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If you are in any doubt as to any aspect about this circular or as to the action to be taken, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your securities in HKC (Holdings) Limited, you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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**HKC (HOLDINGS) LIMITED**  
**香港建設(控股)有限公司\***

*(Incorporated in Bermuda with limited liability)*

**(Stock code: 190)**

*(Website: [www.hkcholdings.com](http://www.hkcholdings.com))*

**MAJOR TRANSACTION  
AND  
NOTICE OF SPECIAL GENERAL MEETING**

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A letter from the board of directors of HKC (Holdings) Limited is set out on pages 8 to 29 of this circular.

A notice convening a special general meeting of HKC (Holdings) Limited to be held at 9th Floor, Tower 1, South Seas Centre, 75 Mody Road, Tsimshatsui East, Kowloon, Hong Kong on Monday, 26 July 2010 at 11:30 a.m. (or so soon thereafter as the extraordinary general meeting of HKE convened at the same place and on the same date at 10:30 a.m. shall have been concluded or adjourned) is set out on pages SGM-1 and SGM-2 of this circular. If you are not able to attend such meeting, you are requested to complete the accompanying form of proxy and return the same in accordance with the instructions printed thereon as soon as possible and in any event not less than forty-eight (48) hours before the time appointed for the holding of such meeting or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the meeting or any adjourned meeting should you so desire.

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## DEFINITIONS

*In this circular, where the context so admits, the following expressions have the following meanings:*

“Acquisition”	the proposed acquisition of the Sale Share and the rights and interests in the Loans (by way of assignments) by the Purchaser under the Sale and Purchase Agreement
“Announcement”	the joint announcement dated 12 May 2010 issued by HKC and HKE in respect of the Sale and Purchase Agreement
“Asia Wind Power”	亞洲風力發電(牡丹江)有限公司 (Asia Wind Power (Mudanjiang) Company Limited*), a Sino-foreign equity joint venture enterprise established in the PRC with limited liability
“associate”	has the same meaning as defined in the Listing Rules
“BMI”	BMI Appraisals Limited, an independent professional valuer
“Bonus Share Issue”	the issue of new HKE Shares to the qualifying HKE Shareholders as announced by HKE on 22 March 2010 and set out in the circular dated 30 April 2010 issued by HKE.
“Business Day”	a day on which banks in Hong Kong are open for normal banking business (excluding Saturdays, Sundays and any day on which a tropical cyclone warning no. 8 or above or a black rainstorm warning is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.)
“Business Valuation Report”	valuation report prepared by BMI as set out in Appendix IV to this circular
“BVI”	the British Virgin Islands
“CECIC”	中節能風力發電投資有限公司 (China Energy Conservation Windpower Investment Company Limited*), a state-owned enterprise established in the PRC

## DEFINITIONS

“CECIC HKC Wind Power”	中節能港建風力發電(張北)有限公司 (CECIC HKC Wind Power Company Limited*), a Sino-foreign equity joint venture enterprise established in the PRC with limited liability and owned as to 40% by HKE (Danjinghe) as at the Latest Practicable Date
“CECIC HKCG”	中節能港建(甘肅)風力發電有限公司 (CECIC HKC (Gansu) Wind Power Company Limited*), a Sino-foreign equity joint venture enterprise established in the PRC with limited liability and owned as to 40% by HKC (HK) as at the Latest Practicable Date
“CECIC HKCG Title Transfer”	the transfer of HKC (HK)’s title to its equity interest in CECIC HKCG to HKE (Gansu) pursuant to the Economic Benefits Assignment Agreement
“Completion”	completion of the Acquisition pursuant to the Sale and Purchase Agreement
“connected person”	has the same meaning as defined in the Listing Rules
“Consideration”	the consideration of HK\$1,018.1 million payable by HKE by way of the Convertible Preferred Shares for the Sale Share and the Loans under the Sale and Purchase Agreement
“Convertible Preferred Shares”	(i) 1,385,170,068 convertible preferred shares of HK\$0.01 each consisting of (a) 600,000,000 existing convertible preferred shares of HK\$0.01 each and (b) 785,170,068 new convertible preferred shares of HK\$0.01 each (to be created pursuant to the increase in authorised share capital of HKE) to be issued and allotted by HKE to HKEHL or its nominee(s) upon Completion to satisfy the Consideration; and (ii) 4,614,829,932 new unissued convertible preferred shares of HK\$0.01 each (to be created pursuant to the increase in authorised share capital of HKE), details of which are set out in the section headed “Increase in authorised share capital and adoption of the amended and restated articles of association” in the letter from the HKE Board in the HKE circular

## DEFINITIONS

“Distribution”	the distribution of bonus warrants and bonus shares of HKE, together with part of HKE Shares held by HKC, to the qualifying HKC Shareholders as announced by HKC on 22 March 2010 and further details of which are set out in the circular of HKC dated 30 April 2010. The Distribution was approved at the annual general meeting of HKC held on 1 June 2010 and certificates for the relevant shares and bonus warrants of HKE subject to the Distribution were despatched on 23 June 2010
“Gansu Loan Facility”	a loan facility of RMB235.8 million (equivalent to approximately HK\$267.9 million) to be granted by HKE (Gansu) to HKC (HK) pursuant to the Reorganisation
“HK Wind Power”	香港風力發電(穆稜)有限公司 (Hong Kong Wind Power (Muling) Company Limited*), a Sino-foreign equity joint venture enterprise established in the PRC with limited liability
“HKC” or “Vendor Guarantor”	HKC (Holdings) Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the main board of the Stock Exchange
“HKC Board”	the board of the HKC Directors
“HKC Director(s)”	director(s) of HKC
“HKC Group”	HKC and its subsidiaries
“HKC (HK)”	Hong Kong Construction (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of HKC
“HKC (HK) Loan Facility”	a loan facility of RMB235.8 million (equivalent to approximately HK\$267.9 million) to be granted by HKC (HK) to HKE (Gansu) pursuant to the Reorganisation

## DEFINITIONS

“HKC SGM”	the special general meeting of HKC Shareholders to be convened at 9th Floor, Tower 1, South Seas Centre, 75 Mody Road, Tsimshatsui East, Kowloon, Hong Kong on Monday, 26 July 2010 at 11:30 a.m. (or so soon thereafter as the extraordinary general meeting of HKE convened at the same place and on the same date at 10:30 a.m. shall have been concluded or adjourned) for the purpose of considering and, if thought fit, approving the Sale and Purchase Agreement and the transactions contemplated thereunder
“HKC SGM Notice”	the notice to convene the HKC SGM as set out at the end of this circular
“HKC Shareholder(s)”	holder(s) of the HKC Share(s)
“HKC Share(s)”	ordinary share(s) of par value of HK\$0.01 each in the share capital of HKC
“HKE” or “Purchaser”	Hong Kong Energy (Holdings) Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the main board of the Stock Exchange and an indirect non wholly-owned subsidiary of HKC (HKC is holding approximately 59.3% interest in HKE as at the Latest Practicable Date)
“HKE Board”	the board of HKE Directors
“HKE Circular”	the circular of HKE dated 30 June 2010 in respect of the Sale and Purchase Agreement and transactions contemplated thereunder
“HKE (Danjinghe)”	HKE (Danjinghe) Wind Power Limited, a company incorporated in Hong Kong
“HKE Director(s)”	director(s) of HKE
“HKE EGM”	the extraordinary general meeting of HKE Shareholders to be convened at 9th Floor, Tower 1, South Seas Centre, 75 Mody Road, Tsimshatsui East, Kowloon, Hong Kong on Monday, 26 July 2010 at 10:30 a.m. for the purpose of considering and, if thought fit, approving the Sale and Purchase Agreement and the transactions contemplated thereunder

## DEFINITIONS

“HKE (Gansu)”	HKE (Gansu) Wind Power Limited, a company incorporated in Hong Kong
“HKE Group”	HKE and its subsidiaries
“HKE Independent Shareholders”	HKE Shareholders, other than HKC and its associates
“HKE Shareholder(s)”	holder(s) of the HKE Share(s)
“HKE Share(s)”	ordinary share(s) of par value of HK\$0.01 each in the share capital of HKE
“HKEHL” or “Vendor”	Hong Kong Energy (Holdings) Ltd., a company incorporated in the BVI with limited liability and a wholly-owned subsidiary of HKC
“HKEI”	Hong Kong Energy Investments Limited, a company incorporated in Hong Kong with limited liability
“HKNE”	港建新能源四子王旗風能有限公司 (Hong Kong New Energy Si Zi Wang Qi Wind Power Ltd.*), a Sino-foreign equity joint venture enterprise established in the PRC with limited liability
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Last Trading Date”	12 May 2010, being the last trading date before the signing of the Sale and Purchase Agreement (for the purpose of determining the issue price of the Convertible Preferred Shares)
“Latest Practicable Date”	24 June 2010, being the latest practicable date for ascertaining certain information prior to printing of this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“LNE New Energy”	臨沂中環新能源有限公司 (Linyi National Environmental New Energy Company Limited*), a Sino-foreign equity joint venture enterprise established in the PRC with limited liability

## DEFINITIONS

“Loans”	all indebtedness owed by the Target Group to the HKC Group (excluding the HKE Group), excluding any loans drawn under the HKC (HK) Loan Facility, the Gansu Loan Facility and the Siziwang Qi Loan Facility (the aggregate amount of the Loans is HK\$1,001.1 million as at 31 December 2009) assuming that the Reorganisation had taken place on 31 December 2009
“NDRC”	中華人民共和國國家發展和改革委員會 (National Development and Reform Commission of the PRC*)
“PRC”	the People’s Republic of China
“Project Companies”	CECIC HKC Wind Power, CECIC HKCG, HKNE, HK Wind Power, Asia Wind Power, LNE New Energy and HKEI
“Reorganisation”	the reorganisation arrangements to be undergone by the Target Group in preparation for the Acquisition as described in the section headed “Reorganisation” in the “Letter from the HKC Board” of this circular
“Sale and Purchase Agreement”	the sale and purchase agreement dated 12 May 2010 entered into among the Purchaser, the Vendor and the Vendor Guarantor in respect of the Acquisition
“Sale Share”	1 share with a par value of US\$1.00 issued by the Target Company, representing the entire issued share capital of the Target Company
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	Hong Kong Code on Takeovers and Mergers
“Target Company”	HKE (BVI) Limited, a company incorporated in the BVI and a wholly-owned subsidiary of HKEHL
“Target Group”	the Target Company, its subsidiaries and the Project Companies (excluding the 25% equity interest in HKE (Danjinghe) and the 10% effective interest in CECIC HKC Wind Power currently held by the HKE Group)



## DEFINITIONS

“GW”	gigawatts
“km”	kilometre
“KW”	unit of energy, kilowatt. 1 KW = 1,000 watts
“KWh”	unit of energy, kilowatt-hour. The standard unit of energy used in the electric power industry. One kilowatt-hour is the amount of energy that would be produced by a generator producing one thousand watts for one hour
“MW”	unit of energy, megawatt. 1 MW = 1,000 KW. The installed capacity of power plants is generally expressed in MW
“MWh”	unit of energy, megawatt-hour. 1 MWh = 1,000 KWh
“RMB”	Renminbi, the lawful currency of the PRC
“sq.km.”	square kilometre
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	per cent.

*For the purpose of illustration only and unless otherwise stated, conversion of RMB into HK\$ in this circular is based on the exchange rate of RMB1.00 to HK\$1.1361. Such conversion should not be construed as a representation that any amount has been, could have been, or may be, exchanged at such or any other rate.*

\* *The unofficial English transliterations or translations are for identification purposes only.*



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**香港建設(控股)有限公司\***

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*(Website: www.hkcholdings.com)*

*Board of directors:*

- \*OEI Tjie Goan (*Chairman*)
- \*LI Xueming (*Deputy Chairman*)
- \*XU Zheng (*Deputy Chairman*)
- #OEI Kang, Eric (*Chief Executive Officer*)
- #WAN Man Yee
- #TANG Sau Wai, Tom
- \*YEN Teresa
- \*WAN Ming Sun
- \*LIU Guolin
- @FAN Yan Hok, Philip
- @CHUNG Cho Yee, Mico
- @CHENG Yuk Wo
- @Albert T. DA ROSA, Jr.

*#Executive Director*

*\*Non-executive Director*

*@Independent non-executive Director*

*Registered office:*

Clarendon House  
2 Church Street  
Hamilton HM11  
Bermuda

*Principal place of  
business in Hong Kong:*

9th Floor, Tower 1  
South Seas Centre  
75 Mody Road  
Tsimshatsui East  
Kowloon, Hong Kong

30 June 2010

*To the HKC Shareholders and, for information only,  
holders of warrants and share options of HKC*

Dear Sir or Madam,

## **MAJOR TRANSACTION**

### **INTRODUCTION**

As announced in the Announcement issued by HKC and HKE, HKE (as the Purchaser), HKEHL (as the Vendor) and HKC (as the Vendor Guarantor) entered into the Sale and Purchase Agreement on 12 May 2010. On the terms and subject to the conditions of the Sale and Purchase Agreement, the Purchaser has agreed to acquire from the Vendor the Sale Share, representing the entire issued share capital of the Target Company which in turn beneficially holds certain attributable interests in all the wind farms and waste-to-energy plant for the HKC Group (excluding those currently held by the HKE

\* For identification purposes only

## LETTER FROM THE HKC BOARD

Group). The Purchaser has also agreed to acquire from the HKC Group (excluding the HKE Group) all rights and interests in the Loans on the terms and subject to the conditions set out in the Sale and Purchase Agreement. The Acquisition, if completed, will transform HKE into HKC's flagship of alternative energy business and constitute a major milestone of the strategic development of HKE.

The Consideration for the Sale Share and the Loans under the Sale and Purchase Agreement is HK\$1,018.1 million, which shall be payable on Completion by way of issue and allotment of 1,385,170,068 Convertible Preferred Shares, credited as fully paid, by HKE as the Purchaser to HKEHL or its nominee(s). The Convertible Preferred Shares, when issued, are convertible into new HKE Shares at the conversion rate of one Convertible Preferred Share to one new HKE Share initially.

HKC is currently holding 100% interest in the Target Company indirectly. HKE will remain as indirect non-wholly owned subsidiary of HKC at Completion of the Acquisition of the Target Company. The overall effect of the Acquisition on the consolidated financial position of HKC is a net decrease/disposal of such percentage of its interests in the Target Company as equal to the percentage of HKE Shares held by the minority HKE Shareholders. On Completion, a total of 1,385,170,068 Convertible Preferred Shares, convertible into new HKE Shares, will be issued to HKEHL (or its nominee(s)). Conversion of the Convertible Preferred Shares issued in connection with the Acquisition under the Sale and Purchase Agreement from time to time will result in acquisition of new HKE Shares by HKC indirectly on and subject to the terms of issue as referred to in the section headed "THE CONVERTIBLE PREFERRED SHARES" below. The Acquisition will constitute a major transaction for HKC under Chapter 14 of the Listing Rules. Therefore, the Sale and Purchase Agreement and the transactions contemplated thereunder as a whole will be subject to the approval by the HKC Shareholders by way of poll at the HKC SGM pursuant to the Listing Rules.

The purpose of this circular is to provide you with, among other things, further information on the Sale and Purchase Agreement and the transactions contemplated thereunder, the Business Valuation Report and other information required by the Listing Rules and to give you the HKC SGM Notice.

### THE SALE AND PURCHASE AGREEMENT

**Date** : 12 May 2010

**Parties** :  
1. HKE as the Purchaser  
2. HKEHL as the Vendor  
3. HKC as the Vendor Guarantor

HKEHL is an indirect wholly-owned subsidiary of HKC and HKE is an indirect non wholly-owned subsidiary of HKC (HKC is holding approximately 59.3% interest in HKE) as at the Latest Practicable Date.

## LETTER FROM THE HKC BOARD

### **The Acquisition**

On the terms and subject to the conditions of the Sale and Purchase Agreement, the Purchaser has agreed to purchase the Sale Share, being the entire issued share capital of the Target Company, and all rights and interests in the Loans from the HKC Group (excluding the HKE Group).

The Sale Share is held by the Vendor. The Target Group is indebted to the HKC Group (excluding the HKE Group), and HKE (or its nominee) is to be assigned all rights and interests in the Loans, on the terms and subject to the conditions of the Sale and Purchase Agreement.

The Vendor Guarantor has agreed to guarantee the due and punctual performance and observance by the Vendor of all its obligations under, or pursuant to, the Sale and Purchase Agreement and the relevant loan assignments in respect of the Loans and a deed of indemnity in connection with the Acquisition and to indemnify the Purchaser against all losses, damages, costs and expenses arising from any breach by the Vendor of such obligations.

The Target Company is a limited liability company incorporated in the BVI and an indirect wholly-owned subsidiary of HKC as at the Latest Practicable Date. Upon Completion, the Target Company will cease to be a wholly-owned subsidiary of HKC and, instead, will become a wholly-owned subsidiary of HKE and the Target Group will be indebted to HKE (or its nominee) for the Loans. The Target Company is an investment holding company and its principal asset includes certain indirect beneficial interests in the Project Companies, whose principal businesses in turn comprise the development, construction and operation of wind farms and waste-to-energy plant in the PRC.

### **Consideration**

The Consideration of HK\$1,018.1 million was determined after arm's length negotiations between the Purchaser and the Vendor with reference to, amongst other things, (i) the preliminary business valuation as at 31 March 2010 based on the market approach prepared by BMI of HKC's attributable interests in the Target Group (except HKEI) of RMB1,193.3 million (equivalent to approximately HK\$1,355.7 million); and (ii) the book value of HKEI and the indebtedness owing by it to the HKC Group (excluding the HKE Group) as of 31 December 2009 (altogether, the "Business Valuation"). The Business Valuation is at approximately HK\$1,357.4 million and therefore the Consideration represents a discount of approximately 25% to the Business Valuation and a premium of approximately 22% over the HKC Group's book value of the Target Group of approximately HK\$833.7 million, which is calculated based on (i) the net liabilities of the Target Group attributable to HKC of approximately HK\$154.3 million; (ii) the Loans in relation to payment of capital for the Project Companies of approximately HK\$1,001.1 million; and (iii) the consolidation adjustment for unrealised profit attributable to services provided by HKC's wholly-owned subsidiary as the main construction contractor to the Target Group of approximately HK\$13.1 million.

As set out in the Business Valuation Report in Appendix IV to this circular, as at 31 March 2010, the overall market value of the Target Group was approximately RMB1,193.3 million. Details of the methodologies, bases and assumptions adopted by BMI for the valuation are set out in the Business Valuation Report.

## LETTER FROM THE HKC BOARD

Based on the Consideration and after (i) adding back the attributable debts to the Project Companies; (ii) stripping off the surplus assets as set out in the Business Valuation Report prepared by BMI in Appendix IV to this circular; and (iii) stripping off the book value of HKEI, the average implied values per MW of electricity generating capacity from the wind farms and per ton of waste treating capacity at the waste-to-energy plant of the Project Companies were approximately RMB9.06 million and RMB864 respectively. Both are lower than the market values as estimated by BMI of approximately RMB10.22 million and RMB1,030 respectively. The aforesaid average implied values are computed based on, among other things, (i) the Business Valuation; (ii) the 25% discount of the Consideration to the Business Valuation; (iii) the book value of HKEI and the indebtedness owing by it to the HKC Group (excluding the HKE Group) as of 31 December 2009; (iv) the bank loans of the Target Group as of 31 December 2009; and (v) the amount of electricity generating capacity from the wind farms and the waste treating capacity at the waste-to-energy plant of the Project Companies.

The Consideration is to be satisfied upon Completion by way of issue of the Convertible Preferred Shares to HKEHL (or its nominee(s)).

### Conditions precedent

Completion is conditional upon:

- (a) the passing of the necessary resolutions by the HKE Shareholders (other than those who are required to abstain from voting by law, the Listing Rules, the Stock Exchange and/or the articles of association of HKE) in a general meeting, among other things:
  - (i) approving the execution, delivery and performance of the Sale and Purchase Agreement (in particular, the purchase of Sale Share and the assignments of the Loans);
  - (ii) approving and adopting amendments to the articles of association of HKE incorporating, among other things, the rights, privileges and restrictions in relation to the Convertible Preferred Shares set out in the Sale and Purchase Agreement;
  - (iii) approving the increase in the authorised share capital of HKE;
  - (iv) approving the issue of the Convertible Preferred Shares; and
  - (v) approving the issue of the HKE Shares upon conversion of the Convertible Preferred Shares;
- (b) if necessary, the Sale and Purchase Agreement and the transactions contemplated by the Sale and Purchase Agreement having been approved by the shareholders of HKC in a general meeting, other than those who are required to abstain from voting by law, the Listing Rules, the Stock Exchange, and/or the bye-laws of HKC;

## LETTER FROM THE HKC BOARD

- (c) the Reorganisation having been approved, completed and implemented in such manner and on such terms to the satisfaction of HKE;
- (d) the listing of, and permission to deal in, the HKE Shares into which the Convertible Preferred Shares may be converted having been granted by the Stock Exchange (either unconditionally, or subject to customary conditions) and not being revoked prior to and on the date of Completion;
- (e) no indication being given by the Stock Exchange that the transactions contemplated under the Sale and Purchase Agreement will be treated or, as the case may be, ruled by the Stock Exchange as a reverse takeover under the Listing Rules;
- (f) the warranties remaining true and accurate and not misleading at Completion as if repeated at Completion and at all times between the date of the Sale and Purchase Agreement and Completion; and
- (g) all necessary consents being granted by third parties (including governmental or official authorities) and no statute, regulation or decision which would prohibit, restrict or materially delay the sale and purchase of the Sale Share, the assignments of the Loans or the operation of any member of the Target Group after Completion having been proposed, enacted or taken by any governmental or official authority.

HKE may waive all or any of the above conditions (except for the conditions (a), (b) and (d)) either in whole or in part at any time. As at the Latest Practicable Date, none of the conditions precedent have been fulfilled or waived, as the case may be.

In the event that any of the above conditions shall not have been fulfilled prior to 30 August 2010 or such other date as may be agreed in writing, then HKE shall not be bound to proceed with the purchase of the Sale Share and the assignments of the Loans, and the Sale and Purchase Agreement shall cease to be of any effect.

### **Completion**

Pursuant to the Sale and Purchase Agreement, Completion is to take place on the third Business Day after all the conditions have been fulfilled (or waived by the Purchaser).

On Completion, the Target Company will become an indirect non-wholly owned subsidiary of HKC through HKE.

## LETTER FROM THE HKC BOARD

### THE CONVERTIBLE PREFERRED SHARES

The principal terms of the Convertible Preferred Shares are summarised below:

Par value:	HK\$0.01 each
Issue price:	HK\$0.735 per Convertible Preferred Share
Conversion:	A holder of Convertible Preferred Shares shall have the right to convert from the issue of the Convertible Preferred Shares all or any part(s) of the Convertible Preferred Shares into HKE Shares at the initial conversion rate of 1 Convertible Preferred Share to 1 HKE Share, such conversion rate is subject to customary adjustments
Conversion period:	Any time after issue, provided that no conversion of the Convertible Preferred Shares (the "Conversion") shall take place if and to the extent that, immediately following the Conversion, HKE will be unable to meet the public float requirement under the Listing Rules. Where a Conversion would result in HKE failing to meet its public float requirement, then HKE shall allot and issue the number of HKE Shares to the greatest extent provided that it will still be able to meet the public float requirement after the Conversion. The excess number of HKE Shares shall be allotted and issued as soon as HKE will be able to meet the public float requirement even after the Conversion is conducted
Dividends and distribution:	On any payment of dividends or distribution or return of capital (other than on a liquidation, dissolution or winding up), the Convertible Preferred Shares shall rank pari passu with the HKE Shares

## LETTER FROM THE HKC BOARD

- Ranking on liquidation: In the event of any liquidation, dissolution or winding up of HKE, whether voluntary or not, or a sale, lease, license or any form of disposal of all or substantially all of the assets of HKE, in one or a series of related transactions (each a "Liquidation Event"):
- (a) the assets of HKE available for distribution amongst the HKE Shareholders shall be applied to pay the holders of the Convertible Preferred Shares the amount of HK\$0.01 for every Convertible Preferred Share held, in priority to any payment to the holders of any other class of shares in the capital of HKE;
  - (b) if the assets of HKE available for distribution amongst holders of the Convertible Preferred Shares shall not be sufficient to satisfy in full the payment referred to in sub-paragraph (a) above, then all the assets legally available for distribution shall be applied ratably amongst holders of the Convertible Preferred Shares in proportion to the number of the relevant Convertible Preferred Shares held by each such holder;
  - (c) provided that the payment referred to in sub-paragraph (a) above is made in full, the assets of HKE shall be applied to pay the HKE Shareholders the amount of HK\$0.01 for every HKE Share held; and
  - (d) provided that the payments referred to in subparagraphs (a) and (c) above are made in full, the Convertible Preferred Shares and HKE Shares shall rank *pari passu* in any further distribution of assets
- Redemption: The Convertible Preferred Shares shall be non-redeemable
- Listing: No application will be made for the listing of the Convertible Preferred Shares on the Stock Exchange or any other stock exchange. Application will be made to the Stock Exchange for the listing of and permission to deal in the HKE Shares falling to be issued upon conversion of the Convertible Preferred Shares



## LETTER FROM THE HKC BOARD

- Transferability: The Convertible Preferred Shares may be transferred at any time, provided such transfer shall also be in compliance with the conditions under the Sale and Purchase Agreement and further subject to (where applicable) the conditions, approvals, requirements and any other provisions of or under (i) the Listing Rules; (ii) the Takeovers Code; and (iii) all applicable laws and regulations
- Voting: Holders of the Convertible Preferred Shares shall be entitled to receive notices of, attend and speak at any general meetings of HKE but not to vote

### PRICE COMPARISON

The issue price of HK\$0.735 for each Convertible Preferred Share was determined after arm's length negotiations between parties to the Sale and Purchase Agreement and based on the average closing price per HKE Share of approximately HK\$0.735 for the last 10 trading days up to and including the Last Trading Date. The issue price of HK\$0.735 per Convertible Preferred Share:

- (i) represents a premium of approximately 13.1% over the closing price of HK\$0.650 per HKE Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) represents a premium of 5.0% over the closing price of HK\$0.700 per HKE Share as quoted on the Stock Exchange on the Last Trading Date;
- (iii) is equal to the average closing price per HKE Share of approximately HK\$0.735 for the last 10 trading days up to and including the Last Trading Date;
- (iv) represents a premium of approximately 4.6% over the average closing price per HKE Share of approximately HK\$0.703 for the last 30 trading days up to and including the Last Trading Date;
- (v) represents a premium of approximately 5.5% over the average closing price per HKE Share of approximately HK\$0.697 for the last 90 trading days up to and including the Last Trading Date; and
- (vi) represents a premium of approximately 85.1% over the audited consolidated net assets value attributable to equity holders of HKE per HKE Share of approximately HK\$0.397 as at 31 December 2009 (as calculated by the equity attributable to equity holders of HKE of approximately HK\$307.0 million as at 31 December 2009 and the number of outstanding HKE Shares of 772,592,209 as at 31 December 2009).

## LETTER FROM THE HKC BOARD

The Bonus Share Issue was approved at the annual general meeting of HKE held on 1 June 2010 and a total of 77,733,834 HKE Shares were issued on 9 June 2010. As at the Latest Practicable Date, a total of 855,133,284 HKE Shares were in issue.

The 1,385,170,068 HKE Shares to be issued and allotted upon full conversion of the Convertible Preferred Shares at the initial conversion ratio represent approximately:

- (i) 162.0% of the entire 855,133,284 HKE Shares in issue as of the Latest Practicable Date;
- (ii) 61.8% of the issued share capital of HKE as enlarged by the issue of the Convertible Preferred Shares; and
- (iii) 56.3% of the issued share capital of HKE as enlarged by the issue of the Convertible Preferred Shares and new shares to be issued assuming full conversion of the convertible securities of HKE, including (a) the outstanding bonus warrants that were issued by HKE on 14 May 2009 (warrant code: 748); (b) the outstanding bonus warrants that were issued by HKE on 9 June 2010 (warrant code: 795) (c) the convertible note issued by HKE to HKC carrying rights to convert into 72,932,034 HKE Shares; and (d) the outstanding share options granted by HKE pursuant to its share option scheme adopted on 27 May 2008.

The Convertible Preferred Shares are to be issued by HKE under a specific mandate to be sought at the HKE EGM. The HKE Shares, when issued and allotted pursuant to the conversion of the Convertible Preferred Shares, will rank *pari passu* in all respects with all the HKE Shares then in issue. The issue of Convertible Preferred Shares will not result in a change in control of HKE.

Conversion of the Convertible Preferred Shares issued in connection with the Acquisition under the Sale and Purchase Agreement from time to time after Completion will result in acquisition of new HKE Shares by HKC indirectly on and subject to the terms of issue as set out above.

### INFORMATION ON THE TARGET GROUP

#### **Reorganisation**

##### *In respect of the Target Company*

The Target Group is undergoing a reorganisation in preparation of the Acquisition and the completion and implementation of the Reorganisation is one of the conditions precedent to the Completion.

The entire interest in each of the Project Companies held by the HKC indirectly will be transferred to the Target Company such that the Target Company will hold the entire equity interest and/or economic interest in each of the Project Companies previously held by the HKC Group (excluding the HKE Group).

## LETTER FROM THE HKC BOARD

*In respect of CECIC HKCG*

As at the Latest Practicable Date, in respect of CECIC HKCG, the following reorganisation steps will be carried out such that the Target Company will be entitled to 40% economic benefits of CECIC HKCG and can exercise significant influence on it:

- (i) HKC (HK) is to provide a loan facility of RMB235.8 million (equivalent to approximately HK\$267.9 million) (the “HKC (HK) Loan Facility”) to HKE (Gansu), which is a wholly-owned subsidiary of the Target Company;
- (ii) HKE (Gansu) is to provide a loan facility of RMB235.8 million (equivalent to approximately HK\$267.9 million) (the “Gansu Loan Facility”) to HKC (HK), which is a wholly-owned subsidiary of HKC;
- (iii) HKC (HK), which currently holds 40% of the equity interests in CECIC HKCG, is to create a pledge over its entire equity interest in CECIC HKCG in favour of HKE (Gansu) as security for repayment of its indebtedness under the Gansu Loan Facility that will be owed to HKE (Gansu) thereunder; and
- (iv) HKC (HK) and HKE (Gansu) are to enter into an agreement (the “Economic Benefits Assignment Agreement”) pursuant to which, for a total consideration of RMB235.8 million (equivalent to approximately HK\$267.9 million) payable by HKE (Gansu) to HKC (HK), (a) HKC (HK) assigns to HKE (Gansu) its interests and rights in all the economic benefits (including profits and dividends but excluding the equity interest in CECIC HKCG) that may be derived from its equity interest in CECIC HKCG; and (b) HKC (HK) undertakes that it will transfer to HKE (Gansu) the title to its equity interest in CECIC HKCG (i.e. CECIC HKCG Title Transfer) upon obtaining consent of other shareholder of CECIC HKCG and approval of the relevant PRC authorities for such transfer.

On the basis that the steps aforesaid having been completed, the Target Company will be entitled to 40% economic benefits of CECIC HKCG which is accounted for as if the 40% equity interest of CECIC HKCG is beneficially held by the Target Company.

Upon Completion, the granting of the Gansu Loan Facility will constitute the provision of financial assistance by the HKE Group to its connected person, the HKC Group (other than HKE Group), under Chapter 14A of the Listing Rules and HKE will seek approval by the HKE Independent Shareholders at the HKE EGM of such financial assistance in accordance with the Listing Rules.

Upon obtaining the consent of other shareholder of CECIC HKCG and approval of the relevant PRC authorities to the CECIC HKCG Title Transfer, which is unlikely to be obtained before Completion, (a) the CECIC HKCG Title Transfer will forthwith be conducted pursuant to HKC (HK)’s undertaking given in the Economic Benefits Assignment Agreement; (b) the loan(s) drawn (if any) under the HKC (HK) Loan Facility and the Gansu Loan Facility will be fully repaid; and (c) the equity interest pledge in favour of HKE (Gansu) as mentioned in (iii) above will be released.

## LETTER FROM THE HKC BOARD

If the consent of other shareholder of CECIC HKCG and approval of the relevant PRC authorities to the CECIC HKCG Title Transfer are obtained after Completion, CECIC HKCG Title Transfer will have to be conducted after Completion. Such transfer will constitute a connected transaction for HKE under Chapter 14A of the Listing Rules and HKE will seek approval by the HKE Independent Shareholders at the HKE EGM of such connected transaction in accordance with the Listing Rules.

*In respect of HKNE*

As at the Latest Practicable Date, in respect of HKNE, the following reorganisation steps will be carried out such that the Target Company will be entitled to 100% economic benefits of HKNE:

- (i) a wholly-owned subsidiary of the Target Company (the “WFOE”) will provide a loan facility of RMB0.8 million (equivalent to approximately HK\$0.9 million) (the “Siziwang Qi Loan Facility”) to the two individual shareholders of the holding company (the “Hohhot Company”) of HKNE;
- (ii) the above individual shareholders will execute an equity interest pledge over their equity interests in the Hohhot Company in favour of the WFOE as security for repayment of their indebtedness that will be owed to the WFOE under the Siziwang Qi Loan Facility and all directors of the Hohhot Company shall be appointed by the WFOE pursuant to the said equity interest pledge. The individual shareholders are required to seek the consent from the WFOE before deciding on certain critical issues of the Hohhot Company, and in the event that the PRC law permits and the relevant government approval has been obtained, the WFOE is entitled to require the individual shareholders to transfer their equity interests in the Hohhot Company to WFOE (or its nominee) pursuant to the said equity interest pledge; and
- (iii) the WFOE and HKNE will enter into a technical services agreement pursuant to which the WFOE shall provide technical services to HKNE on an exclusive basis. Such services will include technical consultancy, equipment maintenance and testing, technical training, management consultancy and such other types of services as the parties may otherwise agree.

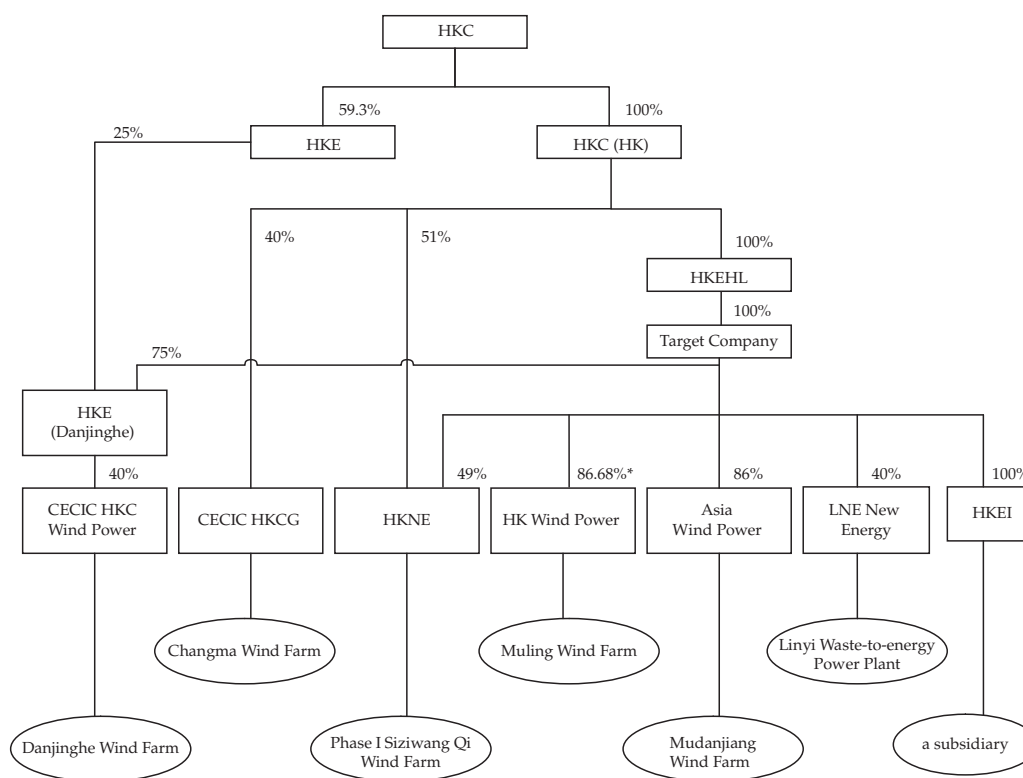
# LETTER FROM THE HKC BOARD

## Group Structure

The Target Company is a company incorporated in the BVI, which is a wholly-owned subsidiary of HKC and is the holding company of the Target Group.

Pursuant to the Reorganisation, HKC's certain attributable equity interests and/or economic benefits in the Project Companies will be held by the Target Company through its wholly-owned subsidiaries before Completion. Save for an 80% interest in the Muling wind farm and the entire 86% interest in the Mudanjiang wind farm, which were acquired by the HKC Group from independent third parties at the aggregate consideration of approximately HK\$64.0 million in 2005 and 2006, all Project Companies were developed by the HKC Group (excluding the HKE Group) and, if applicable, with other partners. Details of the Project Companies are set out as follows:

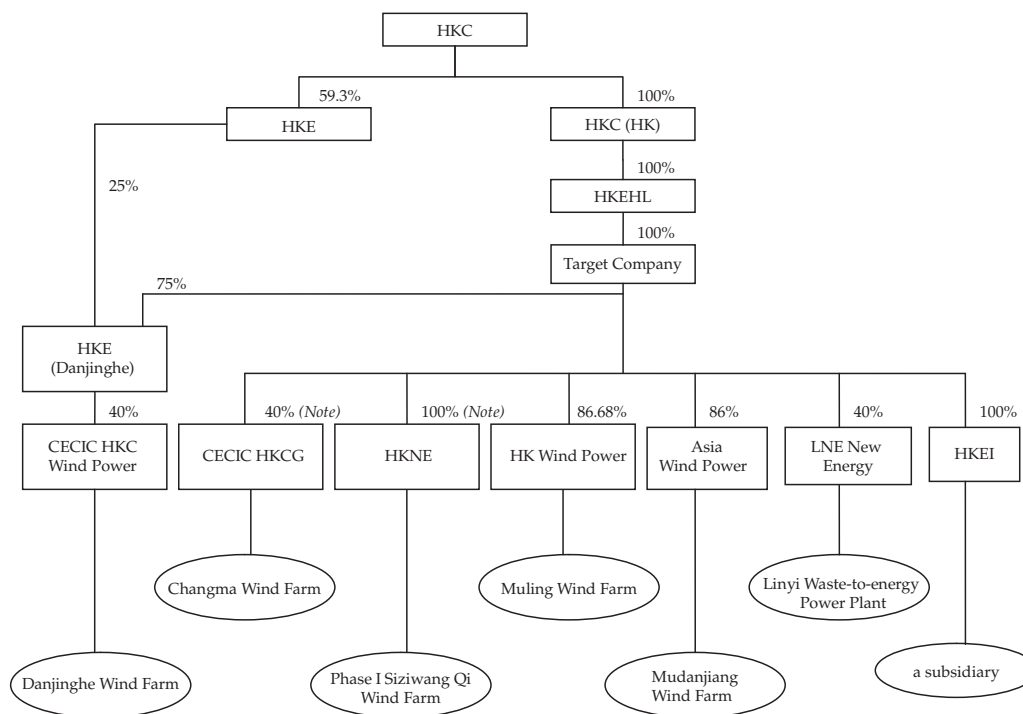
*Simplified shareholdings and equity beneficial interests structure of the Target Group as at the Latest Practicable Date:*



\* The equity interest of HKC Group in HK Wind Power increased from 80% to 86.68% in 2008 by increasing contribution to the registered capital of HK Wind Power.

## LETTER FROM THE HKC BOARD

*Simplified shareholdings and equity beneficial interests structure of the Target Group upon completion of the Reorganisation:*



*Note:* Please refer to the paragraph headed “Reorganisation” under the section headed “Information on the Target Group” in this circular for details.

### Information on the projects

#### *CECIC HKC Wind Power*

CECIC HKC Wind Power’s principal asset, as at the Latest Practicable Date, is a 200 MW capacity wind power generation plant (the “Danjinghe Wind Farm”) covering an area of approximately 103 sq.km. at Danjinghe, Zhangbei, in Hebei Province of the PRC (中國河北省張北縣單晶河). Danjinghe Wind Farm is located approximately 300 km north of Beijing, in an area where wind resources are available due to its geographical and climate conditions. Its location is close to Beijing and other major cities in the region where demand for energy is high. Danjinghe Wind Farm is part of a major wind farm designated by NDRC.

Phase I of Danjinghe Wind Farm, with a capacity of 40.5 MW powered by 54 units of 750 KW wind turbines commenced commissioning in March 2009. Based on the latest available information, this phase had generated approximately 85 million KWh of electricity in 2009, approximately 10 million KWh more than initially planned.

Construction for Phase II and Phase III of Danjinghe Wind Farm is ahead of schedule and the commercial operation of which is scheduled to commence in 2010. The 80.0 MW Phase II portion consists of 100 units of 800 KW wind turbines, while the 79.5 MW Phase III consists of 53 units of 1.5 MW wind turbines.

## LETTER FROM THE HKC BOARD

Danjinghe Wind Farm, upon completion of all 3 phases, is projected to have a total capacity to generate electricity of 438.6 million KWh per year and electricity tariff will be at an estimated rate of RMB0.5006 per KWh upon connection of the wind farm into power grids.

CECIC HKC Wind Power is currently an associated company of each of HKE and HKC. Upon Completion it will remain an associated company of each of HKE and HKC.

### *CECIC HKCG*

CECIC HKCG's principal asset, as at the Latest Practicable Date, is a 201 MW capacity wind power generation plant (the "Changma Wind Farm") at Changma, in Gansu Province of the PRC (中國甘肅省昌馬地區).

Changma Wind Farm, with a capacity of 201MW powered by 134 units of 1,500KW wind turbines have been installed by September 2009. With the success of grid-interconnection, commissioning of the entire wind farm has been commenced and full commercial operation is expected in the third quarter of 2010.

Upon Completion, CECIC HKCG will become an associated company of HKE. CECIC HKCG is currently, and will remain upon Completion as, an associated company of HKC.

### *HKNE*

HKNE's principal asset, as at the Latest Practicable Date, is a 49.5 MW capacity wind power generation plant at Siziwang Qi, Wulanchabu City, in Inner Mongolia Autonomous Region of the PRC (中國內蒙古自治區烏蘭察布市四子王旗地區) (the "Phase I Siziwang Qi Wind Farm")

Phase I of Siziwang Qi Wind Farm, with a capacity of 49.5MW powered by 33 units of 1,500KW wind turbines. 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 pending the final connection to the grid and will commence trial running in 2010.

Upon Completion, HKNE will become a subsidiary of HKE. HKNE is currently, and will remain upon Completion as, a subsidiary of HKC.

### *HK Wind Power*

HK Wind Power's principal asset, as at the Latest Practicable Date, is a 29.75 MW capacity wind power generation plant at Mudanjiang, in Heilongjiang Province of the PRC (中國黑龍江省牡丹江) (the "Muling Wind Farm").

Muling Wind Farm, with a capacity of 29.75 MW powered by 35 units of 850KW wind turbines. The wind farm commenced full operations in September 2007, and is making steady revenue contributions.

Upon Completion, HK Wind Power will become a subsidiary of HKE. HK Wind Power is currently, and will remain upon Completion as, a subsidiary of HKC.

## LETTER FROM THE HKC BOARD

### *Asia Wind Power*

Asia Wind Power's principal asset, as at the Latest Practicable Date, is a 29.75 MW capacity wind power generation plant at Mudanjiang, in Heilongjiang Province of the PRC (中國黑龍江省牡丹江) (the "Mudanjiang Wind Farm").

Mudanjiang Wind Farm, with a capacity of 29.75 MW powered by 35 units of 850 KW wind turbines. The wind farm commenced full operations in September 2007, and is making steady revenue contributions.

Upon Completion, Asia Wind Power will become a subsidiary of HKE. Asia Wind Power is currently and will remain upon Completion as, a subsidiary of HKC.

### *LNE New Energy*

LNE New Energy's principal asset, as at the Latest Practicable Date, is a 25 MW waste-to-energy power plant at Linyi City in Shandong Province of the PRC (中國山東省臨沂市) (the "Linyi Waste-to-energy Power Plant").

The Linyi Waste-to-energy Power Plant, with a capacity of 25 MW generated by garbage handling of not less than 800 tonnes per day. It is estimated that the total waste treatment capacity may reach 900 tonnes per day (for 335 days) or 301,500 tonnes per annum. The plant commenced full operations in September 2007, and is making steady revenue contributions.

Upon Completion, LNE New Energy will become an associated company of HKE. LNE New Energy is currently, and will remain upon Completion as, an associated company of HKC.

### *HKEI*

HKEI has a subsidiary in the PRC located at Beijing serving headquarter relating investment strategy and sourcing new, high return wind farms. The subsidiary has a total of 19 employees.

Upon Completion, HKEI will become a subsidiary of HKE. HKEI is currently, and will remain upon Completion as, a subsidiary of HKC.

## FINANCIAL INFORMATION ON THE TARGET GROUP

The following financial information is extracted from the audited combined financial information on the Target Group contained in "Appendix II – Accountant's Reports of the Target Group" in the HKE Circular:

	<b>For the year ended</b>	
	<b>31 December</b>	
	<b>2009</b>	<b>2008</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net loss before income tax	(29,825)	(153,833)
Net loss after income tax	(29,825)	(153,834)



## LETTER FROM THE HKC BOARD

As of 31 December 2009, the audited combined net liability attributable to the equity holders of the Target Group was approximately HK\$154.3 million. Assuming that the Reorganisation had taken place on 31 December 2009, the Target Group is indebted to the HKC Group (excluding the HKE Group), and the rights and interests in the Loans (in the aggregate sum of approximately HK\$1,001.1 million as at 31 December 2009) will be assigned by the HKC Group (excluding the HKE Group) to HKE or its nominee pursuant to the Sale and Purchase Agreement.

### FINANCIAL INFORMATION ON THE HKE GROUP

The following financial information is extracted from the summary of financial information on the HKE Group for the last three financial years ended 31 December 2009 as contained in “APPENDIX I – FINANCIAL INFORMATION ON THE HKE GROUP” in the HKE Circular:

#### RESULTS

	<b>Year ended 31 December</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	10,609	13,877	654,010
Profit/(loss) before income tax	2,654	(101,670)	7,742
Income tax (expense)/credit	(14,336)	6,963	10,903
(Loss)/profit after income tax	(11,682)	(94,707)	18,645
(Loss)/profit for the year	(11,682)	(94,707)	228,462
(Loss)/profit attributable to equity holders of HKE	(10,431)	(89,720)	228,462

#### ASSETS AND LIABILITIES

	<b>As at 31 December</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Total assets	396,051	328,000	422,012
Total liabilities	89,037	5,276	24,566
Total equity	307,014	322,724	397,446
Equity attributable to equity holders of HKE	307,014	308,811	397,446

## LETTER FROM THE HKC BOARD

### FINANCIAL EFFECTS

As at the date of the Announcement, HKC held approximately 74.1% of the issued HKE Shares indirectly. It was expected that HKC would record a gain on the disposal of the Target Group of approximately HK\$48.3 million which would be recognised in the consolidated reserves of HKC. The expected gain was derived based on the difference between the Consideration and the Loans and the HKC Group's share of deficits on the equity of the Target Group, after taking into account the then 74.1% indirect holdings of HKC in the issued HKE Shares as mentioned above. The exact amount of gain may differ from the aforesaid figure and is dependent on, among other things, the Loans and the HKC Group's share of the net liability value of the subject assets (after taking into account the then percentage holdings of HKC in the issued HKE Shares) upon Completion.

The Bonus Share Issue was approved at the annual general meeting of HKE held on 1 June 2010 and a total of 77,733,834 HKE Shares were issued on 9 June 2010. As at the Latest Practicable Date, a total of 855,133,284 HKE Shares were in issue. The Distribution was also duly approved at the annual general meeting of HKC held on 1 June 2010. The certificates for the relevant HKE Shares subject to the Distribution were despatched on 23 June 2010. As a result, HKC's indirect percentage holdings of the issued HKE Shares was diluted from approximately 74.1% as at the date of the Announcement to approximately 59.3% on fully diluted basis as at the Latest Practicable Date. As shown in the unaudited pro forma consolidated balance sheet of the HKC Group in Appendix III to this circular, after taking into account the Bonus Share Issue and the Distribution and assuming that the Completion had taken place on 31 December 2009, the Acquisition would give rise to a gain on deemed disposal of the Target Group to the minority shareholders of HKE of approximately HK\$75.6 million recorded in the consolidated reserves of the HKC Group and a corresponding decrease of the same amount in the minority interests in respect of such deemed disposal. Accordingly, the Acquisition would not have any significant effect on the total assets and total liabilities of the HKC Group which stood at approximately HK\$20,042.6 million and HK\$6,638.7 million respectively as at 31 December 2009. The Acquisition would not, by itself, bring about any significant change in the earnings of the HKC Group as a whole since the Target Group will continue to be accounted for as an indirect subsidiary of HKC through HKE.

By further assuming that the 1,385,170,068 Convertible Preferred Shares were fully converted into equivalent number of new HKE Shares, HKC's indirect percentage holdings of the issued HKE Shares would be increased from approximately 59.3% to approximately 84.5% on a fully diluted basis, and a gain on dilution of approximately HK\$33.1 million would be recorded in the consolidated reserves of the HKC Group with a corresponding decrease of the same amount in the minority interests in respect of such dilution. The total assets, total liabilities and earnings of the HKC Group would not be significantly affected by the conversion of Convertible Preferred Shares as shown in Appendix III to this circular.

## LETTER FROM THE HKC BOARD

### REASONS FOR AND BENEFIT OF THE SALE AND PURCHASE AGREEMENT

The HKC Group is principally engaged in (i) property development and investment; (ii) alternative energy investment and management; (iii) infrastructure and construction. It is stated in the composite offer and response document of HKE dated 20 March 2008 that having regard to the substantial growth of the HKC Group's alternative energy businesses in recent years and their anticipated funding requirements, the HKC Directors considered that it was strategically appropriate to continue to develop the alternative energy businesses through a separate listed entity with alternative energy business as its principal business focus, and through which to secure long-term expansion funding. The HKC Directors consider that the Acquisition is in line with the long term strategy of the HKC Group and the terms of Acquisition are fair and reasonable and in the interest of HKC Shareholders as a whole.

The HKE Group is principally engaged in the alternative energy business and the legacy software development business. Operations of the HKE Group are mainly in the PRC. As set out in the Chairman's statement in HKE's 2009 annual report, HKE has begun its strategic transformation into a company focusing on the alternative energy business and becoming the flagship of the alternative energy business of the HKC Group. Since 2008, HKE has invested and continued to actively seek investment opportunities in the alternative energy sector. In addition, HKE is actively building a position in exploration and assessment of viable wind farm projects for potential future investment.

The mounting concerns on global warming and climate change have led leaders from different countries to seek and promote renewable energy as a solution. China, one of the largest carbon dioxide emitter in the world is under considerable international and domestic pressure to promote a cleaner and lower carbon based economy. The PRC government has already set ambitious targets in gearing itself towards a low carbon economy which include reducing the carbon intensity by 45% by 2020 compared to 2005 level; and increase the renewable energy in the fuel mix from the current 7% to 15% by 2020, to name but two. Most recently, leaders from the PRC government have re-emphasised the importance of reinforcing a sustainable commercial framework to promote further development of renewable energy industry in the National People's Congress and Chinese People's Political Consultative Conference meetings (held in March 2010). Notably, the dispatches of solar and wind power into transmission grid and appropriate feed-in tariffs for renewable power have received considerable support.

As a consequence, China presents an attractive business landscape to develop the renewable energy business. Among the renewable power generation options, wind is the most cost competitive and has attracted most investments. China has technically feasible potential wind power resources of 700GW to 1,200GW. At the end of 2009, total installed wind capacity was 25GW, a mere 2% of the total potential wind power resources. The government intends to raise the current wind installed capacity to 150 GW by 2020. In addition, consolidation of wind equipment manufacturers had led to a reduction in wind farm equipment prices by 15-20% during the last 18 months. All these factors are pointing towards a flourishing wind farm development business in the foreseeable future.

## LETTER FROM THE HKC BOARD

As far as HKC is concerned, the Target Company will change from an indirect wholly-owned subsidiary of HKC into an indirect non wholly-owned subsidiary of HKC through HKC's indirect interest in HKE. The overall effect of the Acquisition on the consolidated financial position of HKC is a net decrease/disposal of such percentage of its interests in the Target Company as equal to the percentage of HKE Shares held by the minority HKE Shareholders. As Convertible Preferred Shares are issued to HKEHL (or its nominee(s)), no proceeds will accrue to the HKC Group under the Sale and Purchase Agreement.

Through the Sale and Purchase Agreement and transactions contemplated under it, including conversion of the Convertible Preferred Shares from time to time resulting in indirect acquisition of new HKE Shares carrying voting rights, HKC will be able to continue to enjoy the success of the Target Group through the HKE Group.

### INFORMATION ON THE PARTIES TO THE SALE AND PURCHASE AGREEMENT

#### **The Vendor**

HKEHL is principally engaged in investment holding.

#### **The Purchaser**

The HKE Group is principally engaged in alternative energy business and software development business, and its operations of them are mainly in the PRC. HKE Circular contains the relevant information in the Sale and Purchase Agreement and transactions contemplated under it pursuant to the Listing Rules. As HKE will remain an indirect subsidiary of HKC and a member of the HKC Group after Completion, HKC Shareholders should refer to the HKE Circular for such information which includes, amongst other things, management discussions and analysis of the HKE Group as enlarged by the Acquisition, the audited financial information of HKE Group for the past three years ended 31 December 2007, 2008 and 2009, and further financial information on the Target Group and the HKE Group as enlarged by the Acquisition.

The ultimate holding company of HKE is HKC. The controlling shareholder of HKC is Mr. OEI Kang, Eric who is chief executive officer and executive director of HKC. The shareholdings of HKC and its associates (including Mr. OEI Kang, Eric and other HKC Directors) and the HKE Directors in HKE as at the Latest Practicable Date are set out in the section headed "Shareholding Structure of HKE" below.

#### **The Vendor Guarantor**

The HKC Group is principally engaged in property development and investment, alternative energy investment, infrastructure and construction.

## LETTER FROM THE HKC BOARD

### SHAREHOLDING STRUCTURE OF HKE

The shareholding structure of HKE (i) as at the Latest Practicable Date; (ii) immediately after Completion assuming no conversion of the Convertible Preferred Shares; (iii) immediately after Completion assuming full conversion of the Convertible Preferred Shares; (iv) immediately after Completion assuming full conversion of the Convertible Preferred Shares and all the convertible securities of HKE is and will be as follows for illustration purposes:

Shareholders	As at the Latest Practicable Date (Note 1)		Immediately after Completion assuming no conversion of the Convertible Preferred Shares		Immediately after Completion assuming full conversion of the Convertible Preferred Shares		Immediately after Completion assuming full conversion of the Convertible Preferred Shares and all the convertible securities of HKE (Note 2)	
	No. of HKE Shares		No. of HKE Shares		No. of HKE Shares		No. of HKE Shares	
		%		%		%		%
HKC and its associates	558,038,924	65.26	558,038,924	65.26	1,943,208,992	86.74	2,074,680,028	84.28
HKE Directors	440,000	0.05	440,000	0.05	440,000	0.02	8,734,992	0.35
Public HKE Shareholders	296,654,360	34.69	296,654,360	34.69	296,654,360	13.24	378,292,980	15.37
	<b>855,133,284</b>	<b>100.00</b>	<b>855,133,284</b>	<b>100.00</b>	<b>2,240,303,352</b>	<b>100.00</b>	<b>2,461,708,000</b>	<b>100.00</b>

*Notes:*

- The Bonus Share Issue was approved at the annual general meeting of HKE held on 1 June 2010 and a total of 77,733,834 HKE Shares were issued on 9 June 2010. Further, the Distribution was duly approved at the annual general meeting of HKC held on 1 June 2010. The certificates for the relevant HKE Shares subject to the Distribution were despatched on 23 June 2010. The Distribution was made to all the qualifying HKC Shareholders in proportion to their relative shareholdings in HKC, further details of which are set out in the announcements dated 22 March 2010 and 20 May 2010 and the circular dated 30 April 2010 of HKC. As at the Latest Practicable Date, a total of 855,133,284 HKE Shares were in issue.
- As at the Latest Practicable Date, convertible securities of HKE include (i) the outstanding bonus warrants that were issued by HKE on 14 May 2009 (warrant code: 748); (ii) the outstanding bonus warrants that were issued by HKE on 9 June 2010 (warrant code: 795); (iii) the convertible note issued by HKE to HKC carrying rights to convert into 72,932,034 HKE Shares; and (iv) the outstanding share options granted by HKE pursuant to its share option scheme adopted on 27 May 2008.
- References to HKE Shares held by HKC and its associates above include those HKE Shares held by HKC Directors as well as HKC and its wholly-owned subsidiaries.

## LETTER FROM THE HKC BOARD

### LISTING RULES IMPLICATIONS

As one of the applicable percentage ratios under Chapter 14 of the Listing Rules in relation to the Acquisition is more than 25% but all of them are less than 75%. The Acquisition constitutes a major transaction for HKC under Chapter 14 of the Listing Rules. Conversion of the Convertible Preferred Shares issued in connection with the Acquisition under the Sale and Purchase Agreement from time to time after Completion will result in acquisition of new HKE Shares by HKC indirectly on and subject to the terms of issue as set out above. Therefore, the Sale and Purchase Agreement and the transactions contemplated thereunder as a whole will be subject to the approval by the HKC Shareholders by way of poll at the HKC SGM pursuant to the Listing Rules.

No HKC Director has any material interest in the Sale and Purchase Agreement and the transactions contemplated under it, including the Acquisition and any conversion of the Convertible Preferred Shares from time to time.

HKE is a substantial shareholder of HKE (Danjinghe), which is an indirect non-wholly owned subsidiary of HKC as at the Latest Practicable Date. Accordingly, HKE is a connected person of HKC and the transactions contemplated under the Sale and Purchase Agreement also constitute connected transactions for HKC under Chapter 14A of the Listing Rules. HKC has applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements under Chapter 14A of the Listing Rules in respect of the Acquisition. Accordingly, the Acquisition is not subject to reporting, announcement and independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

No HKC Shareholder is required to abstain from voting at the HKC SGM under the Listing Rules, the bye-laws of HKC or the law.

### THE HKC SGM

A notice of the HKC SGM to be held at 9th Floor, Tower 1, South Seas Centre, 75 Mody Road, Tsimshatsui East, Kowloon, Hong Kong on Monday, 26 July 2010 at 11:30 a.m. (or so soon thereafter as the extraordinary general meeting of HKE convened at the same place and on the same date at 10:30 a.m. shall have been concluded or adjourned) is set out at the end of this circular.

If you are not able to attend the HKC SGM, you are requested to complete and return the form of proxy for the HKC SGM enclosed herewith in accordance with the instructions printed thereon to the principal place of business of HKC in Hong Kong at 9th Floor, Tower 1, South Seas Centre, 75 Mody Road, Tsimshatsui East, Kowloon, Hong Kong as soon as possible and in any event not less than forty-eight (48) hours before the time appointed for the holding of the HKC SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting at the HKC SGM or any adjournment thereof should you so wish.

## LETTER FROM THE HKC BOARD

### RECOMMENDATION

The HKC Board considers that the Sale and Purchase Agreement and the transactions contemplated therein are fair and reasonable and in the interest of HKC and the HKC Shareholders as a whole and recommends all HKC Shareholders to attend and vote at HKC SGM in favour of the ordinary resolution set out in the HKC SGM Notice set out at the end of this circular.

### ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the Appendices to this circular.

Yours faithfully,  
For and on behalf of the HKC Board  
**OEI Kang, Eric**  
*Executive Director and Chief Executive Officer*

**APPENDIX I FINANCIAL INFORMATION OF THE HKC GROUP**

**I. SUMMARY OF FINANCIAL INFORMATION**

The following is a summary of the consolidated financial information of the HKC Group for the three financial years ended 31 December 2007, 2008 and 2009, as extracted from the relevant annual reports of HKC, which are not subject to any qualified opinion of the auditors of HKC.

**CONSOLIDATED INCOME STATEMENT**

	<b>For the year ended 31 December</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
	<i>HK\$ Million</i>	<i>HK\$ Million</i>	<i>HK\$ Million</i>
<b>Revenue</b>	378.0	294.7	706.1
Cost of sales	(238.3)	(242.6)	(603.4)
<b>Gross profit</b>	139.7	52.1	102.7
Other income	143.8	900.1	574.4
Fair value adjustments on investment properties	1,085.4	(473.0)	536.8
Reversal of/(provision for) impairment losses on assets	403.0	(2,335.0)	(33.9)
Selling and distribution costs	(4.9)	(10.1)	–
Administrative expenses	(281.3)	(454.2)	(278.3)
Other and general expenses	(132.2)	(260.5)	(84.3)
<b>Operating profit/(loss)</b>	1,353.5	(2,580.6)	817.4
Finance income	11.1	63.2	81.4
Finance costs	(183.5)	(237.2)	(162.3)
Finance costs – net	(172.4)	(174.0)	(80.9)
Share of profits less losses of associated companies	44.2	(85.5)	33.7
Share of profits less losses of jointly controlled entities	810.9	(81.1)	(6.2)
Gain on disposal of associated companies	–	–	181.2
<b>Profit/(loss) before income tax</b>	2,036.2	(2,921.2)	945.2
Income tax (expense)/credit	(334.0)	111.5	(95.5)
<b>Profit/(loss) for the year</b>	1,702.2	(2,809.7)	849.7
<b>Attributable to:</b>			
Equity holders of HKC	1,456.7	(2,646.0)	834.6
Minority interest	245.5	(163.7)	15.1
	1,702.2	(2,809.7)	849.7
<b>Earnings/(loss) per share for profit/(loss) attributable to equity holders of HKC, expressed in HK cents per share</b>			
Basic ( <i>Note</i> )	15.9	(29.6)	14.3
Diluted ( <i>Note</i> )	15.6	(29.6)	14.2
Dividend	–	121.6	827.0

*Note:* The balances of previous years have been adjusted for bonus issue in 2009



<b>APPENDIX I</b>	<b>FINANCIAL INFORMATION OF THE HKC GROUP</b>
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**CONSOLIDATED BALANCE SHEET**

	<b>As at 31 December</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
	<i>HK\$ Million</i>	<i>HK\$ Million</i>	<i>HK\$ Million</i>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investment properties	6,944.3	2,827.4	2,922.2
Prepaid land lease payments	3,403.3	5,969.7	2,259.8
Property, plant and equipment			
– Other property, plant and equipment	861.3	937.1	921.0
– Construction in progress	482.3	160.3	820.4
Intangible assets	1,191.6	1,217.2	62.9
Properties under development	271.0	624.3	1,358.8
Interests in associated companies	1,520.9	1,233.1	1,014.1
Interests in jointly controlled entities	1,854.8	1,024.0	1,023.8
Derivative financial instrument	5.0	5.0	5.0
Available-for-sale financial assets	27.2	23.8	25.8
Other non-current receivables	–	–	37.0
	16,561.7	14,021.9	10,450.8
<b>Total non-current assets</b>	16,561.7	14,021.9	10,450.8
<b>Current assets</b>			
Inventories	12.9	43.2	–
Properties held for sale	491.4	9.1	7.1
Financial assets at fair value through profit or loss	75.2	391.4	93.3
Trade and other receivables	382.4	443.8	978.2
Restricted cash	309.0	674.9	1,508.9
Cash and cash equivalents	2,210.0	1,836.9	4,416.0
	3,480.9	3,399.3	7,003.5
<b>Total current assets</b>	3,480.9	3,399.3	7,003.5
<b>Total assets</b>	20,042.6	17,421.2	17,454.3

<b>APPENDIX I</b>	<b>FINANCIAL INFORMATION OF THE HKC GROUP</b>
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	<b>As at 31 December</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
	<i>HK\$ Million</i>	<i>HK\$ Million</i>	<i>HK\$ Million</i>
<b>EQUITY</b>			
<b>Capital and reserves attributable to equity holders of HKC</b>			
Share capital	93.9	82.5	82.2
Reserves	12,335.6	10,756.4	13,029.1
Proposed final and special dividends	—	—	283.7
	<hr/>	<hr/>	<hr/>
<b>Equity attributable to equity holders of HKC</b>	12,429.5	10,838.9	13,395.0
<b>Minority interest</b>	974.4	742.9	(9.6)
	<hr/>	<hr/>	<hr/>
<b>Total equity</b>	13,403.9	11,581.8	13,385.4
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<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	3,330.1	3,197.1	2,458.7
Other non-current payables	325.7	299.3	112.7
Deferred income tax liabilities	1,110.2	776.9	431.5
	<hr/>	<hr/>	<hr/>
<b>Total non-current liabilities</b>	4,766.0	4,273.3	3,002.9
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
<b>Current liabilities</b>			
Trade and other payables	1,033.7	1,154.6	720.6
Borrowings	466.2	399.0	330.5
Amount due to a shareholder	362.1	—	—
Current income tax liabilities	10.7	12.5	14.9
	<hr/>	<hr/>	<hr/>
<b>Total current liabilities</b>	1,872.7	1,566.1	1,066.0
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
<b>Total liabilities</b>	6,638.7	5,839.4	4,068.9
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
<b>Total equity and liabilities</b>	<u>20,042.6</u>	<u>17,421.2</u>	<u>17,454.3</u>
<b>Net current assets</b>	<u>1,608.2</u>	<u>1,833.2</u>	<u>5,937.5</u>
<b>Total assets less current liabilities</b>	<u>18,169.9</u>	<u>15,855.1</u>	<u>16,388.3</u>

**II. AUDITED CONSOLIDATED FINANCIAL INFORMATION OF THE HKC GROUP FOR THE YEAR ENDED 31 DECEMBER 2009**

The audited consolidated balance sheet as at 31 December 2009 together with notes to the annual financial statements for the year ended 31 December 2009 for the HKC Group, forming part of the audited financial statements of the HKC Group for such year and set out on pages 69 to 178 of the Annual Report 2009 published by HKC, are specifically incorporated by reference in, and form an integral part of, this circular. They are not subject to any qualified opinion of HKC's auditors.

These financial statements are publicly available free of charge on the Internet and may be accessed on the websites of the Stock Exchange at [www.hkex.com.hk](http://www.hkex.com.hk) and of HKC at [www.hkcholdings.com](http://www.hkcholdings.com) at least up to the date of the HKC SGM. The identical paper version of HKC's Annual Report 2009 is also part of the documents available for public inspection up to the date of the HKC SGM as set out in the section headed "9. Documents Available For Inspection" in Appendix V to this circular.

**III. INDEBTEDNESS OF THE HKC GROUP**

As at 5 May 2010, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the HKC Group had outstanding borrowings of approximately HK\$4,275.3 million, comprising secured bank loans of approximately HK\$3,365.5 million, unsecured loan from a shareholder of HK\$365.0 million, unsecured loans from minority shareholders of approximately HK\$385.9 million and other unsecured borrowings of approximately HK\$158.9 million. The HKC Group's bank loans were secured by charges over fixed assets, including investment properties, prepaid land lease payments, properties, plant and equipment with an aggregate carrying value of HK\$2,895.5 million, pledged deposits of HK\$196.8 million, right over certain revenue accounts, corporate guarantee from the HKC Group, pledge of shares of a subsidiary of HKC and a personal guarantee from a minority shareholder.

As at 5 May 2010, a jointly controlled entity, in which the HKC Group has 25% effective equity interest, had outstanding unsecured loans from shareholders of approximately HK\$568.8 million of which HK\$58.5 million was contributed from the HKC Group.

In addition, the HKC Group had contingent liabilities in the sum of RMB75.8 million (equivalent to approximately HK\$86.6 million) in respect of a further provision for housing facility fund relating to the HKC Group's investment property located in Shenzhen, the PRC pursuant to 〈深圳經濟特區住宅區物業管理條例〉 adopted on 1 November 1994. The amount has been assessed by management with reference to the legal opinion previously obtained. Management have requested relief from the relevant local government authorities on the grounds that certain amounts of maintenance costs were already spent for the purposes as specified under the requirement of housing facility fund, hence no provision for the fund is considered necessary.

As at 5 May 2010, HKC had provided guarantees against certain borrowings of its associated companies, which amounted to approximately HK\$1,007.0 million in aggregate.

Balances denominated in Renminbi have been translated into Hong Kong dollars based on the exchange rate of RMB1.00 to HK\$1.142.

Save as aforesaid and apart from intra-group liabilities, the HKC Group did not have any outstanding mortgages, charges, debenture or other loan capital or bank overdrafts, loans or other similar indebtedness or hire purchase commitments, liabilities under acceptances (other than normal trade bills) or acceptance credits or any guarantees or other material contingent liabilities as at 5 May 2010.

#### **IV. WORKING CAPITAL**

The HKC Directors are of the opinion that after taking into account the financial resources available to the HKC Group including its internally generated funds, the working capital available to the HKC Group is sufficient for the HKC Group's present requirements for at least the next 12 months from the date of this circular.

#### **V. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the HKC Board was not aware of any material adverse change in the financial or trading position of the HKC Group since 31 December 2009, the date to which the latest published audited consolidated financial statements of the HKC Group were made up.

#### **VI. MANAGEMENT DISCUSSION AND ANALYSIS**

The following review and outlook is extracted from HKC's Annual Report 2009:

##### **Financial review**

During the twelve months under review, turnover for the year ended 31 December 2009 amounted to HK\$378.0 million, an increase of 28.3% over turnover of HK\$294.7 million for 2008. Meanwhile, gross profit for the year of HK\$139.7 million also represented an increase over gross profit of HK\$52.1 million the previous year. Net profit attributable to equity holders of the Company amounted to HK\$1,456.7 million for the year under review, whereas net loss in 2008 was HK\$2,646.0 million. The turnaround in results for 2009 arose from the upturn in the property market in the Mainland China. Basic profit per share amounted to HK15.9 cents, compared with basic loss per share in 2008 of HK29.6 cents. HKC's book value per share rises to HK\$1.43 per share. Of this amount, cash and completed investment properties is HK\$0.60 per share. This compares to HKC's current share price of HK\$0.69 per share.

*Liquidity and financial resources*

As at 31 December 2009, the Group's total borrowings (excluded loans from minority shareholders) amounted to HK\$3,774.2 million, representing a rise of 17.5% when compared with the equivalent figure of HK\$3,211.0 million as at 31 December 2008. Total borrowings as at 31 December 2009 included Hong Kong Dollar borrowings of HK\$418.8 million (2008: HK\$59.8 million) and Renminbi borrowings equivalent to HK\$3,355.4 million (2008: HK\$3,151.2 million).

The maturity dates for most of the Group's outstanding borrowings are spread over the next five years, with HK\$828.3 million repayable within one year or on demand, HK\$1,244.9 million repayable within two to five years, and HK\$1,701.0 million repayable after five years.

All of the Group's outstanding borrowings take the form of interest-bearing loans, with interest rates fixed at market prices.

As at 31 December 2009, the Group had restricted deposits of HK\$309.0 million (2008: HK\$674.9 million) and unrestricted cash and cash equivalents amounting to HK\$2,210.0 million (2008: HK\$1,836.9 million).

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

The Group will continue its efforts to create an optimum financial structure that best reflects the long-term interests of its shareholders, and will actively consider a variety of alternative sources of funding to finance future investments.

*Details of charges in group assets*

During the year under review, the Group and certain of its subsidiaries had charged certain properties worth HK\$2,537.0 million (2008: HK\$2,339.6 million) as security for bank and other loans.

*Gearing ratio*

The Group's gearing ratio as at 31 December 2009 was 9.4%, compared with approximately 6% as at 31 December 2008. This ratio represents total borrowings (excluding loans from minority shareholders) less cash and cash equivalents (including restricted cash) divided by total equity.

*Contingent liabilities*

The Group had contingent liabilities in respect of a housing facility fund for a property held in the PRC. Details are set out in Note 41 to the consolidated financial statements (as set out in the Annual Report 2009 of HKC).

**Business review***Property investment, development and management*

The Group holds a property investment portfolio made up of premium commercial and residential developments in Shenzhen, Guangzhou and Beijing. These continue to provide the Group with a steady stream of rental revenue across the year.

The Group disposed of some of its non-core investment properties in 2009, such as offices in Shun Hing Square in Shenzhen and its equity interest in Yangpu Jinggang Real Estate Company Limited.

*Shanghai*

Shanghai continues to benefit from strong government support. According to a document issued by the State Council on 29 April 2009, the central government plans to establish Shanghai as an international financial centre and shipping hub by 2020. Meanwhile, Shanghai's industrial and service sectors continue to grow. For example, in 2009, the government approved China's first Disneyland to be built in Shanghai. The government have also announced that Shanghai will be the assembling and manufacturing centre of China's homegrown ARJ21 regional civil jet and C919 large civil jet.

In the first half of 2009, Shanghai suffered from weak demand, with high office vacancy rates. Since then, given an improved economy, vacancy rates have dropped and rents have stabilized. Given the improved outlook for the Shanghai economy, prices for land increased sharply. In 2009, HKC commenced piling work on its North Bund property, and is currently doing work on the diaphragm walls. We have also modified the design to increase the office area by 14% while decreasing the hotel area by 46%.

Meanwhile, for the Sichuan North Road development, we are discussing with the Shanghai government to increase the height limit on our project. This new plan would provide better views, increase efficiency and enhance the value of the development. We have committed to begin construction of this project in 2010.

*Tianjin*

The Tianjin residential market improved significantly in 2009, benefitting in particular from the completion of the high speed railroad connecting Tianjin with Beijing. Overall, prices for all residential properties in the Nankai District, where HKC's property is located, increased about 60% from the trough. Prices for low-rise buildings increased even more sharply, with low-rise buildings now selling around RMB35,000 per sq.m..

In December 2009, the Group held a ground-breaking ceremony for its South Hongqi Road project, Tianjin. Located at a premium site surrounded by Water Park, Tianjin Olympic Centre as well as Nancuiping Park, the Project has a planned above-ground GFA of 150,000 sq.m., of which 75%, or 112,500 sq.m. is attributable to the Group. We estimate that we will launch sales in the second half of 2010.

Prices for suburban Tianjin villas have also recovered, and are now at historical highs. This bodes well for our Tianjin Tuanbo Lake project. We target to begin construction in 2011.

#### *Nanxun*

The Group has completed the construction of its centralized site for suppliers of furniture and building materials in Huzhou City. The complex stands on a 207,628 sq.m. site in the Nanxun Economic Development District in Huzhou City, Zhejiang Province.

We are coordinating our launch of sales with an expected order from the government to close down a nearby old trading center. Once the market understands that this competing government market will be closed down, demand for our complex will increase substantially. We anticipate that our formal sales launch will begin in May 2010.

#### *Jiangmen*

The Group is developing a site in Jiangmen. This site is in close proximity to a newly developed light rail station, and is situated within walking distance to Jiangmen's main ferry terminal to Hong Kong, and is directly along the river bank – as such many of the apartments to be developed will have excellent water views. Moreover, tolls have been eliminated on a bridge that connects the opposite river bank to our site. Given property prices on the other side are higher than on HKC's site, HKC should benefit. The Group is actively preparing to commence the project which includes low-rise villas and high-rise buildings. The total GFA will be approximately 189,110 sq.m..

#### *Shenyang*

The Shenyang residential market has also staged a sharp turnaround, with average prices rising from the trough in December 2008. This trend will benefit the Group's residential project in Ningbo Road. The Group anticipates construction to begin in 2010 for both its residential and commercial projects.

#### *Shenzhen*

The Shenzhen property market has made a major turnaround in 2010, with the residential market showing a major increase in price.

Rental income in our Shenzhen properties increased by 34% in 2009. The increase in rental income was a result of higher occupancy rates, an increase in the average rental rate, and an improved macroeconomic environment.

The Group has channelled new investment in the alternative energy businesses through Hong Kong Energy (Holdings) Limited (“HKE”), a subsidiary company listed on the Main Board of The Stock Exchange of Hong Kong Limited, making HKE the principal vehicle for wind power projects. This strategic move will help secure long-term funding for expanding and developing high-potential projects.

The Group’s Danjinghe wind farm in Hebei Province is performing significantly better than expected, generating 85 million KWh of electricity in 2009, about 10 million KWh more than initially projected. Phase 2 was completed on schedule, while Phase 3 was completed 12 months ahead of schedule. The entire project was completed within budget, and clearly demonstrates our execution abilities.

Meanwhile, in Gansu Province, all 134 wind turbines of the Group’s 201 MW wind farm in Changma have been installed by September 2009, 6 months ahead of schedule. With the success of grid-interconnection, commissioning of the entire wind farm has been commenced and full commercial operation is expected in the third quarter of 2010, a full year ahead of the original plan.

Both wind farms in Danjinghe and Changma are joint ventures between HKC and China Energy Conservation Investment Corporation (“CECIC”), a leading stated-owned enterprise focused in energy conservation and environmental protection.

Another 50 MW wind power project wholly-owned by the Group was under construction in Siziwang Qi area of Inner Mongolia in the PRC.

Completed in 2008, the wind power plant in Mudanjiang, Heilongjiang Province was in full operation and has been generating steady revenue.

Another alternative energy project under the wing of HKC is the Group’s waste-to-energy plant, a joint venture with CECIC. Located in Shandong, China, the 25 MW capacity plant has begun operation and is generating revenue. The Group owns a 40% share, and CECIC owns the remaining 60%. Besides earning revenue from the generation of electricity, the plant is also earning revenue from fees for garbage treatment from the Linyi municipal government, trading within the Clean Development Mechanism, and the sale of ash-based materials.



**APPENDIX I FINANCIAL INFORMATION OF THE HKC GROUP**

Alternative energy projects under HKC and HKE are listed out below:

Wind farm projects	Capacity (MW)		Target Construction Completion date	Ownership			Location
	Total	Attributable		Entity	% ownership	JV partner	
Danjinghe - Phase I, II, III	200.0	60.0	Q1 09/Q4 09/ Q4 09	HKC	30%	CECIC	Hebei
Changma Phase I	201.0	80.4	2010	HKC	40%	CECIC	Gansu
Mudanjiang Phase I	29.8	25.6	In operation	HKC	86%	Jixi Power	Heilongjiang
Mudanjiang Phase II	29.8	25.8	In operation	HKC	87%	Jixi Power	Heilongjiang
Siziwang Qi Phase I	49.5	49.5	Q4 2009/Q1 2010	HKC	100%	n.a.	Inner Mongolia
Siziwang Qi Phase II	49.5	49.5	2010	HKE	100%	n.a.	Inner Mongolia
Lunaobao	100.5	30.2	2010	HKE	30%	CECIC	Hebei
Danjinghe - Phase I, II, III	200.0	20.0	Q1 09/Q4 09/ Q4 09	HKE	10%	CECIC	Hebei
TOTAL		<u>341.0</u>					

*Infrastructure*

Located in the Yangpu Economic Development Zone in Hainan, the Group's water supply plant continued to generate good returns. The plant is the sole supplier of raw water for industrial use in the area, so remains in an excellent position for achieving recurring long-term revenues.

The Group's Build-Operate-Transfer ("BOT") toll road project in Guilin, linking up with China's Western Expressway, has been in full operation in 2009. The traffic flow has been steadily increasing this year, particularly as the government has been supportive in diverting drivers to use the highway. As the economy rebounds, and as travelers become more accustomed to the new highway, traffic volumes on the toll road are expected to rise.

### *Construction*

The Group is carrying out drainage improvements in the Tuen Mun and Sham Tseng areas of Hong Kong, under a contract from the Drainage Services Department of the HKSAR government worth approximately HK\$68.3 million. The contract is to complete in 2010.

### **Outlook**

#### *Property investment, development and management*

For 2010, the Group intends to focus its efforts on completing its range of existing projects. Land acquisition will be a lower priority. However, the Group's strong financial position means that it can remain open to acquiring properties at good prices, should such opportunities arise. At the same time, the Group may sell some of its non core properties if a high sales price can be achieved.

For 2010, the Group is looking to launch sales in Nanxun, after the government announces the closure of a nearby trading complex. The Group will also launch presales of our Tianjin Hongqi Road and Jiangmen projects. The Tianjin project will consist of villas ranging in size from 250 sq.m. to 290 sq.m. and apartment blocks ranging in size from 170 sq.m. to 270 sq.m. The Group will also launch construction of its Shanghai Sichuan North Road and Shenyang Ningbo Road project in 2010.

#### *Alternative energy*

Phases 2 and 3 of the Danjinghe wind farm are scheduled to begin commercial operation in the second quarter of 2010, with Phase 3 almost a year ahead of schedule. The 80 MW Phase 2 consists of one hundred 800 KW wind turbines while the 79.5 MW Phase 3 portion consists of fifty-three 1.5 MW turbines. The high quality of the wind, as reflected in the Phase 1 data, suggests that Phases 2 and 3 would also be successful.

Phase 1 of the Siziwangqi wind farm in Inner Mongolia is also scheduled to begin commercial cooperation in mid 2010; and the Changma wind farm is scheduled to go into operation in mid 2010.

In addition, the Group, via HKE has a considerable pipeline of wind farm projects. HKC and HKE anticipates having a gross capacity of over 1,600 MW by 2014. For 2010, the Group will explore plans and their feasibilities to transfer alternative energy assets into HKE. Through this injection, we believe the market may be better able to separately value the windpower assets and investors in HKC may therefore be able to see the true value of these assets.

*Employees*

As at the end of December 2009, the Group's operations in Hong Kong and the Mainland China employed a total of approximately 760 employees. All employees are remunerated according to the nature of their jobs, their individual performances, the Group's overall performance, and prevailing marketing conditions.

**1. FINANCIAL INFORMATION OF THE HKE GROUP**

The audited financial statements of the HKE Group for the last three years ended 31 December 2007, 2008 and 2009 including the relevant notes as set out on pages 51 to 113 of HKE's Annual Report 2008 and pages 52 to 117 of HKE's Annual Report 2009 are specifically incorporated by reference in, and form an integral part of, this circular. The audited financial statements of HKE Group for the last three financial years ended 31 December 2007, 2008 and 2009 are not subject to any qualified opinion of HKE's auditors.

The Annual Reports 2008 and 2009 published by HKE containing the above financial information and the relevant reports of HKE's auditors are publicly available free of charge on the Internet and may be accessed on the websites of the Stock Exchange at [www.hkex.com.hk](http://www.hkex.com.hk) and of HKE at [www.hkenegy.com](http://www.hkenegy.com) at least up to the date of the HKC SGM. The identical paper version of HKE's Annual Reports 2008 and 2009 are also part of the documents available for public inspection up to the date of the HKC SGM as set out in the section headed "10. Documents Available For Inspection" in Appendix V to this circular.

**2. REVIEW OF THE HKE GROUP AS EXTRACTED FROM THE ANNUAL REPORT 2009 OF HKE**

**FINANCIAL REVIEW**

For the year ended 31st December 2009, the turnover for Hong Kong Energy (Holdings) Limited ("HKE" or "the HKE", with its subsidiary companies, collectively, the "HKE 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 HKE 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 HKE 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 HKE 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 HKE 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 and details are disclosed in Note 24 to the consolidated financial statements (as set out in the Annual Report 2009 of HKE).

The HKE Group's unrestricted cash and cash equivalents was 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 HKE 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 expenditures became ineffective. New contract terms and conditions were made to allow the HKE Group controlling the incurring time. For future projects, the HKE Group will first rely on its internal sources and will actively seek bank financing to fund its future capital expenditure commitments. The HKE Group's parent company, HKC, will also provide financial support whenever necessary.

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

### **Details of Charges in HKE Group Assets**

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

### **Gearing Ratio**

As at 31st December 2009, the HKE Group maintained a net cash position of HK\$96.22 million as compared to HK\$289.10 million in 2008. It represented the HKE 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 HKE 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 HKE 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 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 HKE 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. As at 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 HKE Group's ability to source new, high return wind farms and improved HKE's awareness to the investor community. The HKE 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 HKE 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 HKE 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 Danjinghe 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 HKE 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 provisional government, the HKE 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 HKE Group is also exploring other potential wind farm locations in the south-western part of PRC.

The HKE Group will also actively seek strategic partnerships with the aim to strengthen HKE's capital base and to enhance the HKE 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 HKE Group's operations in Hong Kong and mainland China employed a total of 66 employees. The HKE 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 HKE Group's overall performance, and the prevailing marketing conditions.

APPENDIX III	UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE HKC GROUP
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**A. UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET OF THE HKC GROUP**

**Introduction**

The following unaudited pro forma consolidated balance sheet of the HKC Group (“Unaudited Pro Forma Financial Information”) has been prepared on the basis of the notes set out below for the purpose of illustrating the effects of the Acquisition, the Bonus Share Issue, the Distribution and the full conversion of the Convertible Preferred Shares to be issued in connection with the Acquisition (collectively the “Transactions”) as if they had taken place on 31 December 2009.

The Unaudited Pro Forma Financial Information has been prepared for illustrative purpose only and because of its hypothetical nature, it may not give a true picture of the financial position of the HKC Group had the Transactions been completed as at 31 December 2009 or at any future dates.

	Pro forma adjustments			
Unadjusted consolidated balance sheet of the HKC Group as at 31 December 2009 <i>HK\$ Million</i> <i>(Note 1)</i>	Adjustment on the Bonus Share Issue and the Distribution <i>HK\$ Million</i> <i>(Note 2)</i>	Adjustment on the Acquisition <i>HK\$ Million</i> <i>(Note 3)</i>	Adjustment on the full conversion of Convertible Preferred Shares <i>HK\$ Million</i> <i>(Note 4)</i>	Unaudited pro forma consolidated balance sheet of the HKC Group as at 31 December 2009 <i>HK\$ Million</i>
<b>ASSETS</b>				
<b>Non-current assets</b>				
Investment properties	6,944.3			6,944.3
Prepaid land lease payments	3,403.3			3,403.3
Property, plant and equipment				
– Other property, plant and equipment	861.3			861.3
– Construction in progress	482.3			482.3
Intangible assets	1,191.6			1,191.6
Properties under development	271.0			271.0
Interests in associated companies	1,520.9			1,520.9
Interests in jointly controlled entities	1,854.8			1,854.8
Derivative financial instrument	5.0			5.0
Available-for-sale financial assets	27.2			27.2
	16,561.7			16,561.7
<b>Total non-current assets</b>	16,561.7			16,561.7
<b>Current assets</b>				
Inventories	12.9			12.9
Properties held for sale	491.4			491.4
Financial assets at fair value through profit or loss	75.2			75.2
Trade and other receivables	382.4			382.4
Restricted cash	309.0			309.0
Cash and cash equivalents	2,210.0			2,210.0
	3,480.9			3,480.9
<b>Total current assets</b>	3,480.9			3,480.9
<b>Total assets</b>	20,042.6			20,042.6

	Unadjusted consolidated balance sheet of the HKC Group as at 31 December 2009 <i>HK\$ Million</i> <i>(Note 1)</i>	Pro forma adjustments			Unaudited pro forma consolidated balance sheet of the HKC Group as at 31 December 2009 <i>HK\$ Million</i>
		Adjustment on the Bonus Share Issue and the Distribution <i>HK\$ Million</i> <i>(Note 2)</i>	Adjustment on the Acquisition <i>HK\$ Million</i> <i>(Note 3)</i>	Adjustment on the full conversion of Convertible Preferred Shares <i>HK\$ Million</i> <i>(Note 4)</i>	
<b>EQUITY</b>					
<b>Capital and reserves attributable to the equity holders of HKC</b>					
Share capital	93.9				93.9
Reserves	12,335.6	(44.4)	75.6	33.1	12,399.9
<b>Equity attributable to equity holders of HKC</b>	<b>12,429.5</b>				<b>12,493.8</b>
Minority interest	974.4	44.4	(75.6)	(33.1)	910.1
<b>Total equity</b>	<b>13,403.9</b>				<b>13,403.9</b>
<b>LIABILITIES</b>					
<b>Non-current liabilities</b>					
Borrowings	3,330.1				3,330.1
Other non-current payables	325.7				325.7
Deferred income tax liabilities	1,110.2				1,110.2
<b>Total non-current liabilities</b>	<b>4,766.0</b>				<b>4,766.0</b>
<b>Current liabilities</b>					
Trade and other payables	1,033.7				1,033.7
Borrowings	466.2				466.2
Amount due to a shareholder	362.1				362.1
Current income tax liabilities	10.7				10.7
<b>Total current liabilities</b>	<b>1,872.7</b>				<b>1,872.7</b>
<b>Total liabilities</b>	<b>6,638.7</b>				<b>6,638.7</b>
<b>Total equity and liabilities</b>	<b>20,042.6</b>				<b>20,042.6</b>

*Notes:*

- The unadjusted consolidated balance sheet of the HKC Group is extracted from the published annual report of HKC for the year ended 31 December 2009.
- The adjustment relates to the issue of bonus shares by HKE as announced by HKE on 22 March 2010 and the distribution of certain HKE shares, bonus warrants and bonus shares held by HKC to the qualifying HKC shareholders as announced by HKC on 22 March 2010. As these transactions have significant impacts on the calculation of the minority interest, the directors of HKC are of the opinion that without taking account of these transactions, the Unaudited Pro Forma Financial Information would be misleading. Therefore, the effects of these transactions have also been considered in the pro forma adjustments as if they had taken place on 31 December 2009.

As disclosed in the circular dated 30 April 2010 of HKE, the directors of HKE proposed to issue the bonus shares on the basis of one bonus share for every ten shares held. Upon getting approval from the shareholders on 1 June 2010, HKE issued a total of 77,733,834 new HKE Shares on 9 June 2010 as bonus shares to its shareholders.

As disclosed in the circular dated 30 April 2010 of HKC, the directors of HKC proposed to distribute certain HKE shares, bonus warrants and bonus shares held by HKC to the qualifying HKC Shareholders (the "Distributions"). The Distributions were approved by the shareholders of HKC on 1 June 2010, resulting in a decrease of equity interest of HKE held by HKC from approximately 74.1% as at 31 December 2009 to approximately 59.3%. Accordingly, the minority interest has been increased approximately by HK\$44.4 million upon the completion of the Distributions.

3. The adjustment relates to the deemed disposal of the alternative energy business from HKC to HKE pursuant to the Sale and Purchase Agreement.

The consideration of the Acquisition of HK\$1,018.1 million, after taking into account of the aggregate loans (approximately HK\$1,001.1 million) to be assigned to HKE, is higher than the book value of the alternative energy business by approximately HK\$185.7 million and approximately HK\$75.6 million was credited to the consolidated reserves and a corresponding decrease of the same amount in the minority interest was charged in respect of the deemed disposal.

Hong Kong Financial Reporting Standard ("HKFRS") 3 (Revised) "Business Combinations" is effective for business combinations for which the acquisition date is for accounting periods beginning on or after 1 July 2009. The Acquisition will be completed in 2010 and hence for the purpose of the preparation of the Unaudited Pro Forma Financial Information, it is assumed that the HKC Group has adopted HKFRS 3 (Revised).

4. The adjustment represents the consideration of the Acquisition of 1,385,170,068 Convertible Preferred Shares to be fully converted by HKC on 31 December 2009. Assuming a full conversion of the Convertible Preferred Shares, HKC's equity interest in HKE will increase from 59.3% as disclosed in Note 2 above to 84.5%. The minority interest will decrease by HK\$33.1 million.

Pursuant to the Sale and Purchase Agreement, no conversion shall take place if and to the extent that, immediately following the conversion, HKE will be unable to meet the public float requirement under the Listing Rules. For the purpose of the Unaudited Pro Forma Financial Information, the impact on this term has not been taken into consideration.

5. Since the equity interest of HKE held by HKC at the Completion date and the conversion date may be substantially different from the figures used in preparing this Unaudited Pro Forma Financial Information, the impact on minority interest and consolidated reserves at the Completion date and the conversion date may be different from the amounts presented above and the differences may be significant.
6. Apart from the Transactions, no other adjustment has been made to the Unaudited Pro Forma Financial Information to reflect any trading results or other transactions entered into by the HKC Group subsequent to 31 December 2009.

*The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.*



羅兵咸永道會計師事務所

**PricewaterhouseCoopers**  
22nd Floor, Prince's Building  
Central, Hong Kong

**ACCOUNTANT'S REPORT ON UNAUDITED PRO FORMA FINANCIAL  
INFORMATION  
TO THE DIRECTORS OF HKC (HOLDINGS) LIMITED**

We report on the unaudited pro forma financial information set out on pages III-1 to III-3 under the heading of "Unaudited Pro Forma Financial Information of the HKC Group" (the "Unaudited Pro Forma Financial Information") in Appendix III of the circular dated 30 June 2010 (the "Circular") of HKC (Holdings) Limited (the "Company"), in connection with the sale of HKE (BVI) Limited, a wholly owned subsidiary of the Company, and its underlying alternative energy business to Hong Kong Energy (Holdings) Limited, also a subsidiary of the Company (the "Transaction"). The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the Transaction might have affected the relevant financial information of the Company and its subsidiaries (hereinafter collectively referred to as the "Group"). The basis of preparation of the Unaudited Pro Forma Financial Information is set out on pages III-1 to III-3 of the Circular.

**Respective Responsibilities of Directors of the Company and the Reporting Accountant**

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

**Basis of Opinion**

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted consolidated balance sheet of the Group as at 31 December 2009 as set out in the “Unaudited Pro forma Financial Information of the HKC Group” section of this circular with the audited financial statements of the Company for the year ended 31 December 2009 as set out in the 2009 annual report of the Company, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 31 December 2009 or any future date.

**Opinion**

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

**PricewaterhouseCoopers**  
*Certified Public Accountants*

Hong Kong, 30 June 2010

*The following is the text of a letter prepared for the purpose of incorporation in this circular received from BMI Appraisals Limited, an independent valuer, in connection with its valuation as at 31 March 2010 of the market value of the Target Group to be acquired by Hong Kong Energy (Holdings) Limited.*

## **BMI APPRAISALS**

BMI Appraisals Limited 中和邦盟評估有限公司

Suite 11-18, 31/F., Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong  
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30 June 2010

The Directors  
**HKC (Holdings) Limited**  
9th Floor, Tower 1, South Seas Centre  
No. 75 Mody Road, Tsim Sha Tsui East  
Kowloon, Hong Kong

The Directors  
**Hong Kong Energy (Holdings) Limited**  
9th Floor, Tower 1, South Seas Centre  
No. 75 Mody Road, Tsim Sha Tsui East  
Kowloon, Hong Kong

Dear Sirs,

### **INSTRUCTIONS**

We refer to the instructions from HKC (Holdings) Limited and Hong Kong Energy (Holdings) Limited (together referred to as the “Companies”) for us to provide our opinion on the market value of the group (referred to as the “Target Group”) in relation to the following company groups as at 31 March 2010:

- (i) A 100% equity interest in HKE (Gansu) Wind Power Limited
- (ii) A 75% equity interest in HKE (Danjinghe) Wind Power Limited
- (iii) A 100% equity interest in Wealthland Group Limited
- (iv) A 100% equity interest in Sinoriver International Limited
- (v) A 100% equity interest in Eden Investment Group Limited

This report describes the background of the Target Group, the basis of valuation and assumptions, explains the valuation methodology utilized and presents our conclusion of value.

**BASIS OF VALUATION**

We have conducted our valuation in accordance with the Business Valuation Standards published by the Hong Kong Business Valuation Forum in 2005. Our valuation has been carried out on the basis of market value. Market value is defined as *“the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion”*.

**DATE OF VALUATION**

We have been instructed by the Companies to value the Target Group as at the date of valuation on 31 March 2010. The date of valuation is the specific point of time as of which our opinion of value applies. As markets and market conditions may change, the estimated value may be inaccurate or inappropriate at another time. The valuation amount will reflect the actual market status and circumstances as at the date of valuation, not as at either a past or future date.

**BACKGROUND OF THE TARGET GROUP**

The principal assets of the Target Group are the following six companies ((i) – (v) referred to as the “Appraised Wind Power Companies”, (vi) referred to as the “Appraised Waste-To-Energy Company”, together referred to as the “Appraised Companies”).

- (i) A 40% equity interest in 中節能港建(甘肅)風力發電有限公司 (CECIC HKC (Gansu) Wind Power Co., Ltd.) (referred to as “CECIC HKCG”)
- (ii) A 30% equity interest in 中節能港建風力發電(張北)有限公司 (CECIC HKC Wind Power Co., Ltd.) (referred to as “CECIC HKC Wind Power”)
- (iii) A 100% equity interest in 港建新能源四子王旗風能有限公司 (Hong Kong New Energy Si Zi Wang Qi Wind Power Ltd.) (referred to as “HKNE”)
- (iv) A 86.68% equity interest in 香港風力發電(穆稜)有限公司 (Hong Kong Wind Power (Muling) Co., Ltd.) (referred to as “HK Wind Power”)
- (v) A 86% equity interest in 亞洲風力發電(牡丹江)有限公司 (Asia Wind Power (Mudanjiang) Co., Ltd.) (referred to as “Asia Wind Power”)
- (vi) A 40% equity interest in 臨沂中環新能源有限公司 (Linyi National Environmental New Energy Co., Ltd.) (referred to as “LNE New Energy”)

HKE (Gansu) Wind Power Limited owns a 40% equity interest in CECIC HKCG. HKE (Danjinghe) Wind Power Limited owns a 40% equity interest in CECIC HKC Wind Power. Wealthland Group Limited owns a 100% equity interest in HKNE. Sinoriver International Limited owns a 86.68% equity interest in HK Wind Power and a 86% equity interest in Asia Wind Power. Eden Investment Group Limited owns a 40% equity interest in LNE New Energy.



Details of the Appraised Companies are as below:

**CECIC HKC (Gansu) Wind Power Co., Ltd.**

CECIC HKC (Gansu) Wind Power Co., Ltd.'s principal asset is a 201 MW capacity wind power generation plant (the "Changma Wind Farm") at Changma, in Gansu Province of the People's Republic of China (the "PRC").

Changma Wind Farm, with a capacity of 201 MW powered by 134 units of 1,500 KW wind turbines, has been installed by September 2009. With the success of grid-interconnection, commissioning of the entire wind farm has been commenced and full commercial operation is expected in the third quarter of 2010.

**CECIC HKC Wind Power Co., Ltd.**

CECIC HKC Wind Power Co., Ltd.'s principal asset is a 200 MW capacity wind power generation plant (the "Danjinghe Wind Farm") covering an area of approximately 103 sq.km. at Danjinghe, Zhangbei, in Hebei Province of the PRC. Danjinghe Wind Farm is located approximately 300 km north of Beijing, in an area where wind resources are available due to its geographical and climate conditions. Its location is close to Beijing and other major cities in the region where demand for energy is high. Danjinghe Wind Farm is part of a major wind farm designated by the National Development and Reform Council (NDRC).

Phase 1 of Danjinghe Wind Farm, with a capacity of 40.5 MW powered by 54 units of 750 KW wind turbines, commenced commissioning in March 2009. Based on the latest available information, this phase had guaranteed to generate approximately 85 million KWh of electricity in 2009, with approximately 10 million KWh more than initially planned.

Construction for Phase 2 and Phase 3 of Danjinghe Wind Farm is ahead of schedule and the commercial operation of which is scheduled to commence in 2010. The 80.0 MW Phase 2 portion consists of 100 units of 800 KW wind turbines, while the 79.5 MW Phase 3 consists of 53 units of 1.5 MW wind turbines.

Danjinghe Wind Farm, upon completion of all 3 phases, is projected to have a total capacity to generate electricity of 438.6 million KWh and electricity tariff will be at an estimated rate of RMB0.5006 per KWh upon connection of the wind farm into power grids.

**Hong Kong New Energy Si Zi Wang Qi Wind Power Ltd.**

Hong Kong New Energy Si Zi Wang Qi Wind Power Ltd.'s principal asset is a 49.5 MW capacity wind power generation plant at Siziwang Qi, in Inner Mongolia Province of the PRC (the "Phase I Siziwang Qi Wind Farm").

The Phase I Siziwang Qi Wind Farm has a capacity of 49.5 MW powered by 33 units of 1,500 KW wind turbines. This 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 pending the final connection to the grid and have commenced trial running in early 2010.

**Hong Kong Wind Power (Muling) Co., Ltd.**

Hong Kong Wind Power (Muling) Co., Ltd.'s principal asset is a 29.75 MW capacity wind power generation plant at Mudanjiang, in Heilongjiang Province of the PRC (the "Muling Wind Farm").

The Muling Wind Farm has a capacity of 29.75 MW powered by 35 units of 850 KW wind turbines. This wind farm commenced full operations in September 2007, and is making steady revenue contributions.

**Asia Wind Power (Mudanjiang) Co., Ltd.**

Asia Wind Power (Mudanjiang) Co., Ltd.'s principal asset, as at the Latest Practicable Date, is a 29.75 MW capacity wind power generation plant at Mudanjiang, in Heilongjiang Province of the PRC (the "Mudanjiang Wind Farm").

The Mudanjiang Wind Farm has a capacity of 29.75 MW powered by 35 units of 850 KW wind turbines. This wind farm commenced full operations in September 2007, and is making steady revenue contributions.

**Linyi National Environmental New Energy Co., Ltd.**

Linyi National Environmental New Energy Co., Ltd.'s principal asset is a 25 MW waste-to-energy power plant in Shandong Province of the PRC (the "Linyi Waste-To-Energy Power Plant").

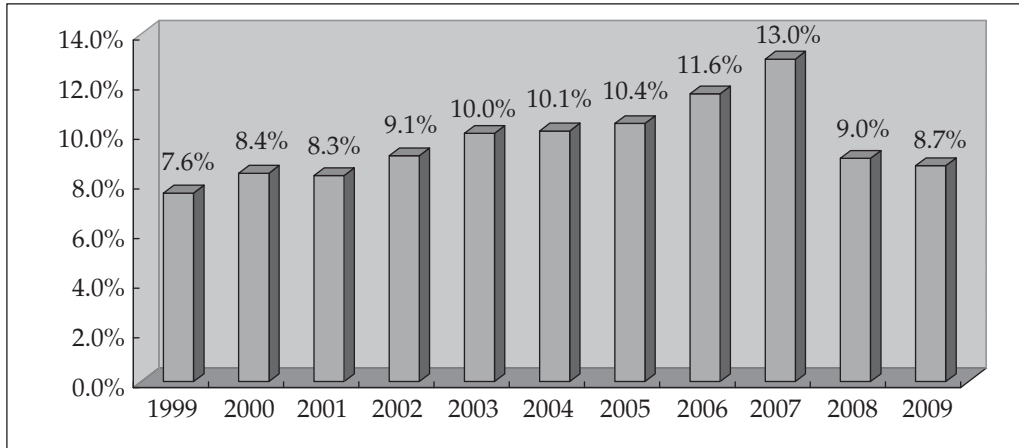
The Linyi Waste-To-Energy Power Plant has a capacity of 25 MW generated by garbage handling of 900 tonnes per day. The plant commenced full operations in September 2007, and is making steady revenue contributions.

**BRIEF INDUSTRY OVERVIEW**

**The PRC Economy Overview**

According to National Bureau of Statistics (國家統計局), an agency in charge of statistics and economic accounting in the PRC, the GDP of the PRC in year 2009 was RMB33,535.3 billion, up by 8.7% over the previous year. Analyzed by different industries, the added value of the primary industry was RMB3,547.7 billion, up by 4.2%, that of the secondary industry was RMB15,695.8 billion, up by 9.5% and that of the tertiary industry was RMB14,291.8 billion, up by 8.9%.

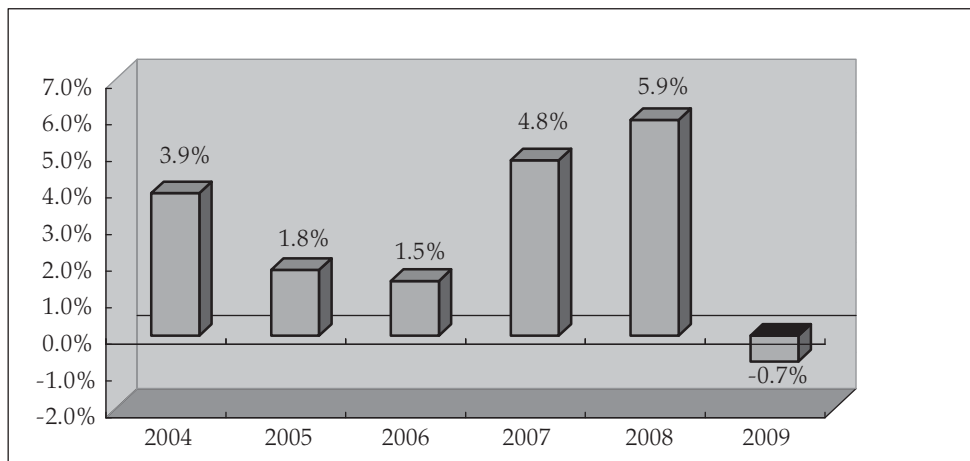
## GDP Growth Rate of the PRC, 1999-2009 (%)



Source: National Bureau of Statistics of the PRC

The general level of consumer price of the PRC in year 2009 was down by 0.7% over the previous year. Of this total, the price for food went up by 0.7%. The prices for investment in fixed assets were down by 2.4%. The producer prices for manufactured goods dropped by 5.4%. The purchasing prices for raw materials, fuels and power went down by 7.9%. The producer prices for farm products were down by 2.4%. The prices for means of agricultural production were down by 2.5%. And the sales prices for housing in 70 large and medium-sized cities were up by 1.5%.

## Consumer Price Growth Rate of the PRC, 2004-2009

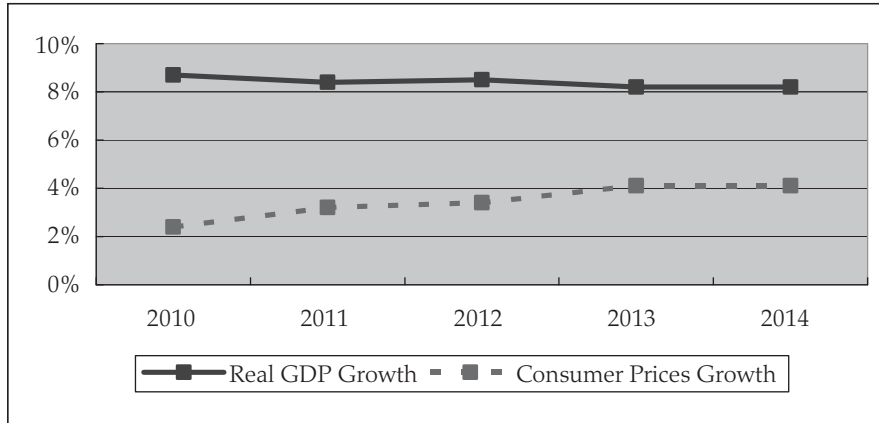


Source: National Bureau of Statistics of the PRC

The PRC economy cooled down to an eight-year low of 8.7% in year 2009 as the global financial crisis took its toll on the world's fastest growing economy. According to Economist Intelligence Unit, real GDP growth of the PRC is forecasted to slow down, but will remain impressive, averaging 8.4% in the period from 2010 to 2014, and the domestic demand is expected to remain strong in the period. Rapid private consumption growth

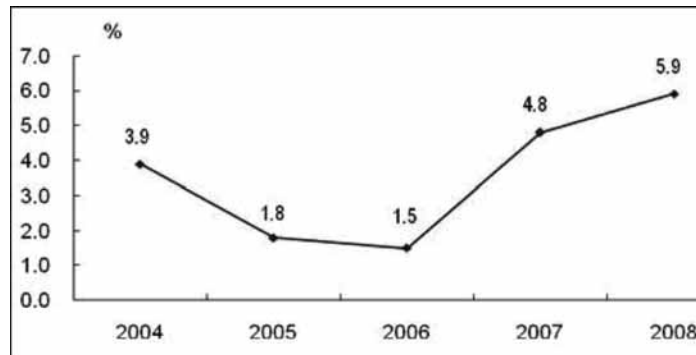
and increases in government spending will offset weaker export growth. Downside risks are posed by the threat of a fall in consumer confidence, but the government’s actions in year 2009 have highlighted its ability to support growth.

**Real GDP and Consumer Price Growth of the PRC, 2010-2014**



Source: Economist Intelligence Unit

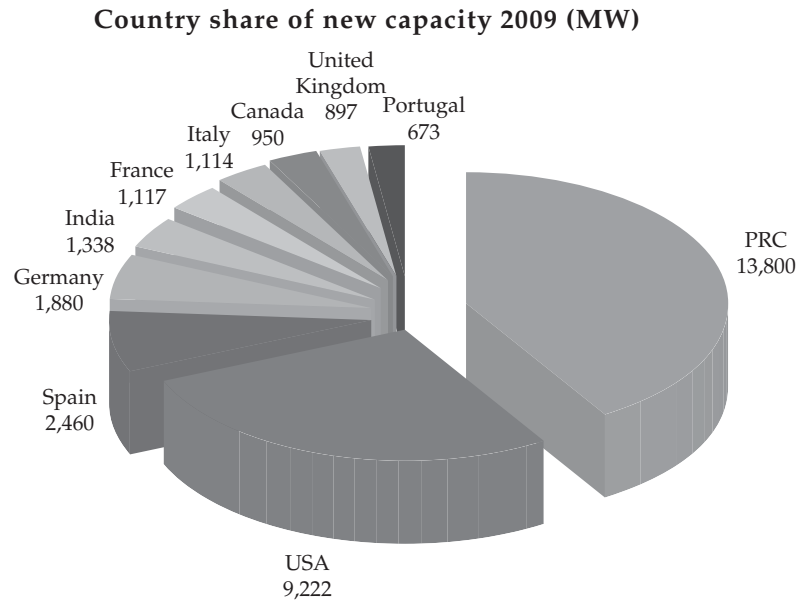
**Changes in Consumer Prices in the PRC, 2004-2008**



Source: National Bureau of Statistics of the PRC

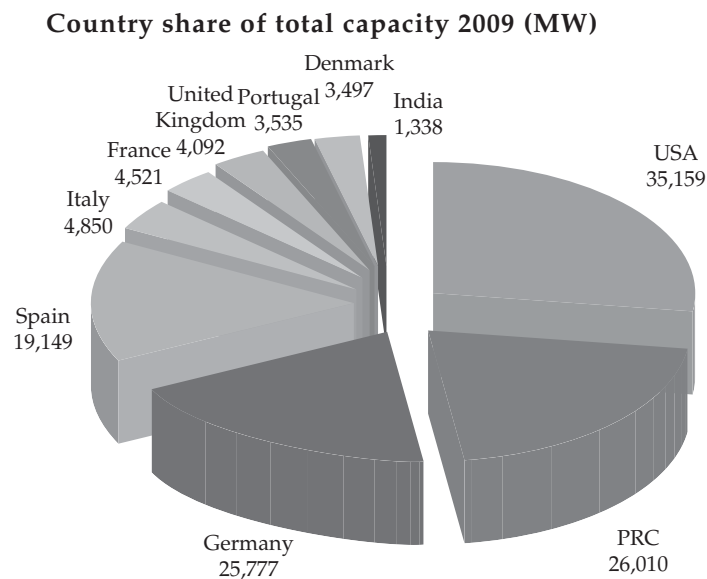
### The PRC Wind Energy Industry

The PRC is leading the development of the global wind energy industry. According to the World Wind Energy Report 2009 from World Wind Energy Association (“WWEA”), the new capacity of wind power in the PRC was 13,800 MW which exceeded the U.S 9,222 MW in 2009, the PRC is ranked in the top of globe.



Source: World Wind Energy Report 2009, WWEA

The PRC’s total capacity of the wind power stands at 26,010 MW in 2009, which is the second largest market in the world. Not at all, the wind energy industry in the PRC has grown with a tremendous rate.



Source: World Wind Energy Report 2009, WWEA

The 4-year compound annual growth rate of the wind energy industry has reached 150%, which was driven by the favorable government policies and support.

**Total Installed Capacity of the PRC (MW)**

2006	2007	2008	2009
2,599	5,912	12,210	26,010

*Source:* Global Wind Energy Council, global wind report 2008 and WWEA, world wind energy report 2009

The government will purchase all the electricity generated from wind farm with a premium on-grid price, which is the highest among other types of renewable energies, such as biomass and hydro power. Apart from the sales of electricity, the wind farm is allowed to sell its Certified Emission Rights (CERs) of carbon dioxide to foreign buyers. Also, the wind farm can enjoy corporate tax exemption in the first 3 years and then half of the tax rate in the next 3 years. The value added tax of the capital expenditure is tax deductible. As the development of the wind farm project is capital intensive, the government also finances the project company with a premium lending rate through state owned banks.

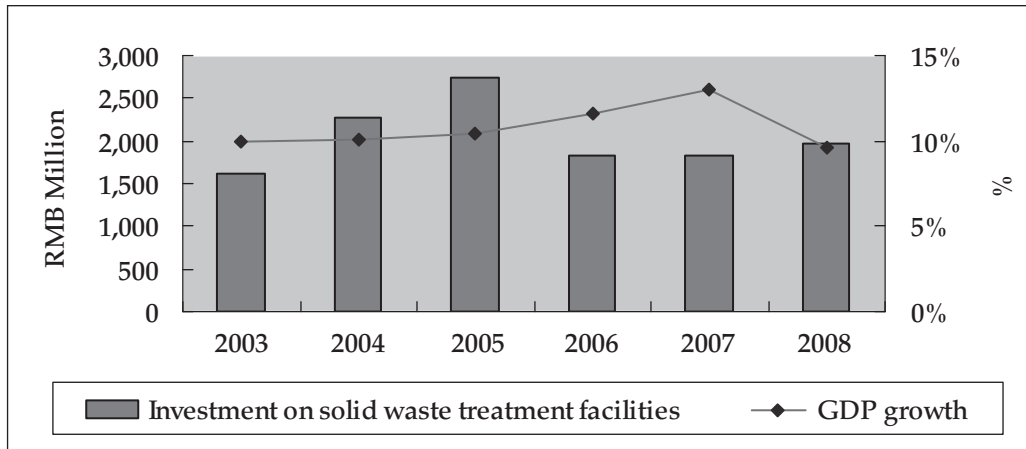
With reference to the “Mid- and Long-Term Renewable Energy Development Plan” published in August 2007 and the “eleven fifth renewable energy development plan” published in March 2008 by the National Development and Reform Council (NDRC), it aimed to achieve the total wind energy capacity at 10,000 MW and 30,000 MW in 2010 and 2020 respectively. In addition, the electricity enterprises which are over 500 MW capacity are required to maintain its renewable energy portion (non-hydro energy) at least 3% and 8% to their total capacity in 2010 and 2020 respectively.

As the energy is a critical issue to national security, a stable supply of the energy will help to maintain the political stability and the economic development of the PRC.

We expect the PRC government will continue to promote and support the development of the wind energy and other renewable energy.

### The PRC Waste-To-Energy Industry

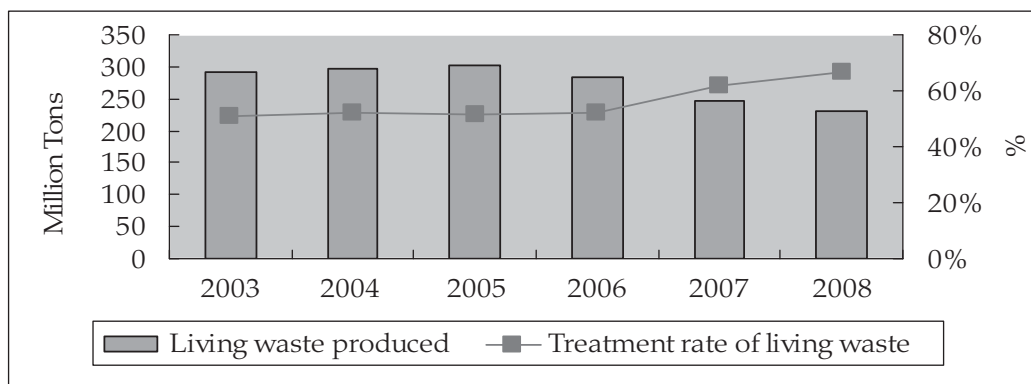
#### GDP Growth & Investment on Solid Waste Treatment Facilities in the PRC



Source: CEIC Data Company Ltd., Bloomberg

The PRC is the most populous country and its economy is growing rapidly over the years with an average 10% GDP growth per annum. The rapid growth of the PRC economy, industrialization and urbanization created an increasing trend to the living waste production. The living waste includes common domestic garbage or trash produced by the households, institutions and business activities, most of them are solid waste. Referring to the above graph, the investment on the solid waste treatment facilities correlates with the GDP growth and more capital will be invested when the PRC government increases the concern on environmental issues.

#### Living Waste Produced & Treatment Rate in the PRC



Source: CEIC Data Company Ltd.

The problem of increasing amount of living waste and its disposal has become an alarming dimension in densely populated cities in the past decades. However, the living waste treatment rate improved in recent years as more solid waste treatment facilities started their operation.

According to the forecast from World Bank, the PRC will generate 484 million tons of municipal waste (living waste) in 2030, a double portion when compared with 231 million tons in 2008. According to the 1st national census on pollution sources performed by National Bureau Statistics of the PRC and published in March 2010, 90% of the solid waste collected was treated through landfill in 2007 and 8% was treated by incineration. Due to the limited land resources, the PRC government is seeking an alternative way to relieve the waste handling problem.

Waste-to-energy (referred to as “WTE”) is one of the renewable energy technologies, which transfer the heat produced by the incineration of waste into electricity. It is the most efficient method of waste disposal, as it reduces the size of the waste and generates electricity at the same time.

According to the Ministry of Housing and Urban-Rural Development of the PRC, there were 72 WTE plants at the end of 2008 in the PRC. With reference to the 21st Century News, 41 WTE plants are construction in progress, representing 57% of existing plants. Most of the WTE plants are based on Build-Operate-Transfer (“BOT”) contract, which is a type of arrangement in which the private sector builds an infrastructure project, operates it and eventually transfers the ownership of the project to the government.

The rapid construction of the WTE plants is due to the favorable government policies. Firstly, the government purchases all the electricity generated from the WTE plants with higher on grid tariff and subsidizes RMB0.25/kilowatt per hour. Secondly, the local government pays for waste treatment fees to the waste-to-energy plants. Lastly, the waste-to-energy plants can enjoy tax concession, such as exemption of value added tax and lower corporate tax in first six years of operation.

Due to the land resource constraints, increasing amount of living waste, favorable government policies and brimming opportunities, the WTE industry is now under the spot light of investors.

#### **SOURCE OF INFORMATION**

For the purpose of our valuation, we have been furnished with the financial and operational data related to the Target Group, which were given by the senior management of the Companies.

The valuation of the Target Group required consideration of all pertinent factors affecting the economic benefits of the Target Group and its abilities to generate future investment returns. The factors considered in our valuation included, but were not limited to, the following:

- The business nature of the Target Group;
- The financial and operational information of the Target Group; and
- The specific economic environment and competition for the market in which the Target Group operates or will operate.



## SCOPE OF WORKS

In the course of our valuation work for the Target Group, we have conducted the following steps to evaluate the reasonableness of the adopted bases and assumptions provided by the senior management of the Companies:

- Obtained all relevant financial and operational information of the Target Group;
- Performed market research and obtained statistical figures from public sources;
- Examined all relevant bases and assumptions of financial and operational information of the Target Group, which were provided by the senior management of the Companies;
- Prepared business financial models to derive the indicated value of the Target Group; and
- Presented all relevant information on the background of the Target Group, brief industry overview, valuation methodology, source of information, scope of works, major assumptions, comments and our conclusion of value in this report.

## VALUATION ASSUMPTIONS

Given the changing environment in which the Target Group operates or will operate, a number of assumptions have had to be established in order to sufficiently support our concluded value of the Target Group. The major assumptions adopted in our valuation were:

- There will be no major changes in the existing political, legal and economic conditions in the jurisdiction where the Target Group operates or will operate;
- There will be no major changes in the current taxation law in the jurisdiction where the Target Group operates or will operate, that the rates of tax payable remain unchanged and that all applicable laws and regulations will be complied with;
- The financial and operational information in respect of the Target Group have been prepared on a reasonable basis, reflecting estimates that have been arrived at after due and careful considerations by the senior management of the Companies;
- Exchange rates and interest rates will not differ materially from those presently prevailing; and
- Economic conditions will not deviate significantly from economic forecasts.

## VALUATION METHODOLOGY

Three generally accepted valuation methodologies have been considered in valuing the Appraised Companies. They are the market approach, the cost approach and the income approach.

The market approach provides indications of value by comparing the subject asset to similar businesses, business ownership interests and securities that have been sold in the market.

The cost approach provides indications of value by studying the amounts required to recreate the subject asset for which a value conclusion is desired. This approach seeks to measure the economic benefits of ownership by quantifying the amount of fund that would be required to replace the future service capability of the subject asset.

The income approach is the conversion of expected periodic benefits of ownership into an indication of value. It is based on the principle that an informed buyer would pay no more for the project than an amount equal to the present worth of anticipated future benefits from the same or a substantially similar business with a similar risk profile.

We have considered that the income approach is not appropriate to value the Appraised Companies, as there are insufficient historical and forecasted financial and operational data of the Appraised Companies. Moreover, the income approach may involve adoption of much more assumptions than the other two approaches, not all of which can be easily quantified or ascertained. In the event of any such assumptions are found to be incorrect or unfounded, the valuation result would be significantly affected. We understand that the wind power projects of HK Wind Power and Asia Wind Power and the waste-to-energy project of LNE New Energy have already commenced operation. However, since the operating periods of these three projects are short, the corresponding historical financials are still unstable and provide little indications on the future performances of the projects. As a result, using income approach to value these three power plants still involves the adoption of much assumptions. The cost approach is also regarded inadequate in this valuation, as this approach does not take future growth potential of the Appraised Companies into consideration. Thus, we have determined that the market approach is the most appropriate valuation approach for this valuation.

### Wind Power Projects

We used the market approach by referring to recent sale and purchase transactions of wind power projects. We referred to recent sale and purchase transactions (referred to as the "Wind Power Transactions") related to wind power projects in the PRC up to the date of valuation. To the best of our knowledge, we considered the Wind Power Transactions were the exhaustive list of wind power project transactions in the PRC searched under two sources: Bloomberg and Wise News. The Wind Power Transactions were selected based on the following criteria:

1. The principal asset of the transaction is a wind power project.

2. The subject wind power project of the transaction is located in the PRC.
3. The searching period is from the start of 2009 up to the date of valuation.

As the list was a complete list, we considered the samples selected were representative and fair. Among all the transactions examined, we excluded those transactions with insufficient information available for valuation, e.g. lack of disclosure of acquisition consideration.

Taking into account the nature of the Wind Power Transactions, similarity of the Wind Power Transactions and the Appraised Wind Power Companies and the availability of relevant information, 4 of the transactions were selected as the comparable transactions (referred to as the "Comparable Wind Power Transactions"). The Comparable Wind Power Transactions were selected according to the availability of the key parameters for our valuation, i.e. the power generation capacity and the sample size is considered to be adequate.

We considered the Comparable Wind Power Transactions are comparable to the Appraised Wind Power Companies since it is an exhaustive list of wind power transactions located in the PRC.

In our valuation, we used the average adjusted consideration price to power generation capacity (referred to as the "Adjusted P/Power Capacity") multiple of the Comparable Wind Power Transactions to determine the market values of the Appraised Wind Power Companies.

The market values of the equity interests in the Appraised Wind Power Companies can be arrived at as below:

$$[(\text{Power Generation Capacity} * \text{Average Adjusted P/Power Capacity Multiple}) - \text{Debts} - \text{Future Capital Expenditures Required}] * \text{Equity Interest \%}$$

To determine the average Adjusted P/Power Capacity multiple, the adjusted consideration prices of the Comparable Wind Power Transactions were firstly determined by adding the corresponding debts and future capital expenditures required to the consideration prices. Secondly, the adjusted considerations were divided by the corresponding power generation capacities to derive the Adjusted P/Power Capacity.

Details of the Comparable Wind Power Transactions are as follows:

	Announcement Date	Acquirer	Target	Location of the Target	Adjusted Consideration Price <i>(in mil RMB)</i>	Power Generation Capacity <i>(MW)</i>	Adjusted P/Power Capacity
1*	24 Sep 2009	Qunxing Paper Holdings Company Limited	Tongliao Changxing Wind Power Co. Ltd.	Inner Mongolia, Tongliao City	563.50	49.30	11.43
2	24 Aug 2009	內蒙古蒙電華能熱電股份有限公司	包頭市白雲區匯全風電有限公司	Inner Mongolia, Baotou City	462.64	49.00	9.44
3	19 Jun 2009	China Power New Energy Development Company Limited	A wind power project, located in Dafeng City, Jiangsu Province, the PRC	Jiangsu Province, Dafeng City	1,808.12	200.00	9.04
4	1 Apr 2009	華能國際電力股份有限公司	啟東風力發電有限公司	Jiangsu Province, Qidong City	652.17	59.48	10.97
Average Adjusted P/Power Capacity Multiple :							<u>10.22</u>

\* The transaction was not approved by the independent shareholders. However, according to the announcement dated 24 September 2009 and the circular dated 15 October 2009, the consideration was determined after arm's length negotiations between the company and the vendors under normal commercial terms and the transaction was endorsed by the independent board committee and independent financial adviser of Qunxing Paper Holdings Company Limited. In addition, the price multiple of Qunxing Paper Holdings Company Limited is very close to that of the other three comparable transactions. Therefore we considered it to be appropriate to be included as a reference transaction in our valuation.

We considered the Adjusted P/Power Capacity Multiple to be appropriate in valuing the Appraised Wind Power Companies. In order to reflect the market values of the whole wind power projects, not only the companies' equity values, the corresponding debts and future capital expenditures required should also be considered to arrive at the adjusted consideration prices of the Comparable Wind Power Transactions. Adding the corresponding debts and future capital expenditures required to the consideration prices ensures an appropriate comparison that correspond the market values of the whole projects to the power generation capacities of the projects.

The market value of a wind power project might also be affected by other factors like the size/scale/efficiency of the wind farm, the equipment used, the infrastructure surrounding the area of the wind farm, etc. But among all those factors, we considered the power generation capacity to be the key factor affecting the market value of a wind power project. As the price multiples of the Comparable Wind Power Transactions are very similar, it reflects that factors other than the power generation capacity have minimal effect in determining the market values of the Appraised Wind Power Companies.

The average Adjusted P/Power Capacity multiple of 10.22 was applied to the power generation capacities of the Appraised Wind Power Companies and then adjusted with the corresponding debts and future capital expenditures required of the Appraised Wind Power Companies. The power generation capacities and the corresponding debts and future capital expenditures required of the Appraised Wind Power Companies are as follows:

<b>The Appraised Wind Power Companies</b>	<b>Power Generation Capacity (MW)</b>	<b>Debts (in mil RMB)</b>	<b>Future Capital Expenditures Required (in mil RMB)</b>
CECIC HKC (Gansu) Wind Power Co., Ltd.	201.00	1044.50	100.00*
CECIC HKC Wind Power Co., Ltd.	200.00	1060.00	–
Hong Kong New Energy Si Zi Wang Qi Wind Power Ltd.	49.50	300.00	–
Hong Kong Wind Power (Muling) Co., Ltd.	29.75	184.00	–
Asia Wind Power (Mudanjiang) Co., Ltd.	29.75	184.00	–

\* The future capital expenditures required mainly represents the expenditures for turbine and tower costs financed by an undrawn bank loan.

### Waste-To-Energy Project

We used the market approach by referring to recent sale and purchase transactions of waste-to-energy projects. We referred to recent sale and purchase transactions (referred to as the “Waste-To-Energy Transactions”) related to waste-to-energy projects in the PRC up to the date of valuation. To the best of our knowledge, we considered the Waste-To-Energy Transactions were the exhaustive list of waste-to-energy project transactions in the PRC searched under two sources: Bloomberg and Wise News. The Waste-To-Energy Transactions were selected based on the following criteria:

1. The principal asset of the transaction is a waste-to-energy project.
2. The subject waste-to-energy project of the transaction is located in the PRC.
3. The searching period is from the start of 2009 up to the date of valuation.

As the list was a complete list, we considered the samples selected were representative and fair. Among all the transactions examined, we excluded those transactions with insufficient information available for valuation, e.g. lack of disclosure of acquisition consideration.

Taking into account the nature of the Waste-To-Energy Transactions, similarity of the Waste-To-Energy Transactions and the Appraised Waste-To-Energy Company and the availability of relevant information, 2 of the transactions were selected as the comparable transactions (referred to as the “Comparable Waste-To-Energy Transactions”). The Comparable Waste-To-Energy Transactions were selected according to the availability of the key parameters for our valuation, i.e. the annual waste treatment capacity and the sample size is considered to be adequate.

We considered the Comparable Waste-To-Energy Transactions are comparable to the Appraised Waste-To-Energy Company since it is an exhaustive list of waste-to-energy transactions located in the PRC.

In the valuation, we used the average adjusted consideration price to annual waste treatment capacity (referred to as the “Adjusted P/Treatment Capacity”) multiple of the Comparable Waste-To-Energy Transactions to determine the market value of the Appraised Waste-To-Energy Company.

The market value of the equity interest in the Appraised Waste-To-Energy Company can be arrived at as below:

$$[(\text{Annual Waste Treatment Capacity} * \text{Average Adjusted P/Treatment Capacity Multiple}) - \text{Debts} - \text{Future Capital Expenditure Required}] * \text{Equity Interest \%}$$

To determine the average Adjusted P/Treatment Capacity multiple, the adjusted consideration prices of the Comparable Waste-To-Energy Transactions were firstly determined by adding the corresponding debts and future capital expenditures required to the consideration prices. Secondly, the adjusted considerations were divided by the corresponding annual waste treatment capacities to derive the Adjusted P/Treatment Capacity.

Details of the Comparable Waste-To-Energy Transactions are as follows:

	Announcement Date	Acquirer	Target	Location of the Target	Adjusted Consideration Price (in mil RMB)	Annual Waste Treatment Capacity (ton)	Adjusted P/Treatment Capacity
1	17 Dec 2009	C&G Industrial Holdings Limited	Seven waste-to-energy plants	<ol style="list-style-type: none"> <li>1. Fujian Province, Jinjiang City</li> <li>2. Fujian Province, Quanzhou City, Huian County</li> <li>3. Fujian Province, Quanzhou City, Anxi County</li> <li>4. Hubei Province, Huangshi City</li> <li>5. Fujian Province, Fuqing City</li> <li>6. Hebei Province, Langfang City</li> <li>7. Liaoning Province Yingkou City</li> </ol>	2,979.15	2,774,000	1,073.95
2	5 Mar 2010	China Power New Energy Development Company Limited	Yunnan Shuangxing Green Energy Company Limited	Yunnan Province, Kunming City	492.76	500,000	985.52

Average Adjusted P/Treatment Capacity Multiple:

1,029.74

We considered the Adjusted P/Treatment Capacity Multiple to be appropriate in valuing the Appraised Waste-To-Energy Company. In order to reflect the market values of the whole waste-to-energy projects, not only the companies' equity values, the corresponding debts and future capital expenditures required should also be considered to arrive at the adjusted consideration prices of the Comparable Waste-To-Energy Transactions. Adding the corresponding debts and future capital expenditures required to the consideration prices ensures an appropriate comparison that correspond the market values of the whole projects to the annual waste treatment capacities of the projects.

The market value of a waste-to-energy project might also be affected by other factors like the size/scale/efficiency of the waste-to-energy plant, the equipment used, the infrastructure surrounding the area of the waste-to-energy plant, etc. But among all those factors, we considered the annual waste treatment capacity to be the key factor affecting the market value of a waste-to-energy project. As the price multiples of the Comparable Waste-To-Energy Transactions are very similar, it reflects that factors other than the annual waste treatment capacity have minimal effect in determining the market value of the Appraised Waste-To-Energy Company.

The average Adjusted P/Treatment Capacity multiple of 1,029.74 was applied to the annual waste treatment capacity of the Appraised Waste-To-Energy Company and then adjusted with the corresponding debts and future capital expenditures required of the Appraised Waste-To-Energy Company. The annual waste treatment capacities and the

corresponding debts and future capital expenditures required of the Appraised Waste-To-Energy Company are as follows:

<b>The Appraised Waste-To-Energy Company</b>	<b>Annual Waste Treatment Capacity (ton)</b>	<b>Debts (in mil RMB)</b>	<b>Future Capital Expenditures Required (in mil RMB)</b>
Linyi National Environmental New Energy Co., Ltd.	301,500	110.08	–

In addition to the Appraised Companies, the surplus assets of the Target Group should also be taken into account to arrive at our concluded value of the Target Group. The surplus assets are receivables due from joint venture partners, where these assets are in addition to assets that would generate wind power and the values of which have not been reflected by multiplying the Adjusted P/Power Capacity Multiple with the power generation capacities of the Appraised Wind Power Companies. Details of the surplus assets are listed below:

<b>Company</b>	<b>Types of Surplus Assets</b>	<b>Amount (in mil RMB)</b>
A 100% equity interest in HKE (Gansu) Wind Power Limited	Amount due from 中節能風力發電投資 有限公司	6.27
A 75% equity interest in HKE (Danjinghe) Wind Power Limited	Amount due from due from 中國節能投資公司 & 中節能風力發電投資有限公司	34.72

#### VALUATION COMMENTS

For the purpose of our valuation and in arriving at our opinion of value, we have referred to the information provided by the senior management of the Companies to estimate the value of the Target Group. We have also sought and received confirmation from the Companies that no material facts have been omitted from the information supplied.

To the best of our knowledge, all data set forth in this report are true and accurate. Although gathered from reliable sources, no guarantee is made nor liability assumed for the accuracy of any data, opinions, or estimates identified as being furnished by others, which have been used in formulating this analysis.

#### REMARKS

Unless otherwise stated, all money amounts stated herein are in Renminbi (RMB).



## CONCLUSION OF VALUE

Our conclusion of value is based on accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of a lot of uncertainties, not all of which can be easily ascertained or quantified.

Further, whilst the assumptions and consideration of such matters are considered by us to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Companies, the Target Group or us.

Based on our investigation and analysis outlined in this report, it is our opinion that the market value of the Target Group as at 31 March 2010 is as follows:

<b>The Target Group</b>	<b>Market Value</b>
A 100% equity interest in HKE (Gansu) Wind Power Limited	RMB370,110,000
A 75% equity interest in HKE (Danjinghe) Wind Power Limited	RMB329,860,000
A 100% equity interest in Wealthland Group Limited	RMB205,860,000
A 100% equity interest in Sinoriver International Limited	RMB207,260,000
A 100% equity interest in Eden Investment Group Limited	RMB80,160,000
<b>Total</b>	<b><u>RMB1,193,250,000</u></b>

We hereby certify that we have neither present nor prospective interest in the Companies, the Target Group or the value reported.

Yours faithfully,  
For and on behalf of

**BMI APPRAISALS LIMITED**

**Dr. Tony C. H. Cheng**

*BSc, MUD, MBA(Finance), MSc(Eng), PhD(Econ),  
FCIM, FRSM, SICME, SIFM, MHKIS, MCI Arb,  
AFA, MASCE, MIET, MIEEE, MASME,  
MIIE, MASHRAE, MAIC  
Managing Director*

**Marco T. C. Sze**

*B.Eng(Hon), PGD(Eng), MBA(Acct),  
CFA, AICPA/ABV, RBV  
Director*

1. Dr. Tony C. H. Cheng serves as the Chairman of Institute of Mechanical Engineers, China and is a member of the Hong Kong Institute of Surveyors (General Practice), a member of the American Society of Civil Engineers, a member of the American Society of Mechanical Engineers and a member of Institute of Industrial Engineers (U.K.). He has over 5 years' experience in valuing similar assets or companies engaged in similar business activities as those of the Appraised Companies worldwide.
2. Mr. Marco T. C. Sze is a holder of Chartered Financial Analyst, a member of the American Institute of Certified Public Accountants (AICPA) and is accredited in Business Valuation by the AICPA. In addition, he is a Registered Business Valuer under the Hong Kong Business Valuation Forum. He has over 3 years' experience in valuing similar assets or companies engaged in similar business activities as those of the Appraised Companies worldwide.

## 1. RESPONSIBILITY STATEMENT

This document, for which the HKC 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 HKC. The HKC Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this document 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 document misleading.

## 2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests of the HKC Directors and chief executive of HKC in the shares and underlying shares of HKC and its associated corporation (within the meaning of Part XV of the SFO) which were required (i) to be notified to HKC and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) to be notified to HKC and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

### (i) Long positions in the HKC Shares and underlying shares of HKC

Name of the HKC Director	Nature of interest	Number of shares	Approximate percentage of the existing issued share capital of HKC
Mr. OEI Kang, Eric ("Mr. OEI")	Personal	20,897,310 <sup>1</sup>	0.202%
	Corporate	4,458,938,271 <sup>2</sup>	43.010%
	Joint	126,242,591 <sup>3</sup>	1.218%
	Family	3,630,000 <sup>4</sup>	0.035%
Mr. WAN Man Yee ("Mr. WAN")	Personal	27,500,000 <sup>5</sup>	0.265%
Mr. TANG Sau Wai, Tom ("Mr. TANG")	Personal	18,315,217 <sup>6</sup>	0.177%
	Family	232,218 <sup>7</sup>	0.002%
Mr. FAN Yan Hok, Philip ("Mr. FAN")	Personal	3,630,000 <sup>8</sup>	0.035%
Mr. CHUNG Cho Yee, Mico ("Mr. CHUNG")	Personal	3,630,000 <sup>9</sup>	0.035%
Mr. CHENG Yuk Wo ("Mr. CHENG")	Personal	3,630,000 <sup>10</sup>	0.035%
Mr. Albert Thomas DA ROSA, Junior ("Mr. DA ROSA")	Personal	3,630,000 <sup>11</sup>	0.035%

## (ii) Long positions in the shares and underlying shares of associated corporation of HKC

Name of associated corporation	Name of the HKC Director	Nature of interest	Number of shares	Approximate percentage of existing issued share capital of the associated corporation
HKE	Mr. OEI	Corporate	2,055,480,316 <sup>12</sup>	240.370%
		Personal	1,190,848 <sup>13</sup>	0.139%
		Joint	18,001,083 <sup>14</sup>	2.105%
	Mr. TANG	Personal	3,234 <sup>15</sup>	0.001%
		Family	4,547 <sup>16</sup>	0.001%

*Notes:*

- The personal interest of Mr. OEI represents an interest in 17,267,310 underlying shares of HKC in respect of warrants issued by HKC and an interest in 3,630,000 underlying shares of HKC in respect of options granted by HKC under its share option schemes adopted on 16 June 2006 ("HKC Option Scheme").
- The corporate interest of Mr. OEI represents an interest in 3,727,073,029 HKC Shares and an interest in 453,699,914 underlying shares of HKC in respect of warrants issued by HKC held by Creator Holdings Limited ("Creator") and an interest in 254,984,884 HKC Shares and an interest in 23,180,444 underlying shares of HKC in respect of warrants issued by HKC held by Genesis Capital Group Limited ("Genesis"). Both Creator and Genesis are owned as to 50% by Mr. OEI and as to the remaining 50% by his wife, Mrs. OEI Valonia Lau ("Mrs. OEI"). Mr. OEI is a director of Creator and Genesis.
- The joint interest of Mr. OEI represents an interest in 91,195,648 HKC Shares and an interest in 35,046,943 underlying shares of HKC in respect of warrants issued by HKC jointly held with his wife, Mrs. OEI.
- The family interest of Mr. OEI represents an interest in 3,630,000 underlying shares of HKC in respect of options granted by HKC to Mrs. OEI under HKC Option Scheme.
- The personal interest of Mr. WAN represents an interest in 27,500,000 underlying shares of HKC in respect of options granted by HKC under HKC Option Scheme.
- The personal interest of Mr. TANG represents an interest in 140,784 HKC Shares, an interest in 24,433 underlying shares of HKC in respect of warrants issued by HKC and an interest in 18,150,000 underlying shares of HKC in respect of options granted by HKC under HKC Option Scheme.
- The family interest of Mr. TANG represents an interest in 197,877 HKC Shares and an interest in 34,341 underlying shares of HKC in respect of warrants issued by HKC held by his wife.
- The personal interest of Mr. FAN represents an interest in 3,630,000 underlying shares of HKC in respect of options granted by HKC under HKC Option Scheme.
- The personal interest of Mr. CHUNG represents an interest in 3,630,000 underlying shares of HKC in respect of options granted by HKC under HKC Option Scheme.

10. The personal interest of Mr. CHENG represents an interest in 3,630,000 underlying shares of HKC in respect of options granted by HKC under HKC Option Scheme.
11. The personal interest of Mr. DA ROSA represents an interest in 3,630,000 underlying shares of HKC in respect of options granted by HKC under HKC Option Scheme.
12. The corporate interest of Mr. OEI represents (i) an interest in 43,902,066 HKE Shares and an interest in 40,566,816 underlying shares of HKE in respect of warrants issued by HKE held by Creator, (ii) an interest in 3,003,526 HKE Shares and an interest in 2,726,074 underlying shares of HKE in respect of warrants issued by HKE held by Genesis, (iii) an interest in 507,179,732 HKE Shares held by HKC, (iv) an interest in a zero coupon convertible note issued by HKE to HKC with a principal amount of RMB73,500,000 carrying rights to convert into 72,932,034 HKE Shares at a conversion price of HK\$1.0113 per HKE Share (subject to adjustment); and (v) an interest in the 1,385,170,068 Convertible Preferred Shares to be issued and allotted by HKE upon Completion carrying rights to convert into HKE Shares at the initial conversion rate of 1 Convertible Preferred Share to 1 HKE Share (subject to adjustment). Since HKC is held as to approximately 35.95% by Creator, which is owned as to 50% by Mr. OEI and as to the remaining 50% by his wife, Mrs. OEI, Mr. OEI is deemed to be interested in the same parcel of shares in which HKC is taken to be interested in HKE.
13. The personal interest of Mr. OEI represents an interest in 1,190,848 underlying shares of HKE in respect of warrants issued by HKE.
14. The joint interest of Mr. OEI represents an interest in 3,949,613 HKE Shares and an interest in 14,051,470 underlying shares of HKE in respect of warrants issued by HKE jointly held with his wife, Mrs. OEI.
15. The personal interest of Mr. TANG represents an interest in 1,657 HKE Shares and an interest in 1,577 underlying shares of HKE in respect of warrants issued by HKE.
16. The family interest of Mr. TANG represents an interest in 2,330 HKE Shares and an interest in 2,217 underlying shares of HKE in respect of warrants issued by HKE held by his wife.

Save as disclosed above, as at the Latest Practicable Date, none of the HKC Directors or chief executive of HKC held any interest or short position in the HKC Shares, underlying shares or debentures of HKC or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to HKC and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules, to be notified to HKC and the Stock Exchange.

### 3. OTHER INTERESTS OF DIRECTORS

As at the Latest Practicable Date,

#### (a) Interests in service contracts

none of the HKC Directors has entered, or is proposing to enter, into a service contract with any member of the HKC Group, excluding contracts expiring or determinable by the HKC Group within one year without payment of compensation (other than statutory compensation);

**(b) Interests in assets of the HKC Group**

none of the HKC Directors has, or has had, any direct or indirect interest in any assets which have, since 31 December 2009, being the date of the latest published audited financial statements of the HKC Group, been acquired or disposed of by or leased to any member of the HKC Group or are proposed to be acquired or disposed of by or leased to, any member of the HKC Group; and

**(c) Interests in contracts or arrangements**

Save for the consultancy services agreement dated 2 March 2009 entered into between the HKC Group and M Y Wan and Associates Limited (solely and beneficially owned by Mr. Wan Man Yee) in respect of the provision of certain consultancy services to the HKC Group, none of the HKC Directors was materially interested in any contract or arrangement entered into with any member of the HKC Group which contract or arrangement is subsisting as at the date of this circular and which is significant in relation to the business of the HKC Group taken as a whole.

**4. COMPETING INTERESTS**

Mr. OEI Tjie Goan is the chairman and a director of PT. Sinar Mas, a company together with its subsidiaries, associates, including Asia Pulp & Paper Company, Ltd., and its holding companies (if any) (the "Sinar Mas Group") are engaged in, among other things, general trading and, property development and investment. One of the business activities of the Sinar Mas Group is property development and investment in the PRC. Mr. OEI Kang, Eric, a member of the Oei family and a son of Mr. OEI Tjie Goan, does not have any directorship in the Sinar Mas Group.

Mr. OEI Kang, Eric is an executive director of HKE whose principal business activities include alternative energy business.

Mr. LI Xueming is a director of China Everbright Group Limited, China Everbright Holdings Company Limited and China Everbright International Limited, together with their subsidiaries, associates, and holding companies (the "China Everbright Group") and Mr. FAN Yan Hok, Philip is a non-executive director of China Everbright International Limited, a member of the China Everbright Group. Part of its business activities include (i) environmental protection business; (ii) infrastructure; and (iii) property investment.

Mr. LIU Guolin and Mr. XU Zheng are directors and senior management in Shanghai Construction (Group) General Corporation (together with its subsidiaries, associates and holding companies (if any), the "Shanghai Construction Group") which is a former substantial shareholder (as defined in Part XV of the SFO) as well as a sub-contractor and a joint venture partner for certain construction projects of the HKC Group. One of its business activities is construction business in the PRC.

Having considered that HKC itself has its own management supervising the daily operation and making financial and business decisions, HKC can operate its business independently of, and at arm's length from the businesses of the Sinar Mas Group, China Everbright Group and the Shanghai Construction Group.

Save as disclosed above, none of the HKC Directors was interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the HKC Group.

## 5. LITIGATION

So far as the HKC Directors are aware, no member of the HKC Group was engaged in any litigation, arbitration or claims of material importance and no litigation, arbitration or claims of material importance was known to the HKC Directors to be pending or threatened by or against any member of the HKC Group as at the Latest Practicable Date.

## 6. EXPERTS AND CONSENTS

The following are the qualifications of the experts who have given opinion, letter or report which is contained in this circular:

<b>Name</b>	<b>Qualification</b>
BMI	Independent professional valuer
PricewaterhouseCoopers ("PwC")	Certified Public Accountants

As at the Latest Practicable Date, each of BMI and PwC did not have any shareholding in any member of the HKC Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the HKC Group.

Each of BMI and PwC has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its opinion, letter or report and references to its name in the form and context in which they appear.

As at the Latest Practicable Date, each of BMI and PwC did not have any direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the HKC Group or are proposed to be acquired or disposed of by or leased to any member of the HKC Group since 31 December 2009, being the date to which the latest published audited financial statements of the HKC Group were made up.

## 7. MATERIAL CONTRACTS

The following are the material contracts, not being contracts entered into in the ordinary course of business of the HKC Group (including the HKE Group), which have been entered into by members of the HKC Group (including the HKE Group) within the 2 years immediately preceding the Latest Practicable Date:

- (i) a joint venture agreement dated 6 August 2008 entered into between CECIC, and HKE (Da He) Holdings Limited, a wholly-owned subsidiary of HKE, in relation to the establishment of a Sino-foreign equity joint venture enterprise ("JV") held as to 70% by CECIC and 30% by HKE (Da He) Holdings Limited. The purpose of the JV is developing the concession project of 100.5 MW

windfarm at Lunaobao, Zhangbei County, Hebei Province, the PRC (中國河北省張北縣綠腦包). The registered capital of about RMB323.26 million (approximately HK\$367.3 million) of the JV was fully injected by the parties in accordance with their respective equity interest in the JV and construction was well underway. The 100.5 MW wind farm is located in Lunaobao, Hebei Province; adjacent to Danjinghe, where another promising wind farm of the HKE Group was being developed. The project comprises 67 sets of 1,500 KW PRC domestic manufactured wind turbines and the total investment cost is around RMB950.78 million (approximately HK\$1,080.2 million);

- (ii) the supplemental agreement dated 12 January 2009 between 洋浦供水有限責任公司(Yangpu Water Supply Company Limited\*), a 65% subsidiary of HKC, and 海南金海漿紙業有限公司 (Jinhai Paper Pulping Industrial Company Limited\*) (“Jinhai”), a limited liability company established in the PRC and indirectly controlled by the family members of Mr. OEI Tjie Goan (including Mr. OEI Kang, Eric (the Chief Executive Officer of HKC and an executive HKC Director)), for extending the term of provision of the water supply services under the water supply agreement dated 13 January 2004 between the same parties for a further period from 1 January 2009 to 31 December 2011 (both days inclusive) and also for amending the daily quantity of untreated raw water available to Jinhai to 200,000 cubic meters from 170,000 cubic meters under that water supply agreement;
- (iii) a sale and purchase agreement dated 21 May 2009 entered into between HKE (Biomass) Holdings Limited, a wholly-owned subsidiary of HKE, and GeneHarbor (Hong Kong) Technologies Limited in relation to the disposal of 55% equity interest in Hong Kong Biomass Energy (BVI) Co., Limited for a consideration of HK\$23.1 million;
- (iv) the framework agreement dated 7 September 2009 for the sale and purchase of the entire equity interest in, and shareholder’s loan owing by, 洋浦金港置業有限公司 (Yangpu Jingang Real Estate Company Limited\*), a limited liability company established in the PRC, between 香港建設(中國)工程有限公司 (Hong Kong Construction (China) Engineering Company Limited\*), a wholly owned subsidiary of HKC, as seller and Jinhai as purchaser at an aggregate cash consideration of RMB28,279,889.50 (about HK\$32,128,782);
- (v) a sale and purchase agreement dated 20 November 2009 entered into among HKE, HKC (HK) and HKC in respect of the acquisition of 25% interest in HKE Danjinghe (including assignment of the relevant loan) by HKE at consideration of RMB73.5 million; and
- (vi) the Sale and Purchase Agreement.

\* *The unofficial English transliterations or translations are for identification purposes only.*

Save as disclosed above, none of the members of the HKC Group (including the HKE Group) has entered into any contracts (not being contracts entered into in the ordinary course of business) within the two years preceding the date of this circular that are or may be material.



**8. MISCELLANEOUS**

- (a) The registered office of HKC is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.
- (b) The principal place of business of HKC in Hong Kong is at 9th Floor, Tower 1, South Seas Centre, 75 Mody Road, Tsimshatsui East, Kowloon, Hong Kong.
- (c) The secretary of HKC is Ms. MOK Ming Wai, who is an associate member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators.
- (d) The Hong Kong branch share registrar and transfer office of HKC is Computershare Hong Kong Investor Services Limited of 46th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.
- (e) The English text of this circular shall prevail over the Chinese text in case of any inconsistency.

**9. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection at the principal place of business of HKC in Hong Kong at 9th Floor, Tower 1, South Seas Centre, 75 Mody Road, Tsimshatsui East, Kowloon, Hong Kong during normal business hours from the date of this circular up to and including the date of the HKC SGM:–

- the memorandum of association and bye-laws of HKC;
- the material contracts set out in the paragraph headed “7. Material Contracts” in this Appendix;
- the Business Valuation Report, the text of which is set out in Appendix IV to this circular;
- the written consents referred to in the paragraph headed “6. Experts and Consents” in this Appendix;
- the published Annual Reports 2008 and 2009 issued by HKC containing audited financial statements of the HKC Group for the financial years ended 31 December 2008 and 2009;
- the published Annual Reports 2008 and 2009 issued by HKE containing audited financial statements of the HKE Group for the last three financial years ended 31 December 2007, 2008 and 2009;
- the HKE Circular; and
- the report on unaudited pro forma financial information of the HKC Group as set out in Appendix III to this circular.





**HKC (HOLDINGS) LIMITED**  
**香港建設(控股)有限公司\***

*(Incorporated in Bermuda with limited liability)*

**(Stock code: 190)**

*(Website: www.hkcholdings.com)*

**NOTICE OF SPECIAL GENERAL MEETING**

**NOTICE IS HEREBY GIVEN** that a Special General Meeting (the “Meeting”) of HKC (Holdings) Limited (the “Company”) will be held at 9th Floor, Tower 1, South Seas Centre, 75 Mody Road, Tsimshatsui East, Kowloon, Hong Kong on Monday, 26 July 2010 at 11:30 a.m. (or so soon thereafter as the extraordinary general meeting of HKE convened at the same place and on the same date at 10:30 a.m. shall have been concluded or adjourned) for the purpose of considering and, if thought fit, passing, the following resolution which will be proposed as an ordinary resolution of the Company:

**ORDINARY RESOLUTION**

**“THAT:**

- (a) the agreement for the sale and purchase of the sole issued share of HKE (BVI) Limited dated 12 May 2010 (the “Sale and Purchase Agreement”) entered into among Hong Kong Energy (Holdings) Ltd. (a wholly-owned subsidiary of the Company) as vendor, the Company as vendor guarantor and Hong Kong Energy (Holdings) Limited as purchaser (a copy of which has been produced at the Meeting marked “A” and signed by the chairman of the Meeting for identification purposes), together with the terms and conditions thereof and transactions contemplated thereunder as described in the circular of the Company dated 30 June 2010 (“HKC Circular”), including acquisition of any HKE Shares (as defined in the HKC Circular) through conversion of all or any of the Convertible Preferred Shares (as defined in the HKC Circular) issued thereunder, be and are hereby approved, ratified and confirmed; and
- (b) any one director of the Company or, if the affixation of the common seal of the Company is necessary, any one director of the Company and the company secretary of the Company or any two directors of the Company or such other person (including a director) or persons as the board of directors of the Company may appoint be and is/are hereby authorised for and on behalf of the Company to approve and execute all documents, instruments and agreements and to do all such acts or things deemed by him/her/them to be incidental to, ancillary to or in connection with the matters contemplated in or related to the Sale and Purchase Agreement and transactions contemplated thereunder or incidental thereto and completion thereof as he/she/they may consider necessary, desirable or expedient.”

By Order of the HKC Board  
**MOK Ming Wai**  
*Company Secretary*

Hong Kong, 30 June 2010

\* *For identification purposes only*

## NOTICE OF THE HKC SGM

*Registered office:*  
Clarendon House  
2 Church Street  
Hamilton HM11  
Bermuda

*Principal place of business in Hong Kong:*  
9th Floor, Tower 1  
South Seas Centre  
75 Mody Road  
Tsimshatsui East  
Kowloon, Hong Kong

*Notes:*

1. A member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company. A proxy need not be a member of the Company. In addition, a proxy or proxies representing either a member who is an individual or a member which is a corporation shall be entitled to exercise the same powers on behalf of the member which he or they represent as such member could exercise.
2. To be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a certified copy of such power or authority, shall be delivered to the principal place of business of the Company in Hong Kong at 9th Floor, Tower 1, South Seas Centre, 75 Mody Road, Tsimshatsui East, Kowloon, Hong Kong as soon as possible, and in any event, not less than fortyeight (48) hours before the time appointed for the holding of the meeting or any adjournment thereof.