputable wind power engineering consulting firm from the United Kingdom. The firm has considerable experience in the PRC.

During the second half of 2009, the Group signed memorandum of understanding ("MOU") with and received letter of support from several provincial governments, such as Kulun in Inner Mongolia and Kangping in Liaoning Province, to commence wind resource and feasibility studies for developing wind farms. This will help increase the size of the Group's wind farm projects pipeline.

HKE entered into an agreement in November 2009 to acquire from its parent company, HKC, 25% of HKE (Danjinghe) Wind Power Limited, which holds 40% equity interest in the project company developing the Danjinghe wind farm, for a consideration of approximately HK$83.06 million. The consideration represented a 25% discount to the fair value of the wind farm given by an independent business appraiser and a 36% premium to the net asset value of this asset accounted for under HKC. The transaction was completed by unanimous shareholders' approval in the extraordinary general meeting held on 30th December 2009. After the transaction, HKE holds 10% effective equity interest in the project company holding the Danjinghe wind farm project while the remaining 30% and 60% rights are held by HKC and CECIC respectively.

The Danjinghe project is located approximately 300 kilometres ("km") north of Beijing adjacent to Lunaobao in the Hebei Province with total 200 MW wind power generating capacity. The project is part of the 1,000MW national-scale wind power project designated by National Development & Reform Commission ("NDRC") as a showcase for China. The wind farm was developed in three phases where phase 1 consisted 54 units of 750 KW wind turbine, phase 2 consisted 100 units of 800 KW wind turbine, and phase 3 consisted 53 units of 1,500 KW wind turbines all manufactured by PRC domestic supplier.

Phase 1 construction of the Danghinghe project was completed for trial run in January 2009 and commenced commissioning in June 2009. Phase 2 and 3 construction was also completed in December 2009, ahead of schedule by 12 months. Both phases are currently waiting for trial run. The project was completed under budget, with the Phase 1 operating performance in 2009 exceeded the original forecast of 75 million kilowatt-hour ("Kwh") by 10 million Kwh. The injection of this promising wind asset from the parent company represents a significant move for the Group to become HKC's alternative energy flagship.

OUTLOOK

China's rapid economic development following the stabilization of the world's economy creates a strong demand for energy. Alternative energy has been seen by the Chinese government as the most promising source of energy in addition to fossil fuels. Considerable attention has been given to the alternative energy sector and favourable policies have been rolled out in the past. This situation is expected to remain the same in the foreseeable future as alternative energy was highly promoted in the PRC Twelfth Five Years Plan for 2011 to 2015. Reflecting the government's commitment to alternative energy, a number of amendments to China's Renewable Energy Law were proposed in the eleventh National People's Congress ("NPC") in PRC held on 26th December 2009. These amendments were designed to resolve the problems with grid connection for wind power projects.

On the supply side, there is an indication of abundant wind equipment suppliers. Although consolidation is expected to come shortly, prices for wind equipment have come down, and are expected to continue to decline. As a result, development costs to HKE will also decline and should result in higher return on equity.

Internally, HKE will take advantage of the current favourable business environment and proceed with developing our wind farm projects in a cautious and careful manner. Further to signing the MOU and strategic development agreement with the provincial government, the Group will engage Garrad Hassan to conduct wind resources analysis, feasibility and micro-site study for Kulun of Inner Mongolia and Kangping of Liaoning. Kulun is southeast of Inner Mongolia approximately 77 km northwest of Fuxin city in Liaoning Province. The location is capable of accommodating three 49.5 MW wind farms. Kangping is approximately 120 km north of Shenyang city in Liaoning Province with an area over 300 square km. This location can develop into a 250 MW wind farm. Both locations are close to the transmission infrastructure and areas of power demand, which will be ideal for establishing wind farm. Apart from Kulun and Kangping, the Group is also exploring other potential wind farm locations in the south-western part of PRC.

The Group will also actively seek strategic partnerships with the aim to strengthen HKE's capital base and to enhance the Group's competitive advantages for future growth. In addition, HKE will explore plans and their feasibilities to further inject other alternative energy assets from the HKC Group. This will complete the transformation of HKE into HKC's alternative energy flagship. Several alternative energy assets currently belong to HKC Group that can be considered are listed below:

(a) Phase I Siziwang Qi of Inner Mongolia – a 49.5 MW wind farm. This first phase of a potential 1,000 MW project is 100% wholly owned by HKC Group. The wind farm is currently under construction. Construction work for the foundations, control room and substation was completed. All 33 wind turbine units were hoisted in 2009 ready for the final connection to the grid and trial run in early 2010.

(b) Mudanjiang and Muling of Heilongjiang – a 2 x 30 MW wind farm. HKC Group owns majority stakes of 86% and 86.68% in the two wind farms. The wind farms commenced full operations in September 2007, and are making steady revenue contributions to the HKC Group.

(c) Danjinghe of Hebei – a 200 MW wind farm. This wind farm is a joint venture with CECIC. HKC Group owns a 40% effective equity interest in which 10% held indirectly via HKE and 30% held directly by HKC Group. The first phase, consisting of 40.5 MW, commenced commissioning in June 2009. Cost saving was achieved. First commission data indicated that the performance in 2009 was better than originally forecasted. Construction for the remaining 2 phases was completed end of 2009 ahead of original schedule by 12 months. Trial run and commissioning was targeted mid 2010.

(d) Changma of Gansu – a 201 MW wind farm. This wind farm is a joint venture with CECIC. HKC Group owns a 40% interest. Construction was completed end of 2009. Trial run and commissioning was targeted mid 2010.

(e) Linyi of Shandong – a 25 MW waste-to-energy power plant. The plant is a joint venture with CECIC. HKC Group owns 40% interest. The plant commenced full operations in September 2007, and is making steady revenue contributions to the HKC Group.

Employees

As at the end of December 2009, the Group's operations in Hong Kong and mainland China employed a total of 66 employees. The Group had appointed technical consultants on contract terms for its alternative energy projects. All employees are remunerated according to the nature of their jobs, their individual performances, the Group's overall performance, and the prevailing marketing conditions.

BONUS ISSUE OF SHARES

The Board proposes to make a bonus issue of new shares of HK$0.01 each to the qualifying shareholders whose names appear on the register of members of the Company on a date which is tentatively set to be on 12th May 2010 (the "Record Date") on the basis of 1 bonus share for every 10 ordinary shares to be held. The bonus shares will be issued and credited as fully paid upon issue and will rank pari passu in all respects with the existing shares with effect from the date of issue. The bonus issue will be funded by way of capitalisation of certain amount standing to the credit of the Company's retained earnings and is conditional upon the approval of the shareholders at the annual general meeting of the Company to be convened, and the granting by The Stock Exchange of Hong Kong Limited (the "Stock Exchange") of the listing of, and permission to deal in, the new shares to be issued pursuant thereto. For details, please refer to the full announcement of the Company dated 22nd March 2010 which is separately published on the websites of the Company and the Stock Exchange.

BONUS ISSUE OF WARRANTS

The Board also proposes to make a bonus issue of warrants to the qualifying shareholders whose names appear on the register of members of the Company on the Record Date on the basis of 1 bonus warrant for every 10 ordinary shares to be held. The subscription price of HK$0.60 is determined based on a discount of approximately 25% to the average closing price of the ordinary shares of the Company for 5 consecutive trading days immediately prior to the date of this announcement. For details, please refer to the full announcement of the Company dated 22nd March 2010 which is separately published on the websites of the Company and the Stock Exchange.

ADJUSTMENTS TO THE EXISTING WARRANTS, THE CONVERTIBLE NOTE AND THE OUTSTANDING SHARE OPTIONS

The subscription price of the existing warrants of the Company (warrant code: 748), the conversion price of the Convertible Note, and the exercise price and/or the number of Shares which may be issued upon exercise of the outstanding share options may need to be adjusted due to the abovementioned bonus issue of shares and/or warrants and further announcement will be made by the Company when necessary.

FINAL DIVIDEND

The Directors do not recommend the payment of final dividend for the year ended 31st December 2009 (2008: Nil).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year ended 31st December 2009.

CORPORATE GOVERNANCE

In the opinion of the Directors, the Company has applied the principles and complied with the code provisions (the "Code Provisions") and certain recommended best practices set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") during the year ended 31st December 2009, except the Code Provisions A.2.1 and A.4.1.

Under the Code Provision A.2.1, the roles of chairman and chief executive officer ("CEO") should be separate and performed by different individuals. Under the current organization structure of the Company, the functions of CEO are performed by the Chairman, Mr. Oei Kang, Eric, with support from Managing Director and other Executive Directors. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company, and has been effective in discharging its responsibilities satisfactorily and facilitating the Company's operation and business development. The Board will review the structure from time to time to ensure it continues to meet the principle and will consider segregation of the roles of chairman and CEO if and when appropriate.

Under the Code Provision A.4.1, non-executive directors should be appointed for specific term and subject to re-election. However, all Non-executive Directors of the Company were appointed with no specific term, but are subject to aforesaid rotation requirement in the Company's articles of association.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors set out in Appendix 10 to the Listing Rules (the "Model Code") as its own code of conduct regarding Directors' securities transactions. Having made specific enquiries, all Directors confirmed that they have complied with the required standards set out in the Model Code during the year ended 31st December 2009.

The Company has also adopted a code for dealing in the Company's securities by relevant employees, who are likely to be in possession of unpublished price-sensitive information in relation to the securities of the Group, on no less exacting terms than the Model Code.

AUDIT COMMITTEE

The Company had established an Audit Committee with written terms of reference which have been updated from time to time to align with the code provisions set out in the CG Code. The Audit Committee, chaired by an Independent Non-executive Director, comprises three members namely Mr. ZHANG Songyi, Mr. TANG Siu Kui, Ernest and Mr. YU Hon To, David, all of whom are Independent Non-executive Directors.

The audit committee has reviewed the Group's annual results for the year of 2009 and discussed internal control and risk management system of the Company with the management.

REVIEW OF PRELIMINARY ANNOUNCEMENT

The figures in respect of the announcement of the Group's results for the year ended 31st December 2009 have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagement issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the announcement.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This announcement is published on the websites of the Company (www.hkenergy.com.hk) and the Stock Exchange (www.hkexnews.hk). The 2009 annual report containing all the information required by the Listing Rules will be published on the above websites and dispatched to the shareholders in due course.

By Order of the Board
Hong Kong Energy (Holdings) Limited
YUNG Pak Keung, Bruce
Managing Director

Hong Kong, 22nd March 2010

As at the date hereof, the Board comprises seven Directors of which Mr. Oei Kang, Eric, Dr. Yung Pak Keung, Bruce and Mr. Leung Wing Sum, Samuel are executive Directors; Mr. Liu Zhixin is a non-executive Director; and Mr. Zhang Songyi, Mr. Tang Siu Kui, Ernest and Mr. Yu Hon To, David are independent non-executive Directors.