THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in Hong Kong Energy (Holdings) Limited (the "Company"), you should at once hand this circular and accompanying form of proxy to the purchaser or transferee, or to the bank, licensed securities dealer, registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

This circular is for information only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities of the Company.

HKE
香港新能源

HONG KONG ENERGY (HOLDINGS) LIMITED
香港新能源(控股)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 987)

(website: www.hkenergy.com.hk)

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO ACQUISITION OF ALTERNATIVE ENERGY BUSINESS IN THE PRC INVOLVING THE ISSUE OF CONVERTIBLE PREFERRED SHARES AND NOTICE OF EXTRAORDINARY GENERAL MEETING

Financial adviser to the Company

SOMERLEY LIMITED

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

第一上海
FIRST SHANGHAI GROUP

First Shanghai Capital Limited

The letter from the board of directors of Hong Kong Energy (Holdings) Limited is set out on pages 8 to 49 of this circular. A letter from First Shanghai Capital Limited containing its advice and recommendation to the HKE Independent Board Committee and the HKE Independent Shareholders is set out on pages 52 to 79 of this circular.

A notice convening an extraordinary general meeting of the Company (the "HKE EGM") 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 10:30 a.m. is set out on pages EGM-1 to EGM-4 of this circular. A form of proxy for use at the HKE EGM is enclosed herewith. Whether or not you are able to attend and vote at the HKE EGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it 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 but in any event not less than 48 hours before the time appointed for the holding of the HKE EGM. Completion and return of the form of proxy will not preclude you from attending and voting at the HKE EGM or any adjournment thereof should you so wish and in such event, the instrument appointing a proxy shall be deemed to be revoked.

30 June 2010

CONTENTS

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

"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
"Articles of Association"	the articles of association of HKE as amended from time to time
"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
"associates(s)"	has the same meaning as defined in the Listing Rules
"BMI" or "Independent Valuer"	BMI Appraisals Limited, an independent valuer in connection with the valuation of the attributable interest in the Target Group under the Acquisition
"Bonus Share Issue"	the issue of new HKE Shares to the qualifying HKE Shareholders as announced by HKE on 22 March 2010
"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.)
"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
"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 Note"	the convertible note with a principal amount of RMB73.5 million issued by HKE to HKC (HK) upon completion of the acquisition of 25% interest in HKE (Danjinghe) (including assignment of the relevant loans) by HKE pursuant to the sale and purchase agreement dated 20 November 2009 entered into among HKE, HKC (HK) and HKC
"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 authorized share capital) 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), 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 of this circular

"Distribution"	the distribution of, amongst others, 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
"Enlarged Group"	the HKE Group as enlarged by the Acquisition
"Existing Warrants"	the existing bonus warrants that were issued by the Company on 14 May 2009 (warrant code: 748) and 9 June 2010 (warrant code: 795) respectively and such warrants are listed on the main board of the Stock Exchange
"First Shanghai" or "Independent Financial Adviser"	First Shanghai Capital Limited, a corporation licensed under the SFO to carry out Type 6 (advising on corporate finance) regulated activity, and the independent financial adviser to the HKE Independent Board Committee and the HKE Independent Shareholders in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder
"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
"GDP"	gross domestic product (all references to GDP growth rates are to real as opposed to nominal rates of GDP growth)
"HK Wind Power"	香港風力發電(穆棱)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 HKC Directors
"HKC Director(s)"	director(s) of HKC

"HKC Group"	HKC and its subsidiaries (excluding the HKE Group unless the context requires otherwise)
"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
"HKC Shareholders"	holder(s) of ordinary share(s) of par value of HK$0.01 each in the share capital of HKC
"HKE" or "Company" 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 (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
"HKE (Gansu)"	HKE (Gansu) Wind Power Limited, a company incorporated in Hong Kong
"HKE Group"	HKE and its subsidiaries

"HKE Independent Board Committee"	an independent committee of HKE Board comprising all of the three independent non-executive directors, namely, Mr. ZHANG Songyi, Mr. TANG Siu Kui, Ernest and Mr. YU Hon To, David, constituted to advise the HKE Independent Shareholders as regards the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder
"HKE Independent Shareholders"	HKE Shareholders, other than HKC and its associates
"HKE Share(s)"	ordinary share(s) of par value of HK$0.01 each in the share capital of HKE
"HKE Shareholders"	holder(s) of HKE Shares
"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 on which the Sale and Purchase Agreement is signed (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
"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*)
"PPA"	power purchase agreement entered into between a power producer and a grid company
"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 paragraph headed "Reorganisation" in the letter from the HKE 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"	the Securities and Futures Ordinance (Cap. 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)
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"GW"	gigawatts
"km"	kilometre
"KW"	unit of energy, kilowatt. 1 kW = 1,000 watts
"KWh"	unit of energy, kilowatt-hour. The standard unit of energy used in the electric power industry. One kilowatt-hour is the amount of energy that would be produced by a generator producing one thousand watts for one hour
"MW"	unit of energy, megawatt. 1 MW = 1,000 kW. The installed capacity of power plants is generally expressed in MW
"MWh"	unit of energy, megawatt-hour. 1 MWh = 1,000 kWh
"RMB"	Renminbi, the lawful currency of the PRC
"sq.km."	square kilometre
"US$"	United States dollars, the lawful currency of the United States of America
"%"	per cent.

* *The unofficial English translations or transliterations of Chinese names are for identification purpose only.*

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.

HKE
香港新能源

HONG KONG ENERGY (HOLDINGS) LIMITED
香港新能源(控股)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 987)

(website: www.hkenergy.com.hk)

Executive Directors:
Mr. OEI Kang, Eric
(Chairman and Chief Executive Officer)
Dr. YUNG Pak Keung, Bruce
Mr. LEUNG Wing Sum, Samuel

Non-executive Director:
Mr. LIU Zhixin

Independent non-executive Directors:
Mr. ZHANG Songyi
Mr. TANG Siu Kui, Ernest
Mr. YU Hon To, David

Registered office:
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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 HKE Shareholders and, for information only, the holders of the Existing Warrants and the holder of the Convertible Note

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO ACQUISITION OF ALTERNATIVE ENERGY BUSINESS IN THE PRC INVOLVING THE ISSUE OF CONVERTIBLE PREFERRED SHARES

INTRODUCTION

On 12 May 2010, HKE (as the Purchaser), HKEHL (as the Vendor) and HKC (as the Vendor Guarantor) entered into the Sale and Purchase Agreement, on the terms and subject to the conditions of which the Purchaser has agreed to acquire from the Vendor the Sale Share, being 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 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 for one new HKE Share initially.

The purpose of this circular is to provide you with, among other things, (i) further information on the Sale and Purchase Agreement and the transactions contemplated thereunder; (ii) the recommendation of the HKE Independent Board Committee to the HKE Independent Shareholders and advice of the independent financial adviser to the HKE Independent Board Committee and the HKE Independent Shareholders regarding the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder; (iii) accountant's report of the Target Group; (iv) pro forma financial information on the Enlarged Group; (v) business valuation report of the Target Group; and (vi) notice of the HKE EGM.

THE SALE AND PURCHASE AGREEMENT

The Acquisition

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.

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). There is no restriction on the subsequent sale of the Sale Share and/or the Loans.

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 a HKC's wholly-owned subsidiary as the main construction contractor to the Target Group of approximately HK$13.1 million. The finalised business valuation report prepared by BMI is set out in Appendix IV to this circular.

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) 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 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;

(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 has been fulfilled (or waived as the case maybe).

In the event that any of the above conditions shall not have been fulfilled (or waived as the case maybe) 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.

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
Ranking on liquidation:	In the event of any liquidation, dissolution, 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 holder 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 sub-paragraphs (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 upon conversion of the Convertible Preferred Shares
Transferability:	Any Convertible Preferred Share 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 as quoted on the Stock Exchange 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 as quoted on the Stock Exchange 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 as quoted on the Stock Exchange 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).

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 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 of control of HKE.

The HKE Directors consider that the terms of issue of the Convertible Preferred Shares are on normal commercial terms, fair and reasonable and in the interests of HKE and the HKE Shareholders as a whole.

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 Group 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).

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, 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 will not be obtained after completion of the Reorganisation and, as the HKC Board estimates, will be obtained after 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) to be 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.

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 a 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

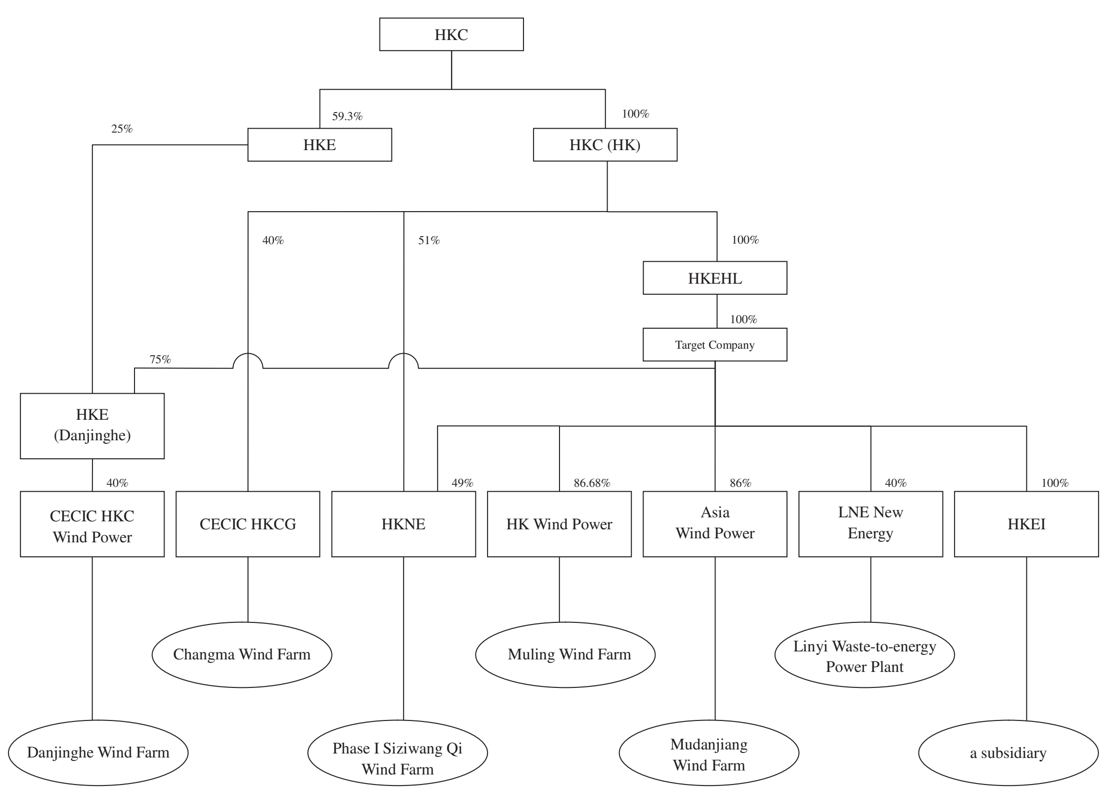
(iii) the WFOE and HKNE will enter into a technical services agreement pursuant to which the WFOE shall provide technical services to HKNE on an exclusive basis. Such services will include technical consultancy, equipment maintenance and testing, technical training, management consultancy and such other types of services as the parties may otherwise agree.

Group structure

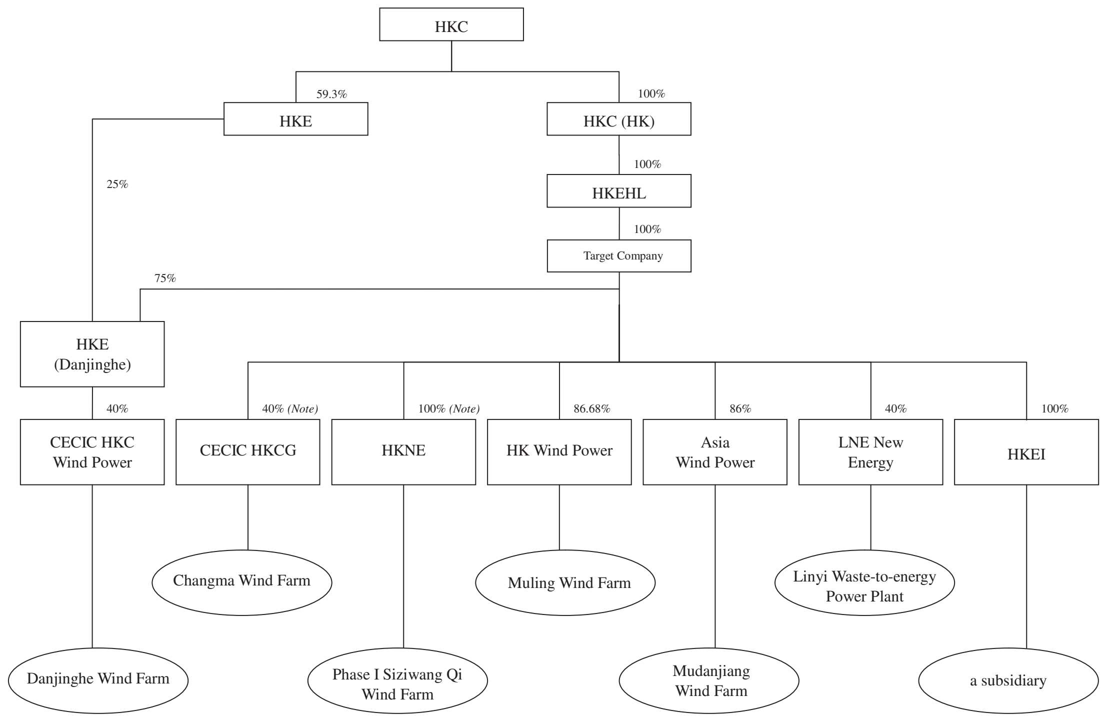
The Target Company is a company incorporated in the BVI, which is a wholly-owned subsidiary of HKC and is the holding company of the Target Group.

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 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:



Simplified shareholdings and equity beneficial interests structure of the Target Group upon completion of 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.

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 HKE. Upon Completion, it will remain an associated company of HKE.

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 201 MW powered by 134 units of 1,500 KW 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.

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 49.5 MW powered by 33 units of 1,500 KW 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.

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 850 KW 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.

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.

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 800 tonnes per day. The Company estimates 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.

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.

Financial information on the Target Group

Set out below are certain audited combined financial information on the Target Group prepared in accordance with Hong Kong generally accepted accounting principles:

	For the year ended 31 December	
	2009	**2008**
	HK$'000	*HK$'000*
Net loss before income tax	(29,825)	(153,833)
Net loss after income tax	(29,825)	(153,834)

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 has been 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.

Further financial information on the Target Group is set out in the accountant's report of the Target Group in Appendix II to this circular.

REASONS FOR AND BENEFIT OF THE ACQUISITION

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.

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 Chinese 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, Chinese leaders in the National People's Congress and Chinese People's Political Consultative Conference meetings (held in March 2010) have re-emphasised the importance of reinforcing a sustainable commercial framework to promote further development of renewable energy industry. 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 wind farm equipment prices declined by 15-20% during the last 18 months. All these factors are pointing towards a flourishing wind farm development business in the foreseeable future.

Taking into account the above, the Acquisition is consistent with the stated objective to focus on and increase HKE's participation in the alternative energy business. The Acquisition will increase HKE's portfolio of wind farm projects in the PRC of which HKE considers to have good potential given the growing demand for clean energy in the PRC. The HKE Directors are of the view that the terms of the Sale and Purchase Agreement and transactions contemplated thereunder are fair and reasonable and in the interests of HKE and the HKE Shareholders as a whole.

Given the existing cash position of the HKE Group and the working capital needs in building up its alternative energy portfolio, the HKE Board considers it appropriate and prudent to finance the Acquisition by issuing Convertible Preferred Shares so as to conserve HKE's valuable cash resources.

FINANCIAL EFFECTS OF THE ACQUISITION

It is anticipated that HKE may record, upon Completion, a valuation gain on excess of fair value of net liability acquired over cost of the Acquisition of approximately HK$196.1 million (subject to audit) on the basis that the Consideration represents a discount to the Business Valuation. The expected gain is calculated based on the fair value of the target assets under the Acquisition less the Consideration and the estimated deferred taxation expense arising from the difference between the book value and the fair value of the target assets, plus the fair value gain on the 10% effective interest in the Danjinghe Wind Farm currently held by the HKE Group. The actual valuation gain may or may not crystallise and is expected to vary, subject to, among other things, the actual cost of the Acquisition and the fair value of net liability acquired, which will only be determined at Completion.

Based on the unaudited pro forma consolidated balance sheet of the Enlarged Group as set out in Appendix III to this circular and assuming Completion had taken place on 31 December 2009, as a result of the Completion, (i) the total assets would be increased by approximately 560% from HK$396.1 million to HK$2,614.8 million; (ii) the total liabilities would be increased by approximately 1,123% from HK$89.0 million to HK$1,088.4 million; (iii) the net assets would be increased by approximately 397% from HK$307.0 million to HK$1,526.4 million. The Enlarged Group has cash and bank balances of approximately HK$354.3 million. In addition, the Acquisition will increase the capital commitment by approximately HK$38.6 million as the HKE Group will take up the capital commitment for property, plant and equipment of the Target Group outstanding as at 31 December 2009. The unaudited pro forma consolidated balance sheet of the Enlarged Group as set out in Appendix III has shown that there will be a decrease in fair value of property, plant and equipment and prepaid land lease payment which are largely due to (i) a decrease in price of major machineries in recent years; and (ii) some of the land of the Enlarged Group are allocated lands which are not readily transferable in the market before paying extra land premium and therefore the fair value of which cannot be ascertained.

A goodwill may arise in the event that, on the date of Completion, the fair value of the Convertible Preferred Shares issued exceeds the fair value of the net assets acquired under the Acquisition. Such goodwill will be accounted for as an intangible asset in the consolidated balance sheet of the Enlarged Group and subject to impairment review annually.

A negative goodwill may arise in the event that, on the date of Completion, the fair value of the net assets acquired under the Acquisition exceeds the fair value of the Convertible Preferred Shares. Such negative goodwill will be recognised in the consolidated statement of comprehensive income of the Enlarged Group.

INFORMATION ON THE PARTIES TO THE SALE AND PURCHASE AGREEMENT

The Vendor

HKEHL is principally engaged in investment holding, it is a wholly-owned subsidiary of HKC.

The Purchaser

The HKE Group is principally engaged in alternative energy business and software development business, and its operations are mainly in the PRC.

The Vendor Guarantor

The HKC Group is principally engaged in property development and investment, alternative energy investment, infrastructure and construction. The controlling shareholder of HKC is Mr. OEI Kang, Eric, who is also the Chairman and Chief Executive Officer of HKE.

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; and (iv) immediately after Completion assuming full conversions of the Convertible Preferred Shares and all the convertible securities of HKE, is and will be as follows:

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
	855,133,284	100.00	855,133,284	100.00	2,240,303,352	100.00	2,461,708,000	100.00

Note:

1. 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 and bonus warrants of HKE 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 were 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.

2. 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.

Existing operations of THE HKE Group

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 PRC government on alternative energy, in particular wind and solar power, HKE refined the business strategy and disposed of the cellulosic ethanol pilot project in May 2009. Resources and focus were redirected to wind energy project development.

Appointment of new Executive Director and Managing Director

A new Executive Director and Managing Director, Dr. YUNG Pak Keung, Bruce joined HKE in August 2009. Dr. Yung is a veteran in the energy industry with over 20 years working experience across Europe, Asia and in particular China during the last 10 years. Prior to joining the HKE Group, Dr. Yung was the Vice President of BP in China. Dr. Yung has also held senior management positions in Energy Power Group (the IPP arm of Energy Power Corporation) in China and British Gas plc in the UK before joining BP. 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.

Engagement of Garrad Hassan as engineering consultant

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.

Developments of existing projects

(i) Lunaobao Wind Farm

The equity for the Lunaobao wind farm project was fully injected 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. HKE owns 30% of the joint venture with the rest of the stake held by the wind division subsidiary of CECIC. The project comprises 67 sets of 1,500 KW PRC domestic manufactured wind turbines and the total investment cost is around RMB950.78 million. As at 31 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.

(ii) Danjinghe Wind Farm

HKE entered into an agreement in November 2009 to acquire from its parent company, HKC, 25% of HKE (Danjinghe), which holds 40% equity interest in the project company developing the Danjinghe wind farm, for a consideration of approximately HK$83.06 million. 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 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 1,000 MW national-scale wind power project designated by NDRC as a showcase for China. The wind farm was developed in three phases where phase I consisted 54 units of 750 KW wind turbine, phase II 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 I construction of the Danjinghe project was completed for trial run in January 2009 and commenced commissioning in March 2009. Phase II and III 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 I operating performance in 2009 exceeded the original forecast of 75 million KWh by 10 million KWh.

(iii) Phase II of Siziwang Qi Wind Farm

In relation to the Phase II of Siziwang Qi Wind Farm, since the granting of the preliminary approval from 內蒙古自治區發展和改革委員會 (National Development and Reform Commission of Inner Mongolia Autonomous Region*) for its construction in the mid 2008, the HKE Group, in particular HKNE, has continuously carried out substantial works for the development of Phase II of the Siziwang Qi Wind Farm.

In June 2008, 內蒙古自治區中國建設銀行 (Inner Mongolia Autonomous Region branch of the China Construction Bank*) has provided an undertaking to HKNE that it would provide therewith a loan facility of approximately RMB 350 million to finance the fixed assets investment of the Phase II of Siziwang Qi Wind Farm, subject to, among other things: (i) the feasibility report of the Siziwang Qi Wind Farm having been approved by the relevant government authorities; and (ii) fulfilling the conditions of granting of aforesaid loans after the bank's approval exercises.

In June 2008, the HKE Group entered into two contracts with an aggregate value of approximately RMB349.8 million (about HK$393.2 million) for purchase of 33 sets of wind turbine from 華銳風電科技有限公司 (Sinovel Windtec Co., Ltd.*) and turbine tower from 中國北車集團濟南機車車輛廠 (CNR Jinan Locomotive & Rolling Stock Plant*) for the Phase II of Siziwang Qi Wind Farm. However, due to the project deferral, certain payment conditions have now became invalid and the original contracts have now became ineffective. New contract terms and conditions are under negotiation with the suppliers.

In June 2008, 內蒙古自治區發展和改革委員會 (National Development and Reform Commission of Inner Mongolia Autonomous Region*) has granted its approval for the Phase II of Siziwang Qi Wind Farm. The Commission considered that the Phase II of Siziwang Qi Wind Farm would be beneficial to the economic development of the locality. The Commission also requested HKNE to commence preparation of various works, including land, environment protection, grid connection, bank loans, supply of equipment, etc.

In August 2008, 內蒙古電力集團有限責任公司 (Inner Mongolia Autonomous Region Electricity (Group) Company Limited*) confirmed the receipt of various applications for the connection to the local grid by HKNE. The electricity company has agreed to allow the connection of the Phase II of Siziwang Qi Wind Farm to the grid, subject to, among other things, (i) obtaining the approvals from the various government authorities; (ii) constructing the Siziwang Qi Wind Farm in accordance with the development plan approved by the relevant government authorities; and (iii) engaging a qualified design unit to prepare a feasibility study on the connection to the grid from the Phase II of Siziwang Qi Wind Farm. The electricity company has agreed preliminary on-grid rate to HKNE.

In February 2009, HKNE has engaged 內蒙古電力勘測設計院 (Inner Mongolia Autonomous Region Electricity Observatory Design Institute*) to submit a design of system for on-grid connection as requested by the Inner Mongolia Autonomous Region Electricity (Group) Company Limited. HKNE agreed to provide relevant information to the institute such that the design can satisfy the requirements for assessment by the electricity company.

In March 2009, HKE has, through HKC, engaged Garrad Hassan to carry out an independent assessment of the wind climate and expected energy production of the Phase II of Siziwang Qi Wind Farm. HKE and HKC had supplied an initial proposed layout and a turbine model under consideration and Garrad Hassan has designed a layout with the aim of maximising the energy yield of the Phase II of Siziwang Qi Wind Farm. Garrad Hassan has analysed the long-term wind regime and the valid wind data recorded at the Siziwang Qi Wind Farm for 2.3 years since August 2006. Garrad Hassan has provided conclusions and recommendations for the further development and detailed technical requirements of the Phase II of Siziwang Qi Wind Farm.

In August 2009, the management of HKE is informed by 內蒙古電力勘測設計院 (Inner Mongolia Autonomous Region Electricity Observatory Design Institute*) that it has issued and submitted in August 2009 the report in respect of the design layout for on-grid connection to 內蒙古電力集團有限責任公司 Inner Mongolia Autonomous Region Electricity (Group) Company Limited. Therefore, the HKE management expects that the final approval from 內蒙古自治區發展和改革委員會 (National Development and Reform Commission of Inner Mongolia Autonomous Region) in respect of the development of Phase II of Siziwang Qi Wind Farm will be obtained soon. Nevertheless, based on the experience of the HKE management, the relevant government authorities may request further information from time to time.

Other prospective projects

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.

INFORMATION ON THE ENLARGED GROUP

Financial and trading prospect of the Enlarged Group

The global economy stabilised in 2009 after stimulus packages were rolled out by different countries in response to the financial tsunami. However, the capital markets continue to remain fragile and volatile. Despite the risk of withdrawal of stimulus packages increases in 2010, alternative energy development generally remains a key focus to the governments in both the East and West.

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 in PRC held on 26 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 Province. 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 sq.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.

Given this favourable market and operating environment, the HKE Group is confident that wind farm projects, such as Danjinghe and Lunaobao, that start operation in 2010 can make a good contribution. For 2010, HKE will continue to develop its existing alternative energy projects on hand.

The HKE Group's business vision is to become a trusted partner to China's alternative energy development. To increase the size of HKE's project pipeline, in addition to the Acquisition, the Company will actively explore opportunities for growth and will continue to evaluate potential wind farm locations through the HKE Group's wind resources consultant, Garrad Hassan.

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 now proposes to acquire all the wind farms and waste-to-energy plant of the HKC Group (excluding those currently held by HKE Group). This will complete the transformation of HKE into HKC's alternative energy flagship.

Development plan

Immediately after the Completion, the Target Group will continuously focus on the alternative energy business through safe, efficient and profitable operation of the wind power generation and waste-to-energy assets. These assets will be integrated into the existing assets portfolio of the Enlarged Group and form the backbone foundation for the expansion and deeper penetration of the Enlarged Group in the alternative business in China. In order to achieve such objective, the following has been planned for the coming years:

(a) Successful integration of the operational, financial and other supporting systems of the Target Group into the Enlarged Group.

(b) Continue the safe, efficient and profitable operation of the Target Group assets supported by fit-for-purpose working capital and best-in-class operational practice.

(c) Implement the base case strategy of development, investment and operation of 200 MW equivalent gross capacity of wind power assets per year in China.

(d) Enter, when suitable opportunities arise, into other alternative energy investments in addition to wind power and waste-to-energy, such as solar power and hydro power.

(e) Seek inorganic expansion into the alternative energy through merger and acquisition, with right strategic partners and, of appropriate strategic assets.

The initial investment required for the working capital to operate the existing assets as well as the development, construction and operation of new alternative energy assets of the Target Group which will be incurred in the first year after Completion is estimated to be approximately RMB443.8 (equivalent to approximately HK$504.2 million). HKE currently envisages that such capital investment execution of the above plan will be financed by operating inflow, potential fund raising exercise of HKE through equity and/or debt financing and/or other feasible ways of financing (including a standby facility from HKC, the holding company). Further details in this regard will be announced by HKE as and when appropriate.

Management discussion and analysis of the Enlarged Group

On 3 March 2008, HKC and J.I.C. Technology Company Limited ("JIC" and its subsidiaries, the "JIC Group") jointly announced that the controlling shareholder of JIC had on 26 February 2008 entered into a share purchase agreement with HKC, pursuant to which the controlling shareholder of JIC conditionally agreed to sell, and HKC conditionally agreed to purchase, approximately 74.99% of the issued share capital of JIC. Completion of the transactions contemplated under the aforesaid share purchase agreement took place on 4 March 2008. Subsequent to the change in control of JIC, the company name was changed to the current name of the Company, i.e. Hong Kong Energy (Holdings) Limited, and the entire board of directors of JIC has also changed.

For the year ended 31 December 2007

Financial and business review

(i) The JIC Group

Net sales for the twelve months ended 31 December 2007 increased moderately by 29.7% to HKD654.0 million as compared to the annual sales last year.

Gross margin dropped from 16.8% in year 2006 to 11.1% in year 2007. Selling, administrative expenses and research and development expenses recorded a respective rise of 28.3%, 14.0% and 13.3% respectively.

Net profit for the twelve months ended 31 December 2007 increased by 710.3% to HK$228.5 million as compared to the same period last year mainly because the HK$209.8 million gain on disposal of subsidiaries in 2007.

As part of the Reorganisation of Nam Tai Electronics, Inc. ("NTEI", and together with its subsidiaries, "NTEI Group") (NYSE stock code: NTE) to centralise all the NTEI Group's manufacturing businesses in Nam Tai Electronic & Electrical Products Limited ("NTEEP") and non-manufacturing businesses in JIC, on 31 December 2007, JIC disposed of its entire interest in its wholly-owned principal subsidiary, Jetup Electronic (Shenzhen) Co., Ltd. ("Jetup") and its two intermediate holding companies, to NTEI at a cash consideration of approximately HK$380,241,000. On the same date, the Company acquired Shenzhen Namtek Co., Ltd., a software solution provider and its immediate and intermediate holding companies, and also Namtek Japan Company Limited, a sales support office, from NTEEP at a total cash consideration of HK$80,500,000. JIC recorded a net gain amounting to approximately HK$209,817,000 from the disposal of the subsidiaries. The completion of the Reorganisation signified that JIC would discontinue its liquid crystal display ("LCD") product business and commence to engage in software development business.

Sales for the fourth quarter of 2007 were approximately HK$166,107,000, an increase of 29.6% when compared with the same period last year. Gross profit and operating income for the fourth quarter increased 14.3% and 165.6% respectively when compared with the same period last year. Gross profit margin, however, dropped from 12.3% to 10.9% for the period under review due to lower sales mix of higher margin LCD modules and competitive pricing pressure on products. Selling, administrative and research and development expenditure as a whole increased very marginally over the same quarter last year.

Sales for the six months ended 31 December 2007 were up by 25.9% although gross profit margin and operating income margin were down by 7.7% and 40.8% respectively compared to the same period last year. The growth for the six months ended 31 December 2007 was mainly driven by a new LCD module product which demanded a two-fold increase in the capacity of LCD module assembly. In the process of gearing the capacity for the expansion of such business, JIC had acquired new machines and expanded the workforce. While tuning the bottleneck and balancing the productivity, JIC suffered because of overhead expenses and yield losses.

Sales for the twelve months ended 31 December 2007 were approximately HK$654,010,000, which was approximately 29.7% above the annual sales of 2006. The growth came mainly from the large volume lower margin LCD modules while the sales of higher margin LCD modules only increased marginally. Gross profit margin and operating income margin dropped from 16.8% and 6.5% in 2006 to 11.1% and 1.8% respectively in 2007. Although gross profit margin and operating income margin for 2007 were lower than those of 2006, the management of JIC was able to improve gross profit margin and operating income margin from 10.4% and 1.0% in the first half of 2007 to 11.6% and 2.6% respectively in the second half of 2007. The improvement was attributable to the success of various cost control measures adopted by the management and the increasing production efficiency over the period under review.

(ii) The Target Group

The Target Group has three major investments in wind power plants, and developments made good progress during 2007. During the year it completed construction of the Muling Wind Farm and the Mudanjiang Wind Farm in Heilongjiang, which have now begun generating electricity and are contributing revenue to the Target Group.

The Target Group also continued construction during the year of the Danjinghe Wind Farm in Hebei Province, together with CECIC. CECIC is a national level state owned enterprise involved in energy conservation and environmental protection, and is a partner on a number of the Group's alternative energy projects. CECIC reports directly to China's State Council, and has assets of approximately RMB24.0 billion as at 31 December 2007. The first phase of the Danjinghe Wind Farm is well underway, and on completion will offer a 40.5 MW generating capacity. Electricity may begin to be generated by late 2008.

The Target Group is developing the Phase I of Siziwang Qi Wind Farm in Inner Mongolia, China. This area potentially covers some 1,000 sq.km, and has the potential to develop installed capacity of up to 1,000 MW. To date, generating capacity of 50 MW has been approved by the relevant authorities.

The Linyi Waste-to-energy Plant in Shandong Province, China, undertaken in partnership with the China National Environmental Protection Corporation, a wholly-owned subsidiary of CECIC, began its trial operations in August 2007, with a 24 MW output capacity. The project offers the Target Group multiple revenue streams, since revenue is earned not only from the generation of electricity, but also from fees for garbage treatment from the Linyi municipal government, from trading within the Clean Development Mechanism (carbon credits), and from sales of ash-based materials.

No material acquisition or disposal of subsidiaries and associated companies has been made by the Target Group during the year ended 31 December 2007.

Liquidity, financial resources and financial ratios

(i) The JIC Group

Cash generated from operations for the year was HK$68.5 million (2006: HK$56.5 million). The Company retired a loan of HK$13.5 million during the year, bringing down the debt to equity ratio from 0.34 as at 2006 year end to 0.02 as at 2007 year end. As at 31 December 2007, the Company had HK$344.6 million cash on hand and total banking facilities of HK$8.6 million (2006: HK$203.2 million), out of which only HK$8.6 million (2006: HK$57.1 million) was utilised. The Company believes that the strong cash from operations and available banking facilities shall be able to support the Company in its capital expenditure and future operations.

Basic and diluted earnings per share for the year ended 31 December 2007 were 29.92 Hong Kong cents as compared to basic and diluted earnings per share of 3.69 Hong Kong cents for the year ended 31 December 2006.

The proceeds of the sale of the interest in Jetup significantly strengthened JIC's balance sheet. As at 31 December 2007, total cash was HK$344.6 million (2006: HK$26.5 million) and total bank borrowings were HK$8.6 million (2006: HK$57.1 million)

During the financial year ended 31 December 2007, cash per share was 45.1 HK cents (2006: 3.5 HK cents) and net asset per share was 52.0 HK cents (2006: 22.1 HK cents), based on 763,534,755 (2006: 763,534,755) issued ordinary shares.

As at 31 December 2007, JIC had, a cash to current liabilities ratio of 20.09 (2006: 0.19), a current ratio of 20.25 (2006: 1.34) and a total assets to total liabilities ratio of 17.18 (2006: 2.14), and approximately HK$344.6 million (2006: HK$26.5 million) of bank balances and cash.

As at 31 December 2007, JIC issued no corporate guarantee (2006: HK$138.8 million) to banks in respect of banking facilities granted to its subsidiaries. Total banking facilities available for JIC was HK$8.6 million as at 31 December 2007 (2006: HK$203.2 million), out of which HK$8.6 million (2006: HK$57.1 million) had been utilized. The gearing ratio (total bank borrowings/total shareholders' equity) was 0.02 (2006: 0.34). The fall in bank borrowings was attributable to retirement of loans previously raised for trade finance and factory expansion. JIC's borrowings are arranged at certain fixed rates over the usual inter-bank money market offer rates which are floating for periods ranging from one month to six months; at prevailing market rate/fixed interest rates, and they are denominated in Hong Kong Dollar, United States Dollar and Chinese Renminbi. The average interest rate paid during the year was 6.1% (2006: 5.2%).

JIC recorded no debtor's turnover days for the 12 months ended 31 December 2007 (2006: 71 days) based on the amount of trade debtors as at the relevant period end divided by sales of the same period and multiplied by 365 days (2006: 365 days) and the number of months in that period over 12.

JIC recorded no creditor's turnover days for the 12 months ended 31 December 2007 (2006: 66 days) based on the amount of trade creditors as at the relevant period end divided by cost of sales of the same period and multiplied by 365 days (2006: 365 days) and the number of months in that period over 12.

JIC recorded no inventory turnover days for the 12 months ended 31 December 2007 (2006: 47 days) based on the amount of inventories as at the relevant period end divided by cost of sales of the same period and multiplied by 365 days (2006: 365 days) and the number of months in that period over 12.

(ii) The Target Group

The Target Group was largely funded by bank borrowings. As at 31 December 2007, the Target Group had bank borrowings of approximately HK$428.9 million, of which HK$12.9 million was due within one year while the remaining balance was due from the second year to after the fifth year. The bank borrowings were denominated in RMB and carried floating interest rate. Certain of the bank borrowings were secured by the prepaid land lease payments and property, plant and equipment of the Target Group and corporate guarantee granted by the HKC Group.

As at 31 December 2007, cash and bank balance amounted to approximately HK$13.8 million.

As at 31 December 2007, the Target Group had planned capital expenditure of approximately HK$192.8 million for the constructions of the Phase I Siziwang Qi Wind Farm, the Danjinghe Wind Farm and the Changma Wind Farm. For development of the projects, the Target Group first rely on its internal sources and actively seek bank financing to fund its future capital expenditure commitments. The Target Group's ultimate holding company, HKC, also provide financial support whenever necessary.

As at 31 December 2007, certain property, plant and equipment with a carrying value of approximately HK$446.9 million and the whole amount of the prepaid land lease payment of approximately HK$18.8 million were charged to secure the bank borrowings of the Target Group.

As at 31 December 2007, the Target Group had net debt, being total borrowings and amounts due to fellow subsidiaries less cash and bank balances and restricted cash, of approximately HK$818.0 million. The gearing ratio, defined as net debt divided by the total capital being net debt plus total equity or less deficit on equity holders' fund, was approximately 98% as at the same date.

As at 31 December 2007, the Target Group did not have any contingent liability.

Foreign exchange exposure

(i) The JIC Group

As JIC usually conducts its business transactions in Hong Kong Dollar and United States Dollar, and about 96.2% of JIC's cash as at 31 December 2007 (2006: 98.1%) is in either Hong Kong Dollar or United States Dollar, the management of JIC assessed the exposure to exchange rate fluctuation not significant and evaluated that a commercial hedging exercise was not necessary at this stage. Nevertheless, JIC has been managing its foreign exchange risk through natural hedges when different assets and liabilities are denominated in similar foreign currencies. Meanwhile, the management of JIC has recognised the impact of the appreciation of Chinese Renminbi, though not significant, on JIC's operating costs in the PRC during the year 2007, and further considered any possible depreciation of United States Dollar against Chinese Renminbi in the future.

(ii) The Target Group

The Target Group did not use financial instruments for financial hedging purposes during the year ended 31 December 2007. The Target Group also did not have any significant exposure to fluctuations in exchange rates as majority of the assets, liabilities, revenues and expenses were denominated in RMB.

Employee and emolument policy

(i) The JIC Group

Up to 31 December 2007, the JIC Group had a total of 2,794 (2006: 2,393) dynamic and talented employees, among which 26 (2006: 25) were marketing staff and 70 (2006: 85) were research and development staff. All staff were dedicated to maintaining and advancing the quality and reliability of our operations. Total staff costs for the year ended 31 December 2007 were approximately HK$95.2 million (2006: HK$71.2 million).

Remuneration policy of the JIC Group is reviewed regularly, making reference to legal framework, market condition and performance of the JIC Group and individual staff. The remuneration policy and remuneration packages of the executive directors of JIC and members of the senior management are reviewed by the Remuneration Committee of JIC, the composition and responsibilities of which are detailed in the section "Corporate Governance Practices" in JIC's 2007 annual report.

A share option scheme was established on 4 June 2002 in order for JIC to grant options to eligible participants for the purpose of providing incentives and rewards to those who contribute to the success of the JIC Group's operations. Details of the share option scheme were set out in the section "Share Option Scheme" in JIC's 2007 annual report. No option has been granted by JIC under the scheme since its adoption.

JIC operates a mandatory provident fund scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance (Cap. 485 of the Laws of Hong Kong) for all their employees under Hong Kong employment. The MPF Scheme is a defined contribution scheme pursuant to which JIC and its employees have to each contribute 5% of the relevant income of the employees to the MPF Scheme subject to the minimum and maximum levels of income of HK$5,000 and HK$20,000 respectively with a statutory cap of HK$1,000 per month. JIC's contributions are 100% vested in the employees' accounts once they are paid into the MPF Scheme until the employee reaches the retirement age of 65 subject to a few exceptions.

With regard to the JIC Group's employees under Macao employment, the JIC Group operates a retirement benefit scheme (the "Macao Scheme") which is also a defined contribution scheme administered by independent trustees. Although the Macao Scheme is not a mandatory scheme, the JIC Group has adopted terms identical to the MPF Scheme in terms of contributory amount, operation of the scheme and retirement age for the Macao Scheme.

The JIC Group's local employees in the PRC under PRC employment are covered under a local statutory retirement insurance policy operated by local government (the "PRC Scheme"). Both the JIC Group and the employees are required to contribute a designated percentage of the employees' monthly salary to the PRC Scheme.

Details of the JIC Group's costs with respect to the MPF Scheme, Macao Scheme and PRC Scheme charged to its income statement are set out in note 30 to the financial statements in JIC's 2007 annual report.

(ii) The Target Group

As at 31 December 2007, the Target Group's operations in mainland China employed a total of 32 employees. The Target 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 Target Group's overall performance, and the prevailing marketing conditions.

Share option scheme – The JIC Group

On 16 April 2002, a share option scheme (the "Scheme") was approved by the board of JIC and enables JIC to grant options to eligible participants for the purpose of providing incentives and rewards to those who contribute to the success of the JIC Group's operations. Eligible participants of the Scheme include, among others, any employee of the JIC Group (including any director of JIC or any of its subsidiaries) and those companies in the equity share capital of which JIC, directly or indirectly, has a 20 percent or greater beneficial interest but excluding JIC's subsidiaries. The Scheme became effective on 4 June 2002, the date on which JIC's ordinary shares were listed on the Stock Exchange and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

For the year ended 31 December 2008

Financial and business review

(i) The HKE Group

For the year ended 31 December 2008, the turnover for HKE amounted to HK$13.88 million, a decrease of 98% from HK$654.01 million in 2007. Gross profit for the year of HK$7.99 million represented a decrease of 89% from last year's gross profit of HK$72.37 million. Net loss attributable to equity holders of the HKE Group amounted to HK$89.72 million for the year, as compared to the net profit of HK$228.46 million achieved in 2007. The decrease in turnover and gross profit was primarily due to discontinuation of the HKE Group's LCD business, which had been the HKE Group's principal business in 2007. In December 2007, the HKE Group acquired a software development business, albeit of a significantly smaller scale. Since early 2008, the HKE Group began investing in alternative energy projects, but as at 31 December 2008 these remained at the early stage and were yet to generate revenue for the HKE Group. Meanwhile, the management has reviewed the carrying amounts of goodwill and intangible assets related to the software development business and made a provision for impairment losses. For the year ended 31 December 2008, basic loss per share amounted to HK11.75 cents (2007: basic earnings per share of HK29.92 cents).

(ii) The Target Group

The Target Group's Muling Wind Farm and Mudanjiang Wind Farm in Heilongjiang, where construction was completed and electricity began to be generated from late 2007.

Another alternative energy project under the wing of HKC is the Target Group's Linyi Waste-to-energy Plant, a joint venture with the China National Environmental Protection Corporation, a wholly-owned subsidiary of China Energy Conservation Investment Corporation ("CEC Investment"). Located in Shandong Province, China, the 25 MW capacity plant has begun operation and is generating revenue. The Target Group owns a 40% share, and CEC Investment 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. In the first trial year, profits were lower than expected as high coal prices resulted in higher than expected costs. The boiler has now been modified so that less coal will be needed to produce power, and should result in an improvement in profitability.

The alternative energy of the Target Group currently comprises (i) the Mudanjiang Wind Farm and the Muling Wind Farm located at Heilongjiang Province, which the Target Group owns approximately 87% and 86% interests respectively, with a total capacity of approximately 60 MW and have been in commercial operations since September 2007; (ii) the Danjinghe Wind Farm located at Hebei Province, which the Target Group owns approximately 40% interest, with a capacity of approximately 200 MW and the expected time to be in commercial operations in January 2009, December 2009 and December 2010; (iii) the Phase I of the Changma Wind Farm located at Gansu Province, which the Target Group owns approximately 40% interest, with a capacity of approximately 201 MW and the expected time to be in commercial operations in 2010; (iv) the Phase I of the Siziwang Qi Wind Farm located at Inner Mongolia Autonomous Region, which the Target Group owns 100% interest, with a capacity of approximately 49.5 MW and the expected time to be in commercial operations in fourth quarter of 2009; and (v) the Linyi Waste-to-energy Plant located at Linyi, Shangdong Province, which the Target Group owns approximately 40% interest, with an electricity generation capacity of approximately 25 MW and garbage handling capacity of 800 tonnes per day and it has been in commercial operations since the fourth quarter of 2009.

No material acquisition or disposal of subsidiaries and associated companies has been made by the Target Group during the year ended 31 December 2008.

Liquidity and financial resources

(i) The HKE Group

As at 31 December 2008 the HKE Group did not have any borrowings as compared with HK$8.58 million as at 31 December 2007. This was the result of the HKE Group repaying all borrowings during 2008.

The HKE Group's wholly unrestricted cash and cash equivalents as at 31 December 2008 was HK$289.10 million, a decrease from HK$344.56 million in 2007. For its alternative energy projects, the HKE Group expects total capital expenditures HK$506.81 million, of which HK$110.01 million has already been arranged and will be injected from the HKE Group's internal resources into an associated company. The timing on injecting the remaining HK$396.80 million of capital expenditure is under the control of the HKE Group. Apart from internal sources of funding, the HKE Group is actively seeking funds to finance its future capital expenditure commitment from external sources, such as bank financing, or, if necessary, financial support from its parent company HKC (stock code: 190).

The HKE Group will continue its efforts to create an optimum financial structure that best reflects the long-term interest of its shareholders.

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

(ii) The Target Group

The Target Group was largely funded by bank borrowings. As at 31 December 2008, the Target Group had bank borrowings of approximately HK$610.3 million, of which HK$22.7 million was due within one year while the remaining balance was due from the second year to after the fifth year. The bank borrowings were denominated in RMB and carried floating interest rate. Certain of the bank borrowings were secured by the prepaid land lease payments and property, plant and equipment of the Target Group and corporate guarantee granted by the HKC Group.

As at 31 December 2008, cash and bank balance was amounted to approximately HK$255.4 million.

As at 31 December 2008, the Target Group had planned capital expenditure of approximately HK$454.2 million for continuing constructions of the Phase I Siziwang Qi Wind Farm, the Danjinghe Wind Farm and the Changma Wind Farm. For development of the projects, the Target Group will first rely on its internal sources and will actively seek bank financing to fund its future capital expenditure commitments. The Target Group's ultimate holding company, HKC, will also provide financial support whenever necessary.

The Target Group did not use financial instruments for financial hedging purposes during the year ended 31 December 2008. The Target Group also did not have any significant exposure to fluctuations in exchange rates as majority of the assets, liabilities, revenues and expenses were denominated in RMB.

Details of charges in the HKE Group's assets

(i) The HKE Group

During the year under review, the HKE Group did not have any charges over the HKE Group's assets (2007: Nil).

(ii) The Target Group

As at 31 December 2008, certain property, plant and equipment with a carrying value of approximately HK$418.9 million and the whole amount of the prepaid land lease payment of approximately HK$17.3 million were charged to secure the bank borrowings of the Target Group.

Gearing ratio

(i) The HKE Group

The HKE Group maintained a cash position of HK$289.10 million as at 31 December 2008 with no borrowing, compared with a net cash position of HK$335.98 million as at 31 December 2007.

(ii) The Target Group

As at 31 December 2008, the Target Group had net debt, being total borrowings and amounts due to fellow subsidiaries less cash and bank balances and restricted cash, of approximately HK$1,331.2 million. The gearing ratio, defined as net debt divided by the total capital being net debt plus total equity or less deficit on equity holders' fund, was approximately 109% as at the same date.

Contingent Liabilities

(i) The HKE Group

The HKE Group did not have any contingent liabilities as at 31 December 2008 (2007: Nil).

(ii) The Target Group

As at 31 December 2008, the Target Group did not have any contingent liability.

Employees

(i) The HKE Group

As at 31 December 2008, the HKE Group's operations in Hong Kong and mainland China employed a total of 86 employees. The HKE Group also appointed technical consultants on contract terms for its alternative energy projects and sales consultants for its software business. 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.

(ii) The Target Group

As at 31 December 2008, the Target Group's operations in mainland China employed a total of 82 employees. The Target 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 Target Group's overall performance, and the prevailing marketing conditions.

For the year ended 31 December 2009

Financial and business review

(i) The HKE Group

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

(ii) The Target Group

The Target 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 II was completed on schedule, while Phase III 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 Target 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 CEC Investment, a leading stated-owned enterprise focusing on energy conservation and environmental protection.

Another 50 MW wind power project wholly-owned by the Target 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 Target Group's waste-to-energy plant, a joint venture with CEC Investment. Located in Shandong, China, the 25 MW capacity plant has begun operation and is generating revenue. The Target Group owns a 40% share, and CEC Investment 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.

The alternative energy of the Target Group currently comprises (i) Phases I, II and III of the Danjinghe Wind Farm located at Hebei Province, which the Target Group owns approximately 30% interest, with a total capacity of approximately 200 MW and the expected time to be in commercial operations in the first quarter of 2009, the fourth quarter of 2009 and the fourth quarter of 2009 respectively; (ii) the Phase I of the Changma Wind Farm located at Gansu Province, which the Target Group owns approximately 40% interest, with a capacity of approximately 201 MW and the expected time to be in commercial operations in 2010; (iii) the Mudanjiang Wind Farm and the Muling Wind Farm located at Heilongjiang Province, which the Target Group owns approximately 87% and 86% interests respectively, with a total capacity of approximately 60 MW and have been in commercial operations since September 2007; and (iv) the Phase I of the Siziwang Qi Wind Farm located at Inner Mongolia Autonomous Region, which the Target Group owns 100% interest, with a capacity of approximately 49.5 MW and the expected time to be in commercial operations in the first quarter of 2010.

No material acquisition or disposal of subsidiaries and associated companies has been made by the Target Group during the year ended 31 December 2009.

Liquidity and Financial Resources

(i) The HKE Group

As at 31 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 31 December 2009 and details are disclosed in note 24 to the financial statements of the HKE Group as set out in HKE's 2009 annual report.

The HKE Group's unrestricted cash and cash equivalents was HK$172.23 million as at 31 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 31 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 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 ultimate holding 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.

(ii) The Target Group

The Target Group was largely funded by bank borrowings. As at 31 December 2009, the Target Group had bank borrowings of approximately HK$758.9 million, of which HK$62.5 million was due within one year while the remaining balance was due from the second year to after the fifth year. The bank borrowings were denominated in RMB and carried floating interest rate. Certain of the bank borrowings were secured by the prepaid land lease payments and property, plant and equipment of the Target Group and corporate guarantee granted by the HKC Group.

As at 31 December 2009, cash and bank balance amounted to approximately HK$189.5 million.

As at 31 December 2009, the Target Group had planned capital expenditure of approximately HK$38.6 million for full operations of Phase I Siziwang Qi Wind Farm. For development of the projects, the Target Group will first rely on its internal sources and will actively seek bank financing to fund its future capital expenditure commitments. The Target Group's parent company, HKC, will also provide financial support whenever necessary.

The Target Group did not use financial instruments for financial hedging purposes during the year ended 31 December 2009. The Target Group also did not have any significant exposure to fluctuations in exchange rates as majority of the assets, liabilities, revenues and expenses were denominated in RMB.

Details of charges in the HKE Group's assets

(i) The HKE Group

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

(ii) The Target Group

As at 31 December 2009, certain property, plant and equipment with a carrying value of approximately HK$511.4 million and the whole amount of the prepaid land lease payment of approximately HK$17.5 million were charged to secure the bank borrowings of the Target Group.

Gearing Ratio

(i) The HKE Group

As at 31 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.

(ii) The Target Group

As at 31 December 2009, the Target Group had net debt, being total borrowings and amounts due to fellow subsidiaries less cash and bank balances and restricted cash, of approximately HK$1,641.0 million. The gearing ratio, defined as net debt divided by the total capital being net debt plus total equity or less deficit on equity holders' fund, was approximately 109% as at the same date.

Contingent Liabilities

(i) The HKE Group

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

(ii) The Target Group

As at 31 December 2009, the Target Group did not have any contingent liability.

Employees

(i) The HKE Group

As at 31 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.

(ii) The Target Group

As at 31 December 2009, the Target Group's operations in mainland China employed a total of 60 employees. The Target 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 Target Group's overall performance, and the prevailing marketing conditions.

RISK FACTORS

The Target Group's wind farms' and waste-to-energy plant's commercial viability and profitability depend on the PRC government's policies and regulatory framework supporting renewable energy development, which the PRC government could change or eliminate

The PRC government has adopted policies and established a regulatory framework to encourage the development of wind power projects and waste-to-energy plant projects to increase the proportion of electricity generated from renewable energy sources. Laws and regulations, such as the Renewable Energy Law, also provide economic incentives to companies engaged in the development of wind power projects. Such incentives include mandatory grid connection and dispatch of 100% of electricity generation from wind farms, on-grid tariff premiums (the on-grid tariffs for wind power are generally higher than those for coal power within the same province), and tax benefits such as a refund of 50% of the value-added tax levied on electricity generation from wind power and other tax reduction plans. In accordance with a recent change in government policies, the on-grid tariff for electricity produced by wind farm projects as determined by "government guided price" has been replaced by geographically unified tariffs, a form of "government fixed price," which the Target Group believe will generally be more favorable than that of the Target Group's wind power projects approved in recent years. The new on-grid tariffs continue to be subsidized by on-grid tariff premiums enjoyed by renewable power projects in general. The development and profitability of wind power projects in the PRC, including the Target Group's wind farms, is significantly dependent on policies and regulatory framework that support such development.

The Target Group's wind farms' commercial viability and profitability depend on wind and associated weather conditions, as well as the Target Group's ability to assess such conditions when selecting new wind farm sites

The Target Group's wind power business generates revenue primarily from the sale of electricity generated by the Target Group's wind farms. The amount of electricity generated by, and the profitability of, the Target Group's wind farms depend on climatic conditions, particularly wind conditions, which can vary dramatically across the seasons and between locations of the Target Group's wind farms, and are also subject to general climatic changes.

The Target Group depends on a limited number of qualified wind turbine suppliers and other suppliers

The purchase cost of wind turbines represents approximately 60-70% of the overall cost of building a wind farm. There are a limited number of qualified wind turbine suppliers in the PRC, and the price, supply and delivery lead times of wind turbines largely depend on the market demand. In the past, worldwide demand for wind turbines exceeded the supply, which led to delivery delays and price increases for wind turbines and other necessary equipment. The Target Group are exposed to any changes in the market prices of wind turbines when the Target Group negotiates new supply agreements, and the price trend of wind turbines has a direct effect on the Target Group's results of operations. If the Target Group are unable to manage the Target Group's purchases of wind turbines at prices acceptable to the Target Group or if the prices of wind turbines increase significantly, profit margins of the Target Group's wind power business may decrease and the Target Group's results of operations would be materially and adversely affected.

The Target Group may need to purchase and install additional equipment to comply with grid safety and stability requirements

In order to meet grid safety and stability requirements, the relevant grid companies may require the Target Group to purchase and install, at the Target Group's cost, additional equipment at the Target Group's wind farms, after some of the Target Group's wind farms (in particular larger wind farms with greater installed capacity) have been constructed and connected to the grid. In the future, if the Target Group becomes subject to stricter grid safety and stability requirements, the Target Group may need to incur additional expenses to comply with such requirements, which could have a material adverse effect on the Target Group's business, financial condition or results of operations.

To expand the Target Group's wind power business, the Target Group must find, and obtain land use rights for, suitable wind farm sites

Wind farms require particular wind conditions that are found at a limited number of geographic sites. Furthermore, a variety of factors, including topographic constraints, proximity to and availability of grid capacity, and proximity to areas of population density, nature reserves, airports and military facilities, all limit the number of sites appropriate for installation of wind farms and other renewable energy facilities.

Nearby objects may interfere with the Target Group's wind farms

The operational performance of the Target Group's wind farms depends on wind speeds and other climatic conditions at the relevant site. However, objects such as buildings, trees or other wind turbines near the Target Group's wind farms may reduce the Target Group's wind resources due to the disruption of wind flows, known as "wake effects." Although the Target Group exercises care when selecting the Target Group's wind farm sites, the Target Group typically only acquires land use rights for the land underlying the Target Group's wind turbine pylons and the nearby infrastructure. The PRC government could grant land use rights for nearby land which, when developed, would have a negative wake effect on the Target Group's wind farms. Furthermore, the Target Group cannot assure you that the holders of the land use rights related to land near the Target Group's wind farm sites will not lease or transfer their land use rights to other developers who may construct wind turbines or other structures that would have negative wake effects. Such developments may reduce the operational performance of the Target Group's wind farms, which could have a material adverse effect on the Target Group's business, financial condition or results of operations.

The Target Group may fail to keep pace with technological changes in the rapidly evolving renewable energy industry

The technologies used in the renewable energy industry are evolving rapidly, and to maintain the Target Group's competitiveness and expand the Target Group's business, the Target Group must be able to respond to these technological changes. The Target Group may be unable to update the Target Group's technologies swiftly and regularly, possibly rendering the Target Group's operations less competitive. Failure to respond to current and future technological changes in the renewable energy industry in an effective and timely manner may have a material adverse effect on the Target Group's business, financial condition or results of operations.

The Target Group relies heavily on the Target Group's sole customers, the local grid companies, and they may fail to meet their obligations under the PPAs

Each of the Target Group's operating wind farms and waste-to-energy plant has entered into a power purchase agreement ("PPA") with its sole customers, the relevant local grid companies, to sell electricity. The Target Group's wind farms and waste-to-energy plant currently sell substantially all the electricity that they generate to the grid companies to whose grids they are connected, and do not sell electricity directly to any industrial or residential end-users. Therefore, the Target Group's wind power and waste-to-energy plant business rely heavily on their respective sole customers. A significant decrease in the demands of sole customers could have a material adverse effect on the Target Group's business, financial condition or results of operations.

The Target Group operates in a capital-intensive business, and a significant increase in capital costs could have a material adverse effect on the Target Group

The Target Group's business operation and development requires significant capital expenditures. The capital investment required to develop and construct a power plant such as a wind farm or other renewable energy facility generally varies based on the cost of the necessary fixed assets, such as turbines. The price of such equipment and/or civil construction works may increase if the market demand for such equipment or works is greater than the available supply, or if the prices of key component commodities and raw materials used to build such equipment increase. Other factors affecting the amount of capital investment required include, among others, construction costs and finance expenses. A significant increase in the costs of developing and constructing the Target Group's wind farms or other renewable energy facilities could have a material adverse effect on the Target Group's business, financial condition or results of operations.

The Target Group's business may be affected by fluctuations in interest rates and the general availability of credit

The Target Group are exposed to interest rate risk resulting from fluctuations in interest rates on the Target Group's debt, and changes in interest rates affect the Target Group's finance expenses and, ultimately, the Target Group's results of operations. As the Target Group relies heavily on external financing to secure investment capital to finance the expansion of the Target Group's wind power business, the Target Group is sensitive to the cost of capital in securing these loans.

The Target Group's business operations are vulnerable to any significant downturn in the PRC's general economy

As the Target Group's business focuses primarily on sales of electricity generated by the Target Group's wind farms and waste-to-energy plant, and the Target Group's sole customers are the local grid companies, the Target Group's business and prospects are heavily dependent on the level of demand for electricity in the PRC. The Target Group's growth in wind and waste-to-energy plant business was largely fuelled by the increasing demand for electricity as a result of the rapid growth in the PRC's economy. However, there is no assurance that there will be continued growth in the PRC's economy and/or growing demand for electricity from end-users in the PRC. If the demand for electricity on national or regional level generally decreases due to any significant downturn in the PRC's economy, the electricity output of certain of the Target Group's wind farms may be curtailed from time to time due to the limited capacity of overloaded grid when electricity supply on the grid exceeds electricity demand by end-users, which in turn could have a material and adverse impact on the Target Group's business, operating results and financial condition.

The Target Group may fail to comply with laws and regulations in the PRC relating to the development, construction and operation of power plants

The Target Group's wind farms and waste-to-energy plant projects are subject to strict PRC laws and regulations relating to their development, construction, licensing and operation of power plants. These laws and regulations relate to, among other things, project approval and other government approval and licensing requirement for power companies, building and construction of new projects, landscape conservation and power dispatch and transmission.

INCREASE IN AUTHORISED SHARE CAPITAL AND ADOPTION OF THE AMENDED AND RESTATED ARTICLES OF ASSOCIATION

In order to facilitate the proposed issue of the Convertible Preferred Shares, the HKE Board proposes to increase the authorised share capital of HKE and amend the Articles of Association to incorporate the terms of the Convertible Preferred Shares.

It is proposed that authorised share capital be increased from HK$26,000,000 divided into 2,000,000,000 HKE Shares and 600,000,000 Convertible Preferred Shares to HK$150,000,000 divided into 9,000,000,000 HKE Shares and 6,000,000,000 Convertible Preferred Shares by creating an additional 7,000,000,000 unissued HKE Shares and an additional 5,400,000,000 unissued Convertible Preferred Shares.

The proposed amendments to the Articles of Association are to incorporate the terms of the Convertible Preferred Shares. The HKE Board would like to take this opportunity to propose that an amended and restated Articles of Association consolidating all the previous and proposed amendments, be adopted in substitution for the existing Articles of Association. The adoption of an amended and restated Articles of Association is subject to the approval by the HKE Shareholders at the HKE EGM by way of special resolution. The major changes brought about by the adoption of the amended and restated Articles of Association are set out in Appendix V to this circular.

LISTING RULES IMPLICATIONS

As some of the applicable percentage ratios under Chapter 14 of the Listing Rules in relation to the Acquisition are more than 100%, the Acquisition constitutes a very substantial acquisition for HKE under Chapter 14 of the Listing Rules. HKC is the controlling Shareholder of HKE as at the Latest Practicable Date, accordingly, HKC is a connected person of HKE and the transactions contemplated under the Sale and Purchase Agreement (including but not limited to the Acquisition, the issue of the Convertible Preferred Shares, the issue of the HKE Shares upon conversion of the Convertible Preferred Shares, the granting of the Gansu Loan Facility that will remain valid after Completion and the CECIC HKCG Title Transfer conducted after Completion) constitute connected transactions for HKE under Chapter 14A of the Listing Rules and are subject to the approval of the HKE Independent Shareholders at the HKE EGM by way of poll.

NOTICE OF HKE EGM

Set out in this circular is a notice convening the HKE EGM which 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 10:30 a.m. at which resolutions will be proposed to approve the Sale and Purchase Agreement and the transactions contemplated thereunder, the increase in authorised share capital and the adoption of the amended and restated Articles of Association. Voting in the HKE EGM will be taken by poll in accordance with the Listing Rules.

The form of proxy for use at the HKE EGM is enclosed with this circular. Whether or not you are able to attend the HKE EGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it 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 but in any event not less than 48 hours before the time appointed for the holding of the HKE EGM. Completion and return of the form of proxy will not preclude you from attending and voting at the HKE EGM or any adjournment thereof should you so wish and in such event, the instrument appointing a proxy shall be deemed to be revoked. HKC and its associates, which, as at the Latest Practicable Date, hold 558,038,924 HKE Shares representing approximately 65.3% of the total issued share capital of HKE, will abstain from voting in respect of the resolution(s) approving the Sale and Purchase Agreement and the transactions contemplated thereunder at the HKE EGM.

The HKE Independent Board Committee comprising all of the three independent non-executive directors, namely, Mr. ZHANG Songyi, Mr. TANG Siu Kui, Ernest and Mr. YU Hon To, David, has been constituted to advise the HKE Independent Shareholders as regards the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder. First Shanghai has been appointed to advise the HKE Independent Board Committee and the HKE Independent Shareholders in the same regard.

RECOMMENDATION

The HKE Directors consider the terms of the Sale and Purchase Agreement, the increase in authorised share capital and the adoption of the amended and restated Articles of Association are fair and reasonable and are in the interests of the Company and the HKE Shareholders as a whole. Accordingly, the HKE Directors recommend the HKE Shareholders to vote in favour of the relevant resolutions to be proposed at the HKE EGM.

In addition, having taken into account the recommendation and advice from First Shanghai in relation to the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder, the HKE Independent Board Committee is of the view that the terms of the Sale and Purchase Agreement are on normal commercial terms and are fair and reasonable and the transactions contemplated under the Sale and Purchase Agreement are in the interests of the Company and the HKE Shareholders as a whole and so far as the HKE Independent Shareholders are concerned. Accordingly, the HKE Directors (including the independent non-executive HKE Directors) consider that the Sale and Purchase Agreement was entered into in the ordinary and usual course of the business of the Company and are on normal commercial terms, and the terms of the Sale and Purchase Agreement are fair and reasonable and in the interests of the Company and the HKE Shareholders as a whole.

Your attention is also drawn to the letter from the HKE Independent Board Committee set out on pages 50 to 51 of this circular, the letter of advice from First Shanghai to the HKE Independent Board Committee and the HKE Independent Shareholders set out on pages 52 to 79 of this circular and the information set out in the appendices of this circular.

Yours faithfully
For and on behalf of
Hong Kong Energy (Holdings) Limited
OEI Kang, Eric
Chairman and Chief Executive Officer

* *The unofficial English translations or transliterations of Chinese names are for identification purpose only.*

香港新能源

HONG KONG ENERGY (HOLDINGS) LIMITED

香港新能源(控股)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 987)

(website: www.hkenergy.com.hk)

30 June 2010

To the HKE Independent Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO ACQUISITION OF ALTERNATIVE ENERGY BUSINESS IN THE PRC INVOLVING THE ISSUE OF CONVERTIBLE PREFERRED SHARES

We refer to the circular issued by the Company dated 30 June 2010 (the "Circular") of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

We have been appointed as members of the HKE Independent Board Committee to advise you as to whether the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder (including but not limited to the Acquisition, the issue of the Convertible Preferred Shares, the issue of the HKE Shares upon conversion of the Convertible Preferred Shares, the granting of the Gansu Loan Facility that will remain valid after Completion and the CECIC HKCG Title Transfer conducted after Completion (collectively, the "Transactions")) are fair and reasonable and in the interests of the Company and the HKE Shareholders as a whole. First Shanghai has been appointed as the Independent Financial Adviser to advise the HKE Independent Board Committee and the HKE Independent Shareholders in respect thereof. Details of First Shanghai's advice, together with the principal factors and reasons considered in arriving at such advice and recommendation, are contained in its letter set out on pages 52 to 79 of the Circular.

We wish to draw your attention to the "Letter from the HKE Board" set out on pages 8 to 49 of the Circular which contains, among other things, information of the Sale and Purchase Agreement and the transactions contemplated thereunder (including the Transactions).

Having taken into account the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder (including the Transactions) and the advice given by First Shanghai, we consider that the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder (including the Transactions) are fair and reasonable and the entering into of the Sale and Purchase Agreement and the transactions contemplated thereunder (including the Transactions) is in the interests of the Company and the HKE Shareholders as a whole. Accordingly, we recommend the HKE Independent Shareholders to vote in favour of the resolutions in relation to the Sale and Purchase Agreement and the transactions contemplated therein (including the Transactions) to be proposed at the HKE EGM.

Yours faithfully,
For and on behalf of
the HKE Independent Board Committee
ZHANG Songyi
TANG Siu Kui, Ernest
YU Hon To, David
Independent non-executive HKE Directors

The following is the text of a letter received from First Shanghai setting out its advice to the HKE Independent Board Committee and the HKE Independent Shareholders in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder for inclusion in this circular.

第一上海
FIRST SHANGHAI GROUP

First Shanghai Capital Limited
19th Floor, Wing On House
71 Des Voeux Road Central
Hong Kong

30 June 2010

To the HKE Independent Board Committee and the HKE Independent Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO ACQUISITION OF ALTERNATIVE ENERGY BUSINESS IN THE PRC INVOLVING THE ISSUE OF CONVERTIBLE PREFERRED SHARES

INTRODUCTION

We refer to our engagement to advise the HKE Independent Board Committee and the HKE Independent Shareholders in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder (including but not limited to the Acquisition, the issue of the Convertible Preferred Shares, the issue of the HKE Shares upon conversion of the Convertible Preferred Shares, the granting of the Gansu Loan Facility that will remain valid after Completion and the CECIC HKCG Title Transfer conducted after Completion (collectively, the "Transactions")), details of which are set out in the circular of the Company dated 30 June 2010 (the "Circular") to the HKE Shareholders of which this letter forms a part. Unless the context otherwise requires, terms used in this letter shall have the same meanings as those defined in the Circular.

The Acquisition constitutes a very substantial acquisition for the Company under the Listing Rules. As HKC is the controlling shareholder of the Company as at the Latest Practicable Date, HKC is a connected person of the Company under the Listing Rules. Accordingly, the transactions contemplated under the Sale and Purchase Agreement constitute connected transactions for the Company under the Listing Rules and are subject to the approval of the HKE Independent Shareholders by way of poll at the HKE EGM. HKC and its associates will abstain from voting in respect of the resolutions approving the Sale and Purchase Agreement and the transactions contemplated thereunder.

The HKE Independent Board Committee, comprising all of the three independent non-executive HKE Directors, namely Mr. Zhang Songyi, Mr. Tang Siu Kui, Ernest and Mr. Yu Hon To, David, has been constituted to advise the HKE Independent Shareholders as regards the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder (including the Transactions). We, First Shanghai Capital Limited, have been appointed to advise the HKE Independent Board Committee and the HKE Independent Shareholders in the same regard.

In putting forth our opinion and recommendation, we have relied on the accuracy of the information and representations included in the Circular and provided to us by the HKE Directors and the HKE Group, and have assumed that all such information and representations made or referred to in the Circular and provided to us by the HKE Directors and the HKE Group were true at the time they were made and continued to be true up to the time of the holding of the HKE EGM. We have also assumed that all statements of belief, opinion and intention made in the Circular were reasonably made after due enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the HKE Directors and the HKE Group, and have been advised that no material facts have been withheld or omitted from the information provided and referred to in the Circular. We have sought confirmation from the HKE Directors that no material facts or information have been omitted from the information supplied and/or opinions expressed.

We consider that we have reviewed sufficient available information and documents to enable us to reach an informed view with a reasonable basis for our opinions. We also consider that we have performed all reasonable steps as required under Rule 13.80 of the Listing Rules in formulating our opinion and recommendation. We have not, however, conducted any independent verification of the information included in the Circular and provided to us by the HKE Directors and the HKE Group nor have we conducted any form of investigation into the business, affairs or future prospects of the HKE Group, the Target Group or the HKC Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion, we have considered the following principal factors and reasons:

1. Business and financial information of the HKE Group

(i) Business of the HKE Group

As stated in the annual report of the Company for the year ended 31 December 2009 (the "2009 Annual Report"), the HKE Group is principally engaged in alternative energy business and software development business in which all revenue was derived from the software development business.

(ii) Financial information of the HKE Group

The following table summarizes the audited results of the HKE Group for the two years ended 31 December 2009 as set out in appendix I to the Circular:

Consolidated statement of comprehensive income for the two years ended 31 December 2009

	For the year ended 31 December	
	2009	**2008**
	HK$'000	*HK$'000*
	(audited)	(audited)
Revenue	10,609	13,877
Gross profit	5,713	7,988
Operating loss	(32,817)	(104,584)
Profit/(loss) before income tax	2,654	(101,670)
Loss for the year	(11,682)	(94,707)

For the year ended 31 December 2009, revenue of the HKE Group decreased by approximately 23.7% from approximately HK$13.9 million to approximately HK$10.6 million compared to the same period in 2008. In addition, gross profit of the HKE Group for the year ended 31 December 2009 decreased by approximately 28.8% from approximately HK$8.0 million to approximately HK$5.7 million compared to the same period in 2008. The decrease in revenue and gross profit was mainly attributable to the slowdown in the software business resulted from the continuous stagnant market conditions in Japan. Despite the alternative energy business of the HKE Group was making progress on its development, it has not yet generated any revenue for the two years ended 31 December 2009. The HKE Group recorded a profit before income tax for the year ended 31 December 2009 of approximately HK$2.7 million compared to a loss before income tax of approximately HK$101.7 million for the same period in 2008. The performance improvement was mainly attributable to (i) a reduction in impairment loss on goodwill and intangible assets related to the software business; (ii) a gain from the disposal of the cellulosic ethanol pilot project in May 2009; and (iii) a fair value gain from acquiring 10% effective equity interest in a project company holding the Danjinghe wind farm project (the "Danjinghe Project") from HKC in December 2009. The loss for the year narrowed from approximately HK$94.7 million for the year ended 31 December 2008 to approximately HK$11.7 million for the year ended 31 December 2009.

Consolidated balance sheet as at 31 December 2009

The following is a summary of the HKE Group's audited assets and liabilities as at 31 December 2009 as set out in appendix I to the Circular:

	As at 31 December 2009 *HK$'000* (audited)
Non-current assets	217,368
Current assets	178,683
Total assets	396,051
Current liabilities	8,387
Non-current liabilities	80,650
Total liabilities	89,037
Net assets	**307,014**

As at 31 December 2009, the HKE Group had total assets of approximately HK$396.1 million. Investment in associated companies, being the HKE Group's effective interests in the Danjinghe Project and the Lunaobao project, amounted to approximately HK$208.1 million and cash and cash equivalents amounted to approximately HK$172.2 million, representing approximately 52.5% and 43.5% of the HKE Group's total assets, respectively. Total liabilities of the HKE Group amounted to approximately HK$89.0 million as at 31 December 2009, of which the convertible note issued for the acquisition of the 10% effective interest in the Danjinghe Project amounted to approximately HK$76.0 million and other payables amounted to approximately HK$8.4 million, representing approximately 85.4% and 9.4% of the HKE Group's total liabilities, respectively.

As at 31 December 2009, the HKE Group maintained a net cash position of approximately HK$96.2 million, representing the HKE Group's cash and cash equivalents of approximately HK$172.2 million less the notion loan amount of convertible note of approximately HK$76.0 million, as compared to approximately HK$289.1 million as at 31 December 2008.

2. Business and financial information of the Target Group

(i) Business of the Target Group

The Target Company is an investment holding company. Pursuant to the Reorganisation, each of the Project Companies held by the HKC Group (excluding the HKE Group), whose principal businesses in turn comprise the development, construction and operation of wind farms or waste-to-energy plant in the PRC, will be transferred to the Target Company such that the Target Company will hold the equity interest and/or economic interest in each of the Project Companies previously held by the HKC Group (excluding the HKE Group).

Set out below is a summary of the principal business of each of the Project Companies:-

Company name	Effective equity interest and/or economic benefit attributable to the Target Company	Principal business
CECIC HKC Wind Power	30%	A 200 MW capacity wind power generation plant at Danjinghe, Zhangbei, in Hebei Province of the PRC (the "Danjinghe Wind Farm"). Phase I of the wind farm commenced commissioning in March 2009. 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.
CECIC HKCG	40%	A 201 MW capacity wind power generation plant at Changma, in Gansu Province of the PRC (the "Changma Wind Farm"). Its full commercial operation is expected in the third quarter of 2010.
HKNE	100%	A 49.5 MW capacity wind power generation plant at Siziwang Qi, Wulanchabu City, in Inner Mongolia Autonomous Region of the PRC (the "Phase I Siziwang Qi Wind Farm"). It will commence trial running in 2010.

Company name	Effective equity interest and/ or economic benefit attributable to the Target Company	Principal business
HK Wind Power	86.68%	A 29.75 MW capacity wind power generation plant at Mudanjiang, in Heilongjiang Province of the PRC (the "Muling Wind Farm"). The wind farm commenced full operations in September 2007 and is making steady revenue contributions.
Asia Wind Power	86%	A 29.75 MW capacity wind power generation plant at Mudanjiang, in Heilongjiang Province of the PRC (the "Mudanjiang Wind Farm"). The wind farm commenced full operations in September 2007 and is making steady revenue contributions.
LNE New Energy	40%	A 25 MW waste-to-energy power plant with an estimated total waste treatment capacity of 301,500 tonnes per annum, at Linyi City in Shandong Province of the PRC (the "Linyi Waste-to-energy Power Plant"). It commenced full operations in September 2007 and is making steady revenue contributions.
HKEI	100%	A subsidiary located at Beijing serving headquarter relating investment strategy and sourcing new, high return wind farms.

(ii) Financial information on the Target Group

Set out below is a summary of the key financial information of the Target Group extracted from the accountant's report of the Target Group as set out in appendix II to the Circular:

	For the year ended 31 December		
	2007	2008	2009
	(HK$'000)	*(HK$'000)*	*(HK$'000)*
	(audited)	(audited)	(audited)
Revenue	19,474	67,583	58,203
Gross profit	3,219	24,257	18,520
Operating (loss)/profit	(4,129)	(115,693)	4,325
(Loss) for the year	(16,329)	(153,834)	(29,825)

	As at 31 December		
	2007	2008	2009
	(HK$'000)	*(HK$'000)*	*(HK$'000)*
	(audited)	(audited)	(audited)
Total assets	877,373	1,499,306	1,868,137
Total liabilities	864,121	1,609,345	2,006,864
Net assets/(liabilities)	13,252	(110,039)	(138,727)

(a) Financial performance of the Target Group

For the year ended 31 December 2007

For the year ended 31 December 2007, the Target Group completed the construction of and commenced the commercial operation of the Muling Wind Farm and the Mudanjiang Wind Farm in Heilongjiang which contributed revenue to the Target Group since September 2007. For the year ended 31 December 2007, the Target Group recorded revenue of approximately HK$19.5 million.

Among the Target Group's other investments, only the Linyi Waste-to-energy Power Plant commenced full operations in September 2007. The development of the Danjinghe Wind Farm in Hebei Province, the Changma Wind Farm in Gansu Province and the Phase I Siziwang Qi Wind Farm in Inner Mongolia were still underway during the year. Accordingly, the Target Group recorded share of losses of associated companies of approximately HK$5.4 million and loss for the year of approximately HK$16.3 million for the year ended 31 December 2007.

For the year ended 31 December 2008

The Muling Wind Farm and the Mudanjiang Wind Farm continued generating revenue to the Target Group during the year ended 31 December 2008 and contributed revenue to the Target Group of approximately HK$67.6 million. For the year ended 31 December 2008, revenue and gross profit of the Target Group recorded year-on-year growth of approximately 247.0% and 653.6%, respectively as a result of the full year operation of the Muling Wind Farm and the Mudanjiang Wind Farm.

During the year ended 31 December 2008, other than the Linyi Waste-to-energy Power Plant, the other investments of the Target Group including the Danjinghe Wind Farm, the Changma Wind Farm and the Phase I Siziwang Qi Wind Farm were still under development.

The substantial increases in operating loss and loss for the year of the Target Group for the year ended 31 December 2008 as compared with the year ended 31 December 2007 were mainly attributable to (i) the increase in administrative expenses from approximately HK$8.9 million in 2007 to HK$27.2 million in 2008, which was primarily due to the increase in depreciation expense for wind farm equipments in 2008; and (ii) the impairment losses on assets of approximately HK$106.8 million recorded in 2008 as a result of the projected decrease in wind output of the Muling Wind Farm and the Mudanjiang Wind Farm when compared with the estimation at the time of acquiring these two wind farms. We are advised that there is no material impairment loss expected to be incurred in the near future.

For the year ended 31 December 2009

As advised by the management of the Company, the Mudanjiang Wind Farm and the Muling Wind Farm had experienced temporary power curtailment due to the limited capacity of the local transmission network, and turned off equipment and stopped producing electricity during the period when electricity was unable to be transmitted. Therefore, revenue contributed by the two farms decreased from approximately HK$67.6 million in 2008 to approximately HK$58.2 million in 2009. The decrease in revenue and gross profit of the Target Group for the year ended 31 December 2009 was mainly attributable to the above-mentioned limited capacity of the local transmission network in the Mudanjiang region.

For the year ended 31 December 2009, Phase I of Danjinghe Wind Farm, an associated company of the Target Group, commenced commissioning in March 2009, while development of the Changma Wind Farm and the Phase I Siziwang Qi Wind Farm were still underway.

Without incurring any impairment losses for the year, the Target Group recorded operating profit of approximately HK$4.3 million and its loss for the year narrowed down to approximately HK$29.8 million for the year ended 31 December 2009.

(b) Financial position of the Target Group

Total assets of the Target Group increased from approximately HK$877.4 million as at 31 December 2007 to approximately HK$1,499.3 million as at 31 December 2008. We are advised that the increase was principally due to (i) investments in associated companies increased from approximately HK$82.7 million as at 31 December 2007 to approximately HK$414.8 million as at 31 December 2008 for development of the Danjinghe Wind Farm and the Changma Wind Farm; and (ii) cash and bank balances increased from approximately HK$13.8 million as at 31 December 2007 to approximately HK$255.4 million as at 31 December 2008 for preparation of the investment in the Phase I Siziwang Qi Wind Farm.

The further increase in total assets of the Target Group to approximately HK$1,868.1 million as at 31 December 2009 was mainly attributable to (i) construction in progress, which arose from the construction of the Phase I Siziwang Qi Wind Farm, increased from approximately HK$47.0 million as at 31 December 2008 to approximately HK$479.0 million as at 31 December 2009; and (ii) investments in associated companies further increased to approximately HK$545.4 million as at 31 December 2009.

As at 31 December 2009, total assets of the Target Group mainly comprised (i) property, plant and equipment amounted to approximately HK$519.8 million (representing approximately 27.8% of the total assets), which was principally fixed assets of the Mudanjiang Wind Farm and Muling Wind Farm; (ii) construction in progress amounted to approximately HK$479.0 million (representing approximately 25.6% of the total assets), which was principally related to the development of the Phase I Siziwang Qi Wind Farm; and (iii) investments in associated companies amounted to approximately HK$545.4 million (representing approximately 29.2% of the total assets), which was principally related to the Danjinghe Wind Farm, the Changma Wind Farm and the Linyi Waste-to-energy Power Plant.

As at 31 December 2009, total liabilities of the Target Group was approximately HK$2,006.9 million, of which bank borrowings and shareholder's loans (i.e. the Loans and amount owed by the Target Group to the HKE Group) amounted to approximately HK$758.9 million and HK$1,072.5 million, respectively. The increases in total liabilities of the Target Group during the review period were principally due to the increase in bank borrowings and shareholders' loans to facilitate the construction of the Phase I Siziwang Qi Wind Farm.

The gearing ratio of the Target Group, defined as net debt divided by the total capital (being net debt plus total equity or less deficit on equity holders' fund), was approximately 109% as at 31 December 2009.

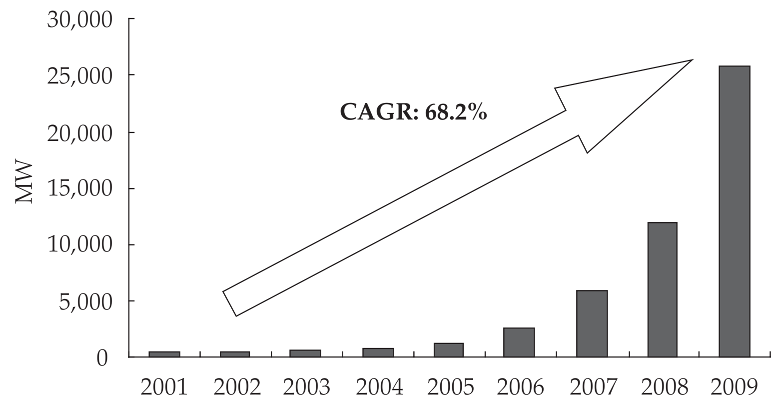
3. Industry overview

With reference to data from the China Statistical Yearbook 2009 published by the National Bureau of Statistics of China, we noted that (i) the total amount of both energy production and consumption in the PRC has been growing steadily; (ii) the amount of total energy consumption has been higher than the production amount in the recent years; and (iii) alternative energies (including hydro-power, nuclear power and wind power) have been consumed at increasing rates when compared to the common energy sources such as coal, crude oil and natural gas. Set out below are the detailed figures in relation to energy production and consumption in the PRC:-

	1980	1990	2000	2005	2006	2007	2008
Total energy production in the PRC (in million tons of standard coal equivalent)	637.4	1,039.2	1,289.8	2,058.8	2,210.6	2,354.2	2,600.0
Total energy consumption in the PRC (in million tons of standard coal equivalent)	602.8	987.0	1,385.5	2,246.8	2,462.7	2,655.8	2,850.0
Coal (% of total consumption)	72.2	76.2	67.8	69.1	69.4	69.5	68.7
Crude oil (% of total consumption)	20.7	16.6	23.2	21.0	20.4	19.7	18.7
Natural gas (% of total consumption)	3.1	2.1	2.4	2.8	3.0	3.5	3.8
Hydro-power, nuclear power, wind power (% of total consumption)	4.0	5.1	6.7	7.1	7.2	7.3	8.9

Source: National Bureau of Statistics of China

According to the Global Wind 2009 Report published by the Global Wind Energy Council (the "Global Wind 2009 Report"), more than 38 GW of new wind power capacity was installed around the world in 2009, bringing the total installed capacity up to 158.5 GW, representing a year-on-year growth of approximately 31.7%. A third of these additions were made in the PRC, which doubled its capacity from 12.1 GW in 2008 to 25.8 GW in 2009 to become the world's second largest wind power market. Set out below is the chart depicting the total installed wind power capacity in the PRC from 2001 to 2009, which we noted a compound annual growth rate ("CAGR") of approximately 68.2% over the period:



Source: Global Wind 2009 Report

As set out in the letter from the HKE Board, at the end of 2009, total installed wind capacity in the PRC was approximately 25 GW, representing only 2% of the total potential wind power resources. The Chinese government intends to raise the current wind installed capacity to 150 GW by 2020. In addition, consolidation of wind equipment manufacturers had led to wind farm equipment prices declined by 15% to 20% during the last 18 months. The Global Wind 2009 Report further stated that Asia will continue remain to be the fastest growing market in the world, driven primarily by China, which is set to continue the rapid upscaling of its wind capacity with expected annual addition capacity of well over 20 GW in China by 2014. In addition, according to an estimation by the Chinese Wind Energy Association, China's accumulated installed wind power capacity will grow almost ten-fold from 2009 to 2020, reaching approximately 248 GW in 2020, representing a CAGR of approximately 22.8% over the period.

As stated in the 2009 Annual Report, alternative energy has been seen by the Chinese government as the most promising source of energy in addition to fossil fuels, where considerable attention has been given to the alternative energy sector and favourable policies have been rolled out. Such 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. As set out in the letter from the HKE Board, the Chinese 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 the 2005 level; and increasing the renewable energy in the fuel mix to 15% by 2020.

According to the Renewable Energy Law and its implementing rules, grid companies generally must purchase all electricity generated by renewable energy producers within their grids. However, transmission and dispatch of the full output of wind farms may be curtailed as a result of various grid constraints, such as grid congestion, restrictions on transmission capacity of the grid and restrictions on electricity dispatch during certain periods. Nonetheless, as stated in the 2009

Annual Report, the twelfth standing committee meeting of the eleventh National People's Congress in the PRC held on 26 December 2009 passed a resolution to further strengthen the full purchase of alternative power generated and funding support to alternative energy development, including smart grid implementation which would resolve problems with grid connection for wind power projects.

Despite there are various grid constraints currently experiencing in the PRC, having considered that (i) the PRC government has been implementing policies and improving infrastructure such as the proposed construction of smart grid to resolve problems with the grid; (ii) the demand of energy in the PRC has been growing steadily; (iii) the consumption rate of alternative energies in the PRC has been increasing; (iv) the wind power industry in the PRC has been expanding rapidly; and (v) the PRC government is supportive to the development of the alternative energy sector, including wind power, we concur with the view of the HKE Directors that the alternative energy development business in the PRC is flourishing in the foreseeable future.

4. Background to and reasons for the Acquisition and the Reorganisation

(i) The Acquisition

As mentioned in the composite offer document jointly issued by HKC and the Company (formerly known as J.I.C Technology Company Limited) dated 20 March 2008, the HKC Group expected to develop its alternative energy businesses, including wind power, through the HKE Group. The HKC Group also committed that any new investment in the alternative energy business would only be conducted through the HKE Group which would be the principal vehicle of the HKC Group in the area of alternative energy businesses.

Since the change in control in 2008, the HKE Group has commenced its alternative energy business by itself. The HKE Group had (i) invested in the 100.5 MW Lunaobao wind farm in Hebei where development was well underway with completion targeted at mid 2010; (ii) disposed the cellulosic ethanol pilot project in May 2009, and redirected resources to wind energy project development; (iii) acquired from HKC in December 2009 the 10% effective equity interest in the Danjinghe Wind Farm, which has a 200 MW wind power generation capacity; (iv) signed memoranda of understanding with several provincial governments, such as Kulun in Southeast Inner Mongolia and Kangping near Shenyang city in Liaoning Province, to build up the HKE Group's wind farm projects pipeline; and (v) commenced developing wind farm project at Siziwang Qi, Wulanchabu City, in Inner Mongolia Autonomous Region of the PRC (the "Phase II Siziwang Qi Wind Farm").

As stated in the 2009 Annual Report, the HKE Group's business vision is to become a trusted partner in alternative energy development in the PRC, and the transformation of the Company into HKC Group's alternative energy flagship will continue. In order to complete the transformation, the HKE Group would (i) actively seek strategic partnerships to strengthen its capital base; and (ii) explore plans and assess their feasibilities to further inject alternative energy assets from the HKC Group.

The Acquisition is in line with the business vision of the HKE Group to become a trusted partner in PRC's alternative energy development. The Acquisition not only increases the HKE Group's portfolio of alternative energy projects in the PRC with promising prospects, but it also provides an opportunity for the HKE Group to consolidate all of the alternative energy projects of HKC to the Company, which will clearly delineate the businesses of HKC and the Company and transform the HKE Group to become HKC's flagship of alternative energy business.

Having considered the above, we concur with the view of the HKE Directors that the entering into of the Sale and Purchase Agreement and the transactions contemplated thereunder are in the interests of the Company and the HKE Shareholders as a whole.

(ii) Reorganisation

Pursuant to the Reorganisation as detailed in the letter from the HKE Board, each of the Project Companies 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). Due to the pending approval by the relevant PRC authorities in relation to the CECIC HKCG Title Transfer, the Gansu Loan Facility, an equity interest pledge and an economic benefits assignment agreement have been arranged in order to transfer the economic benefits of CECIC HKCG held by HKC Group to the Target Company. Under the economic benefits assignment agreement, HKC (HK) undertakes to transfer to HKE (Gansu) the title of its equity interest in CECIC HKCG, i.e. the CECIC HKCG Title Transfer, upon obtaining consent of other shareholder of CECIC HKCG and approval of the relevant PRC authorities for such transfer.

We are advised that the Gansu Loan Facility which will be secured by the 40% equity interests in CECIC HKCG and will bear an annual interest rate of the lending rate for over five years as quoted from The People's Bank of China (the "PBOC Rate"). In evaluating the terms of the Gansu Loan Facility to be provided by the HKE Group to the HKC Group after Completion, we have reviewed (i) the 2009 Annual Report; and (ii) the terms of the secured banking borrowing of the Target Group, and noted that (i) the HKE Group has no external bank borrowing; and (ii) the secured bank borrowings of the Target Group bears an interest rate that equals to the PBOC Rate.

Having taken into account (i) the Gansu Loan Facility and the CECIC HKCG Title Transfer being part of the Reorganisation in preparation for the Acquisition and are part and parcel of the Acquisition; and (ii) the terms of the Gansu Loan Facility are comparable to the terms of secured bank borrowings obtained by the Target Group from independent banks, we consider that the Gansu Loan Facility and the CECIC HKCG Title Transfer are in the interest of the Company and the HKE Shareholders as a whole.

5. Risk factors

The Acquisition will extend the business risk profile of the Enlarged Group as set out in the section headed "Risk Factors" in the letter from the HKE Board. The HKE Independent Shareholders shall bear in mind those risk factors when considering the Acquisition.

6. Evaluation of the Consideration

As set out in the letter from the HKE Board, the Consideration for the Acquisition of HK$1,018.1 million was determined between the Purchaser and the Vendor after arm's length negotiations with reference to, amongst other things, (i) the preliminary business valuation (the "Valuation") as at 31 March 2010 based on market approach prepared by the Independent Valuer of HKC's attributable interests in the Target Group (except HKEI) of approximately 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 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 an HKC's wholly owned subsidiary as the main construction contractor to the Target Group of approximately HK$13.1 million.

(i) Business Valuation

(a) The Target Group (except HKEI)

According to the valuation report prepared by the Independent Valuer (the "Valuation Report") contained in appendix IV to the Circular, the market value of HKC's attributable interests in the Target Group (except HKEI) as at 31 March 2010 was approximately RMB1,193.3 million (equivalent to approximately HK$1,355.7 million). As stated in the Valuation Report, the valuation was carried out based on the market approach which provides indications of value by comparing the subject asset to similar businesses, business ownership interests and securities that have been sold in the market and, in our opinion, is a reasonable approach. In arriving at the Valuation, the Independent Valuer had (i) referred to recent sale and purchase transactions related to comparable projects in the PRC (the "Comparable Valuation Transactions"); (ii) taken into account the corresponding debts and future capital expenditures required to the consideration prices of the comparable projects; (iii) determined the average adjusted consideration price to wind power generation capacity multiple and the average adjusted consideration price to annual waste treatment capacity multiple (the "Adjusted P/Capacity

Multiple"); (iv) applied the multiples respectively to the relevant Project Companies (except HKEI) to arrive at their enterprise values; (v) adjusted for the corresponding debts, future capital expenditures and surplus assets (i.e. the amounts due from CECIC and its related company, being the joint venture partners) of the respective Project Companies (except HKEI) to derive their market values of equity; and (vi) multiplied by the relevant percentage of interest held by the Target Group to derive the market value of the respective interest in each of the Project Companies (except HKEI) attributable to HKC.

As set out in the Valuation Report, the Independent Valuer has also considered that the market value of wind power and waste-to-energy projects might also be affected by other factors like the size/scale/efficiency of the wind farms and the waste-to-energy plant, the equipment used, the infrastructure surrounding the area of the wind farms and the waste-to-energy plant, etc. However, among all those factors, the Independent Valuer considered the power generation capacity to be the key factor affecting the market value of wind power and the waste-to-energy projects, which we consider reasonable. In addition, as the price multiples of the Comparable Valuation Transactions are very similar, which the Independent Valuer considered that it reflects that factors other than the power generation capacity have minimal effect in determining the market value of the relevant Project Companies (except HKEI).

We also noted from the Valuation Report that the Comparable Valuation Transactions were the exhaustive list of comparable transactions in the PRC under Bloomberg and Wise News based on the selection criteria detailed in the Valuation Report which we consider it is reasonable to evaluate the Consideration with reference to the Comparable Valuation Transactions.

Having considered that (i) the power generation capacity is the key factor in determining the market value of the wind power and waste-to-energy projects; (ii) the Comparable Valuation Transactions are the exhaustive list based on the selection criteria detailed in the Valuation Report; and (iii) Adjusted P/Capacity Multiples were determined based on the adjusted consideration of the Comparable Valuation Transactions and had further taken into account the corresponding debts and surplus assets of the Project Companies, we consider that it is reasonable for the Independent Valuer to arrive at the Valuation based on the Adjusted P/Capacity Multiples.

Details of the bases and assumptions of the Valuation are contained in appendix IV to the Circular. We have reviewed the Valuation Report and have discussed with the Independent Valuer regarding, among other things, the methodologies, assumptions, bases and comparables adopted for the Valuation, which we have not identified any major facts which caused us to doubt the fairness and reasonableness of the principal bases and assumptions of the Valuation.

Moreover, based on the information provided by the Company, we understand that based on:

(i) the attributable Considerations to the wind power plants and the waste-to-energy power plant of the Target Group of approximately RMB834.5 million and RMB60.1 million respectively (based on the Consideration of HK$1,018.1 million, equivalent to approximately RMB896.4 million, after stripping off the book value of HKEI of approximately RMB1.8 million as at 31 December 2009 (excluding the indebtedness owing to the HKC Group));

(ii) after adding back the debts attributable to HKC's interest in its wind farms and waste-to-energy plant of approximately RMB1,393.5 million and RMB44.0 million respectively;

(iii) stripping off the surplus assets attributable to the wind farms of the Target Group as set out in the Valuation Report, in aggregate, of approximately RMB41.0 million; and

(iv) divided by the effective annual power generation capacity of the wind farms and the effective annual waste treatment capacity of the waste-to-energy power plant of the Target Group attributable to HKC of 241.27 MW and 120,600 ton,

the average implied values per MW of power generating capacity from the wind farms and per ton of waste treatment capacity at the waste-to-energy plant of the Project Companies (the "Implied Values") were approximately RMB9.06 million and RMB864 respectively. Both are lower than the market values as estimated by the Independent Valuer under the Comparable Valuation Transactions of approximately RMB10.22 million and RMB1,030 respectively.

Having considered that the Implied Values are determined based on the Consideration adjusted for the corresponding debts and surplus assets, and power generating or waste treatment capacities of the Project Companies, we consider that it is reasonable to compare it with the market values as estimated under the Comparable Valuation Transactions which also provide us one more reference in evaluating the Consideration.

(b) HKEI

Based on the unaudited management account of HKEI for the year ended 31 December 2009, since HKEI only has a subsidiary located at Beijing serving headquarter relating investment strategy and sourcing wind farms, no revenue and net loss after tax of approximately HK$7.3 million were recorded for the year ended 31 December 2009. The net loss of HKEI was principally attributable to administrative expenses incurred by the subsidiary during the year. Based on the unaudited management account of HKEI for the year ended 31 December 2009, HKEI had total assets of approximately HK$1.9 million and total liabilities of approximately HK$25.2 million of which cash and bank balance and indebtedness owing to the HKC Group amounted to approximately HK$1.1 million and HK$25.1 million, respectively, as at 31 December 2009. We are advised that the indebtedness owing by HKEI to the HKC Group (excluding the HKE Group) as of 31 December 2009 was mainly used to finance the operation of the subsidiary under HKEI. Since HKEI only has the subsidiary at Beijing serving headquarter, we consider that it is reasonable to valuate HKEI based on its net liabilities and the indebtedness owing by it to the HKC Group (excluding the HKE Group) as of 31 December 2009.

(ii) Comparable transaction

We note that, to the best of our knowledge, there was one comparable sale and purchase transaction (the "Comparable Transaction") during the period from 1 January 2008 up to the date of the Sale and Purchase Agreement which (i) was conducted by companies listed in Hong Kong; (ii) was related to wind power or waste-to-energy projects in the PRC; and (iii) the consideration was made reference to independent valuation of the equity interest being acquired. Summary of the Comparable Transaction is as follow:

Announcement date	Acquirer (Stock code)	Target	Location of the target	Valuation of the equity interest being acquired *(RMB million)*	Consideration *(RMB million)*	Premium/ (Discount)
1-Apr-09	Huaneng Power International, Inc. (902)	Huaneng Qidong Wind Power Generation Co. Ltd.	Qidong City, Jiangsu Province, the PRC	103	103	0%

Source: Announcement of Huaneng Power International, Inc. from the website of the Stock Exchange

Based on the above information, we note that the consideration for the Comparable Transaction is equal to the independent valuation of the assets being acquired.

(iii) Assignment of the Loans

We are advised that the Loans were mainly used to finance the payment of capital expenditure required for the development of the Project Companies. As set out in the accountant's report of the Target Group contained in appendix II to the Circular, the Loans are unsecured, interest free and have no fixed repayment term. Having considered that (i) the Loans represent all the liabilities owed by the Target Group to HKC Group (excluding the HKE Group) (excluding any loans which would be drawn under the Gansu Loan Facility, the HKC (HK) Loan Facility and

Siziwang Qi Loan Facility which were provided only for the purpose of the Target Company being entitled to economic benefit of the 40% equity interest of CECIC HKCG and 100% equity interest of HKNE) for the development of the Project Companies; and (ii) the Company is acquiring the entire issued shares of the Target Group, we consider that the assignment of the Loans is part and parcel of the Acquisition and no separate consideration is paid for such loan assignment.

Despite the Consideration represents a premium of approximately 22% over HKC Group's book value of the Target Group, we are of the opinion that the Business Valuation (which is based on the market value of HKC's attributable interests in the Target Group (except HKEI) and HKEI's net liabilities and indebtedness owing to the HKC Group (excluding the HKE Group)) is a more appropriate way to assess the Consideration. Having considered that the Consideration (i) represents a discount of approximately 25% to the Business Valuation, which is more favourable compared with the consideration for the Comparable Transaction which was equal to the valuation of the assets being acquired; (ii) implies lower average values per MW of electricity generating capacity from the wind farms and per ton of waste treatment capacity at the waste-to-energy plant compared to the market values as estimated by the Independent Valuer; (iii) will be entirely satisfied by the issuance of the Convertible Preferred Shares at an issue price which we consider fair and reasonable as mentioned in the section headed "Settlement method of the Consideration" below, and (iv) does not require any cash outlay for the HKE Group to complete the Acquisition, we consider the Consideration is fair and reasonable so far as the HKE Independent Shareholders are concerned.

7. Settlement method of the Consideration

Pursuant to the terms of the Sale and Purchase Agreement, the Consideration for the Acquisition of HK$1,018.1 million will be settled by the allotment and issuance of the Convertible Preferred Shares at the initial conversion rate of one Convertible Preferred Share to one HKE Share. In assessing the fairness and reasonableness of the terms of the settlement method of the Consideration, we have taken into account the following:-

(i) Analysis of the issue price

(a) Comparison of the issue price of HK$0.735 per Convertible Preferred Share (the "Issue Price") to the historical closing prices of the HKE Share, which have taken into account the effects of the Bonus Share Issue (the "Adjusted Closing Prices")

We noted that the Issue Price:

(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 of the closing prices of the HKE Share for the last 10 trading days up to and including the Last Trading Date (the "10-Day Period") as quoted on the Stock Exchange of approximately HK$0.735 per HKE Share;

(iv) represents a premium of approximately 4.6% over the average of the Adjusted Closing Prices of the HKE Share for the last 30 trading days up to and including the Last Trading Date as quoted on the Stock Exchange of approximately HK$0.703 per HKE Share;

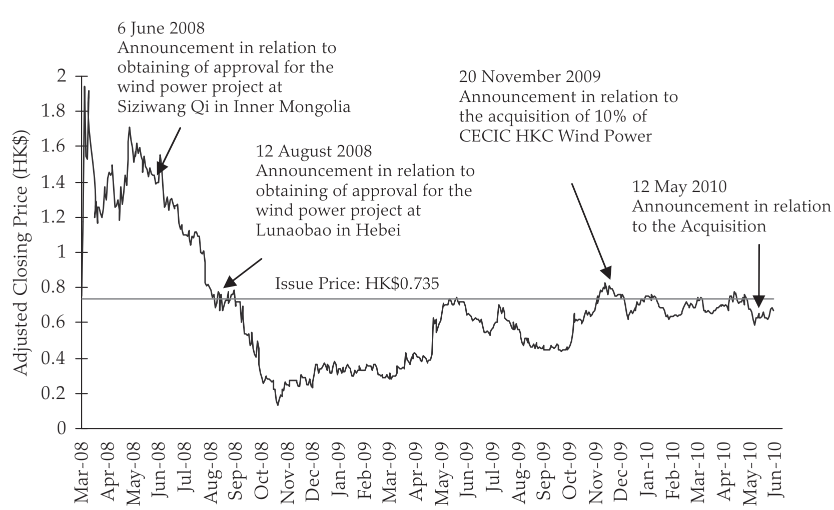
(v) represents a premium of approximately 5.5% over the average of the Adjusted Closing Prices of the HKE Share for the last 90 trading days up to and including the Last Trading Date as quoted on the Stock Exchange of approximately HK$0.697 per HKE Share; and

(vi) represents a premium of approximately 85.1% over the audited consolidated net asset value attributable to equity holders of the Company per HKE Share of approximately HK$0.397 as at 31 December 2009 (as calculated by the equity attributable to equity holders of the Company 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).

(b) Analysis of past performance of the HKE Shares

HKE Share price performance

The chart below sets out the Adjusted Closing Price of the HKE Shares traded on the Stock Exchange since 4 March 2008 (the date where the HKC Group acquired the controlling interest in the Company) up to and including the Latest Practicable Date (the "Period"):



Source: Bloomberg

We note that the Adjusted Closing Price was on a decreasing trend from HK$1.945 on 6 March 2008 to HK$0.136 on 28 October 2008. During this declining period, the Company made (i) an announcement dated 6 June 2008 in relation to the obtaining of approval for a wind power project at Siziwang Qi in Inner Mongolia and the Adjusted Closing Price reacted positively and increased from HK$1.400 to HK$1.555 on 10 June 2008; and (ii) an announcement dated 12 August 2008 in relation to the obtaining of approval for a wind power project at Lunaobao in Hebei, which the Adjusted Closing Price then decreased from HK$0.764 to HK$0.682 on 13 August 2008. After the release of the interim results announcement for the six months ended 30 June 2008 dated 10 September 2008 which the HKE Group reported a loss for the period of approximately HK$60.4 million, the Adjusted Closing Price decreased from HK$0.718 to HK$0.600 on 11 September 2008. The Adjusted Closing Price had then entered the surge period, which the Adjusted Closing Price rebounded from the lowest of HK$0.136 on 28 October 2008 and reached the highest of HK$0.782 on 19 November 2009 before the release of the announcement dated 20 November 2009 in relation to the acquisition (the "2009 Acquisition") of 10% of CECIC HKC Wind Power (the "2009 Announcement"). After the release of the 2009 Announcement, the Adjusted Closing Price increased from HK$0.773 to HK$0.800 on 23 November 2009, the first trading day after the 2009 Announcement, and the Adjusted Closing Prices were then traded comparatively steady within the range of HK$0.618 to HK$0.827 up to the Last Trading Date.

After the publication of the announcement dated 12 May 2010 in relation to the Acquisition and up to the Latest Practicable Date, save for the increase in the closing price on 13 May 2010 and 14 May 2010, which reached HK$0.76 and HK$0.74 respectively, the closing prices of the HKE Shares were below the Issue Price with the lowest closing price of HK$0.59 on 26 May 2010.

Trading volume of the HKE Shares

Set out below is the monthly trading volume of the HKE Shares on the Stock Exchange during the Period:

	Total monthly trading volume of the HKE Shares (million shares) *(Note 1)*	**Average daily trading volume of the HKE Shares during the month (million shares)**	**% of average daily trading volume of the HKE Shares to the average total issued HKE Shares** *(Note 2)*	**% of average daily trading volume of the HKE Shares to average public float** *(Note 3)*
2008				
March	404.511	22.473	2.943	11.770
April	50.463	2.403	0.315	1.259
May	34.438	1.722	0.226	0.902
June	21.701	1.206	0.158	0.631
July	8.845	0.402	0.053	0.211
August	5.245	0.250	0.033	0.131
September	3.421	0.163	0.021	0.085
October	11.828	0.563	0.074	0.295
November	1.870	0.094	0.012	0.049
December	9.444	0.450	0.059	0.236
2009				
January	1.806	0.100	0.013	0.053
February	2.899	0.145	0.019	0.076
March	2.232	0.101	0.013	0.053
April	15.082	0.754	0.099	0.395
May	67.345	3.544	0.464	1.856
June	23.700	1.077	0.141	0.564
July	16.626	0.756	0.099	0.395
August	14.802	0.705	0.092	0.366
September	6.410	0.291	0.038	0.150
October	40.892	2.045	0.266	1.052
November	84.627	4.030	0.525	2.066
December	26.552	1.207	0.156	0.610
2010				
January	12.261	0.613	0.079	0.310
February	8.624	0.479	0.062	0.243
March	34.014	1.479	0.191	0.750
April	19.998	1.053	0.133	0.516
May	20.975	1.049	0.123	0.389
June *(note 4)*	3.732	0.220	0.026	0.079

Notes:

(1) Source: Bloomberg

(2) Calculated based on the average number of issued HKE Shares for each month during the Period.

(3) Calculated based on the average number of public float shares for each month during the Period.

(4) Up to the Latest Practicable Date.

As illustrated in the table above, during the Period, save for March 2008 which was the offer period for the HKE Shareholders to accept or reject the offer made by HKC Group (the "2008 Offer"), the monthly average daily trading volumes of the HKE Shares were less than 1% of the respective monthly average total issued HKE Shares and within the range of 0.012% to 0.525%; while the monthly average daily trading volumes of the HKE Shares, save for March and April of 2008 and May, October and November of 2009, were less than 1% of the respective monthly average total HKE Shares held by the public and within the range of 0.049% and 0.902%. Save for the 2008 Offer, the disposal of the pilot cellulosic ethanol project and the 2009 Acquisition announced by the Company in March 2008, May 2009 and November 2009 respectively, the HKE Directors were not aware of any reasons for the increase in the trading volume in March and April of 2008 and May, October and November of 2009. Based on the above, we consider that the liquidity of the HKE Shares has been low in general.

(ii) Other principal terms of the Convertible Preferred Shares

Set out below are the other principal terms of the Convertible Preferred Shares:

Dividends and distribution:	The Convertible Preferred Shares will rank pari passu with the HKE Shares and are entitled to any payment of dividends or distribution or return of capital (other than on a liquidation, dissolution or winding up).
Voting rights:	Holders of the Convertible Preferred Shares shall be entitled to receive notices of, attend and speak at any general meetings of the Company but not to vote.
Redemption:	The Convertible Preferred Shares are not redeemable.
Ranking in liquidation	The Convertible Preferred Shares rank higher than the ordinary HKE Shares in any Liquidation Event (as defined in the letter from the HKE Board).

Further details of the Convertible Preferred Shares are set out in the letter from the HKE Board.

Taking into account the Convertible Preferred Shares are (i) non-interest bearing; (ii) non-redeemable; (iii) not entitled to vote at any meeting of the Company; and (iv) the HKE Board has full discretion regarding the future payment of dividend, we are of the view that it is reasonable for the Convertible Preferred Shares to be entitled to any future payment of dividends or distribution or return of capital of the Company.

Having considered (i) the Consideration represents a discount of approximately 25% to the Business Valuation; (ii) the Issue Price equals the average of the closing prices for the 10-Day Period of approximately HK$0.735 per HKE Share and represents substantial premium over the net asset value of the Company as at 31 December 2009; (iii) the low liquidity of the HKE Shares; and (iv) the flexibility provided to the working capital of the HKE Group by issuing the Convertible Preferred Shares to satisfy the Consideration, we are of the view that the terms of the Convertible Preferred Shares, including the Issue Price, are fair and reasonable so far as the HKE Independent Shareholders are concerned.

8. Effects of the Acquisition to the HKE Group

(i) Financial effects of the Acquisition to the HKE Group

Upon Completion, the Target Company and its subsidiaries will become subsidiaries of the Company and their results will be consolidated into the financial statements of the Enlarged Group, while the associated companies of the Target Company will become associated companies of the Enlarged Group and their results and assets and liabilities will be equity accounted for in the Enlarged Group's financial statements.

(a) Earnings

As disclosed in the unaudited pro forma financial information on the Enlarged Group contained in appendix III to the Circular, assuming the Acquisition was completed as at 1 January 2009, the Enlarged Group would turnaround from loss attributable to the equity holders of the HKE Group for the year ended 31 December 2009 of approximately HK$10.4 million to profit attributable to the equity holders of the Enlarged Group of approximately HK$150.1 million. This is principally attributable to the gain (the "Gain") on excess of fair value of net assets acquired over cost of Acquisition with the pro forma deferred taxation liabilities, in aggregate, of approximately HK$222.3 million, and the withholding tax expenses arising from the difference between the cost of investment and the share in the net fair values of the Target Group's identifiable assets and liabilities of approximately HK$26.2 million.

Loss per HKE Share for the year ended 31 December 2009 would also turnaround from approximately HK$0.012 (based on the net loss attributable to the equity holders of the HKE Group and 855,133,284 HKE Shares in issue as at the Latest Practicable Date) to earnings per HKE Share of approximately HK$0.067 (based on the unaudited pro forma net profit attributable to the equity holders of the Enlarged Group and 2,240,303,352 HKE Shares to be in issue upon Completion assuming the full conversion of the Convertible Preferred Shares).

The actual amount of Gain that arises from the Acquisition would be determined on the date of Completion. Since the fair value of the assets and liabilities of the Target Group at Completion may be substantially different from the estimates used for the purpose of preparation of the unaudited pro forma financial information, the actual amount of Gain arising from the Acquisition may be different from the estimated Gain. The amount of Gain arising from the Acquisition will be recognised in the consolidated statement of comprehensive income of the Enlarged Group subsequent to the Completion.

(b) Net asset value

As at 31 December 2009, the HKE Group had net assets attributable to the equity holders of the HKE Group of approximately HK$307.0 million. According to the unaudited pro forma financial information of the Enlarged Group contained in appendix III to the Circular, the net assets attributable to the equity holders of the Enlarged Group would increase to approximately HK$1,513.7 million assuming Completion had taken place on 31 December 2009. This is mainly attributable to (i) the consolidation of the assets and liabilities of the Target Group; (ii) the adjustments to the non-current assets of the Target Group arising from the differences in the amounts of the fair values of the respective identifiable assets of the Target Group over the cost of the Acquisition, in aggregate, of approximately HK$358.1 million; (iii) the pro forma deferred taxation liabilities related to the subsidiaries of the Target Group and withholding tax expenses arising from the fair value uplifting of the net asset value of the Target Group, in aggregate, of approximately HK$65.0 million; (iv) the consolidation of the Loans and the amount due to the HKE Group by the Target Group of approximately HK$1,072.5 million; and (v) the professional cost for the Acquisition of approximately HK$7.5 million.

According to the unaudited pro forma financial information of the Enlarged Group contained in appendix III to the Circular, the net asset value per HKE Share would increase from approximately HK$0.36 (based on the net assets attributable to the equity holders of the HKE Group as at 31 December 2009 and 855,133,284 HKE Shares in issue as at the Latest Practicable Date) to approximately HK$0.68 (based on the unaudited pro forma net assets attributable to the equity holders of the Enlarged Group and 2,240,303,352 HKE Shares to be in issue upon Completion assuming the full conversion of the Convertible Preferred Shares).

According to the accounting policies of the HKE Group, if the cost of an acquisition is above the fair value of the HKE Group's share of net identifiable assets of the acquired subsidiary on the date of acquisition, a goodwill on acquisition will be included in intangible assets in the consolidated balance sheet of the HKE Group and will be subject to impairment test annually. Accordingly, a goodwill would arise as a result of the Acquisition if the fair value of the Convertible Preferred Shares to be issued on the date of Completion exceeds the fair value of the identifiable assets and liabilities of the Target Group.

(c) Gearing and working capital

The Consideration will be satisfied by the issuance of the Convertible Preferred Shares. Accordingly, save for the professional cost for the Acquisition of approximately HK$7.5 million, the Acquisition would not result in net cash outflow to the HKE Group. As at 31 December 2009, the HKE Group had net cash position of approximately HK$96.2 million. After the Completion, the net debt (being total borrowings less cash and bank balances and restricted cash) of the Enlarged Group would increase to approximately HK$479.7 million and the Enlarged Group would have a gearing ratio (being net debt divided by the total capital, being net debt plus total equity) of approximately 23.9% as at 31 December 2009.

In addition, given the Target Group had an outstanding capital commitment for property, plant and equipment of approximately HK$38.6 million as at 31 December 2009, the Acquisition would increase the capital commitment of the Enlarged Group. We are advised that the capital commitment of the Target Group is expected to be financed by internal resources and/or existing bank facilities of the Target Group and is not expected to have any material impact to the working capital of the Enlarged Group.

(ii) Dilution of existing public HKE Shareholders' holdings

Assuming that there are no changes in the issued share capital of the Company between the Latest Practicable Date and the date of Completion, set out below is a summary of the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after the Completion assuming no conversion of the Convertible Preferred Shares; (iii) immediately after the Completion assuming full conversion of the Convertible Preferred Shares; and (iv) immediately after the Completion assuming full conversions of the Convertible Preferred Shares and all the convertible securities of HKE:–

Shareholders	As at the Latest Practicable Date *(Note 1)*		Immediately after the Completion assuming no conversion of the Convertible Preferred Shares		Immediately after the Completion assuming full conversion of the Convertible Preferred Shares		Immediately after the 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
	855,133,284	100.00	855,133,284	100.00	2,240,303,352	100.00	2,461,708,000	100.00

Notes:

1. 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 and bonus warrants of HKE 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 were 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.

2. 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.

We note that the interest of the existing public HKE Shareholders will be diluted significantly from 34.69% as at the Latest Practicable Date to 13.24% immediately after the Completion assuming full conversion of the Convertible Preferred Shares. However, we consider that the potential dilution effect to be acceptable after having taken into account (i) the benefits of the Acquisition to the HKE Group as mentioned in the section headed "Background to and reasons for the Acquisition and the Reorganisation" above; (ii) the expected turnaround from a loss per HKE Share of approximately HK$0.012 for the HKE Group to an earnings per HKE Share of approximately HK$0.067 for the Enlarged Group, and the expected improvements in net asset per HKE Share from approximately HK$0.36 for the HKE Group to approximately HK$0.68 for the Enlarged Group, based on the unaudited pro forma financial information on the Enlarged Group contained in appendix III to the Circular; (iii) there will be no immediate cash outflow for the HKE Group with respect to the Acquisition; and (iv) pursuant to the terms of the Convertible Preferred Shares, at any time after issue, no Conversion (as defined in the letter from the HKE Board) shall take place if and to the extent that, immediately following the Conversion (as defined in the letter from the HKE Board), the Company will be unable to meet the public float requirement under the Listing Rules.

DISCUSSION AND ANALYSIS

At the time of the change in control of the Company, the controlling shareholder of the Company, the HKC Group, had committed to transform the HKE Group to become its alternative energy flagship. The HKE Group has commenced its alternative energy business by itself since the change in control in 2008. The Acquisition not only increases the HKE Group's portfolio of alternative energy projects in the PRC with promising prospects, but it also provides an opportunity for the HKE Group to consolidate all of the alternative energy projects of HKC to the Company, which will clearly delineate the businesses of HKC and the Company and transform the HKE Group to become HKC's flagship of alternative energy business. Accordingly, we consider that the entering into of the Sale and Purchase Agreement and the transactions contemplated thereunder are in the interests of the Company and the HKE Shareholders as a whole.

Despite the Consideration of approximately HK$1,018.1 million represents a premium of approximately 22% over HKC Group's book value of the Target Group of approximately HK$833.7 million, having considered that the Consideration (i) represents a discount of approximately 25% to the Business Valuation of approximately HK$1,357.4 million, which is more favourable compared with the consideration for the Comparable Transaction which was equal to the valuation of the assets being acquired; (ii) implies lower average values per MW of electricity generating capacity from the wind farms and per ton of waste treatment capacity at the waste-to-energy plant compared to the market values as estimated by the Independent Valuer; (iii) will be entirely satisfied by the issuance of the Convertible Preferred Shares at the Issue Price which we consider fair and reasonable; and (iv) does not require any cash outlay for the HKE Group to complete the Acquisition, we consider the Consideration is fair and reasonable so far as the HKE Independent Shareholders are concerned.

Having considered (i) the Consideration represents a discount of approximately 25% to the Business Valuation; (ii) the Issue Price equals the average of the closing prices of the HKE Shares for the 10-Day Period of HK$0.735 per HKE Share, and represents substantial premium of approximately 85.1% over the net asset value per HKE Share of approximately HK$0.397 as at 31 December 2009; (iii) the low liquidity of the HKE Shares; and (iv) the flexibility provided to the working capital of the HKE Group by issuing the Convertible Preferred Shares to satisfy the Consideration, we are of the view that the terms of the Convertible Preferred Shares, including the Issue Price, are fair and reasonable so far as the HKE Independent Shareholders are concerned.

Based on the unaudited pro forma financial information on the Enlarged Group contained in appendix III to the Circular, Completion would have positive effect to the earnings and net assets of the Enlarged Group attributable to the HKE Shareholders on a per share basis. The Target Group is expected to have adequate internal resources and banking facilities to finance its existing capital commitments.

Despite the interest of the existing public HKE Shareholders will be diluted significantly from 34.69% to 13.24% immediately after the Completion assuming full conversion of the Convertible Preferred Shares, having considered the reasons as set forth above, in particular, the expected turnaround from a loss per HKE Share of approximately HK$0.012 to an earnings per HKE Share of approximately HK$0.067, and the expected improvements in net asset per HKE Share from approximately HK$0.36 to HK$0.68 (based on the unaudited pro forma financial information on the Enlarged Group contained in appendix III to the Circular), we consider such dilution to be acceptable.

RECOMMENDATION

Having considered the above-mentioned principal factors and reasons, we consider that the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder (including the Transactions) are fair and reasonable and the entering into of the Sale and Purchase Agreement and the transactions contemplated thereunder (including the Transactions) are in the interest of the Company and the HKE Shareholders as a whole. We therefore recommend the HKE Independent Board Committee to advise the HKE Independent Shareholders, and we also recommend the HKE Independent Shareholders to vote in favour of the resolutions in relation to the aforesaid matters at the HKE EGM.

Yours faithfully,
For and on behalf of
First Shanghai Capital Limited

Helen Zee
Managing Director

Fanny Lee
Deputy Managing Director

1. FINANCIAL SUMMARY

Set out below is a summary of the financial information of the HKE Group for the three years ended 31 December 2009 as extracted from the relevant annual reports of the Company.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2009	2008	2007
	HK$'000	*HK$'000*	*HK$'000*
Revenue	10,609	13,877	654,010
Cost of sales	(4,896)	(5,889)	(581,641)
Gross profit	5,713	7,988	72,369
Selling and distribution costs	(1,552)	(2,914)	(13,149)
Administrative expenses	(36,161)	(50,964)	(47,285)
Other expenses	(817)	(58,694)	–
Operating (loss)/profit	(32,817)	(104,584)	11,935
Finance income	443	3,074	228
Finance costs	–	(160)	(3,512)
Finance income/(costs) – net	443	2,914	(3,284)
Gain on disposal of subsidiaries	7,624	–	–
Excess of fair value of net assets acquired over cost of acquisition of an associated company	27,693	–	–
Share of loss of an associated company	(289)	–	(909)
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
Gain on disposal of subsidiaries	–	–	209,817
(Loss)/profit for the year	(11,682)	(94,707)	228,462
Other comprehensive income:			
Currency translation differences	32	1,085	–
Other comprehensive income for the year, net of tax	32	1,085	–
Total comprehensive income for the year	(11,650)	(93,622)	228,462

	2009 *HK$'000*	2008 *HK$'000*	2007 *HK$'000*
(Loss)/profit attributable to:			
Equity holders of the Company	(10,431)	(89,720)	228,462
Minority interest	(1,251)	(4,987)	–
	(11,682)	(94,707)	228,462
Total comprehensive income attributable to:			
Equity holders of the Company	(10,399)	(88,635)	228,462
Minority interest	(1,251)	(4,987)	–
	(11,650)	(93,622)	228,462
Dividends	–	–	–
(Loss)/earnings per share for loss attributable to the equity holders of the Company, expressed in HK cents per share			
– Basic and diluted	(1.36)	(11.75)	29.92

CONSOLIDATED BALANCE SHEET

As at 31 December 2009

	2009	2008	2007
	HK$'000	*HK$'000*	*HK$'000*
ASSETS			
Non-current assets			
Property, plant and equipment	442	762	1,785
Construction in progress	3,311	–	–
Intangible assets	5,539	35,557	30,849
Investment in associated companies	208,076	–	–
Goodwill	–	–	42,044
Deferred income tax assets	–	203	–
Total non-current assets	217,368	36,522	74,678
Current assets			
Trade and other receivables	6,457	2,383	2,431
Tax recoverable	–	–	345
Cash and cash equivalents	172,226	289,095	344,558
Total current assets	178,683	291,478	347,334
Total assets	396,051	328,000	422,012
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	7,726	7,635	7,635
Reserves	299,288	301,176	389,811
Equity attributable to equity holders of the Company	307,014	308,811	397,446
Minority interest	–	13,913	–
Total equity	307,014	322,724	397,446

	2009	2008	2007
	HK$'000	*HK$'000*	*HK$'000*
LIABILITIES			
Non-current liabilities			
Convertible note	76,007	–	–
Deferred income tax liabilities	4,643	1,709	7,414
Total non-current liabilities	80,650	1,709	7,414
Current liabilities			
Other payables	8,387	3,520	7,362
Current income tax liabilities	–	47	1,210
Borrowings	–	–	8,580
Total current liabilities	8,387	3,567	17,152
Total liabilities	89,037	5,276	24,566
Total equity and liabilities	396,051	328,000	422,012
Net current assets	170,296	287,911	330,182
Total assets less current liabilities	387,664	324,433	404,860

2. AUDITED FINANCIAL INFORMATION OF THE HKE GROUP

Set out below are the audited financial statements of the HKE Group as extracted from the annual report of the Company for the year ended 31 December 2009. All references to the Group in this section shall mean the HKE Group.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

	Note	2009 HK$'000	2008 HK$'000
Revenue	5	10,609	13,877
Cost of sales	7	(4,896)	(5,889)
Gross profit		5,713	7,988
Selling and distribution costs	7	(1,552)	(2,914)
Administrative expenses	7	(36,161)	(50,964)
Other expenses	6	(817)	(58,694)
Operating loss		(32,817)	(104,584)
Finance income	8	443	3,074
Finance costs	8	–	(160)
Finance income – net	8	443	2,914
Gain on disposal of subsidiaries	29(b)	7,624	–
Excess of fair value of net assets acquired over cost of acquisition of an associated company	11, 30	27,693	–
Share of loss of an associated company	18	(289)	–
Profit/(loss) before income tax		2,654	(101,670)
Income tax (expense)/credit	11	(14,336)	6,963
Loss for the year		(11,682)	(94,707)
Other comprehensive income:			
Currency translation differences		32	1,085
Other comprehensive income for the year, net of tax		32	1,085
Total comprehensive income for the year		(11,650)	(93,622)
Loss attributable to:			
Equity holders of the Company		(10,431)	(89,720)
Minority interest		(1,251)	(4,987)
		(11,682)	(94,707)
Total comprehensive income attributable to:			
Equity holders of the Company		(10,399)	(88,635)
Minority interest		(1,251)	(4,987)
		(11,650)	(93,622)
Dividends	14	–	–
Loss per share for loss attributable to the equity holders of the Company, expressed in HK cents per share			
– Basic and diluted	13	(1.36)	(11.75)

CONSOLIDATED BALANCE SHEET
As at 31 December 2009

	Note	2009 HK$'000	2008 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	15	442	762
Construction in progress	16	3,311	–
Intangible assets	17	5,539	35,557
Investment in associated companies	18	208,076	–
Deferred income tax assets	25	–	203
Total non-current assets		217,368	36,522
Current assets			
Trade and other receivables	20	6,457	2,383
Cash and cash equivalents	21	172,226	289,095
Total current assets		178,683	291,478
Total assets		396,051	328,000
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	22	7,726	7,635
Reserves	23	299,288	301,176
Equity attributable to equity holders of the Company		307,014	308,811
Minority interest		–	13,913
Total equity		307,014	322,724
LIABILITIES			
Non-current liabilities			
Convertible note	24	76,007	–
Deferred income tax liabilities	25	4,643	1,709
Total non-current liabilities		80,650	1,709
Current liabilities			
Other payables	26	8,387	3,520
Current income tax liabilities		–	47
Total current liabilities		8,387	3,567
Total liabilities		89,037	5,276
Total equity and liabilities		396,051	328,000
Net current assets		170,296	287,911
Total assets less current liabilities		387,664	324,433

BALANCE SHEET
As at 31 December 2009

	Note	2009 HK$'000	2008 HK$'000
ASSETS			
Non-current assets			
Investments in subsidiaries	19	21,307	24,823
Current assets			
Other receivables	20	52	157
Amounts due from subsidiaries	19	221,990	42,777
Cash and cash equivalents	21	154,981	257,742
Total current assets		377,023	300,676
Total assets		398,330	325,499
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	22	7,726	7,635
Reserves	23	241,811	249,570
Total equity		249,537	257,205
LIABILITIES			
Non-current liabilities			
Convertible note	24	76,007	–
Deferred income tax liability	25	1,163	–
Total non-current liabilities		77,170	–
Current liabilities			
Amounts due to subsidiaries	19	66,799	66,836
Other payables	26	4,824	1,458
Total current liabilities		71,623	68,294
Total liabilities		148,793	68,294
Total equity and liabilities		398,330	325,499
Net current assets		305,400	232,382
Total assets less current liabilities		326,707	257,205

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009

	Attributable to equity holders of the Company							
	Share capital	Share premium	Exchange reserve	Special reserve	Retained earnings	Total	Minority interest	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1 January 2008	7,635	175	–	(6,774)	396,410	397,446	–	397,446
Loss for the year	–	–	–	–	(89,720)	(89,720)	(4,987)	(94,707)
Other comprehensive income:								
Currency translation differences	–	–	1,085	–	–	1,085	–	1,085
Total comprehensive income for the year	–	–	1,085	–	(89,720)	(88,635)	(4,987)	(93,622)
Transfer to retained earnings	–	–	–	6,774	(6,774)	–	–	–
Contribution from a minority shareholder	–	–	–	–	–	–	18,900	18,900
Balance at 31 December 2008	7,635	175	1,085	–	299,916	308,811	13,913	322,724

	Attributable to equity holders of the Company							
	Share capital	Share premium	Exchange reserve	Other reserves	Retained earnings	Total	Minority interest	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1 January 2009	7,635	175	1,085	–	299,916	308,811	13,913	322,724
Loss for the year	–	–	–	–	(10,431)	(10,431)	(1,251)	(11,682)
Other comprehensive income:								
Currency translation differences	–	–	32	–	–	32	–	32
Total comprehensive income for the year	–	–	32	–	(10,431)	(10,399)	(1,251)	(11,650)
Exercise of bonus warrants	91	2,626	–	–	–	2,717	–	2,717
Convertible note – equity component, net of tax	–	–	–	5,885	–	5,885	–	5,885
Disposal of subsidiaries	–	–	–	–	–	–	(12,662)	(12,662)
Balance at 31 December 2009	7,726	2,801	1,117	5,885	289,485	307,014	–	307,014

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2009

	Note	2009 HK$'000	2008 HK$'000
Cash flows from operating activities			
Cash used in operations	*29(a)*	(25,474)	(37,923)
Income tax paid		(50)	(10)
Income tax refunded		26	251
Net cash used in operating activities		(25,498)	(37,682)
Cash flows from investing activities			
Interest received		566	2,979
Acquisition of intangible assets		(172)	(17,573)
Purchase of property, plant and equipment		(186)	(179)
Payment made for the addition to construction in progress		(6,495)	–
Proceeds from			
– disposal of subsidiaries	*29(b)*	18,999	–
– disposal of property, plant and equipment		15	93
– disposal of construction in progress		3,184	–
Investment in an associated company		(110,010)	–
Net cash used in investing activities		(94,099)	(14,680)
Cash flows from financing activities			
Contribution from minority shareholders		–	4,725
Repayment of bank and other loans		–	(8,580)
Proceeds from issuance of bonus warrants		2,717	–
Interest paid		–	(187)
Net cash generated from/(used in) financing activities		2,717	(4,042)
Net decrease in cash and cash equivalents		(116,880)	(56,404)
Cash and cash equivalents as at 1 January		289,095	344,558
Exchange gains on cash and cash equivalents		11	941
Cash and cash equivalents at 31 December		172,226	289,095

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented unless otherwise stated.

In June 2009, the Group changed the functional currency of the Company from Hong Kong dollars to Renminbi. The details and impact on the financial statements are described in Note 2.3(a) below.

2.1 Basis of preparation

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

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

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

(a) Amendments effective in 2009

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

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

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

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

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

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

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

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

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

2.2 Consolidation

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated statement of comprehensive income.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary in the consolidated financial statements to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

(b) Transactions with minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the consolidated statement of comprehensive income. Purchases from minority interests result in goodwill, being the difference between the consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

(c) Investment in associated companies

Associated companies are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associated companies are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associated companies includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associated companies' post-acquisition profits or losses is recognised in the consolidated statement of comprehensive income, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associated company equals or exceeds its interest in the associated company, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associated company.

Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associated companies have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in associated companies are recognised in the consolidated statement of comprehensive income.

In the Company's balance sheet the investments in associated companies are stated at cost less provision for impairment losses. The results of associated companies are accounted for by the Company on the basis of dividend received and receivable.

2.3 Foreign currency translation

(a) Functional and presentation currency

Following the disposal of the pilot project in Hong Kong for production of cellulosic ethanol, management considers there is a shift of operational and financial focus to the Company's PRC operations. Therefore the Company's functional currency has changed from Hong Kong dollars to Renminbi with effect from June 2009. The consolidated financial statements are presented in Hong Kong dollars to facilitate analysis of the financial information of the Group, which is listed in Hong Kong. The change of functional currency has no significant financial impact to both the Group and the Company.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each consolidated statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the consolidated statement of comprehensive income as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.4 Property, plant and equipment

Property, plant and equipment, comprising leasehold improvement, plant and machinery, motor vehicles and furniture, fixtures and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation of property, plant and equipment is calculated using the straight-line method, to write off their cost over their estimated useful lives or remaining useful lives for those second-hand assets and the estimated useful lives are as follows:

Leasehold improvements	5 years
Furniture, fixtures and equipment	5 years
Motor vehicles	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Subsequent costs are included in the carrying amount of the asset or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated will flow to the Group and the cost of item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the consolidated statement of comprehensive income during the financial period in which they are incurred.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.7).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other income/expenses in the consolidated statement of comprehensive income.

2.5 Construction in progress

All direct and indirect costs relating to the construction of property, plant and equipment including borrowing costs during the construction period are capitalised as the costs of the assets, which are classified as construction in progress. No depreciation is provided on construction in progress.

2.6 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Separately recognised goodwill is tested for impairment at every reporting date based on the higher of value in use and fair value less costs to sell. The goodwill is carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash generating units that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment.

(b) Customer relationships

Customer relationships acquired in a business combination are recognised at fair value at the acquisition date. The customer relationships have a finite useful life and are carried at cost less accumulated amortisation and impairment. Amortisation is calculated using the straight-line method over their estimated useful lives of 5 years.

(c) Software technology know-how

Software technology know-how acquired in a business combination is recognised at fair value at the acquisition date. The software technology know-how has a finite useful life and is carried at cost less accumulated amortisation and impairment. Amortisation is calculated using the straight-line method over its estimated useful life of 5 years.

(d) Biomass technology

Separately acquired biomass technology has a finite useful life and is carried at cost less accumulated amortisation and impairment, if any. Amortisation is calculated using the straight-line method over its estimated useful life of 5 years.

(e) Computer software

Separately acquired computer software has a finite useful life and is carried at cost less accumulated amortisation and impairment. Amortisation is calculated using the straight-line method over its estimated useful life of 5 years.

2.7 Impairment of investments in subsidiaries, associated companies and non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Financial asset

The Group classifies its financial assets in the following categories: at fair value through profit or loss and loans and receivable. The classification depends on the purpose for which the financial assets were acquired. Management determine the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(b) Loans and receivables

Loans and receivables are classified as "trade and other receivables" and "cash and cash equivalents" in the balance sheet. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the consolidated statement of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in fair value of the "financial assets at fair value through profit or loss" category are presented in the consolidated statement of comprehensive income within other income/expenses, in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated statement of comprehensive income as part of other income when the Group's right to receive payments is established.

For the purposes of assessing the fair value of unlisted securities, the Group established fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

2.9 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognised in the consolidated statement of comprehensive income within other expenses. When a trade receivable is uncollectible, it is written off against other expenses in the consolidated statement of comprehensive income. Subsequent recoveries of amounts previously written off are credited to other income in the consolidated statement of comprehensive income. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

2.10 Other payables

Other payables are initially measured at fair value and subsequently measured at amortised cost.

2.11 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2.12 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.13 Current and deferred income tax

The tax expense for the year comprises current and deferred tax. Tax is recognised in the consolidated statement of comprehensive income, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.14 Convertible note

Compound financial instruments issued by the Group comprise convertible notes that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or expiry.

When the note is converted, the relevant equity component and the carrying amount of the liability component at the time of conversion are transferred to share capital and share premium for shares issued. When the note is redeemed, the relevant equity portion is transferred to retained profits.

2.15 Employee benefits

(a) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(b) Defined contribution plans

The Group operates a mandatory provident fund scheme ("MPF") and employee pension schemes established by municipal government in the People's Republic of China ("PRC") for the eligible employees in Hong Kong and the PRC respectively.

The Group's and the employees' contributions to the MPF comply with the related statutory requirements. The Group has no further payment obligations once the contributions have been paid. The Group's contributions to the MPF are expensed as incurred and are not reduced by contributions forfeited by those employees who leave MPF prior to vesting fully in the contributions. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available. The assets of MPF are held separately from those of the Group in independently administered funds.

2.16 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.17 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the provision of services in the ordinary course of the Group's activities. Revenue is shown net of business tax within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(i) Revenue from provision for software development service is recognised when the services are rendered.

(ii) Interest income is recognised on a time proportion basis using the effective interest method.

(iii) Dividend income is recognised when the right to receive payment is established.

2.18 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

2.19 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

2.20 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk and liquidity risk. The Group's major financial instruments include trade and other receivables, cash and cash equivalents, other payables and a convertible note. Details of these financial instruments are disclosed in the respective notes.

It is the policy of the Group not to enter into derivative transactions for speculative purposes.

The Board of Directors focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Board of Directors reviews and agrees policies for managing each of these risks and they are summarised below.

(a) Foreign exchange risk

The Group operates mainly in Hong Kong and Mainland China and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to United States dollars ("US dollars") and Hong Kong dollars.

The Group currently does not have any foreign currency hedging policy. However, the management of the Group monitors the foreign exchange exposure closely and will consider hedging significant foreign currency exposure should the need arise.

As at 31 December 2009, if US dollars and Hong Kong dollars had strengthened/weakened by 5% against Renminbi respectively, with all other variables held constant, the Group's profit before income tax would have been HK$106,000 and HK$7,524,000 higher/lower respectively.

(b) *Credit risk*

The Group is exposed to credit risk in its cash and cash equivalents and trade and other receivables.

The carrying amount of cash and cash equivalents and trade and other receivables represent the Group's maximum exposure to credit risk in relation to its financial assets.

To manage the credit risk associated with cash and cash equivalents, most of the deposits are mainly placed with certain state-owned banks in the PRC which are high-credit-quality financial institutions and banks with high credit rankings in Hong Kong.

To manage the credit risk associated with trade and other receivables, the Group adopts risk control to assess the credit quality, determine credit limits and approve credits of the customer and debtors, taking into account their financial position and past experience. The Group has monitoring procedures to ensure that follow-up action is taken to recover overdue debts.

The Group is mainly engaged in the software development business and trade receivables are mainly derived from a few major customers who have good credit history. In order to minimise the credit risk, management continuously monitors the level of exposure to ensure that corrective actions are taken promptly to lower the risk exposure. Accordingly, the directors believe that adequate credit provision has been made during the year.

(c) *Liquidity risk*

Liquidity risk is the risk that the Group is unable to meet its current obligations when they fall due. The Group measures and monitors its liquidity through the maintenance of prudent ratios regarding the liquidity structure of the overall assets, liabilities, loans and commitments of the Group. The Group also maintains a conservative level of liquid assets to ensure the availability of sufficient cash flows to meet any unexpected and material cash requirements in the course of ordinary business.

Given the Group's cash position as at 31 December 2009, the Group is able to meet its current obligations and capital commitments which fall due within the next twelve months. Apart from internal sources of funding, the Group is actively seeking funds to finance its future capital expenditure commitment from external sources, and if necessary, financial support from its parent company. In addition, the timing of incurring capital expenditure is under the control of the Group.

The following table details the Group's contractual maturity for its financial liabilities at the balance sheet date. The table has been drawn up with reference to the undiscounted cash flows of financial liabilities based on the earliest date on which the Group is required to pay. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	No later than 1 year	**Later than 1 year but no later than 5 years**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Group			
At 31 December 2009			
Other payables	8,387	–	8,387
Convertible note	–	83,055	83,055
At 31 December 2008			
Other payables	3,520	–	3,520

	No later than 1 year	**Later than 1 year but no later than 5 years**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Company			
At 31 December 2009			
Other payables	4,824	–	4,824
Convertible note	–	83,055	83,055
At 31 December 2008			
Other payables	1,458	–	1,458

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group monitors capital by reviewing the capital structure. The capital structure of the Group consists of debt and equity attributable to equity holders of the Company, as shown in the consolidated balance sheet. The Group considers the cost and the risk associated with the capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, raise new debt financing, issue new shares, share option and warrants or conduct share buy-backs.

3.3 Fair value estimation

The fair value of financial instruments that are not in an active market is determined by using valuation techniques. The Group makes reference to professional valuations where necessary and uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date.

The carrying value less impairment provision of trade and other receivables and the carrying value of other payables approximate their fair values due to their short maturities.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimated impairment of intangible assets

The Group tests whether intangible assets have suffered any impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable in accordance with the accounting policy. The calculations use pre-tax cash flow projections based on the next five financial years.

Estimates of sales, profit margin (before interest, tax, depreciation and amortization expenses) and operating cash outflows are based on the business unit's past performance and management expectations for future development of the market and the business. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

An impairment charge of HK$817,000 arose in the software development business during the year, resulting in the carrying amount of the cash generating unit being written down to its recoverable amount. If the budgeted sales used in the value-in-use calculation for the software development business had been 1% lower than management's estimates at 31 December 2009, the Group would have recognised a further impairment of HK$205,000.

If the estimated pre-tax discount rate applied to the discounted cash flows for the software development business had been 1% higher than management's estimates, the Group would have recognised a further impairment of HK$38,000.

(b) Income taxes/deferred taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for potential tax exposures based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will affect the income tax and deferred tax provision in the period in which such determination is made.

(c) Allowances for bad and doubtful debts

The policy for allowance of bad and doubtful debts of the Group is based on the evaluation of collectability and ageing analysis of receivables and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the creditworthiness and the past collection history of each customer.

5 SEGMENT INFORMATION

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

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

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

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

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

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

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

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

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

Reportable segments assets are reconciled to total assets as follows:

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

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

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

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

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

6 OTHER EXPENSES

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

7 EXPENSES BY NATURE

	2009	**2008**
	HK$'000	*HK$'000*
Auditor's remuneration	950	1,219
Amortisation of intangible assets *(Note 17)*	4,529	10,390
Depreciation of property, plant and equipment *(Note 15)*	512	1,176
Net exchange losses	57	377
Loss on disposal of property, plant and equipment	–	4
Employee benefit expenses (including directors' emoluments) *(Note 10)*	16,457	17,662
Operating lease rental	1,140	1,563
Research and development expenditure	323	6,870
Corporate expenses	1,647	2,982
Donations	–	2,500
Legal and professional fees	5,437	7,578
Management service fee	5,875	4,216
Other expenses	5,682	3,230
	42,609	59,767

8 FINANCE INCOME AND COSTS

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

9 DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION

(a) Directors' emoluments

The remuneration of every Director for the year ended 31 December 2009 is set out below:

Name of Director	Fees	Salary & other benefits	Employer's contribution to pension scheme	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
OEI Kang, Eric	75	1,320	12	1,407
YUNG Pak Keung, Bruce(1)	24	1,158	5	1,187
TSANG Sai Chung, Kirk(2)	51	739	9	799
CHAN Kwok Fong, Joseph(2)	51	739	8	798
LIU Zhixin	75	–	–	75
LEUNG Wing Sum, Samuel	75	1,600	12	1,687
ZHANG Songyi	150	–	–	150
TANG Siu Kui, Ernest	150	–	–	150
YU Hon To, David	150	–	–	150
	801	5,556	46	6,403

Notes:

(1) Appointed on 4 September 2009

(2) Resigned on 4 September 2009

The remuneration of every Director for the year ended 31 December 2008 is set out below:

Name of Director	Fees	Salary & other benefits	Employer's contribution to pension scheme	Total
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
OEI Kang, Eric(1)	54	700	7	761
TSANG Sai Chung, Kirk(1)	54	700	7	761
CHAN Kwok Fong, Joseph(1)	54	700	7	761
LIU Zhixin(1)	55	–	–	55
LEUNG Wing Sum, Samuel(2)	6	100	1	107
CHEN Libo(3)	36	708	4	748
ZHANG Songyi(1)	109	–	–	109
TANG Siu Kui, Ernest(1)	109	–	–	109
YU Hon To, David(1)	109	–	–	109
KOO Ming Kown(5)	–	–	–	–
CHUI Kam Wai(4)	–	–	–	–
John Quinto FARINA(4)	–	–	–	–
LIU Xue Qing(6)	–	146	2	148
YEOH Teck Hooi(4)	45	–	1	46
CHAM Yau Nam(5)	56	–	–	56
LEUNG Wai Hung(5)	56	–	–	56
CHOI Man Chau, Michael(5)	56	–	–	56
	799	3,054	29	3,882

Notes:

(1) Appointed on 10 April 2008

(2) Appointed on 1 December 2008

(3) Appointed on 10 April 2008 and resigned on 30 September 2008

(4) Resigned on 2 February 2008

(5) Resigned on 10 April 2008

(6) Appointed on 2 February 2008 and resigned on 10 April 2008

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include five directors (2008: five) whose emoluments are reflected in the analysis presented above.

10 EMPLOYEE BENEFIT EXPENSES

	2009	**2008**
	HK$'000	*HK$'000*
Wages, salaries and other benefits	16,317	17,369
Provision for unused annual leave	17	183
Pension costs – defined contribution plan *(Note a)*	123	110
Charged to consolidated statement of comprehensive income *(Note 7)*	16,457	17,662

Notes:

(a) The Group operates the MPF scheme under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employee's relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the scheme vest immediately. The Group's contribution to the employee pension scheme in the PRC is at a percentage in compliance with the requirements of respective municipal governments.

(b) Contributions totaling HK$123,000 (2008: HK$107,000) were payable under the MPF scheme at 31 December 2009.

11 INCOME TAX (EXPENSE)/CREDIT

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

	2009	**2008**
	HK$'000	*HK$'000*
Current income tax		
– Overseas tax credit/(expense)	23	(37)
– Over provision in prior years	–	1,092
*Deferred income tax expense in respect of excess of fair value of net assets acquired over cost of acquisition of an associated company *(Note 30)*	(12,385)	–
Deferred income tax (expense)/credit, net *(Note 25)*	(1,974)	5,908
Income tax (expense)/credit	(14,336)	6,963

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

The tax on the Group's profit/(loss) before income tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	2009	**2008**
	HK$'000	*HK$'000*
Profit/(loss) before income tax:	2,654	(101,670)
Add: share of loss of an associated company	289	–
Less: excess of fair value of net assets acquired over cost of acquisition of an associated company *(Note 30)*	(27,693)	–
	(24,750)	(101,670)
Tax calculated at the domestic rates applicable to profits/(loss) in the respective countries	4,435	18,864
Expenses not deductible for taxation purpose	(5,244)	(7,543)
Income not subject to tax	1,335	453
Tax losses not recognised	–	(5,903)
Deferred income tax expense in respect of excess of fair value of net assets acquired over cost of acquisition of an associated company *(Note 30)*	(12,385)	–
Withholding tax arising from acquisition of an associated company *(Note 25)*	(2,477)	–
Over provision in prior years	–	1,092
Income tax (expense)/credit	(14,336)	6,963

The weighted average applicable tax rate was 17.9% (2008: 18.6%).

Deferred income tax expense of HK$1,163,000 arising from the equity component on convertible note was charged directly to equity (2008: Nil).

J.I.C. (Macao Commercial Offshore) Company Limited, a wholly owned subsidiary of the Company, is exempted from Macao Complementary Tax in accordance with the Macao Decree Law No. 58/99/M.

12 LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The loss attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of HK$16,270,000 (2008: HK$72,900,000).

13 LOSS PER SHARE

(a) Basic

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

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

(b) Diluted

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

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

14 DIVIDENDS

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

15 PROPERTY, PLANT AND EQUIPMENT

Group	Leasehold improvement HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 January 2008					
Cost	1,050	161	725	293	2,229
Accumulated depreciation and impairment	–	(161)	(193)	(90)	(444)
Net book amount	1,050	–	532	203	1,785
Year ended 31 December 2008					
Opening net book amount	1,050	–	532	203	1,785
Exchange differences	32	–	28	11	71
Additions	27	–	152	–	179
Disposals	–	–	(95)	(2)	(97)
Depreciation *(Note 7)*	(779)	–	(287)	(110)	(1,176)
Closing net book amount	330	–	330	102	762
At 31 December 2008					
Cost	1,109	–	609	212	1,930
Accumulated depreciation and impairment	(779)	–	(279)	(110)	(1,168)
Net book amount	330	–	330	102	762
Year ended 31 December 2009					
Opening net book amount	330	–	330	102	762
Exchange differences	21	–	–	–	21
Additions	176	–	10	–	186
Disposals	(15)	–	–	–	(15)
Depreciation *(Note 7)*	(232)	–	(178)	(102)	(512)
Closing net book amount	280	–	162	–	442
At 31 December 2009					
Cost	1,283	–	521	212	2,016
Accumulated depreciation and impairment	(1,003)	–	(359)	(212)	(1,574)
Net book amount	280	–	162	–	442

Company	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2008				
Cost	161	257	90	508
Accumulated depreciation	(161)	(184)	(90)	(435)
Net book amount	–	73	–	73
Year ended 31 December 2008				
Opening net book amount	–	73	–	73
Disposals	–	(65)	–	(65)
Depreciation	–	(8)	–	(8)
Closing net book amount	–	–	–	–
At 31 December 2008 and 2009				
Cost	–	–	–	–
Accumulated depreciation	–	–	–	–
Net book amount	–	–	–	–

16 CONSTRUCTION IN PROGRESS

	Total
	HK$'000
At 1 January 2008 and 2009	–
Additions	6,495
Disposals	(3,184)
At 31 December 2009	3,311

17 INTANGIBLE ASSETS

	Computer software	Customer relationship	Software technology know-how	Biomass technology	Goodwill	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2008						
Acquisition of subsidiaries	–	18,110	12,739	–	42,044	72,893
Net book amount	–	18,110	12,739	–	42,044	72,893
Year ended 31 December 2008						
Opening net book amount	–	18,110	12,739	–	42,044	72,893
Additions	248	–	–	17,325	–	17,573
Non-cash contribution from a minority shareholder	–	–	–	14,175	–	14,175
Amortisation *(Note 7)*	(20)	(3,622)	(2,548)	(4,200)	–	(10,390)
Impairment loss *(Note 6)*	–	(10,273)	(6,377)	–	(42,044)	(58,694)
Closing net book amount	228	4,215	3,814	27,300	–	35,557
At 31 December 2008						
Cost	248	18,110	12,739	31,500	42,044	104,641
Accumulated amortisation and impairment	(20)	(13,895)	(8,925)	(4,200)	(42,044)	(69,084)
Net book amount	228	4,215	3,814	27,300	–	35,557
Year ended 31 December 2009						
Opening net book amount	228	4,215	3,814	27,300	–	35,557
Additions	172	–	–	–	–	172
Disposal of subsidiaries	–	–	–	(24,844)	–	(24,844)
Amortisation *(Note 7)*	(65)	(1,054)	(954)	(2,456)	–	(4,529)
Impairment loss *(Note 6)*	–	–	(817)	–	–	(817)
Closing net book amount	335	3,161	2,043	–	–	5,539
At 31 December 2009						
Cost	420	18,110	12,739	–	–	31,269
Accumulated amortisation and impairment	(85)	(14,949)	(10,696)	–	–	(25,730)
Net book amount	335	3,161	2,043	–	–	5,539

The intangible assets of customer relationship and software technology know-how resulted from the acquisition of software business on 31 December 2007. The recoverable amount of the software business unit has been determined based on a value-in-use calculation. The value-in-use calculation uses pre-tax cash flow based on financial budgets approved by management covering five year period projections. Cash flow beyond four years (2008: five years) was extrapolated based on a discount rate of 17.79% (2008:17.79%) taking into account the risk level of the business unit and with no annual growth. Other key assumptions relate to estimation of sales, profit margin and operating cash outflows, which are based on the business unit's past performance and management's expectations for future development of the market and the business. An impairment loss of HK$817,000 (2008: HK$16,650,000) was recognised for the year ended 31 December 2009.

18 INVESTMENTS IN ASSOCIATED COMPANIES

	Group	
	2009	**2008**
	HK$'000	*HK$'000*
Group's share of net assets	149,040	–
Amount due from an associated company *(Note)*	71,421	–
Deferred income tax liabilities in respect of excess of fair value of net assets acquired over cost of acquisition of an associated company *(Note 30)*	(12,385)	–
	208,076	–

Note: Amount due from an associated company is unsecured, interest free and not repayable within next twelve months. The carrying amount is denominated in Renminbi and approximates its fair value.

The following financial information, after making adjustments to conform to the Group's significant accounting policies, represented the Group's aggregate share of assets, liabilities, revenue and results of associated companies, all of which are unlisted, is summarised below:

	2009	**2008**
	HK$'000	*HK$'000*
Assets	430,400	–
Liabilities	(281,360)	–
Net assets	149,040	–
Revenue	–	–
Loss for the year	(289)	–

19 INVESTMENTS IN SUBSIDIARIES

	Company	
	2009	**2008**
	HK$'000	*HK$'000*
Unlisted shares, at cost	82,623	82,623
Provision for impairment	(61,316)	(57,800)
	21,307	24,823
Amounts due from subsidiaries	221,990	42,777
Amounts due to subsidiaries	(66,799)	(66,836)
	176,498	764

The balances with subsidiaries are unsecured, interest free and have no fixed terms of repayment. Their carrying amounts approximate their fair values.

The carrying amounts of the amounts due from subsidiaries are denominated in Hong Kong dollars.

The carrying amounts of the amounts due to subsidiaries are mainly denominated in Hong Kong dollars.

20 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2009	**2008**	**2009**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade receivables	867	1,686	–	–
Other receivables	5,590	697	52	157
	6,457	2,383	52	157

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

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

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

The carrying amount of the Group's trade and other receivables are denominated in the following currencies:

	2009	2008
	HK$'000	*HK$'000*
Hong Kong dollars	66	161
Japanese Yen	–	298
Renminbi	5,524	238
US dollars	867	1,686
	6,457	2,383

At 31 December 2009 and 2008, the carrying amount of the Company's other receivables are denominated in Hong Kong dollars.

All trade and other receivables do not contain impaired assets. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. The Group does not hold any collateral as security.

21 Cash and cash equivalents

	Group		Company	
	2009	**2008**	**2009**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash at bank and in hand	35,446	66,364	29,903	45,334
Short-term bank deposits	136,780	222,731	125,078	212,408
	172,226	289,095	154,981	257,742

	Group		Company	
	2009	**2008**	**2009**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
(a) Placed in banks in the PRC:				
– denominated in Renminbi	13,555	11,937	–	–
– denominated in Hong Kong dollars	1,847	11,903	–	–
– denominated in US dollars	1,212	2,004	–	–
– denominated in Macau dollars	8	37	–	–
(b) Placed in banks in Hong Kong:				
– denominated in Hong Kong dollars	155,115	262,298	154,946	257,707
– denominated in US dollars	35	35	35	35
(c) Placed in bank in Japan:				
– denominated in Japanese Yen	422	854	–	–
(d) Cash in hand	32	27	–	–
	172,226	289,095	154,981	257,742

The effective interest rates at the balance sheet date were as follows:

	2009			2008		
	HK$	*US$*	*RMB*	*HK$*	*US$*	*RMB*
Short-term bank deposits	0.28%	–	1.35%	0.01%-1.2%	0.05%	0.36%-1.71%

The maximum exposure to credit risk at the reporting date is the carrying value of the cash and cash equivalents stated above.

The short-term bank deposits of the Group and the Company have original maturities of three months or less.

22 Share capital

	Ordinary shares of HK$0.01 each		Non-redeemable convertible preference shares of HK$0.01 each (Note (a))		Total
	Number of shares	*HK$'000*	*Number of shares*	*HK$'000*	*HK$'000*
Authorised:					
At 31 December 2008 and 2009	2,000,000,000	20,000	600,000,000	6,000	26,000
Issued and fully paid:					
At 31 December 2008	763,534,755	7,635	–	–	7,635
Exercise of bonus warrants *(Note (b))*	9,057,454	91	–	–	91
At 31 December 2009	772,592,209	7,726	–	–	7,726

Notes:

(a) The preference shares are not redeemable and the holders are not entitled to vote. At any time after allotment, each holder of preference shares is entitled to convert all or a portion of his/her preference shares into fully paid ordinary shares at the initial conversion rate of 1 ordinary share for every 1.03 preference shares, provided that for the purposes of ensuring the continued listing of the Company's ordinary shares on the Stock Exchange after the conversion of the preference shares, no holder of preference shares should be entitled to exercise the conversion rights if, the Company's ordinary shares issued upon conversion together with any ordinary shares of the Company then in issue would result in the minimum prescribed percentage of the Company's ordinary shares in public hands (as defined in the Rules Governing the Listing of Securities on the Stock Exchange from time to time) not being satisfied. On any payment of dividend or distributions (other than a distribution on winding up), the preference shares should rank pari passu with the ordinary shares. No preference shares were issued as of 31 December 2009 and 2008.

(b) On 14 May 2009, the Company issued 76,353,475 warrants on the basis of one warrant for every ten existing shares of the Company held by the shareholders ("Bonus Warrants"). The holders of Bonus Warrants are entitled to subscribe at any time during 14 May 2009 to 13 May 2011 for fully paid shares at a subscription price of HK$0.3 per share. For the year ended 31 December 2009, 9,057,454 new ordinary shares of HK$0.01 each were issued upon the exercise of 9,057,454 units of bonus warrants. As at 31 December 2009, 67,296,021 units of bonus warrants remained outstanding.

23 Reserves

Group	Share premium	Exchange reserve	Special reserve (Note)	Convertible note – equity component, net of tax	Retained earnings	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1 January 2008	175	–	(6,774)	–	396,410	389,811
Transfer to retained earnings	–	–	6,774	–	(6,774)	–
Currency translation differences	–	1,085	–	–	–	1,085
Loss for the year	–	–	–	–	(89,720)	(89,720)
Balance at 31 December 2008	175	1,085	–	–	299,916	301,176
Balance at 1 January 2009	175	1,085	–	–	299,916	301,176
Exercise of bonus warrants	2,626	–	–	–	–	2,626
Issue of convertible note *(Note 24)*	–	–	–	7,048	–	7,048
Tax on equity component on convertible note *(Note 25)*	–	–	–	(1,163)	–	(1,163)
Currency translation differences	–	32	–	–	–	32
Loss for the year	–	–	–	–	(10,431)	(10,431)
Balance at 31 December 2009	2,801	1,117	–	5,885	289,485	299,288

Note: The special reserve of the Group represented the difference between the nominal value of shares of subsidiaries acquired and the nominal value of the shares issued by the Company.

Company	Share premium	Special reserve (Note)	Convertible note-equity component, net of tax	Retained earnings	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1 January 2008	175	98,709	–	223,586	322,470
Loss for the year	–	–	–	(72,900)	(72,900)
Balance at 31 December 2008	175	98,709	–	150,686	249,570
Balance at 1 January 2009	175	98,709	–	150,686	249,570
Exercise of bonus warrants	2,626	–	–	–	2,626
Issue of convertible note *(Note 24)*	–	–	7,048	–	7,048
Tax on equity component on convertible note *(Note 25)*	–	–	(1,163)	–	(1,163)
Loss for the year	–	–	–	(16,270)	(16,270)
Balance at 31 December 2009	2,801	98,709	5,885	134,416	241,811

Note: The special reserve of the Company was related to an acquisition prior to 1 January 2001 and continued to be held in reserves.

24 Convertible note

The Company issued a non-interest bearing convertible note to HKC (Holdings) Limited, its parent company, at a par value of RMB73.5 million (equivalent to HK$83.1 million) on 30 December 2009. The note matures three years from the issue date at its nominal value of RMB73.5 million (equivalent to HK$83.1 million) or can be converted into shares at the holder's option on any business day during the conversion period at HK$1.1388 per share. The values of the liability component and the equity conversion component were determined at issuance of the note.

The fair value of the liability component, included in non-current liabilities, was calculated using a market interest rate for an equivalent non-convertible bond. The residual amount, representing the value of the equity conversion option, is included in reserves, net of income taxes (note 23).

The convertible note recognised in the balance sheet is calculated as follows:

	Group and Company 2009 *HK$'000*
Face value of convertible note	83,055
Equity component of convertible note *(Note 23)*	(7,048)
Liability component of convertible note	76,007

The fair value of the liability component of the convertible note at 31 December 2009 amounted to HK$76,007,000. The fair value is calculated using cash flows discounted at a rate based on the borrowing rate of 3%.

25 Deferred taxation

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

The offset amounts are as follows:

	Group		**Company**	
	2009 *HK$'000*	**2008** *HK$'000*	**2009** *HK$'000*	**2008** *HK$'000*
Deferred income tax assets	–	203	–	–
Deferred income tax liabilities	(4,643)	(1,709)	(1,163)	–
Deferred tax liabilities, net	(4,643)	(1,506)	(1,163)	–

The gross movement on the deferred taxation is as follows:

	Group		Company	
	2009	**2008**	**2009**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January	(1,506)	(7,414)	–	–
(Charged)/credited to consolidated statement of comprehensive income	(1,974)	5,908	–	–
Charged directly to equity	(1,163)	–	(1,163)	–
At 31 December	(4,643)	(1,506)	(1,163)	–

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Group	**Withholding tax arising from acquisition of an associated company**	**Convertible note**	**Fair value adjustment on intangible assets**	**Tax losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2008	–	–	(7,414)	–	(7,414)
Credited to consolidated statement of comprehensive income	–	–	5,705	203	5,908
At 31 December 2008	–	–	(1,709)	203	(1,506)
At 1 January 2009	–	–	(1,709)	203	(1,506)
(Charged)/credited to consolidated statement of comprehensive income	(2,477)	–	706	(203)	(1,974)
Charged directly to equity	–	(1,163)	–	–	(1,163)
At 31 December 2009	(2,477)	(1,163)	(1,003)	–	(4,643)

Company	**Convertible note**
	HK$'000
At 1 January 2008 and 2009	–
Charged directly to equity	(1,163)
At 31 December 2009	(1,163)

The Group did not recognise deferred income tax assets of HK$547,166 (2008: HK$459,408) in respect of losses amounting to HK$3,135,321 (2008: HK$2,784,291) that can be carried forward against future taxable income. These tax losses have no expiry dates except tax losses of HK$351,030 (2008: Nil) which will expire at vaious dates up to and including 2014.

26 Other payables

The carrying amounts of the Group's other payables are denominated in the following currencies:

	2009 *HK$'000*	2008 *HK$'000*
Hong Kong dollars	6,556	2,357
Renminbi	1,810	865
Japanese Yen	21	298
	8,387	3,520

At 31 December 2009 and 2008, the carrying amount of the Company's other payables are denominated in Hong Kong dollars.

27 COMMITMENTS

(a) Capital commitments

Capital expenditure at the balance sheet date but not yet incurred was as follows:

Group	2009 *HK$'000*	2008 *HK$'000*
Capital expenditure in respect of alternative energy projects:		
Contracted but not provided for	67,030	396,795
Authorised but not contracted for *(Note)*	309,303	–
Capital injection in an associated company in respect of alternative energy project:		
Contracted but not provided for	–	110,014
	376,333	506,809

Note: Contracts worth HK$309,303,000 were originally classified under the category "Contracted but not provided for" as of 31 December 2008. Due to the project deferral, certain payment conditions became invalid and accordingly the original contracts became ineffective during the year ended 31 December 2009. New contract terms and conditions are under negotiation, Hence, the amount has been reclassified as "Authorised but not contracted for" as of the balance sheet date 31 December 2009.

(b) Commitments under operating leases

The aggregate future minimum lease payments under non-cancellable operating leases in respect of land and buildings were as follows:

Group	2009 *HK$'000*	2008 *HK$'000*
No later than 1 year	9,246	6,613
Later than 1 year and no later than 5 years	–	8,843
	9,246	15,456

28 RELATED-PARTY TRANSACTIONS

Other than the transactions and balances disclosed elsewhere in these financial statements, the Group entered into transactions with the following related parties for the years ended 31 December 2009 and 2008.

(a) Management services fee of HK$5,875,000 (2008: HK$3,159,000) was paid to the ultimate holding company, of which HK$5,592,000 (2008: HK$2,099,000) is subject to the annual caps under continuing connected transactions between the Group and HKC.

(b) Office rental of HK$141,000 (2008: Nil) was paid to a fellow subsidiary. The office rental was charged at terms pursuant to agreements which were agreed by both parties.

(c) Property management fee of HK$47,000 (2008: Nil) was paid to a fellow subsidiary. The property management fee was charged at terms pursuant to agreements which were agreed by both parties.

(d) During 2008, recharge of office expense of HK$1,243,000 was paid to Zastron Precision-Tech Limited, a fellow subsidiary wholly owned by a previous shareholder of the Company.

(e) **Key management compensation**

	2009	2008
	HK$'000	*HK$'000*
Salaries and other benefits	5,556	3,054
Directors' fees	801	799
Pension cost – defined contribution scheme	46	29
	6,403	3,882

29 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) **Reconciliation of operating loss to net cash used in operations**

	2009	2008
	HK$'000	*HK$'000*
Profit/(loss) before income tax	2,654	(101,670)
Finance costs	–	160
Finance income	(443)	(3,074)
Depreciation and amortisation	5,041	11,566
Loss on disposal of property, plant and equipment	–	4
Impairment losses on intangible assets	817	58,694
Gain on disposal of subsidiaries	(7,624)	–
Excess of fair value of net assets acquired over cost of acquisition of an associated company	(27,693)	–
Share of loss of an associated company	289	–
Operating loss before working capital changes	(26,959)	(34,320)
(Increase)/decrease in trade and other receivables	(4,193)	241
Increase/(decrease) in other payables	5,678	(3,844)
Cash used in operations	(25,474)	(37,923)

(b) Disposal of subsidiaries

On 21 May 2009, HKE (Biomass) Holdings Limited, a company incorporated in the British Virgin Islands and a wholly owned subsidiary of the Company, entered into an agreement to dispose of its 55% equity interest in Hong Kong Biomass Energy (BVI) Co., Limited, a company incorporated in the British Virgin Islands, to the minority shareholder, GeneHarbor (Hong Kong) Technologies Limited, at a cash consideration of HK$23,100,000. A gain on disposal of HK$7,624,000 resulted.

	2009
	HK$'000
Net assets disposed	
Intangible assets	24,844
Trade and other receivables	4
Cash and cash equivalents	4,101
Trade and other payables	(811)
Minority interest	(12,662)
	15,476
Gain on disposal of subsidiaries	7,624
Consideration	23,100
Satisfied by:	
Cash consideration	23,100
Cash and bank balances disposed of	(4,101)
	18,999

(c) Analysis of net inflow of cash and cash equivalents in respect of disposal of subsidiaries

	2009
	HK$'000
Cash consideration	23,100
Cash and bank balances disposed of	(4,101)
	18,999

(d) Non-cash transaction

The significant non-cash transaction was related to the acquisition of an associated company as described in note 30.

30 BUSINESS COMBINATION

On 30 December 2009, the Group completed the acquisition of 100% equity interest in HKE Danjinghe (BVI) Wind Power Limited ("HKE Danjinghe"). HKE Danjinghe was acquired from HKC, its parent company. The principal asset of HKE Danjinghe is its 10% effective interest in an associated company. The consideration is satisfied by the issuance of convertible note with a par value of RMB73.5 million (equivalent to HK$83.1 million) with details described in note 24.

At the acquisition date, the fair value of the net assets and liabilities in HKE Danjinghe equalled HK$110,748,000 and consequently there is an excess of fair value of net assets acquired over cost of acquisition of the associated company which is recognised in the consolidated statement of comprehensive income.

Details of net assets acquired are as follows:

	HK$'000
Purchase consideration – convertible note *(Note 24)*	83,055
Fair value of net assets acquired (see below)	(110,748)
Excess of fair value of net assets acquired over cost of acquisition of an associated company *(Note 11)*	(27,693)
Deferred tax liabilities *(Note 11)*	12,385
Excess of fair value of net assets acquired over cost of acquisition of an associated company, net of tax *(Note 11)*	(15,308)

The identifiable assets and liabilities arising from the acquisition are as follows:

	Acquiree's carrying amount *HK$'000*	**Acquiree's fair value amount** *HK$'000*
Interest in an associated company	61,200	110,740
Amount due from immediate holding company	8	8
Net assets acquired	61,208	110,748
Fair value of net assets acquired		110,748
Excess of fair value of net assets acquired over cost of acquisition of an associated company *(Note 11)*		(27,693)
Total purchase consideration – convertible note *(Note 24)*		83,055

Since the date of acquisition, HKE Danjinghe did not contribute any revenue and profit to the Group. If the acquisition had occurred on 1 January 2009, there would not have been a material effect on the Group's revenue and loss for the year.

There was no acquisition in the year ended 31 December 2008.

31 EVENTS AFTER THE BALANCE SHEET DATE

(a) On 22 March 2010, the Company proposed to make a bonus issue of new shares of HK$0.01 each to the qualifying shareholders on the basis of 1 bonus share for every 10 ordinary shares to be held. There is no financial effect to the Company and the Group upon the grant of such bonus issue of new shares.

(b) On 22 March 2010, the Company proposed to make a bonus issue of warrants to its shareholders on the basis of 1 bonus warrant for every 10 ordinary shares held. The subscription price of HK$0.60 is determined based on a discount of approximately 25% to the average closing price of the ordinary shares of the Company for 5 consecutive days from 15 March 2010 to 19 March 2010. There is no financial effect to the Company and the Group upon the grant of such bonus warrants.

32 COMPARATIVE FIGURES

Certain comparative figures as set out in the consolidated financial statements and the related notes thereto have been reclassified to confirm with the current year's presentations which has changed largely due to the adoption of new accounting standards.

3. INDEBTEDNESS STATEMENT

As at close of business on 5 May 2010, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, HKE Group had zero coupon convertible bonds of HK$76.0 million and the Target Group had bank borrowings amounting to RMB668.0 million (equivalent to approximately HK$758.9 million) and amounts due to fellow subsidiaries amounting to HK$1,072.5 million, details of which are as follows:

	HK$ Million
HKE Group:	
Zero coupon convertible bonds – unsecured	76.0
The Target Group:	
Bank borrowings – guaranteed by a fellow subsidiary	340.8
Bank borrowings – secured and guaranteed by the ultimate holding company *(Note (a))*	418.1
Amounts due to fellow subsidiaries – unsecured *(Note (b))*	1,072.5
	1,831.4

Notes:

(a) The bank borrowings were secured by certain wind farm assets held by the Target Group and guaranteed by HKC.

(b) Amounts due to fellow subsidiaries of HK$71.4 million represented the amounts due to HKE Group arising from the acquisition of 25% interest in HKE (Danjinghe) by HKE pursuant to the sale and purchase agreement dated 20 November 2009.

The remaining balances of HK$1,001.1 million represented the amounts due to other fellow subsidiaries in HKC Group (excluding the HKE Group). Pursuant to the Sale and Purchase Agreement, all rights and interests in the amounts due to other fellow subsidiaries will be transferred to HKE Group and hence become an intra-group balance upon the completion of the Acquisition.

Save as aforesaid or otherwise disclosed herein, and apart from intra-group liabilities and normal trade and other payables in the ordinary course of business, none of the companies in the Enlarged Group had outstanding at the close of business on 5 May 2010 any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

4. WORKING CAPITAL

The HKE Directors after due and careful enquiry, are of the opinion that, in the absence of unforeseeable circumstances and after taking into account the financial resources available to the Enlarged Group, including (i) internally generated funds and (ii) a standby facility from HKC, the holding company, the Enlarged Group has sufficient working capital for its present requirements for the next 12 months from the date of this circular.

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the HKE Directors were not aware of any material adverse change in the financial or trading position of the HKE Group since 31 December 2009, the date to which the latest published audited financial information of the Company were made up.

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

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

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

30 June 2010

The Directors
Hong Kong Energy (Holdings) Limited

Dear Sirs,

We report on the combined financial information relating to the alternative energy business in the People's Republic of China (the "PRC") held by Hong Kong Construction (Hong Kong) Limited ("HKC (HK)"), which is operated by companies including HKE (Gansu) Wind Power Limited ("HKE (Gansu)"), HKE (Danjinghe) Wind Power Limited ("HKE Danjinghe"), Wealthland Group Limited ("Wealthland"), Sinoriver International Limited ("Sinoriver"), Eden Investments Group Limited ("Eden") and Hong Kong Energy (BVI) Investments Limited ("HKEI (BVI)") (collectively the "Target Companies") and their subsidiaries and associated companies, and CECIC HKC (Gansu) Wind Power Co. Ltd ("CECIC HKCG") (hereinafter collectively referred to as the "Target Group") which comprises the combined balance sheets of the Target Group as at 31 December 2007, 2008 and 2009, and the combined statements of comprehensive income, the combined statements of changes in equity and the combined cash flow statements of the Target Group for each of the years ended 31 December 2007, 2008 and 2009 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory notes. This combined financial information has been prepared by the directors of Hong Kong Energy (Holdings) Limited (the "Company" or "HKE") and is set out in Sections I to III below for inclusion in Appendix II to the circular of the Company dated 30 June 2010 (the "Circular") in connection with the proposed acquisition of the Target Group by the Company (the "Acquisition").

For the purpose of the Acquisition, HKC Holdings Limited ("HKC"), the ultimate holding company of the Company, certain of its subsidiaries and associated companies and the Target Companies underwent a group reorganisation (the "Reorganisation") as described in Note 1(b) of Section II below, to rationalise the structure of the Target Group. As at the date of this report, the Target Companies have direct, indirect and effective interests in the subsidiaries and associated companies as set out in Note 27 of Section II below, which also details the place of incorporation of each of the Target Companies.

All companies now comprising the Target Group have adopted 31 December as their financial year end date for statutory reporting and/or management reporting purposes and are private companies or, if incorporated or established outside Hong Kong, have substantially the same characteristics as a Hong Kong incorporated private company. The statutory audited financial statements during the Relevant Periods of the companies now comprising the Target Group for which there was a statutory audit requirement have been prepared in accordance with relevant accounting principles applicable to their respective place of incorporation. Particulars of and the names of the statutory auditors, pursuant to separate terms of engagement with these companies, of these companies are set out in Note 27 of Section II below.

The combined financial information has been prepared based on the audited or, where appropriate, unaudited financial statements of each of the Target Companies and their subsidiaries and associated companies and CECIC HKCG, on the basis set out in Note 2 of Section II below, after making adjustments as are appropriate.

Directors' responsibility for the combined financial information

The directors of the Company are responsible for the preparation and the true and fair presentation of combined financial information in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accounting policies presently adopted by the Company and its subsidiaries, together, the "Group", as set out in the audited annual financial statements of the Company for the year ended 31 December 2009 as set out in Appendix I to the Circular. This responsibility includes selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

Reporting accountant's responsibility

Our responsibility is to express an opinion on the combined financial information and to report our opinion to you. We carried out our procedures in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

Opinion

In our opinion, the combined financial information gives, for the purpose of the Circular and presented on the basis set out in Note 2 of Section II below, a true and fair view of the combined state of affairs of the Target Group as at 31 December 2007, 2008 and 2009 and of the Target Group's combined results and cash flows for each of the Relevant Periods then ended.

I COMBINED FINANCIAL INFORMATION OF THE TARGET GROUP

The following is the combined financial information of the Target Group prepared by the directors of the Company as at 31 December 2007, 2008 and 2009 and for each of the years ended 31 December 2007, 2008 and 2009, presented on the basis set out in Note 2 of Section II below and after making adjustments as are appropriate.

(A) COMBINED BALANCE SHEETS

	Note	**2007** *HK$'000*	**2008** *HK$'000*	**2009** *HK$'000*
ASSETS				
Non-current assets				
Property, plant and equipment	*14*	630,821	550,624	519,816
Construction in progress	*15*	3,815	47,004	479,030
Prepaid land lease payments	*16*	18,773	17,329	17,539
Intangible assets	*17*	24,634	–	–
Investments in associated companies	*18*	82,711	414,782	545,355
Prepayments	*19*	2,447	129,295	6,958
Total non-current assets		763,201	1,159,034	1,568,698
Current assets				
Inventories		7,363	4,959	5,955
Trade and other receivables	*19*	93,016	78,403	103,054
Cash and bank balances	*20*	13,793	255,433	189,514
Restricted cash	*20*	–	1,477	916
Total current assets		114,172	340,272	299,439
Total assets		877,373	1,499,306	1,868,137

	Note	2007 HK$'000	2008 HK$'000	2009 HK$'000
EQUITY				
Capital and reserves attributable to equity holders of HKC (HK)				
Combined capital	21	–	–	–
Accumulated losses		(30,374)	(171,033)	(201,978)
Exchange reserve		18,818	46,386	47,683
Equity attributable to equity holders of HKC (HK)		(11,556)	(124,647)	(154,295)
Minority interest		24,808	14,608	15,568
Total equity/(deficits on equity holders' funds)		13,252	(110,039)	(138,727)
LIABILITIES				
Non-current liability				
Borrowings	23	416,052	587,619	696,429
Current liabilities				
Amounts due to fellow subsidiaries	22	402,878	977,778	1,072,479
Other payables	24	32,323	21,260	175,470
Borrowings	23	12,868	22,688	62,486
Total current liabilities		448,069	1,021,726	1,310,435
Total liabilities		864,121	1,609,345	2,006,864
Total equity and liabilities		877,373	1,499,306	1,868,137
Net current liabilities		333,897	681,454	1,010,996
Total assets less current liabilities		429,304	477,580	557,702

(B) COMBINED STATEMENTS OF COMPREHENSIVE INCOME

	Note	2007 HK$'000	2008 HK$'000	2009 HK$'000
Revenue	6	19,474	67,583	58,203
Cost of sales	7	(16,255)	(43,326)	(39,683)
Gross profit		3,219	24,257	18,520
Other gains/(losses), net	8	1,514	(5,934)	1,663
Impairment losses on assets	9	–	(106,832)	–
Administrative expenses	7	(8,862)	(27,184)	(15,858)
Operating (loss)/profit		(4,129)	(115,693)	4,325
Finance income	10	45	1,066	85
Finance costs	10	(7,465)	(34,748)	(30,205)
Finance costs – net	10	(7,420)	(33,682)	(30,120)
Share of losses of associated companies		(5,370)	(4,458)	(4,030)
Loss before income tax		(16,919)	(153,833)	(29,825)
Income tax credit/(expense)	13	590	(1)	–
Loss for the year		(16,329)	(153,834)	(29,825)
Other comprehensive income:				
Currency translation differences		14,419	28,084	1,137
Other comprehensive income for the year, net of tax		14,419	28,084	1,137
Total comprehensive income for the year		(1,910)	(125,750)	(28,688)
Loss attributable to:				
Equity holders of HKC (HK)		(14,205)	(140,659)	(28,073)
Minority interest		(2,124)	(13,175)	(1,752)
		(16,329)	(153,834)	(29,825)
Total comprehensive income attributable to:				
Equity holders of HKC (HK)		(1,658)	(113,091)	(26,776)
Minority interest		(252)	(12,659)	(1,912)
		(1,910)	(125,750)	(28,688)

(C) COMBINED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of HKC (HK)					
	Combined capital *HK$'000*	Accumulated losses *HK$'000*	Exchange reserve *HK$'000*	Total *HK$'000*	Minority interest *HK$'000*	Total equity *HK$'000*
At 1 January 2007	–	(16,169)	6,271	(9,898)	25,060	15,162
Comprehensive income						
– Loss for the year	–	(14,205)	–	(14,205)	(2,124)	(16,329)
Other comprehensive income						
– currency translation differences	–	–	12,547	12,547	1,872	14,419
Total comprehensive income for the year	–	(14,205)	12,547	(1,658)	(252)	(1,910)
At 31 December 2007	**–**	**(30,374)**	**18,818**	**(11,556)**	**24,808**	**13,252**
At 1 January 2008	–	(30,374)	18,818	(11,556)	24,808	13,252
Further capital injection to a company now comprising the Target Group	–	–	–	–	2,459	2,459
Comprehensive income						
– Loss for the year	–	(140,659)	–	(140,659)	(13,175)	(153,834)
Other comprehensive income						
– currency translation differences	–	–	27,568	27,568	516	28,084
Total comprehensive income for the year	–	(140,659)	27,568	(113,091)	(12,659)	(125,750)
At 31 December 2008	**–**	**(171,033)**	**46,386**	**(124,647)**	**14,608**	**(110,039)**

	Attributable to equity holders of HKC (HK)					
	Combined capital	Accumulated losses	Exchange reserve	Total	Minority interest	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2009	–	(171,033)	46,386	(124,647)	14,608	(110,039)
Deemed distribution to minority interest *(Note)*	–	(2,872)	–	(2,872)	2,872	–
Comprehensive income						
– Loss for the year	–	(28,073)	–	(28,073)	(1,752)	(29,825)
Other comprehensive income						
– currency translation differences	–	–	1,297	1,297	(160)	1,137
Total comprehensive income for the year	–	(28,073)	1,297	(26,776)	(1,912)	(28,688)
At 31 December 2009	–	(201,978)	47,683	(154,295)	15,568	(138,727)

Note: At 30 December 2009, HKC (HK) disposed of its 25% interest in HKE Danjinghe, which directly holds 40% of CECIC HKC Wind Power Co. Ltd. to HKE. The disposal was accounted for as a distribution by HKC (HK).

(D) COMBINED CASH FLOW STATEMENTS

	2007 HK$'000	2008 HK$'000	2009 HK$'000
Cash flows from operating activities			
Loss before income tax	(16,919)	(153,833)	(29,825)
Depreciation and amortisation	8,465	34,958	31,999
Impairment losses on assets	–	106,832	–
Share of losses of associated companies	5,370	4,458	4,030
Loss on capital injection on minority interest	–	2,459	–
Income tax paid	–	(1)	–
Net exchange (gain)/loss	(1,377)	4,178	(4)
Finance income	(45)	(1,066)	(85)
Finance costs	7,465	34,748	30,205
Operating profit before working capital changes	2,959	32,733	36,320
(Increase)/decrease in inventory	(7,363)	2,831	(989)
(Increase)/decrease in trade and other receivables	(70,486)	19,999	(24,506)
(Decrease)/increase in other payables	(8,550)	(12,934)	5,926
Net cash (used in)/generated from operating activities	(83,440)	42,629	16,751
Cash flows from investing activities			
Payment made for additions to construction in progress	(139,422)	(48,496)	(283,560)
Purchase of property, plant and equipment	(2,836)	(2,830)	(100)
VAT refund relating to the purchase of domestic equipment	–	11,472	–
(Increase)/decrease in prepayments	(2,448)	(126,705)	122,337
Additions of prepaid land lease payments	–	(382)	(568)
Investments in associated companies	(45,234)	(321,330)	(133,819)
Interest received	45	1,066	85
Net cash used in investing activities	(189,895)	(487,205)	(295,625)
Cash flows from financing activities			
Increase in new bank borrowings	–	156,547	147,693
Increase in amounts due to fellow subsidiaries	181,136	565,094	94,522
Decrease/(increase) in restricted bank deposit	62,285	(1,477)	563
Interest paid	(7,465)	(34,748)	(30,205)
Net cash generated from financing activities	235,956	685,416	212,573
Net (decrease)/increase in cash and cash equivalents	(37,379)	240,840	(66,301)
Cash and cash equivalents at the beginning of the year	47,541	13,793	255,433
Currency translation differences	3,631	800	382
Cash and cash equivalents at the end of the year	13,793	255,433	189,514

II NOTES TO THE COMBINED FINANCIAL INFORMATION OF TARGET GROUP

1 THE PRINCIPAL ACTIVITIES AND REORGANISATION

(a) Principal activities

The Target Group comprises six Target Companies being HKE (Gansu), HKE (Danjinghe), Wealthland, Sinoriver, Eden, HKEI (BVI) and their subsidiaries and associated companies and CECIC HKCG. The Target Group is principally engaged in the alternative energy business in the PRC. Details of the activities of the Target Companies and their subsidiaries and associated companies and CECIC HKCG are set out in Note 27 below. The registered offices and principal activities of the Target Companies are set out below:

Name	Registered office	Principal activity
HKE (Gansu)	9/F., Tower 1, South Seas Centre, Tsimshatsui East, Kowloon, Hong Kong	Investment holding
HKE (Danjinghe)	9/F., Tower 1, South Seas Centre, Tsimshatsui East, Kowloon, Hong Kong	Investment holding
Wealthland	P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands	Investment holding
Sinoriver	P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands	Investment holding
Eden	P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands	Investment holding
HKEI (BVI)	9/F., Tower 1, South Seas Centre, Tsimshatsui East, Kowloon, Hong Kong	Investment holding

The directors of the Target Companies regard HKC, a company incorporated in Bermuda with limited liability, as their ultimate holding company.

(b) Reorganisation

(i) Setting up an intermediate holding company to hold the Target Companies subsequent to the Relevant Periods

Prior to the Reorganisation, the alternative energy business was conducted by the Target Companies and CECIC HKCG which were directly held by Hong Kong Energy (Holdings) Ltd ("HKEHL"), a company incorporated in the British Virgin Islands, and HKC (HK), a company incorporated in Hong Kong, respectively with limited liability and wholly-owned subsidiaries of HKC.

For the purpose of the Acquisition, an intermediate holding company, HKE (BVI) Limited, was incorporated on 24 March 2010. HKEHL and HKC (HK) will transfer their entire interests in the alternative energy business in the PRC, which are operated by the Target Companies and CECIC HKCG to HKE (BVI) Limited for the purpose of rationalisation of the structure of the Target Group. As there are some companies were not held under the direct interest of the Target Group, certain contractual arrangements will be entered into so that the Target Group will be able to obtain control/significant influence over them. For details, please refer to note 1(b)(ii) and (iii).

For the purpose of this report, the combined financial information of the alternative energy business in the PRC has been prepared on a combined basis.

Management has taken into account, among other things, the fact that the Target Group is in a single business, is under common control and is controlled by the same ultimate party before and after the Acquisition in adopting the combined basis for this report.

(ii) In respect of HKE (Gansu) and CECIC HKC (Gansu) Wind Power Co Ltd

CECIC HKCG was incorporated on 27 October 2008. CECIC HKCG is principally engaged in construction and operation of a wind-powered electricity generating station. HKC (HK), a wholly owned subsidiary of HKC, is one of the shareholders of CECIC HKCG and a license was granted by the PRC authorities on 17 June 2008 for the operation of a 201 MW wind power farm. Under the PRC laws and regulations, the transfer of a PRC entity holding a wind power operating license is required to be approved by the National Development and Reform Commission of the PRC. Such procedures may take a reasonable period of time to complete.

For the purpose of the Acquisition, certain contractual arrangements will be made among HKE (Gansu), HKC (HK) and CECIC HKCG so that HKE (Gansu) can exercise significant influences on the operating and financing activities of CECIC HKCG and is entitled to substantially all of the operating profits and residual benefits of CECIC HKCG held by HKC (HK) under these arrangements. In particular, subject to relevant government approval, HKC (HK) is required to transfer its interests in CECIC HKCG to HKE (Gansu) at a pre-agreed nominal consideration under the contractual arrangements with HKE(Gansu).

Further, pursuant to the contractual arrangements between HKE (Gansu) and HKC (HK), HKE (Gansu) has the exclusive rights to receive all the income and cash flow generated by HKC (HK) from the operations of CECIC HKCG. HKC (HK) has pledged its ownership interest of CECIC HKCG in favour of HKE (Gansu).

(iii) In respect of Wealthland and HKNE

港建新能源四子王旗風能有限公司 ("HKNE") was incorporated on 16 July 2007. HKNE is principally engaged in construction and operation of a wind-powered electricity generating station. 51% and 49% of HKNE were held by 呼和浩特市中港新能源有限公司, a company incorporated in the PRC with limited liability ("Hohhot Company") and Hong Kong New Energy (Si Zi Wang Qi) Wind Power Ltd. ("HKNE SZWQ") respectively.

For the purpose of the Acquisition, certain contractual arrangements will be made, between the individual shareholders of Hohhot Company and 港建新能源信息咨詢(北京)有限公司 ("WFOE"), a wholly owned subsidiary of HKEI, one of the Target Companies.

Pursuant to those contractual arrangements, the individual shareholders of Hohhot Company are required to obtain consent from HKEI before deciding any operational and financial related matters and other critical issues, and in the event that the PRC law permits and the relevant government approval has been obtained, HKEI is entitled to require the individual shareholders of Hohhot Company to transfer their equity interests in Hohhot Company to HKEI (or its nominee).

(iv) Completion of the Reorganisation

Up to the date of the circular, the Reorganisation steps are yet to be completed. In the opinion of the directors of the Company, the outstanding Reorganisation steps are of administrative nature and all the Reorganisation steps will be completed in due course. Upon the completion of all the above-mentioned Reorganisation steps, HKE (BVI) Limited will become a holding company which directly and indirectly holds the Target Group. For the purpose of the Acquisition, HKE (BVI) Limited is the target company for sale which in turn beneficially holds the alternative energy business through the Target Group.

2 BASIS OF PRESENTATION

For purpose of this report, the combined financial information has been prepared to present the combined financial position, the combined statements of comprehensive income, combined cash flow statements and combined statements of changes in equity of the companies now comprising the Target Group for the Relevant Periods or since the respective dates of incorporation/establishment, whichever is the shorter period, as if they have always been managed as a business together.

All significant intra-group transactions and balances have been eliminated on combination.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the combined financial information are set out below. These policies have been consistently applied to all the Relevant Periods presented, unless otherwise stated. The combined financial information is presented in Hong Kong dollars, rounded to the nearest thousand.

3.1 Basis of preparation

The combined financial information has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The combined financial information has been prepared in accordance with those new standards, amendments and HK(IFRIC) interpretations issued and effective for accounting periods commencing from 1 January 2009.

The combined financial information set out in this report has been prepared under the historical cost convention.

The preparation of the combined financial information was in accordance with the principal accounting policies set out below in conformity with HKFRS which requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies. The areas involving a higher degree of judgement or complexity, or areas when assumptions and estimates are significant to the combined financial information during the Relevant Periods, are disclosed in Note 5 below.

The Target Group has net current liabilities of HK$1,010,996,000 and a deficiency of equity holders' funds of HK$138,727,000 as at 31 December 2009. However, the current ultimate holding company, HKC, has confirmed its intention to provide continuing financial support to the Target Group, up to the date of the completion of the Acquisition. After the Acquisition, the Company will replace HKC in providing continuing financial support to the Target Group. This support will enable the Target Group to meet its liabilities as and when they fall due and to continue its operations for the foreseeable future. The directors believe that the Target Group will continue as a going concern. Consequently, the directors have prepared the combined financial information on a going concern basis.

During the Relevant Periods, there have been a number of new/revised standards, amendments to standards and interpretations that have come into effect, which the Target Group has adopted at their respective effective dates. The adoption of these new standards, amendments to standards and interpretations has had no material impact on the Target Group.

(a) New and amended standards adopted by the Target Group

The following standards and amendments are mandatory for accounting periods beginning on or after 1 January 2009 and were adopted by the Target Group:

- HKFRS 7 'Financial Instruments – Disclosures' (amendment) – effective 1 January 2009. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosures, there is no impact on earnings per share.

- HKAS 1 (revised), 'Presentation of financial statements' – effective 1 January 2009. The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a combined statement of comprehensive income. As a result the group presents in the combined statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the combined statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

- HKFRS 8, 'Operating segments' – effective 1 January 2009. HKFRS 8 replaces HKAS 14, 'Segment reporting'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. This has resulted in an increase in the number of reportable segments presented. In addition, the segments are reported in a manner that is more consistent with the internal reporting provided to the chief operating decision-maker (the "CODM"). The CODM makes strategic decisions.

- 'Improvements to HKFRSs' (issued in October 2008). The improvements include 35 amendments across 20 different standards that largely clarify the required accounting treatment where previous practice had varied, and have resulted in a number of changes in the Target Group's accounting policies. The adoption of the improvements in the current year did not have any significant impact on the Target Group's combined financial information.

  Other new standards, amendments to standards and interpretations, which are mandatory for the first time for the financial year beginning 1 January 2009, are not relevant for the Target Group or do not have material impact on the Target Group for the year ended 31 December 2009.

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Target Group.

New or revised standards, interpretations and amendments		**Effective for accounting periods beginning on or after**
HKAS 24 (Revised)	"Related party disclosures"	1 January 2011
HKAS 27 (Revised)	"Consolidated and separate financial statements"	1 July 2009
HK(IFRIC)-Int 19	"Extinguishing financial liabilities with equity instruments"	1 July 2010
HKFRS 1 (Revised)	"First-time adoption of HKFRSs"	1 July 2009
HKFRS 3 (Revised)	"Business combinations"	1 July 2009
HKFRS 1 (Amendment)	"Additional exemptions for first-time adopters"	1 January 2010
HKFRSs Amendments	Improvements to HKFRSs 2009	1 July 2009 or 1 January 2010

The Target Group has not early adopted any of the above standards, interpretations and amendments to the existing standards. Management is in the process of making an assessment of their impact and is not yet in a position to state what impact they would have on the Target Group's results of operations and financial position.

3.2 Consolidation

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Target Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Target Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Target Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Target Group. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Target Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the combined statement of comprehensive income.

Inter-company transactions, balances and unrealised gains on transactions between fellow subsidiaries are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary in the combined financial information to ensure consistency with the policies adopted by the Target Group.

(b) Transactions with minority interests

The Target Group applies a policy of treating transactions with minority interests as transactions with parties external to the Target Group. Disposals to minority interests result in gains and losses for the Target Group that are recorded in the combined statement of comprehensive income. Purchases from minority interests result in goodwill, being the difference between the consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

(c) Associated companies

Associated companies are all entities over which the Target Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associated companies are accounted for using the equity method of accounting and are initially recognised at cost. The Target Group's investment in associated companies includes goodwill (net of any accumulated impairment loss) identified on acquisition (Note 3.8).

The Target Group's share of its associated companies' post-acquisition profits or losses is recognised in the combined statement of comprehensive income, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Target Group's share of losses in an associated company equals or exceeds its interest in the associated company, including any other unsecured receivables, the Target Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associated company.

Unrealised gains on transactions between the Target Group and its associated companies are eliminated to the extent of the Target Group's interest in the associated companies. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associated companies have been changed where necessary to ensure consistency with the policies adopted by the Target Group.

Dilution gains and losses arising on investments in associated companies are recognised in the combined statement of comprehensive income.

3.3 Foreign currency translation

(a) Functional and presentation currency

Items included in the combined financial information of the Target Group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency and presentation currency of each entity within the Target Group are Renminbi and Hong Kong dollars, where applicable. The combined financial information is presented in Hong Kong dollars to facilitate financial analysis by shareholders.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end-exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the combined statement of comprehensive income.

(c) Group Companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each combined statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the combined statement of comprehensive income as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

3.4 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment loss. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of overhead and borrowing costs.

Depreciation of property, plant and equipment is calculated using the straight-line method, to write off their cost over their estimated useful lives as follows:

Motor vehicles	10 years
Electric utility plant and equipment	20 years
Other plant and equipment	5 years

Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Subsequent costs are included in the carrying amount of the asset or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated will flow to the Target Group and the cost of item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the combined statement of comprehensive income during the financial period in which they are incurred.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 3.8).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other gains – net in the combined statement of comprehensive income.

3.5 Prepaid land lease payments

Prepaid land lease payments are stated at cost and subsequently are amortised in the combined statement of comprehensive income on a straight-line basis over their lease period of 50 years or when there is impairment, the impairment is expensed in the combined statement of comprehensive income.

3.6 Construction in progress

All direct and indirect costs relating to the construction of property, plant and equipment, including borrowing costs during the construction period are capitalised as the costs of the assets, which are classified as construction in progress. No depreciation is provided until it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

3.7 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Target Group's share of net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Separately recognised goodwill is tested for impairment at every reporting balance sheet date based on the higher of value in use and fair value less costs to sell and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(b) Concession right

The concession right acquired in a business combination was recognised at fair value at the acquisition date and are subsequently carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method over its concession period of 20 years.

3.8 Impairment of investment in subsidiaries, associated companies and non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash generating unit is increased to the revised estimate of its recoverable amount, not to exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in the combined statement of comprehensive income.

3.9 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

3.10 Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Otherwise they are expensed as incurred.

3.11 Inventories

Inventories, consisting of materials and supplies, are stated at the lower of cost and net realisable value. Cost is determined using the weighted average cost method. The cost of inventories includes direct material cost and transportation expenses incurred in bringing the inventories to the working locations. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

3.12 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Target Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that a trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognised in the combined statement of comprehensive income within other expenses. When a trade receivable is uncollectible, it is written off against other expenses in the combined statement of comprehensive income. Subsequent recoveries of amounts previously written off are credited to other income in the combined statement of comprehensive income. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

3.13 Cash and cash equivalents

Cash and cash equivalents include cash on hand and deposits held at call with banks.

3.14 Trade and other payables

Trade and other payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method.

3.15 Taxation

(i) Value-add tax ("VAT")

Under the relevant PRC tax laws, some of the subsidiaries and associated companies within the Target Group are subject to VAT. The Target Group is subject to output VAT levied at 17% of the revenue. The input VAT can be used to offset the output VAT levied on revenue to determine the net VAT payable. Because VAT is a tax on the customers/suppliers on behalf of the tax authority, the VAT has not been included in revenue or operating expenses.

(ii) Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the combined financial information. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associated companies, except where the timing of the reversal of the temporary difference is controlled by the Target Group and it is probable that the temporary difference will not reverse in the foreseeable future.

3.16 Employee benefits

(a) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(b) Pension obligations

The Target Group operates a mandatory provident fund scheme ("MPF") and employee pension schemes established by municipal governments in the PRC for the eligible employees in Hong Kong and the PRC respectively.

The Target Group's and the employees' contributions with the MPF comply with the related statutory requirements. The Target Group has no further payments obligations once the contributions have been paid. The Target Group's contributions to the MPF are expensed as incurred and are not reduced by contributions forfeited by those employees who leave MPF prior to vesting fully in the contributions. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available. The asset of MPF is held separately from those of the Target Group in independently administered funds.

The Target Group's contribution to the employee pension schemes in the PRC is at a percentage in compliance with the requirements of the respective municipal governments. The Target Group has no further obligation once the contributions have been paid.

3.17 Provisions

Provisions are recognised when the Target Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Where the Target Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

3.18 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the combined statement of comprehensive income on a straight-line basis over the period of the lease.

3.19 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence of one or more uncertain future events not wholly within the control of the Target Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of the obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial information. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

3.20 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of directors that makes strategic decisions.

The chief operating decision-maker regards the Target Group as one operating segment which is the alternative energy business in the PRC during the Relevant Periods and therefore no separate segment reporting is presented for the Relevant Periods.

3.21 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of electricity in the ordinary course of the Target Group's activities. Revenue is shown net of business tax and after eliminating sales within the Target Group.

The Target Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Target Group's activities as described below. The Target Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(i) Revenue arising from electricity supply is recognised when electricity is supplied to the provincial grid companies.

(ii) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the effective interest rates applicable.

(iii) Government grants that compensate the Target Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred.

The Target Group sells carbon credits known as Certified Emission Reductions ("CERs"), generated from the wind farms which have been registered as Clean Development Mechanism ("CDM") projects with the CDM Executive Board ("CDM EB") of the United Nations under the Kyoto Protocol. The Target Group also sells Voluntary Emission Reductions ("VERs"), which are attributable to electricity generation from CDM projects before being registered with the CDM EB. Revenue in relation to the CERs and VERs is recognised when the following conditions are met:

– the counterparties have committed to purchase the CERs or VERs;

– the sales prices have been agreed; and

– relevant electricity has been generated.

The revenue related to CERs is recognised and recorded in trade receivables for the volume verified by the independent supervisors assigned by the CDM EB and in other receivables for the remaining volume.

4 FINANCIAL RISK MANAGEMENT

4.1 Financial risk factors

The Target Group activities expose it to a variety of financial risks: foreign exchange risk, interest rate risk, credit risk and liquidity risk.

(a) Foreign exchange risk

The Target Group currently does not have any foreign currency hedging policy. However, the management of the Target Group monitors the foreign exchange exposure closely and will consider hedging significant foreign currency exposure should the need arise. As at 31 December 2007, 2008 and 2009, if Hong Kong dollars had strengthened/weakened by 5% against Renminbi respectively, with all other variables held constant, the Target Group's loss before income tax would have been HK$21.5 million, HK$27.0 million and HK$46.5 million higher/lower in 2007, 2008 and 2009 respectively.

(b) *Interest rate risk*

The Target Group's interest-rate risk arises from borrowings. Borrowings issued at variable rates expose the Target Group to cash flow interest rate risk due to fluctuation of the prevailing market interest rates. The Target Group's income and operating cash flows are substantially dependent on changes in market interest rates.

The Target Group does not use any derivative contracts to hedge its exposure to interest rate risk. However, management will consider hedging significant interest rate exposures should the need arise.

As at 31 December 2007, 2008 and 2009, if interest rates had increased/decreased by 100 basis points with all other variables held constant, the Target Group's loss before income tax would have been decreased/increased by HK$1,037,000, HK$4,464,000 and HK$4,383,000 respectively.

(c) *Credit risk*

The Target Group is exposed to credit risk in its restricted cash, cash and bank balances, trade and other receivables and amounts due from fellow subsidiaries.

The carrying amount of restricted cash, cash and bank balances and trade and other receivables, represent the Target Group's maximum exposure to credit risk in relation to its financial assets.

To manage the credit risk associated with restricted cash and cash and bank balances, most of the deposits are mainly placed with certain state-owned banks in the PRC which are high-credit quality financial institutions.

The Target Group is exposed to significant concentration of credit risk in terms of electricity sales as the majority of the Target Group's sales of electricity were made to provincial power grid companies. The Target Group normally grants credit terms ranging from 15 to 30 days to these power grid companies and the Target Group normally does not require collateral from trade debtors. Ageing analysis of the Target Group's trade receivables is disclosed in Note 19. Management makes periodic collective assessment as well as individual assessment of the recoverability of trade and other receivables based on historical payment records, the length of the overdue period, the financial strength of the debtors and whether there are any disputes with the relevant debtors. The Target Group's historical experience in collection of trade and other receivables falls within the recorded allowances and the directors are of the opinion that adequate provision for uncollectible receivables has been made.

(d) *Liquidity risk*

Liquidity risk is the risk that the Target Group is unable to meet its current obligations when they fall due. The Target Group measures and monitors its liquidity through the maintenance of prudent ratios regarding the liquidity structure of the overall assets, liabilities, loans and commitments of the Target Group. The Target Group also maintains a conservative level of liquid assets to ensure the availability of sufficient cash flows to meet any unexpected and material cash requirements in the course of ordinary business.

The ultimate holding company of the Target Group has confirmed its intention to provide continuing financial support to the Target Group so as to enable the Target Group to meet its liabilities as and when they fall due and to continue its operations for the foreseeable future.

The table below analyses the Target Group's contractual maturity for its financial liabilities. The amounts disclosed in the table have been drawn up with reference to the undiscounted cash flows of financial liabilities based on the earliest date on which the Target Group can be required to pay. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2009					
Borrowings	105,709	101,998	289,932	328,244	825,883
Amounts due to fellow subsidiaries	1,072,479	–	–	–	1,072,479
Other payables	175,470	–	–	–	175,470
At 31 December 2008					
Borrowings	66,371	103,012	287,122	419,311	875,816
Amounts due to fellow subsidiaries	977,778	–	–	–	977,778
Other payables	21,260	–	–	–	21,260
At 31 December 2007					
Borrowings	43,287	50,630	173,387	387,675	654,979
Amounts due to fellow subsidiaries	402,878	–	–	–	402,878
Other payables	32,323	–	–	–	32,323

4.2 Capital risk management

The Target Group objectives when managing capital are to safeguard the Target Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Target Group monitors its capital structure by reviewing its gearing ratio and cash flows requirements, taking into account its future financial obligations and commitments for this purpose. The Target Group defines gearing ratio as net debt divided by total capital. Net debt is defined as total borrowings (including current and non-current borrowings, as shown in the combined balance sheet) and amounts due to fellow subsidiaries less cash and cash equivalents and restricted cash. Total capital is defined as net debt and total equity as shown in the combined balance sheet.

The table below analyses the Target Group's capital structure as at 31 December 2007, 2008 and 2009:

	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Total borrowings	428,920	610,307	758,915
Amounts due to fellow subsidiaries	402,878	977,778	1,072,479
Less: cash and bank balances and restricted cash	(13,793)	(256,910)	(190,430)
Net debt	818,005	1,331,175	1,640,964
Total equity/(deficits on equity holders' fund)	13,252	(110,039)	(138,727)
Total capital	831,257	1,221,136	1,502,237
Gearing ratio	98%	109%	109%

The increase in the gearing ratio during the years resulted primarily from the use of cash for capital investments in the construction and development of new power plant. The Target Group's strategy is to reduce the gearing ratio once the plants are fully operational.

4.3 Fair value estimation

The carrying value less impairment provision of trade and other receivables, other payables and balances with fellow subsidiaries approximates their fair values due to their short maturities. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Target Group for similar financial instruments.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Target Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within twelve months after the Relevant Periods are discussed below.

(i) Useful lives, residual values and depreciation of property, plant and equipment

The Target Group's management determines the estimated useful lives, residual values and related depreciation charges for the Target Group's property, plant and equipment other than construction in progress. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. Management will adjust the depreciation charge where useful lives or residual values vary with previous estimates, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives and actual residual values may differ from estimated residual values. Periodic review could result in a change in depreciable lives and residual values and therefore depreciation expense in future periods.

(ii) Transfer from construction in progress to property, plant and equipment

Management consider that the condition necessary for the asset to be capable of operating in the manner intended by management is when all the relevant government approvals, including meeting certain safety requirements, for the commercial operation of the wind power plants have been obtained.

(iii) Current and deferred income tax

The Target Group is subject to income taxes in various jurisdictions. Judgement is required in determining the provision for income taxes in each of these jurisdictions. There are transactions and calculations during the ordinary course of business for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilised. When the expectation is different from the original estimate, such differences will impact the recognition of deferred tax assets and taxation charges in the period in which such estimate is changed.

6 REVENUE

Revenue recognised during the Relevant Periods is as follows:

	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Sales for electricity	19,474	67,583	58,203

7 EXPENSES BY NATURE

	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Amortisation *(Note 16 and 17)*	165	705	382
Auditor's remuneration	309	595	644
Consultancy fee expenses	3,237	3,821	–
Consumables and spare parts	930	2,030	1,023
Depreciation *(Note 14)*	8,300	34,253	31,617
Employee benefits expenses *(Note 12)*	1,201	11,741	9,650
Entertainment expenses	521	1,496	233
Legal and professional fees	65	106	481
Office expenses	274	1,441	906
Operating lease payments	238	1,545	649
Repairs and maintenance	7,210	6,858	7,298
Transportation expenses	708	2,545	858
Other	1,959	3,374	1,800
Total cost of sales and administrative expenses	25,117	70,510	55,541

8 OTHER GAINS/(LOSSES), NET

	2007	2008	2009
	HK$'000	*HK$'000*	*HK$'000*
VERs income	51	643	1,178
Exchange gain/(loss), net	1,377	(4,178)	4
Others	86	(2,399)	481
	1,514	(5,934)	1,663

9 IMPAIRMENT LOSSES ON ASSETS

	2007	2008	2009
	HK$'000	*HK$'000*	*HK$'000*
Provision for impairment losses on			
– prepaid land lease payments *(Note 16)*	–	2,476	–
– concession right *(Note 17)*	–	18,126	–
– goodwill *(Note 17)*	–	6,232	–
– property, plant and equipment *(Note 14)*	–	79,998	–
	–	106,832	–

The Target Group has two wind farms in Muling and Mudanjiang, which commenced operations in 2007 and were fully operational in 2008. These two farms were making losses since commencement in 2007 and losses continued to be sustained in 2008. In this regard, the management had carried out an internal study for reassessing the projected wind outputs of these two wind farms. The report showed a 23% reduction of wind output when compared with the study prepared in the year of acquisition. For this reason, the projected income from the sales of electricity was decreased equally. This resulted in an impairment loss of HK$106.8 million being recorded based on the value-in-use assessment in 2008. The calculation used pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Other key assumptions related to estimations of sales, gross margin and operating cash outflows, based on the business unit's past performance and management expectations for future development of the market and the business. Management believes that any reasonable possible change in the key assumptions on which the wind farms' recoverable amount is based would not cause the wind farms' carrying amounts to exceed their recoverable amount.

10 FINANCE INCOME AND COSTS

	2007	2008	2009
	HK$'000	*HK$'000*	*HK$'000*
Interest expenses:			
Bank borrowings not wholly repayable within 5 years	(29,729)	(34,970)	(45,226)
Less: capitalised in construction in progress	22,264	222	15,021
Finance costs	(7,465)	(34,748)	(30,205)
Finance income – interest income from bank deposits	45	1,066	85
Finance costs – net	(7,420)	(33,682)	(30,120)

11 DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION

(a) Directors' emoluments

The remuneration paid/payable to every director by the Target Group for the Relevant Periods is set out below:

Name of directors/ex-directors	Salaries, allowances and other benefits	Contributions to pension plan	Total
	HK$'000	*HK$'000*	*HK$'000*
2007			
OEI Kang, Eric	–	–	–
TIAN Yuchuan	–	–	–
WONG King King	–	–	–
TSANG Sai Chung, Kirk	–	–	–
NG Chi Man, Michael	–	–	–
TANG Sau Wai, Tom	–	–	–
CHEN Libo	–	–	–
CAI Kui	–	–	–
WANG Di	–	–	–
	–	–	–

Name of directors/ex-directors	Salaries, allowances and other benefits	Contributions to pension plan	Total
	HK$'000	*HK$'000*	*HK$'000*
2008			
OEI Kang, Eric	–	–	–
LEUNG Wing Sum, Samuel	–	–	–
WONG King King	–	–	–
CUI Dongming	500	83	583
TSANG Sai Chung, Kirk	–	–	–
CHAN Kwok Fong, Joseph	–	–	–
NG Chi Man, Michael	–	–	–
TANG Sau Wai, Tom	–	–	–
HAN Xianxiao	–	–	–
CHEN Libo	–	–	–
CAI Kui	–	–	–
OU Zhenwu	–	–	–
KAM Che Chiu, Joachim	–	–	–
WANG Di	662	40	702
	1,162	123	1,285

	Salaries, allowances and other benefits	Contributions to pension plan	Total
	HK$'000	*HK$'000*	*HK$'000*
2009			
OEI Kang, Eric	–	–	–
LEUNG Wing Sum, Samuel	–	–	–
CUI Dongming	208	37	245
TSANG Sai Chung, Kirk	–	–	–
CHAN Kwok Fong, Joseph	–	–	–
TANG Sau Wai, Tom	–	–	–
YUNG Pak Keung, Bruce	–	–	–
LIU Zhixin	–	–	–
WONG Ming Hung	–	–	–
MOK Ming Wai	–	–	–
LAI Kam Kuen, Ricky	–	–	–
OU Zhenwu	–	–	–
HAN Xianxiao	–	–	–
WANG Di	–	–	–
	208	37	245

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Target Group during the Relevant Periods include two directors in 2008 and one director in 2009 whose emoluments are disclosed in Note 11(a) above. The emoluments paid or payable to the remaining non-director individuals (2009: four, 2008: three, 2007: five) during the Relevant Periods are as follows:

	2007	2008	2009
	HK$'000	*HK$'000*	*HK$'000*
Salaries, allowances and other benefits	653	2,442	2,235
Contributions to pension plan	54	92	98
	707	2,534	2,333

Each of their emoluments was below HK$1,000,000.

(c) During the Relevant Periods, no emoluments were paid by the Target Group to any of the directors or the five highest paid individuals as inducement to join or upon joining the Target Group or as compensation for loss of office.

12 EMPLOYEE BENEFIT EXPENSES

	2007	2008	2009
	HK$'000	*HK$'000*	*HK$'000*
Wages, salaries and other benefits (including directors' emoluments)	1,067	10,160	8,060
Pension costs – defined contribution plan	134	1,581	1,590
Charged to the combined statement of comprehensive income *(Note 7)*	1,201	11,741	9,650

(a) The Target Group operates the MPF scheme under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employee's relevant income, subject to a cap of monthly contribution of HK$1,000. Contributions to the scheme vest immediately. The Target Group's contribution to the employee pension scheme in the PRC is at percentages in compliance with the requirements of respective municipal governments.

(b) Contributions totalling HK$1,590,000, HK$1,581,000 and HK$134,000 were payable under the MPF scheme and PRC pension scheme at 31 December 2009, 2008 and 2007 respectively.

13 INCOME TAX CREDIT/(EXPENSE)

Hong Kong profits tax and Mainland China income tax have not been provided as the Target Group does not have assessable profit in Hong Kong and the PRC for the Relevant Periods.

The tax on the loss for the year differs from the theoretical amount that would arise using the tax rate applicable to the Target Group as follows:

	2007	2008	2009
	HK$'000	*HK$'000*	*HK$'000*
Loss before income tax	(16,919)	(153,833)	(29,825)
Tax calculated at applicable tax rates	(1,881)	(25,649)	(5,738)
Expenses not deductible for taxation purpose	1,307	19,729	1,364
Tax losses not recognised	574	5,919	4,374
Over provision in prior years	590	–	–
Income tax credit/(expense)	590	(1)	–

The weighted applicable tax rate was 11.1%, 16.7% and 19.2% for the year ended 31 December 2007, 2008 and 2009 respectively.

The Target Group did not recognise deferred income tax assets in respect of tax losses of (2009: HK$49,686,000, 2008: HK$25,975,000 and 2007: HK$2,297,000) to carry forward against future taxable income. These tax losses will expire at various dates up to and including (2009: 2014, 2008: 2013 and 2007: 2012).

14 PROPERTY, PLANT AND EQUIPMENT

	Electric utility plant and equipment HK$'000	Motor vehicles HK$'000	Other plant and equipment HK$'000	Total HK$'000
At 1 January 2007				
Cost	–	558	155	713
Accumulated depreciation	–	(70)	(23)	(93)
Net book amount	–	488	132	620
Year ended 31 December 2007				
Opening net book amount	–	488	132	620
Additions	–	1,879	957	2,836
Transfer from construction in progress *(Note 15)*	607,652	–	–	607,652
Currency translation differences	27,971	33	9	28,013
Depreciation *(Note 7)*	(7,700)	(512)	(88)	(8,300)
Closing net book amount	627,923	1,888	1,010	630,821
At 31 December 2007				
Cost	635,977	2,693	1,124	639,794
Accumulated depreciation	(8,054)	(805)	(114)	(8,973)
Net book amount	627,923	1,888	1,010	630,821
Year ended 31 December 2008				
Opening net book amount	627,923	1,888	1,010	630,821
Additions	1,887	744	942	3,573
Transfer from construction in progress *(Note 15)*	5,527	–	–	5,527
Adjustment *(Note (a))*	(11,472)	–	–	(11,472)
Currency translation differences	36,307	68	51	36,426
Depreciation *(Note 7)*	(32,951)	(865)	(437)	(34,253)
Impairment losses *(Note 9)*	(79,998)	–	–	(79,998)
Closing net book amount	547,223	1,835	1,566	550,624
At 31 December 2008				
Cost	669,235	3,547	2,130	674,912
Accumulated depreciation and impairment	(122,012)	(1,712)	(564)	(124,288)
Net book amount	547,223	1,835	1,566	550,624

	Electric utility plant and equipment *HK$'000*	Motor vehicles *HK$'000*	Other plant and equipment *HK$'000*	Total *HK$'000*
Year ended 31 December 2009				
Opening net book amount	547,223	1,835	1,566	550,624
Additions	78	–	22	100
Currency translation differences	706	1	2	709
Depreciation *(Note 7)*	(30,208)	(952)	(457)	(31,617)
Closing net book amount	517,799	884	1,133	519,816
At 31 December 2009				
Cost	670,395	3,552	2,156	676,103
Accumulated depreciation and impairment	(152,596)	(2,668)	(1,023)	(156,287)
Net book amount	517,799	884	1,133	519,816

Notes:

(a) The adjustment represents a VAT refund granted by the PRC government relating to the purchase of domestic equipment.

(b) Certain bank borrowings are secured by certain property, plant and equipment with a carrying value of HK$446,893,000, HK$418,900,000 and HK$511,364,000 as at 31 December 2007, 2008 and 2009 respectively.

15 CONSTRUCTION IN PROGRESS

	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
At 1 January	478,722	3,815	47,004
Currency translation differences	7,595	220	240
Additions	139,422	48,496	431,786
Transfer to property, plant and equipment *(Note 14)*	(607,652)	(5,527)	–
Transfer to prepaid land lease payments *(Note 16)*	(14,272)	–	–
At 31 December	3,815	47,004	479,030

Finance costs capitalised for the years ended 31 December 2007, 2008 and 2009 are disclosed in Note 10.

16 PREPAID LAND LEASE PAYMENTS

The Target Group's interest in leasehold land and land use rights is represented by prepaid operating lease payments and their net carrying values are analysed as follows:

	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
At 1 January	3,671	18,773	17,329
Currency translation differences	926	1,079	24
Additions	–	382	568
Transfer from construction in progress *(Note 15)*	14,272	–	–
Impairment losses *(Note 9)*	–	(2,476)	–
Amortisation *(Note 7)*	(96)	(429)	(382)
At 31 December	18,773	17,329	17,539
In Mainland China, held on:			
Leases of between 10 to 50 years	18,773	17,329	17,539

Certain bank borrowings are secured by the whole amount of the prepaid land lease payments as at 31 December 2007, 2008 and 2009.

17 INTANGIBLE ASSETS

	Concession right *HK$'000*	Goodwill *HK$'000*	Total *HK$'000*
At 1 January 2007			
Cost and net book amount	18,471	6,232	24,703
Year ended 31 December 2007			
Opening net book amount	18,471	6,232	24,703
Amortisation *(Note 7)*	(69)	–	(69)
Closing net book amount	18,402	6,232	24,634
At 31 December 2007			
Cost	18,471	6,232	24,703
Accumulated amortisation	(69)	–	(69)
Net book amount	18,402	6,232	24,634
Year ended 31 December 2008			
Opening net book amount	18,402	6,232	24,634
Amortisation *(Note 7)*	(276)	–	(276)
Impairment losses *(Note 9)*	(18,126)	(6,232)	(24,358)
Closing net book amount	–	–	–
At 31 December 2008 and 2009			
Cost	18,471	6,232	24,703
Accumulated amortisation and impairment	(18,471)	(6,232)	(24,703)
Net book amount	–	–	–

Impairment tests for goodwill

Goodwill is allocated to the Target Group's cash-generating units identified according to country of operation and business segment. For the purpose of impairment testing, the recoverable amount of the business unit is determined based on value-in-use calculations. The key assumptions adopted on growth rate and discount rate used in the value-in-use calculations are based on management best estimates and are as follows:

	2007	2008	2009
Discount rate	9%	7%	N/A
Growth rate	5.7%	3%	N/A
Years of cash flow forecast	20 years	19 years	N/A

No impairment provision was made on goodwill as at 31 December 2007. Impairment losses amounting to HK$6,232,000 relating to goodwill were charged to the combined statement of comprehensive income for the year ended 31 December 2008.

18 INVESTMENTS IN ASSOCIATED COMPANIES

	2007	2008	2009
	HK$'000	*HK$'000*	*HK$'000*
Target Group's share of net assets	82,711	414,782	545,355

The following financial information, after making adjustments to conform to the Target Group's significant accounting policies, represents the Target Group's aggregate share of assets, liabilities, revenue and results of associated companies, all of which are unlisted:

	2007	2008	2009
	HK$'000	*HK$'000*	*HK$'000*
Assets	209,322	818,070	1,059,156
Liabilities	(126,611)	(403,288)	(513,801)
Net assets	82,711	414,782	545,355
Revenue	7,378	23,956	28,346
Loss for the year	(5,370)	(4,458)	(4,030)

The investment in CECIC HKC Wind Power Co. Ltd ("CECIC HKC Wind Power") was pledged as a guarantee to a holding company of the PRC shareholder of CECIC HKC Wind Power, China Energy Conservation Windpower Investment Limited ("CECIC"). CECIC advanced a loan to CECIC HKC Wind Power.

Details of associated companies are set out in Note 27.

19 TRADE AND OTHER RECEIVABLES

	2007	2008	2009
	HK$'000	*HK$'000*	*HK$'000*
Prepayments *(Note (a))*	2,447	129,295	6,958
Trade receivables	14,313	24,193	31,957
Other receivables *(Note (e))*	78,703	54,210	71,097
	93,016	78,403	103,054
	95,463	207,698	110,012

Notes:

(a) The balance mainly represents deposits for the purchase of electric utility equipment and the construction costs of wind farms.

(b) The Target Group grants a credit period ranging from 15 to 30 days to customers. The ageing analysis of trade receivables was as follows:

	2007	2008	2009
	HK$'000	*HK$'000*	*HK$'000*
0 to less than 2 months	14,313	21,012	9,797
2 to less than 6 months	–	3,181	4,658
6 to less than 12 months	–	–	11,654
12 months and more	–	–	5,848
	14,313	24,193	31,957

(c) As of 31 December 2007, 2008 and 2009, trade receivables of HK$5,405,000, HK$14,221,000 and HK$25,720,000 respectively were past due but not impaired respectively. No other receivables were past due or impaired for payment. These relate to a number of independent customers who have a good reputation.

(d) The trade and other receivables are denominated in Renminbi and the carrying amounts approximate their fair values. The maximum exposure to credit risk at the reporting date was the fair value of the trade and other receivables mentioned above. The Target Group does not hold any collateral as security.

(e) Other receivables with amounts of HK$61,443,000, HK$52,532,000 and HK$59,732,000 as at 31 December 2007, 2008 and 2009 represent amounts due from CECIC and the holding company of CECIC, which are unsecured, interest free and repayable on demand, CECIC is a state-owned enterprise and also a shareholder of CECIC HKCG and CECIC HKC Wind Power.

20 CASH AND BANK BALANCES

	2007	2008	2009
	HK$'000	*HK$'000*	*HK$'000*
Restricted cash represents:			
– Deposit placed in a bank as a guarantee in respect of the alternative energy project	–	1,477	916
Cash and bank balances represent:			
– Placed in banks in the PRC	13,793	255,433	189,514
	13,793	256,910	190,430

The cash and bank balances are mainly denominated in Renminbi. The maximum exposure to credit risk at the reporting date is the carrying values of the cash and bank balances stated above.

21 COMBINED CAPITAL

For the purpose of this report, the combined capital presented in the combined balance sheets as at 31 December 2007, 2008 and 2009 represents the combined capital of the Target Companies as at the respective balance sheet dates.

22 AMOUNTS DUE TO FELLOW SUBSIDIARIES

Amounts due to fellow subsidiaries are unsecured, interest free and have no fixed terms of repayment. The balances are denominated in Renminbi and the carrying amounts approximate their fair values.

23 BORROWINGS

	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Non-current			
Bank borrowings	416,052	587,619	696,429
Current			
Bank borrowings	12,868	22,688	62,486
	428,920	610,307	758,915

Bank borrowings are secured by prepaid land lease payments (Note 16), property, plant and equipment (Note 14) and corporate guarantees granted by HKC.

The maturity of bank borrowings as at 31 December 2007, 2008 and 2009 is as follows:

		Secured bank loans	
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Within 1 year	12,868	22,688	62,486
In the second year	21,446	62,392	62,486
In the third to fifth year	98,652	191,714	194,273
After the fifth year	295,954	333,513	439,670
	428,920	610,307	758,915

The carrying amounts of the bank borrowings are denominated in Renminbi and the carrying amounts approximate their fair values.

The exposure of the Target Group's borrowings to interest rate changes and contractual repricing dates are all within 12 months from the balance sheet date.

The effective interest rates at 31 December 2007, 2008 and 2009 are as follows:

	2007	**2008**	**2009**
Bank borrowings	6.84%-7.56%	5.94%-7.83%	5.94%

24 OTHER PAYABLES

Other payables mainly represent construction costs payable. The balances are denominated in Renminbi.

25 COMMITMENTS

(a) Capital commitments

Capital expenditure as at 31 December 2007, 2008 and 2009 but not yet incurred is as follows:

	2007	2008	2009
	HK$'000	*HK$'000*	*HK$'000*
Capital commitments undertaken by the Target Group			
(i) Property, plant and equipment			
– Contracted but not provided for	1,413	321,142	38,599
(ii) Capital injection in associated companies			
– Contracted but not provided for	191,422	133,048	–
	192,835	454,190	38,599

(b) Commitments under operating leases

The aggregate future minimum lease payments under non-cancellable operating leases in respect of land and buildings are as follows:

	2007	2008	2009
	HK$'000	*HK$'000*	*HK$'000*
No later than 1 year	306	480	28

26 RELATED PARTY TRANSACTIONS

In addition to the transactions and balances set out elsewhere in the combined financial information, the Target Group had the following significant related party transactions during the Relevant Periods.

	2007	2008	2009
	HK$'000	*HK$'000*	*HK$'000*
Key management compensation:			
Salary and other benefits	–	1,162	208
Employee's contribution to pension scheme	–	123	37
	–	1,285	245

27 PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATED COMPANIES

As at the date of this report, the following principal subsidiaries and associated companies comprising the Target Group:

(i) List of principal subsidiaries

Company name	Country/ Place of operation	Issued and fully paid capital	Attributable effective/ deemed interest held by the Target Group	Principal activities	Auditors
香港風力發電(穆棱)有限公司 Hong Kong Wind Power (Muling) Company Limited#	the PRC	HK$150,100,000	86.68%	Construction and operation of a 30 megawatts wind-powered electricity generating station in Heilongjiang, the PRC	Heilongjiang Baichang Certified Public Accountants Co., Ltd
亞洲風力發電(牡丹江)有限公司 Asia Wind Power (Mudanjiang) Company Limited#	the PRC	HK$100,000,000	86.0%	Construction and operation of a 30 megawatts wind-powered electricity generating station in Heilongjiang, the PRC	Heilongjiang Baichang Certified Public Accountants Co., Ltd
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	the PRC	RMB166,480,000	100%	Construction and operation of a 49.5 megawatts wind-powered electricity generating station in Inner Mongolia, the PRC	Lixindahua Certified Public Accountants Co., Ltd. Inner Mongolia Branch
HKE (Gansu) Wind Power Limited	Hong Kong	HK$1	100%	Investment holding	PricewaterhouseCoopers
HKE (Danjinghe) Wind Power Limited	Hong Kong	HK$1	75%	Investment holding	PricewaterhouseCoopers
Wealthland Group Limited	British Virgin Islands	US$1	100%	Investment holding	N/A
Sinoriver International Limited	British Virgin Islands	US$1	100%	Investment holding	N/A
Eden Investment Group Limited	British Virgin Islands	US$1	100%	Investment holding	N/A
Hong Kong Energy Investments Limited	Hong Kong	US$1	100%	Investment holding	PricewaterhouseCoopers

Company name	Country/ Place of operation	Issued and fully paid capital	Attributable effective/ deemed interest held by the Target Group	Principal activities	Auditors
Hong Kong New Energy (Si Zi Wang Qi) Wind Power Limited	Hong Kong	HK$2	100%	Investment holding	PricewaterhouseCoopers
Sinoriver International (Wind Power) Limited	Hong Kong	HK$20	100%	Investment holding	PricewaterhouseCoopers
APC Wind Power Pte. Ltd	Singapore	SG$10	100%	Investment holding	C.C.Yang & Co. Certified Public Accountants
HKC (Linyi) Holdings Limited	Hong Kong	HK$1	100%	Investment holding	PricewaterhouseCoopers
Hong Kong Energy (BVI) Investments Limited	British Virgin Islands	US$1	100%	Investment holding	N/A
呼和浩特市中港新能源有限公司 *(Note 1(b))*	the PRC	RMB800,000	100%	Investment holding	N/A

(ii) List of principal associated companies

Company name	Country/ Place of operation	Registered paid capital	Attributable effective/ deemed interest held by the Target Group	Principal activities	Auditor
中節能港建風力發電(張北)有限公司 CECIC HKC Wind Power Company Limited#	the PRC	RMB545,640,000	30%	Construction and operation of a 200 megawatts wind-powered electricity generating station in Zhangbei, the PRC	Beijing XingHua Certified Public Accountants
臨沂中環新能源有限公司 Linyi National Environmental New Energy Company Limited	the PRC	RMB100,000,000	40%	Construction and operation of a 25 megawatts waste-to-energy electricity generating station in Shandong, the PRC	Beijing XingHua Certified Public Accountants
中節能港建(甘肅)風力發電有限公司 CECIC HKC (Gansu) Wind Power Company Limited *(Note 1(b))*#	the PRC	RMB668,941,817	40%	Construction and operation of a 201 megawatts wind-powered electricity generating station in Gansu, the PRC	Beijing XingHua Certified Public Accountants

\# *Unofficial English transliterations or translations for identification purposes only*

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by any of the companies now comprising the Target Group in respect of any period subsequent to 31 December 2009. No dividends or distributions have been declared, made or paid by the companies now comprising the Target Group in respect of any period subsequent to 31 December 2009.

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

(A) UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is the illustrative financial information comprising the unaudited pro forma consolidated balance sheet, statement of comprehensive income and cash flow statement of the Enlarged Group, which have been prepared on the basis of the notes set out below for the purpose of illustrating the effects of the Acquisition as if it had taken place on 31 December 2009 for the unaudited pro forma consolidated balance sheet and as if it had taken place on 1 January 2009 for the unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated cash flow statement.

This unaudited pro forma financial information of the Enlarged Group has been prepared using the accounting policies consistent with that of the Group as set out in the published annual report of the Group for the year ended 31 December 2009 except for taking into consideration Hong Kong Financial Reporting Standard 3 (Revised) "Business Combinations", after making certain pro forma adjustments as set out in the notes below.

This unaudited pro forma financial information has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the financial positions, financial results and cash flows of the Enlarged Group had the Acquisition been completed as at 31 December 2009 or 1 January 2009, respectively, or any future dates.

(I) Unaudited pro forma consolidated balance sheet of the Enlarged Group

	Unadjusted consolidated balance sheet of the Group as at 31 December 2009	Pro forma adjustments: Combined balance sheet of the Target Group as at 31 December 2009	Pro forma adjustments: Other adjustments		Unaudited pro forma consolidated balance sheet of the Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*		*HK$'000*
	(Note 1)	*(Note 2(a))*		*Note*	
ASSETS					
Non-current assets					
Property, plant and equipment	442	519,816	(12,226)	*3(a)(i)*	508,032
Construction in progress	3,311	479,030	8,047	*3(a)(i)*	490,388
Prepaid land lease payments	–	17,539	(2,713)	*3(a)(i)*	14,826
Intangible assets	5,539	–	–		5,539
Concession rights	–	–	161,905	*3(a)(i)*	161,905
Investments in associated companies	208,076	545,355	203,091	*3(a)(i), (ii) & 7*	956,522
Prepayments	–	6,958	–		6,958
Total non-current assets	217,368	1,568,698	358,104		2,144,170
Current assets					
Inventories	–	5,955	–		5,955
Trade and other receivables	6,457	103,054	–		109,511
Cash and bank balances	172,226	189,514	(7,475)	*8*	354,265
Restricted cash	–	916	–		916
Total current assets	178,683	299,439	(7,475)		470,647
Total assets	396,051	1,868,137	350,629		2,614,817
EQUITY					
Capital and reserves					
Share capital	7,726	–	13,852	*5*	21,578
Retained earnings/(accumulated losses)	289,485	(201,978)	390,585	*6*	478,092
Exchange reserves	1,117	47,683	(47,683)	*6*	1,117
Other reserves	8,686	–	1,004,230	*5*	1,012,916
	307,014	(154,295)	1,360,984		1,513,703
Minority interest	–	15,568	(2,872)	*6*	12,696
Total equity	307,014	(138,727)	1,358,112		1,526,399

	Unadjusted consolidated balance sheet of the Group as at 31 December 2009	Pro forma adjustments: Combined balance sheet of the Target Group as at 31 December 2009	Pro forma adjustments: Other adjustments		Unaudited pro forma consolidated balance sheet of the Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*		*HK$'000*
	(Note 1)	*(Note 2(a))*		*Note*	
LIABILITIES					
Non-current liabilities					
Borrowings	–	696,429	–		696,429
Convertible note	76,007	–	–		76,007
Deferred income tax liabilities	4,643	–	64,996	*3(a)(ii) &4*	69,639
	80,650	696,429	64,996		842,075
Current liabilities					
Amounts due to fellow subsidiaries	–	1,072,479	(1,072,479)	*7*	–
Other payables	8,387	175,470	–		183,857
Borrowings	–	62,486	–		62,486
Total current liabilities	8,387	1,310,435	(1,072,479)		246,343
Total liabilities	89,037	2,006,864	(1,007,483)		1,088,418
Total equity and liabilities	396,051	1,868,137	350,629		2,614,817

(II) Unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group

	Unadjusted consolidated statement of comprehensive income of the Group for the year ended 31 December 2009	Pro forma adjustments: Combined statement of comprehensive income of the Target Group for the year ended 31 December 2009	Pro forma adjustments: Other adjustments		Unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*		*HK$'000*
	(Note 1)	*(Note 2(b))*		*Note*	
Revenue	10,609	58,203	–		68,812
Cost of sales	(4,896)	(39,683)	–		(44,579)
Gross profit	5,713	18,520	–		24,233
Other gains/(losses), net	(817)	1,663	–		846
Selling and distribution costs	(1,552)	–	–		(1,552)
Administrative expenses	(36,161)	(15,858)	(7,475)	*8*	(59,494)
Operating profit/(loss)	(32,817)	4,325	(7,475)		(35,967)
Finance income	443	85	–		528
Finance costs	–	(30,205)	–		(30,205)
Finance costs – net	443	(30,120)	–		(29,677)
Gain on disposal of subsidiaries	7,624	–	–		7,624
Excess of fair value of net assets acquired over cost of Acquisition (including both arising from subsidiaries and associated accompanies)	27,693	–	222,325	*3(a)(ii) & 3(b)*	250,018
Share of losses of associated companies	(289)	(4,030)	–		(4,319)
Profit/(loss) before income tax	2,654	(29,825)	214,850		187,679
Income tax expense	(14,336)	–	(26,243)	*4*	(40,579)
(Loss)/profit for the year	(11,682)	(29,825)	188,607		147,100

		Pro forma adjustments		
	Unadjusted consolidated statement of comprehensive income of the Group for the year ended 31 December 2009	**Combined statement of comprehensive income of the Target Group for the year ended 31 December 2009**	**Other adjustments**	**Unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 1)	*(Note 2(b))*		
Other comprehensive income				
Currency translation differences	32	1,137	–	1,169
Total comprehensive income for the year	(11,650)	(28,688)	188,607	148,269
(Loss)/profit attributable to:				
Equity holders of the Group	(10,431)	(28,073)	188,607	150,103
Minority interest	(1,251)	(1,752)	–	(3,003)
	(11,682)	(29,825)	188,607	147,100
Total comprehensive income attributable to:				
Equity holders of the Group	(10,399)	(26,776)	188,607	151,432
Minority interest	(1,251)	(1,912)	–	(3,163)
	(11,650)	(28,688)	188,607	148,269

(III) Unaudited pro forma consolidated cash flow statement of the Enlarged Group

		Pro forma adjustments		
	Unadjusted consolidated cash flow statement of the Group for the year ended 31 December 2009	**Combined cash flow statement of the Target Group for the year ended 31 December 2009**	**Other adjustments**	**Unaudited pro forma consolidated cash flow statement of the Enlarged Group**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 1)	*(Note 2(b))*	*(Note 8)*	
Cash flow from operating activities				
Profit/(loss) before income tax	2,654	(29,825)	–	(27,171)
Finance income	(443)	(85)	–	(528)
Depreciation and amortization	5,041	31,999	–	37,040
Impairment losses on intangible assets	817	–	–	817
Gain on disposal of subsidiaries	(7,624)	–	–	(7,624)
Excess of fair value of net assets acquired over cost of Acquisition of an associate company	(27,693)	–	–	(27,693)
Share of losses of associated companies	289	4,030	–	4,319
Net exchange gain	–	(4)	–	(4)
Finance costs	–	30,205	–	30,205
Operating (loss)/profit before working capital changes	(26,959)	36,320	–	9,361
Increase in inventory	–	(989)	–	(989)
Increase in trade and other receivables	(4,193)	(24,506)	–	(28,699)
Increase in other payables	5,678	5,926	–	11,604
Cash (used in)/generated from operations	(25,474)	16,751	–	(8,723)
Income tax paid	(50)	–	–	(50)
Income tax refunded	26	–	–	26
Net cash (used in)/generated from operating activities	(25,498)	16,751	–	(8,747)

		Pro forma adjustments		
	Unadjusted consolidated cash flow statement of the Group for the year ended 31 December 2009	**Combined cash flow statement of the Target Group for the year ended 31 December 2009**	**Other adjustments**	**Unaudited pro forma consolidated cash flow statement of the Enlarged Group**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 1)	*(Note 2(b))*	*(Note 8)*	
Cash flows from investing activities				
Interest received	566	85	–	651
Acquisition of intangible assets	(172)	–	–	(172)
Additions of prepaid land lease payments	–	(568)	–	(568)
Decrease in prepayments	–	122,337	–	122,337
Purchase of property, plant and equipment	(186)	(100)	–	(286)
Payment made for addition to construction in progress	(6,495)	(283,560)	–	(290,055)
Proceeds from				
– disposal of subsidiaries	18,999	–	–	18,999
– disposal of property, plant and equipment	15	–	–	15
– disposal of construction in progress	3,184	–	–	3,184
Investments in associated companies	(110,010)	(133,819)	–	(243,829)
Professional cost for the Acquisition	–	–	(7,475)	(7,475)
Net cash used in investing activities	(94,099)	(295,625)	(7,475)	(397,199)

	Unadjusted consolidated cash flow statement of the Group for the year ended 31 December 2009	Pro forma adjustments: Combined cash flow statement of the Target Group for the year ended 31 December 2009	Pro forma adjustments: Other adjustments	Unaudited pro forma consolidated cash flow statement of the Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 1)	*(Note 2(b))*	*(Note 8)*	
Cash flows from financing activities				
Proceeds from issuance of bonus warrants	2,717	–	–	2,717
Increase in new bank borrowings	–	147,693	–	147,693
Increase in amounts due to fellow subsidiaries	–	94,522	–	94,522
Decrease in restricted bank deposit	–	563	–	563
Interest paid	–	(30,205)	–	(30,205)
Net cash generated from financing activities	2,717	212,573	–	215,290
Net decrease in cash and cash equivalents	(116,880)	(66,301)	(7,475)	(190,656)
Cash and cash equivalents at the beginning of the year	289,095	255,433	–	544,528
Currency translation differences	11	382	–	393
Cash and cash equivalents at the end of the year	172,226	189,514	(7,475)	354,265

Notes to the unaudited pro forma financial information of the Enlarged Group:

1. The unadjusted consolidated balance sheet, unadjusted consolidated statement of comprehensive income and unadjusted consolidated cash flow statement of the Group are extracted from the published annual report of the Group for the year ended 31 December 2009 as set out in Appendix I to this circular.

2. (a) The combined balance sheet of the Target Group as at 31 December 2009 are extracted from the accountant's report of the Target Group as set out in Appendix II to this circular.

   (b) The combined statement of comprehensive income and the combined cash flow statement for the year ended 31 December 2009 are extracted from the accountant's report of the Target Group as set out in Appendix II to this circular.

3. Upon completion of the Acquisition, the identifiable assets and liabilities of the Target Group will be accounted for in the consolidated financial statements of the Enlarged Group at fair value under the purchase method of accounting in accordance with Hong Kong Financial Reporting Standard No. 3 (Revised), "Business Combinations". For the purpose of the Unaudited Pro Forma Financial Information, the Directors have estimated the fair values of the identifiable assets and liabilities of the Target Group as at 1 January 2009 and 31 December 2009, with reference to a separate valuation report for the purpose of purchase price allocation prepared by an independent valuer, BMI Appraisals Limited ("BMI") on 31 March 2010. No separate valuation reports on 1 January 2009 and 31 December 2009 were prepared for the purpose of the pro forma financial information. Had these reports being prepared, the amounts of the fair values of the identifiable assets and liabilities, and, accordingly, the amount of gains on the excess of fair value of net identifiable assets acquired over the cost of Acquisition for the compilation of the unaudited pro forma financial information of the Enlarged Group may be different from the amounts presented above and the difference may be significant.

   The excess amount of the fair value of the net identifiable assets of the Target Group over the consideration is recognised in the consolidated statement of comprehensive income.

   (a) The fair value adjustment comprises:

      (i) decrease in the carrying amounts of property, plant and equipment and prepaid land lease payment of HK$12,226,000 and HK$2,713,000 respectively, increase in the carrying amounts of construction in progress of HK$8,047,000, recognition of concession rights of HK$161,905,000 and investments in associated companies of HK$366,973,000 respectively. BMI, an independent valuer, determined the fair value of these assets based on the cost approach, market approach and income approach, where appropriate; and

      (ii) recognition of related tax adjustment of HK$131,215,000 representing the deferred income tax liabilities determined at the PRC corporate income tax rate of 25% on the fair value uplifting the net asset values of the Target Group:

         - deferred taxation related to associated companies of HK$92,462,000 is netted off with the investment in associated companies.

         - deferred taxation related to subsidiaries of HK$38,753,000 is reflected as deferred tax liabilities.

   (b) The gain on the Acquisition of subsidiaries and associated companies represents:

      (i) HK$339,361,000 which represents the excess of the fair value of the net assets of the Target Group, i.e. HK$1,357,443,000, over the consideration, i.e. HK$1,018,082,000 as set out in Note 5;

      (ii) HK$14,179,000 which represents a fair value gain arising from remeasurement of its previously held 25% interest in an associated company, HKE (Danjinghe) Wind Power Limited, hold by the Group; and

      (iii) recognition of deferred income tax of HK$131,215,000, as described in Note 3(a)(ii) above.

Since the fair values of the identifiable assets and liabilities of the Target Group and the closing price of the convertible preferred shares at the Completion date may be substantially different from their fair values used in preparing this Unaudited Pro Forma Financial Information, the amounts of the fair values of the identifiable assets and liabilities, and, accordingly, the amount of gains on the excess of fair value of net identifiable assets acquired over the cost of Acquisition at the Completion date may be different from the amounts presented above and the difference may be significant.

Hong Kong Financial Reporting Standard ("HKFRS") 3 (Revised) "Business Combinations" is effective for business combinations for which the acquisition date is on or after the beginning of 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 Enlarged Group has adopted HKFRS 3 (Revised).

4. HK$ 26,243,000 represented the withholding tax payable determined at the PRC withholding tax rate of 5% on the difference between the cost of investment and the investor's share in the net fair values of the Target Group's identifiable assets and liabilities.

5. The adjustment represents the total consideration in connection with the issue of 1,385,170,068 shares of convertible preferred shares in exchange for the entire share capital of the Target Company. The consideration of approximately HK$1,018,082,000 represents the market value of 1,385,170,068 shares to be issued as the consideration for the Acquisition based on the average closing market price of the last 10 trading days up to and including 12 May 2010 of HK$0.735. HK$13,852,000 of the total balance is reflected as share capital which represents the par value of the issued shares. The remaining balances are recorded as other reserves.

6. The adjustment represents consolidation entries for the elimination of pre-acquisition accumulated losses of HK$201,978,000, exchange reserves of HK$47,683,000 and minority interest of HK$2,872,000 of the Target Group.

7. The adjustment represents a consolidation entry for the elimination of intra-group balances. Pursuant to the sale and purchase agreement, the rights and interests in the amounts due to a fellow subsidiary of HK$1,001,059,000 will be transferred to HKE Group. Therefore, upon completion of the Acquisition, all the amounts due to fellow subsidiaries represents the amounts due to HKE Group. The remaining balance of HK$71,420,000 represents the amounts due to HKE Group arising from the acquisition of 25% interest in HKE (Danjinghe) by HKE pursuant to the sale and purchase agreement dated 20 November 2009.

8. This represents the effect of professional costs for the Acquisition amounting to HK$7,475,000.

9. In respect of the unaudited pro forma consolidated statement of comprehensive income and cash flow statement, adjustment 2(b) is expected to have continuing effects on the Enlarged Group as the Target Group will be consolidated by the Group after the Acquisition. The future result and cash flows of the Target Group may be substantially different from its result and cash flows for the year ended 31 December 2009. The remaining adjustments are not expected to have continuing effects on the Enlarged Group.

10. Apart from the Acquisition, 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 Group and the Target Group subsequent to 31 December 2009.

11. For the purpose of the unaudited pro forma financial information, the transactions and balances arising from the Acquisition stated in Renminbi have been converted to Hong Kong dollars at the exchange rate of RMB1 = HK$1.1361.

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

PRICEWATERHOUSECOOPERS

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 HONG KONG ENERGY (HOLDINGS) LIMITED

We report on the unaudited pro forma financial information set out on pages III-1 to III-10 under the heading of "Unaudited Pro Forma Financial Information on the Enlarged Group" (the "Unaudited Pro Forma Financial Information") in Appendix III of the circular dated 30 June 2010 (the "Circular") of Hong Kong Energy (Holdings) Limited (the "Company"), in connection with the proposed acquisition of alternative energy business (the "Transaction") by the Company. 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-10 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, the unadjusted consolidated statement of comprehensive income and cash flow statement of the Group for the year ended 31 December 2009 as set out in the Unaudited Pro Forma Financial Information with the audited consolidated financial statements of the Group 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 or

– the results and cash flows of the Group for the year ended 31 December 2009 or any future periods.

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

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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(穆棱)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 Investemet 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").

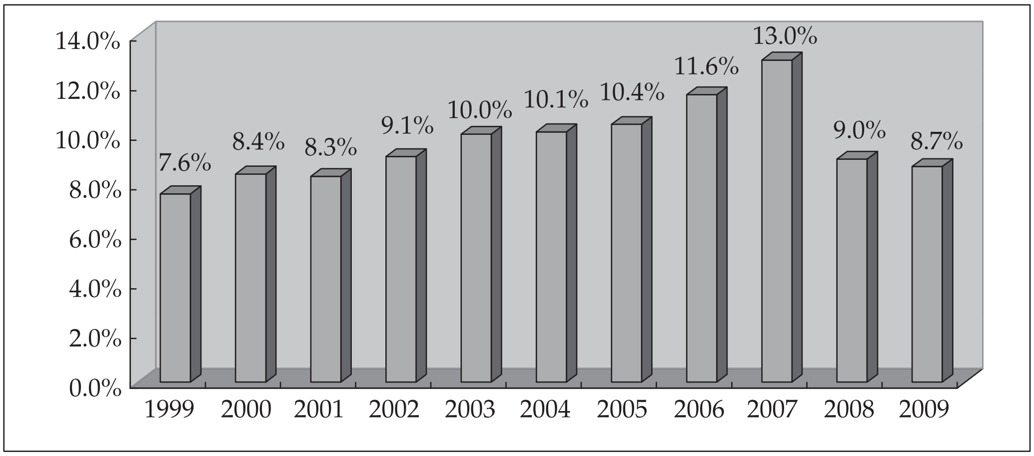
The Linyi Waste-To-Energy Power Plant has a capacity of 25 MW generated by garbage handling of 900 tonnes per day. The plant commenced full operations in September 2007, and is making steady revenue contributions.

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%.

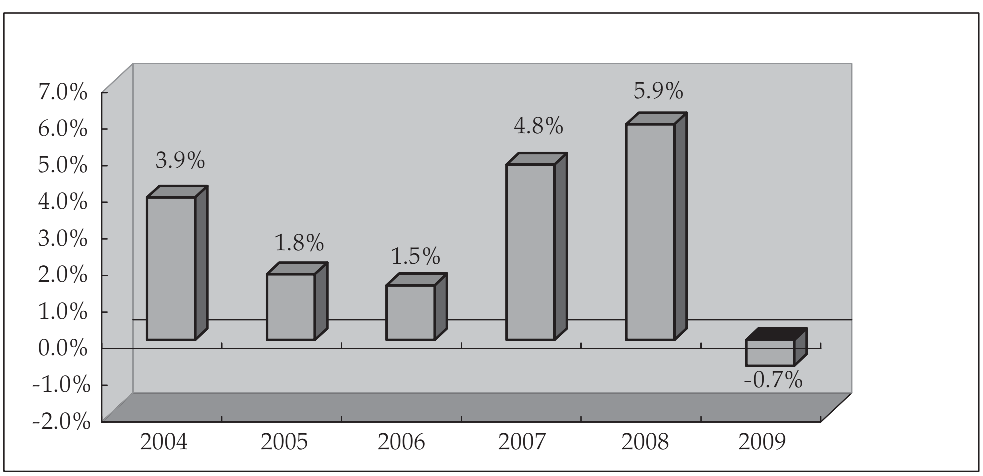
GDP Growth Rate of the PRC, 1999-2009 (%)



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%.

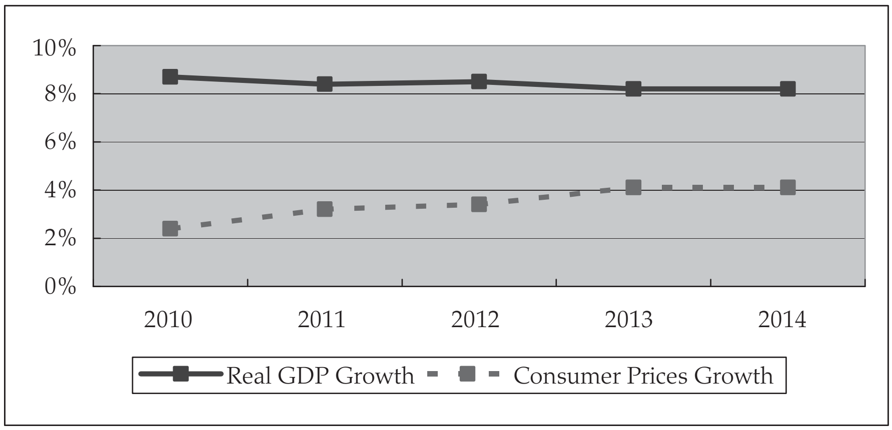
Consumer Price Growth Rate of the PRC, 2004-2009



Source: National Bureau of Statistics of the PRC

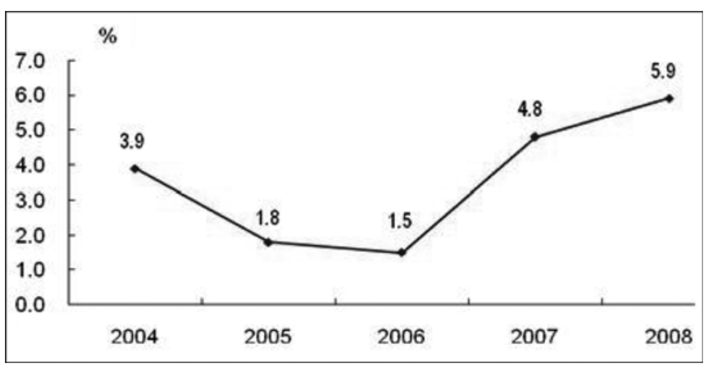
The PRC economy cooled down to an eight-year low of 8.7% in year 2009 as the global financial crisis took its toll on the world's fastest growing economy. According to Economist Intelligence Unit, real GDP growth of the PRC is forecasted to slow down, but will remain impressive, averaging 8.4% in the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

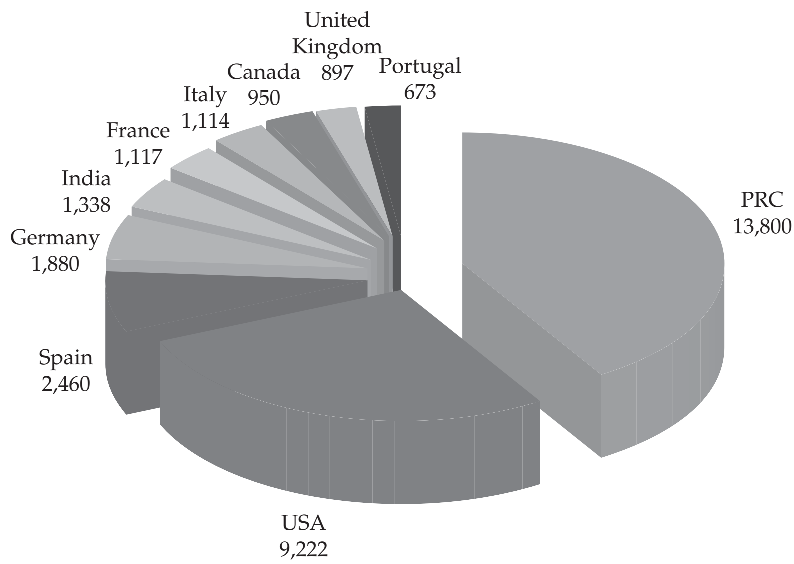


Source: National Bureau of Statistics of the PRC

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.

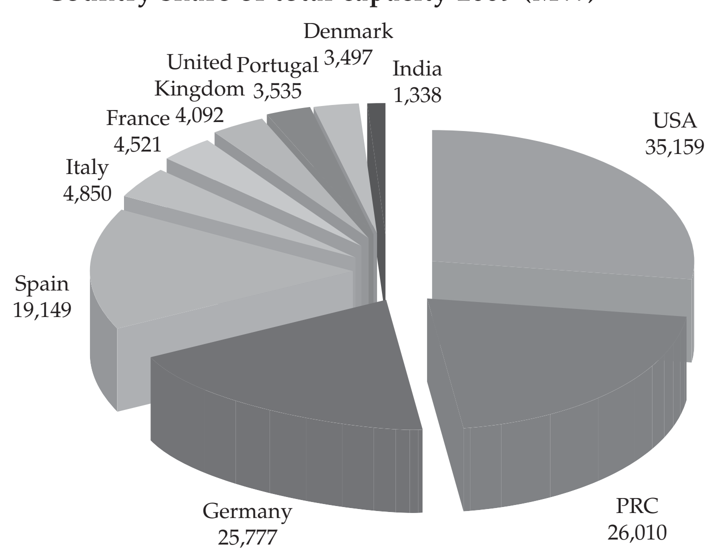
Country share of new capacity 2009 (MW)



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.

Country share of total capacity 2009 (MW)



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.

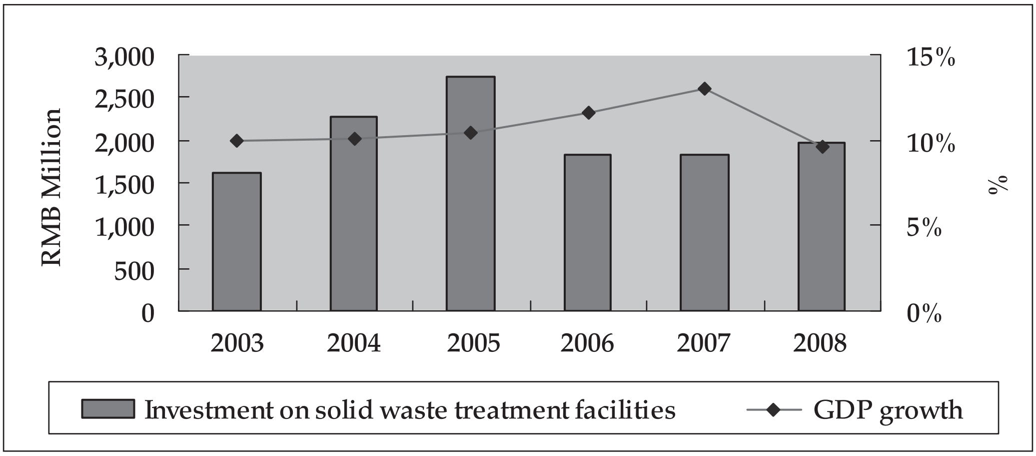
With reference to the "Mid- and Long-Term Renewable Energy Development Plan" published in August 2007 and the "eleven fifth renewable energy development plan" published in March 2008 by the National Development and Reform Council (NDRC), it aimed to achieve the total wind energy capacity at 10,000 MW 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

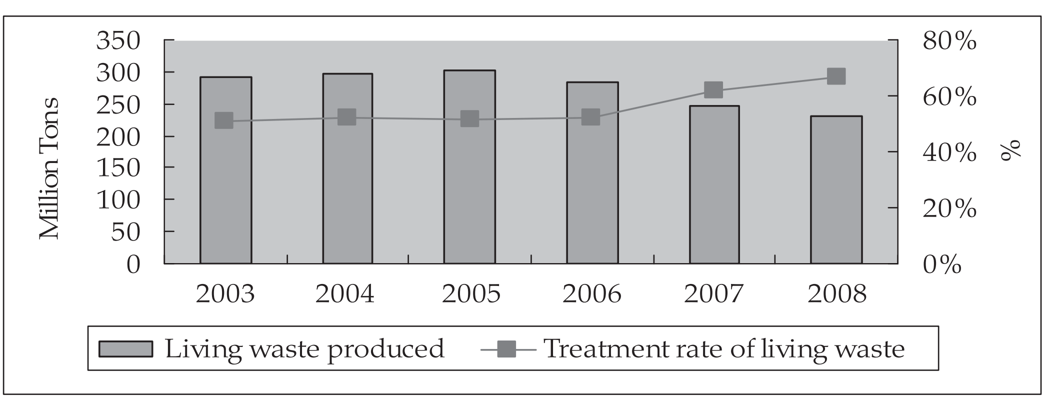
GDP Growth & Investment on Solid Waste Treatment Facilities in the PRC



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:

[(Power Generation Capacity* Average Adjusted P/Power Capacity Multiple) – Debts – Future Capital Expenditures Required]* 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 *(in mil RMB)*	Power Generation Capacity *(MW)*	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 :						10.22

* 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:

The Appraised Wind Power Companies	**Power Generation Capacity** *(MW)*	**Debts** *(in mil RMB)*	**Future Capital Expenditures Required** *(in mil RMB)*
CECIC HKC (Gansu) Wind Power Co., Ltd.	201.00	1,044.50	100.00*
CECIC HKC Wind Power Co., Ltd.	200.00	1,060.00	–
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:

[(Annual Waste Treatment Capacity* Average Adjusted P/Treatment Capacity Multiple) – Debts – Future Capital Expenditure Required]* 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	1. Fujian Province, Jinjiang City 2. Fujian Province, Quanzhou City, Huian County 3. Fujian Province, Quanzhou City, Anxi County 4. Hubei Province, Huangshi City 5. Fujian Province, Fuqing City 6. Hebei Province, Langfang City 7. Liaoning Province Yingkou City	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:

The Appraised Waste-To-Energy Company	Annual Waste Treatment Capacity *(ton)*	Debts *(in mil RMB)*	Future Capital Expenditures Required *(in mil RMB)*
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:

Company	Types of Surplus Assets	Amount *(in mil RMB)*
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:

The Target Group	Market Value
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
Total	RMB1,193,250,000

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, MCIArb, 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.

This Appendix summarises the major changes brought about by the adoption of the amended and restated Articles of Association. Unless otherwise indicated, article numbers stated herein are numbers of the amended and restated Articles of Association. Terms not otherwise defined in this circular have the same meanings as defined in the amended and restated Articles of Association.

(a) Interpretation

The following new definitions have been made to comply with the Listing Rules, the change of name of the Company and the amendment of the terms of the Convertible Preferred Shares:

Approved Financial Adviser
Associate
business day
CCASS
Capital Distribution
clearing house
Company
Conversion
Conversion Notice Date
Conversion Rate
date of announcement
HKSE or Designated Stock Exchange
Major Subsidiary
Ordinary Resolution
record date
reserves
rights
Special Resolution
Trading Day

(b) Share Capital

(i) Article 3(3) has been amended to provide for the amendments to the terms of the Convertible Preferred Shares as described elsewhere in this circular.

(ii) Article 3(4) has been amended to clarify that the Company is authorized to make payments in respect of a purchase of its shares out of capital or out of any other account or fund which can be authorized for this purpose in accordance with the Law.

(c) Alteration of Capital

Article 4 has been amended to provide that the ability of the Company to alter its share capital is subject to the protective provisions established in respect of the Convertible Preferred Shares in Article 3(3)(o).

(d) Share Rights

Article 10 has been amended to provide that the ability of the Company to vary, modify or abrogate the special rights attaching to any class of shares of the Company is subject to the protective provisions established in respect of the Convertible Preferred Shares in Article 3(3)(o).

(e) General Meetings

(i) Article 59 has been amended to provide that subject to such other minimum period as may be specified in the rules of Designated Stock Exchange from time to time, (a) an annual general meeting shall be called by Notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days; (b) any extraordinary general meeting at which the passing of a Special Resolution is to be considered shall be called by Notice of not less than twenty-one (21) clear days and not less than ten (10) clear business days; (c) all other extraordinary general meetings may be called by Notice of not less than fourteen (14) clear days and not less than ten (10) clear business days; but if permitted by the rules of the Designated Stock Exchange, a general meeting may be called by shorter notice, subject to the Law, if it is so agreed:

(a) in the case of a meeting called as an annual general meeting, by all the Members entitled to attend and vote thereat; and

(b) in the case of any other meeting, by a majority in number of the Members having the right to attend and vote at the meeting, being a majority together holding not less than ninety-five per cent (95%) in nominal value of the issued shares giving that right.

(ii) Article 59(2) has been amended to provide that all notices of general meetings shall also include particulars of resolutions to be considered at the meeting

(f) Voting

(i) Article 66 has been amended to comply with the Listing Rules to provide that subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with these Articles, at any general meeting on a poll every ordinary shareholder present in person or by proxy or, in the case of an ordinary shareholder being a corporation, by its duly authorized representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share.

(ii) Article 67 has been amended to comply with the Listing Rules to provide that at any general meeting a resolution put to the vote of a meeting shall be decided by way of a poll.

(iii) Article 68 has been amended to comply with the Listing Rules to provide that a poll shall be taken in such manner as chairman of the meeting shall direct. The result of the poll shall be deemed to be the resolution of the meeting. The Company shall only be required to disclose the voting figures on a poll if such disclosure is required by the Listing Rules.

(iv) Article 74 (previously numbered 76) has been amended to comply with the Listing Rules to provide that where any Member is, under the rules of the Designated Stock Exchange, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such Member in contravention of such requirement or restriction shall not be counted.

(g) Board of directors

(i) Article 84(3) (previously numbered 86(3)) has been amended to comply with the Listing Rules to provide that any Director appointed by the Board either to fill a casual vacancy on the Board or as an addition to the existing Board shall hold office only until the next following general meeting of the Company (in the case of filling a casual vacancy) or until the next following annual general meeting of the Company (in the case of an addition to the Board), and shall then be eligible for re-election at that meeting.

(ii) Article 84(5) (previously numbered 86(5)) has been amended to comply with the Listing Rules to provide that the Members may remove a Director by Ordinary Resolution at any time before the expiration of his period of office notwithstanding anything in these Articles or in any agreement between the Company and such Director (but without prejudice to any claim for damages under any such agreement).

(h) Retirement of Directors

(i) Article 85(1) (previously numbered 87(1)) has been amended to comply with the Listing Rules to provide that at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at least once every three years.

(ii) Article 86 (previously numbered 88 has been amended to comply with the Listing Rules to provide that the minimum length of the period during which a Notice signed by a Member of his intention to propose a person (other than a retiring director) for election and also a Notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the head office or at the Registration Office shall be at least seven (7) days and that the period for lodgment of such Notice(s) shall commence no earlier than the day after the dispatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date of such general meeting.

(i) Disqualification of Directors

Article 87(6) has been added to provide that the office of a Director shall be vacated on the expiration of thirty (30) days from the delivery to a Director of a request in writing signed by all other Directors to resign, if he shall not in the meantime have resigned pursuant to the Articles.

(j) Directors' interests

Article 101 (previously numbered 103) has been amended to comply with the Listing Rules to establish the circumstances in which a Director shall not vote (nor be counted in the quorum) on any resolution of the Board approving any contract or arrangement or any other proposal in which he or any of his associates is materially interested.

(k) Proceedings of Directors

(i) Article 116 (previously numbered 118) has been amended to allow the Board to elect one or more chairmen, deputy chairmen and determine the scope of the duties of the chairmen or deputy chairmen of the Company.

(ii) Article 120 (previously numbered 122) has been amended to provide that resolutions may be signed in writing by a majority of directors, subject to the provisos set out therein.

(l) Accounting records

Article 150 (previously numbered 152) has been amended to comply with the Listing Rules to provide that the printed copy of the Directors' report and the Auditors' report shall be sent to each person entitled thereto at the same time as the notice of annual general meeting.

(m) Notices

Article 159 (previously numbered 161) has been amended to comply with the Listing Rules to provide for publication of notices on the Company's website and the website of the HKSE or Designated Stock Exchange.

(n) Winding up

Articles 163(1) and 163(2) (previously numbered 165(1) and 165(2), respectively) have been amended to provide that the ability of the Company to be wound up by action of the Board, the shareholders or the Court is subject to the protective provisions established in respect of the Convertible Preferred Shares in Article 3(3)(o).

RESPONSIBILITY STATEMENT

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

SHARE CAPITAL OF THE COMPANY

The authorised and issued share capital of the Company as at the Latest Practicable Date and immediately after Completion, full conversions of the Convertible Preferred Shares and all other convertible securities of HKE are as follow:

Authorised share capital:		*HK$*
2,000,000,000	HKE Shares as at the Latest Practicable Date	20,000,000
600,000,000	Convertible Preferred Shares as at the Latest Practicable Date	6,000,000
2,600,000,000		26,000,000
7,000,000,000	HKE Shares to be created pursuant to the increase in authorised share capital	70,000,000
5,400,000,000	Convertible Preferred Shares to be created pursuant to the increase in authorised share capital	54,000,000
15,000,000,000		150,000,000

Issued (or agreed to be issued) and fully paid:		
855,133,284	HKE Shares as at the Latest Practicable Date	8,551,332.84
1,385,170,068	Convertible Preferred Shares	13,851,700.68
62,490,028	HKE Shares pursuant to the outstanding bonus warrants that were issued by HKE on 14 May 2009 (warrant code: 748)	624,900.28
72,932,034	HKE Shares pursuant to the Convertible Note issued by HKE to HKC carrying rights to convert into 72,932,034 HKE Shares	729,320.34
77,732,586	HKE Shares pursuant to the outstanding bonus warrants that were issued by HKE on 9 June 2010 (warrant code: 795)	777,325.86
8,250,000	HKE Shares pursuant to the outstanding share options granted by HKE pursuant to its share option scheme adopted on 27 May 2008	82,500.00
2,461,708,000		24,617,080.00

All the HKE Shares rank pari passu in all aspects, including all rights as to dividend, voting and interests in the share capital of the Company.

DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests and short positions of the HKE Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they 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 (the "Model Code") of the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

(i) Long positions in the HKE Shares and underlying HKE Shares

Name of HKE Director	Nature of interest	Number of HKE Shares and underlying HKE Shares	Approximate percentage of existing issued share capital of the Company
Mr. OEI Kang, Eric	Personal[1]	1,190,848	0.139
	Corporate[2]	2,055,480,316	240.370
	Joint[3]	18,001,083	2.105
Dr. YUNG Pak Keung, Bruce	Joint[4]	480,000	0.056
	Personal[5]	5,500,000	0.643
Mr. LEUNG Wing Sum, Samuel	Personal[6]	2,750,000	0.322
Mr. LIU Zhixin	Personal[7]	4,992	0.0006

(ii) Interest in share options of the Company

Interest in share options granted under the share option scheme of the Company adopted on 27 May 2008:

Name of HKE Director	Nature of interest	Number of options outstanding as at the Latest Practicable Date	Date of grant	Exercise period	Exercise price per HKE Share *(HK$)*
Dr. YUNG Pak Keung, Bruce	Personal	1,100,000	20 January 2010	20 January 2011 to 19 January 2013	0.764
		1,650,000	20 January 2010	20 January 2012 to 19 January 2014	0.764
		2,750,000	20 January 2010	20 January 2013 to 19 January 2015	0.764
Mr. LEUNG Wing Sum, Samuel	Personal	550,000	20 January 2010	20 January 2011 to 19 January 2013	0.764
		825,000	20 January 2010	20 January 2012 to 19 January 2014	0.764
		1,375,000	20 January 2010	20 January 2013 to 19 January 2015	0.764

(iii) Long positions in the shares and underlying shares of associated corporation of the Company

Name of associated corporation	Name of HKE Director	Nature of interest	Number of shares and underlying shares of the assoicated corporation	Approximate percentage of existing issued share capital of the associated corporation
HKC	Mr. OEI Kang, Eric	Personal[8]	20,897,310	0.202
		Corporate[9]	4,458,938,271	43.010
		Joint[10]	126,242,591	1.218
		Family[11]	3,630,000	0.035
	Mr. LEUNG Wing Sum, Samuel	Personal[12]	6,292,000	0.061
	Mr. LIU Zhixin	Personal[13]	9,147,397	0.088

(iv) Interest in share options of associated corporation of the Company

Share options granted under the share option scheme of HKC adopted on 16 June 2006

Name of HKE Director	Nature of interest	Number of options outstanding as at the Latest Practicable Date	Date of grant	Exercise period	Exercise price per share *(HK$)*
Mr. OEI Kang, Eric	Personal	680,625	15 December 2006	15 December 2007 to 14 December 2016	1.174
		1,134,375	15 December 2006	15 December 2008 to 14 December 2016	1.174
		363,000	1 February 2008	1 February 2009 to 31 January 2018	1.368
		544,500	1 February 2008	1 February 2010 to 31 January 2018	1.368
		907,500	1 February 2008	1 February 2011 to 31 January 2018	1.368
Mr. OEI Kang, Eric	Family	680,625	15 December 2006	15 December 2007 to 14 December 2016	1.174
		1,134,375	15 December 2006	15 December 2008 to 14 December 2016	1.174
		363,000	1 February 2008	1 February 2009 to 31 January 2018	1.368
		544,500	1 February 2008	1 February 2010 to 31 January 2018	1.368
		907,500	1 February 2008	1 February 2011 to 31 January 2018	1.368

Name of HKE Director	Nature of interest	Number of options outstanding as at the Latest Practicable Date	Date of grant	Exercise period	Exercise price per share *(HK$)*
Mr. LEUNG Wing Sum, Samuel	Personal	1,452,000	15 December 2006	15 December 2007 to 14 December 2016	1.174
		2,420,000	15 December 2006	15 December 2008 to 14 December 2016	1.174
		484,000	1 February 2008	1 February 2009 to 31 January 2018	1.368
		726,000	1 February 2008	1 February 2010 to 31 January 2018	1.368
		1,210,000	1 February 2008	1 February 2011 to 31 January 2018	1.368
Mr. LIU Zhixin	Personal	2,178,000	15 December 2006	15 December 2007 to 14 December 2016	1.174
		3,630,000	15 December 2006	15 December 2008 to 14 December 2016	1.174
		653,400	1 February 2008	1 February 2009 to 31 January 2018	1.368
		980,100	1 February 2008	1 February 2010 to 31 January 2018	1.368
		1,633,500	1 February 2008	1 February 2011 to 31 January 2018	1.368

Notes:

1. The personal interest of Mr. OEI Kang, Eric represents an interest in 1,190,848 underlying HKE Shares in respect of warrants issued by the Company.

2. Since HKC is held as to approximately 35.95% by Creator Holdings Limited ("Creator"), a company owned as to 50% by Mr. OEI Kang, Eric and as to the remaining 50% by his wife, Mrs. OEI Valonia Lau, Mr. OEI Kang, Eric is deemed to be interested in the same parcel of HKE Shares in which HKC is interested. The corporate interest of Mr. OEI Kang, Eric includes (i) an interest in 507,179,732 HKE Shares held by HKC; (ii) an interest in a zero coupon convertible note issued by the Company to HKC with a principle amount of RMB73.5 million carrying rights to convert into 72,932,034 HKE Shares at the conversion price of HK$1.0113 per HKE Share (subject to adjustment); (iii) an interest in the 1,385,170,068 Convertible Preferred Shares to be issued and allotted by the Company 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); (iv) an interest in 43,902,066 HKE Shares and an interest in 40,566,816 underlying HKE Shares in respect of warrants issued by the Company held by Creator; and (v) an interest in 3,003,526 HKE Shares and an interest in 2,726,074 underlying HKE Shares in respect of warrants issued by the Company held by Genesis Capital Group Limited ("Genesis"), a company owned as to 50% by Mr. OEI Kang, Eric and as to the remaining 50% by his wife, Mrs. OEI Valonia Lau.

3. The joint interest of Mr. OEI Kang, Eric represents an interest in 3,949,613 HKE Shares and an interest in 14,051,470 underlying HKE Shares in respect of warrants issued by the Company jointly held with his wife, Mrs. OEI Valonia, Lau.

4. The joint interest of Dr. YUNG Pak Keung, Bruce represents an interest in 480,000 HKE Shares jointly held with his wife.

5. The personal interest of Dr. YUNG Pak Keung, Bruce represents an interest in 5,500,000 underlying HKE Shares in respect of options granted by the Company as stated above.

6. The personal interest of Mr. LEUNG Wing Sum, Samuel represents an interest in 2,750,000 underlying HKE Shares in respect of options granted by the Company as stated above.

7. The personal interest of Mr. LIU Zhixin represents an interest in 4,992 underlying HKE Shares in respect of warrants issued by the Company.

8. The personal interest of Mr. OEI Kang, Eric represents an interest in 17,267,310 underlying shares in respect of warrants issued by HKC and an interest in 3,630,000 underlying shares in respect of options granted by HKC as detailed above.

9. The corporate interest of Mr. OEI Kang, Eric represents an interest in 3,727,073,029 shares of HKC and an interest in 453,699,914 underlying shares in respect of warrants issued by HKC held by Creator, and an interest in 254,984,884 shares of HKC and an interest in 23,180,444 underlying shares in respect of warrants issued by HKC held by Genesis.

10. The joint interest of Mr. OEI Kang, Eric represents an interest in 91,195,648 shares of HKC and an interest in 35,046,943 underlying shares in respect of warrants issued by HKC jointly held with his wife, Mrs. OEI Valonia Lau.

11. The family interest of Mr. OEI Kang, Eric represents an interest in 3,630,000 underlying shares in respect of options granted by HKC to Mrs. OEI Valonia Lau.

12. The personal interest of Mr. LEUNG Wing Sum, Samuel represents an interest in 6,292,000 underlying shares in respect of options granted by HKC as detailed above.

13. The personal interest of Mr. LIU Zhixin represents an interest in 72,397 underlying shares in respect of warrants issued by HKC and an interest in 9,075,000 underlying shares in respect of options granted by HKC as detailed above.

Save as disclosed above, as at the Latest Practicable Date, none of the HKE Directors or chief executive of the Company held any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they 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, to be notified to the Company and the Stock Exchange.

As at the Latest Practicable Date, none of the HKE Directors:

(a) had any direct or indirect interest in any assets which had been, since 31 December 2009 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to any member of the Enlarged Group, or were proposed to be acquired or disposed of by or leased to any member of the Enlarged Group; and

(b) was materially interested in any subsisting contract or arrangement which is significant in relation to the business of the Enlarged Group.

In addition, the following HKE Director was also director of the companies hereinafter mentioned which had an interest or short position in the HKE Shares or underlying HKE Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of HKE Director	Name of company which had such discloseable interest or short position
Mr. OEI Kang, Eric	HKC, Creator

SERVICE CONTRACTS

None of the HKE Directors has any existing or proposed service contracts with any member of the Enlarged Group other than contracts expiring or determinable by the employer within one (1) year without payment of compensation (other than statutory compensation).

COMPETING INTERESTS

Mr. OEI Kang, Eric is an executive director of HKC and Mr. YUNG Pak Keung, Bruce, Mr. LEUNG Wing Sum, Samuel and Mr. LIU Zhixin are directors of certain subsidiaries of HKC. One of the business activities of HKC is alternative energy business in the PRC.

Mr. ZHANG Songyi is a director and his associates are shareholders of GCL Solar Energy Holdings Inc. which is engaged in alternative energy business.

Save as disclosed above, none of the HKE Directors or their respective associate(s) was interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the HKE Group.

EXPERTS AND CONSENTS

The following is the qualifications of the experts who have given opinion or advice which is contained in this circular:

Name	Qualifications
BMI	Registered business valuer, Independent Valuer
First Shanghai	a corporation licensed under the SFO to carry out Type 6 (advising on corporate finance) regulated activity
PricewaterhouseCoopers ("PwC")	Certified Public Accountants

As at the Latest Practicable Date, BMI, First Shanghai and PwC did not have any shareholding in any member of the HKE 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 HKE Group.

As at the Latest Practicable Date, BMI, First Shanghai and PwC did not have any direct or indirect interest in any assets which had, since 31 December 2009 (being the date to which the latest published audited accounts of the Company were made up), been acquired or disposed of by or leased to any member of the Enlarged Group or were proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

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

LITIGATION

As at the Latest Practicable Date, neither the Company nor any member of the Enlarged Group was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance was known to the HKE Directors to be pending or threatened against any member of the Enlarged Group.

INTERESTS IN CONTRACT OR ARRANGEMENT

As at the Latest Practicable Date, save for the Sale and Purchase Agreement in which Mr. OEI Kang, Eric is considered to have a material interest, none of the HKE Directors was materially interested in any contract or arrangement subsisting which is significant in relation of the business of the Enlarged Group.

Mr. OEI Kang, Eric has abstained from voting on the relevant board resolution of HKE approving the entering into of the Sale and Purchase Agreement.

MATERIAL CONTRACTS

The following are the material contracts, not being contracts entered into in the ordinary course of business of the Enlarged Group, which have been entered into by members of the Enlarged Group within the two 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 the Company, in relation to the establishment of a Sino-foreign equity joint venture enterprise (the "JV") held as to 70% by CECIC and 30% by HKE (Da He) Holdings Limited. The purpose of the JV is developing the Lunaobao wind farm, please refer to the section headed "development of existing projects" in the letter from the HKE Board of this circular and the announcement of the Company dated 12 August 2008 for further details;

(ii) a sale and purchase agreement dated 21 May 2009 entered into between HKE (Biomass) Holdings Limited, a wholly-owned subsidiary of the Company, 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;

(iii) 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 loans) by HKE at consideration of RMB73.5 million; and

(iv) the Sale and Purchase Agreement.

Save as disclosed above, none of the members of the Enlarged 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.

MISCELLANEOUS

The company secretary of the Company 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.

The registered office of the Company is situated at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and the principal place of business in Hong Kong of the Company is situated at 9th Floor, Tower 1, South Seas Centre, 75 Mody Road, Tsimshatsui East, Kowloon, Hong Kong.

The Company's Hong Kong branch share registrar and transfer agent is Computershare Hong Kong Investor Services Limited, whose address is at 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.

The English text of this circular shall prevail over the Chinese text in case of any inconsistency.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at 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 during normal business hours from the date of this circular up to and including 26 July 2010:

(i) the memorandum and articles of association of the Company;

(ii) the proposed amended and restated Articles of Association, the major changes of which is summarised in Appendix V to this circular;

(iii) the annual reports of the Company for the years ended 31 December 2008 and 31 December 2009;

(iv) the letter from the HKE Independent Board Committee, the text of which is set out on pages 50 to 51 of this circular;

(v) the letter from First Shanghai to the HKE Independent Board Committee and the HKE Independent Shareholders, the text of which is set out on pages 52 to 79 of this circular;

(vi) the accountant's report of the Target Group as set out in Appendix II to this circular, together with the statement of adjustments for the years ended 31 December 2007, 2008 and 2009;

(vii) the report on unaudited pro forma financial information on the Enlarged Group as set out in Appendix III to this circular;

(viii) the business valuation report in respect of the Target Company from BMI, the text of which is set out in Appendix IV to this circular;

(ix) copies of the material contracts as referred to in the paragraph headed "Material contracts" in this appendix;

(x) the written consents referred to in the paragraph headed "Experts and consents" in this appendix; and

(xi) all circulars issued pursuant to the requirements set out in Chapters 14 and/or 14A of the Listing Rules which have been issued since 31 December 2009, the date to which the latest published audited consolidated financial statements of the HKE Group have been made up, if any.

HONG KONG ENERGY (HOLDINGS) LIMITED
香港新能源(控股)有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 987)
(website: www.hkenergy.com.hk)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**Meeting**") of the shareholders of Hong Kong Energy (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 10:30 a.m. for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolutions of the Company (unless otherwise indicated, capitalised terms used in this notice shall have the same meanings as defined in the circular of the Company dated 30 June 2010):

ORDINARY RESOLUTIONS

1. "**THAT**:

   (a) the authorised share capital of the Company be and is hereby increased from HK$26,000,000 comprising 2,000,000,000 ordinary shares of HK$0.01 each (the "**HKE Shares**") and 600,000,000 preference shares of HK$0.01 each (the "**Convertible Preferred Shares**") to HK$150,000,000 comprising 9,000,000,000 HKE Shares and 6,000,000,000 Convertible Preferred Shares by the creation of an additional 7,000,000,000 HKE Shares and 5,400,000,000 Convertible Preferred Shares in the capital of the Company (the "**Increase in Authorised Share Capital**") having the rights and being subject to the restrictions set out in the amended and restated Articles of Association as adopted by special resolution numbered 5 below; and

   (b) any one HKE Director be and is hereby authorised for and on behalf of the Company to execute all such documents, instruments and agreements and to do all such acts or things deemed by him to be incidental to, ancillary to or in connection with the matters contemplated in and for giving effect to the Increase in Authorised Share Capital."

2. "**THAT**, conditional upon the passing of the ordinary resolution numbered 1 set out in the notice convening this Meeting:

   (a) the execution, delivery and performance by the Company of the Sale and Purchase Agreement (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 (in particular, the purchase of the Sale Share and the assignments of the Loans), be and are hereby approved, ratified and confirmed;

(b) subject to and conditional upon, among others, HKE Shareholders approving the special resolution numbered 5 set out in the notice convening this Meeting, the creation and issuance of Convertible Preferred Shares in the aggregate principal amount of HK$1,018.1 million by the Company upon Completion of the Sale and Purchase Agreement in accordance with the terms and conditions thereof be and is hereby approved;

(c) subject to and conditional upon, among others, the granting by the Listing Committee of the Stock Exchange of the listing of and permission to deal in the Conversion Shares (as defined below), the allotment and issue of new shares in the share capital of the Company upon exercise of the conversion rights attaching to the Convertible Preferred Shares (the "**Conversion Shares**") be and is hereby approved, and the HKE Board be and is hereby authorised to allot and issue the Conversion Shares pursuant to and in accordance with the terms and conditions of the amended and restated Articles of Association (as adopted by special resolution numbered 5 below); and

(d) any one HKE Director or, if the affixation of the common seal of the Company is necessary, any one HKE Director and the company secretary of the Company or any two HKE Directors or such other person (including a director) or persons as the HKE Board 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, the issue of the Convertible Preferred Shares, the issue of the Conversion Shares upon conversion of the Convertible Preferred Shares and transactions contemplated thereunder or incidental thereto and completion thereof as he/she/they may consider necessary, desirable or expedient."

3. "**THAT**:

(a) the Gansu Loan Facility granted or to be granted by HKE (Gansu) to HKC (HK) which will, upon Completion, constitute financial assistance provided by the Company and its subsidiaries to a connected person of the Company, be and is hereby approved, ratified and confirmed; and

(b) any one HKE Director or, if the affixation of the common seal of the Company is necessary, any one HKE Director and the company secretary of the Company or any two HKE Directors or such other person (including a director) or persons as the HKE Board may appoint be and is/are hereby authorised for and on behalf of the Company to approve and execute all such documents, instruments and agreements including the relevant loan agreements whether under the common seal of the Company or otherwise and to do all such acts or things deemed by him/her/them to be necessary, desirable or expedient for the purpose of giving effect to the Gansu Loan Facility and the transactions contemplated thereunder or incidental thereto."

4. "**THAT**:

(a) subject to the consent of other shareholder of CECIC HKCG and approval of the relevant PRC authorities to the CECIC HKCG Title Transfer being obtained, the terms and implementation of the CECIC HKCG Title Transfer entered into or to be entered into between HKC (HK), being a connected person of the Company, and HKE (Gansu), which will become a subsidiary of the Company upon Completion, be and are hereby approved; and

(b) any one HKE Director or, if the affixation of the common seal of the Company is necessary, any one HKE Director and the company secretary of the Company or any two HKE Directors or such other person (including a director) or persons as the HKE Board may appoint be and is/are hereby authorised for and on behalf of the Company to approve and execute all such documents, instruments and agreements whether under the common seal of the Company or otherwise and to do all such acts or things deemed by him/her/them to be necessary, desirable or expedient for the purpose of giving effect to the CECIC HKCG Title Transfer and the transactions contemplated thereunder or incidental thereto."

SPECIAL RESOLUTION

5. "**THAT:**

(a) the reprinted Articles of Association incorporating, inter alia, the terms of the Convertible Preferred Shares to be issued by the Company (a copy of which has been produced to the meeting marked "B" and signed by the chairman of the Meeting for identification purpose) be and is hereby approved and adopted in its entirety in substitution of the existing Articles of Association; and

(b) any one HKE Director be and is hereby authorised for and on behalf of the Company to execute all such documents, instruments and agreements and to do all such acts or things deemed by him to be incidental to, ancillary to or in connection with the matters contemplated in and for giving effect to the foregoing."

By Order of the Board
Hong Kong Energy (Holdings) Limited
Mok Ming Wai
Company Secretary

Hong Kong, 30 June 2010

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

Registered office in the Cayman Islands:
Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Notes:

1. A form of proxy for use at the Meeting is enclosed with the circular despatched on 30 June 2010 to the HKE Shareholders.

2. A HKE Shareholder entitled to attend and vote at the above Meeting is entitled to appoint another person as his proxy to attend and to vote on his behalf. A proxy need not be a HKE Shareholder.

3. To be valid, a form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a certified copy thereof, must be deposited at 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 not less than 48 hours before the time appointed for holding of the Meeting or any adjournment thereof.

4. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his/her attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.