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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2010

The board of directors ("the Board") of Hong Kong Energy (Holdings) Limited ("the Company" or "HKE") wishes to present the unaudited condensed consolidated interim financial information of the Company and its subsidiaries (collectively, "the Group") for the six months ended 30 June 2010 together with the comparative figures as follows:–

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2010

		Unaudited	
		Six months ended 30 June	
		2010	2009
	Note	***HK$'000***	*HK$'000*
Revenue	*4*	**1,374**	4,876
Cost of sales		**(1,926)**	(2,775)
Gross (loss)/profit		**(552)**	2,101
Selling and distribution costs		**(1)**	(1,472)
Administrative expenses		**(24,064)**	(15,990)
Provision for impairment losses	*5*	**(4,337)**	–
Operating loss		**(28,954)**	(15,361)
Finance income	*6*	**200**	361
Finance costs	*6*	**(1,140)**	–
Finance (costs)/income – net	*6*	**(940)**	361
Gain on deregistration/disposal of subsidiaries	*7*	**145**	7,624
Share of profits less losses of associated companies		**290**	–
Loss before income tax		**(29,459)**	(7,376)
Income tax credit	*8*	**1,069**	251
Loss for the period		**(28,390)**	(7,125)

	Note	Unaudited Six months ended 30 June **2010** ***HK$'000***	 2009 *HK$'000*
Other comprehensive income/(loss):			
Currency translation differences		**5,008**	(61)
Other comprehensive income/(loss) for the period, net of tax		**5,008**	(61)
Total comprehensive loss for the period		**(23,382)**	(7,186)
Loss attributable to:			
– Equity holders of the Company		**(28,390)**	(5,874)
– Non-controlling interests		**–**	(1,251)
		(28,390)	(7,125)
Total comprehensive loss attributable to:			
– Equity holders of the Company		**(23,382)**	(5,935)
– Non-controlling interests		**–**	(1,251)
		(23,382)	(7,186)
Dividends	*9*	**–**	–
Loss per share for loss attributable to the equity holders of the Company, expressed in HK cents per share			
– Basic and diluted	*10*	**(3.38)**	(0.70)

CONDENSED CONSOLIDATED BALANCE SHEET
As at 30 June 2010

	Note	Unaudited 30 June 2010 HK$'000	Audited 31 December 2009 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment		**306**	442
Construction in progress		**3,360**	3,311
Intangible assets		**295**	5,539
Interests in associated companies		**211,244**	208,076
Total non-current assets		**215,205**	217,368
Current assets			
Trade and other receivables	*11*	**6,782**	6,457
Cash and cash equivalents		**152,216**	172,226
Total current assets		**158,998**	178,683
Total assets		**374,203**	396,051
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital		**8,557**	7,726
Reserves		**277,504**	299,288
Total equity		**286,061**	307,014
LIABILITIES			
Non-current liabilities			
Convertible note		**77,147**	76,007
Deferred income tax liabilities		**3,441**	4,643
Total non-current liabilities		**80,588**	80,650
Current liability			
Other payables		**7,554**	8,387
Total liabilities		**88,142**	89,037
Total equity and liabilities		**374,203**	396,051
Net current assets		**151,444**	170,296
Total assets less current liabilities		**366,649**	387,664

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1 GENERAL INFORMATION

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

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 unaudited condensed consolidated interim financial information is presented in thousands of units of Hong Kong dollars (HK$ thousand or HK$'000), unless otherwise stated. The unaudited condensed consolidated interim financial information was approved by the Board of Directors for issue on 26 August 2010.

2 BASIS OF PREPARATION

The unaudited condensed consolidated interim financial information for the six months ended 30 June 2010 has been prepared in accordance with HKAS 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The unaudited condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2009, which were prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the HKICPA.

3 ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2009, as described in those annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

Revised and amended standards and interpretations adopted by the Group

For the financial year beginning on 1 January 2010, the Group has adopted the following revised standards, amendments to standards and interpretation of Hong Kong Financial Reporting Standards, which are relevant to its operations.

HKAS 7 (amendment)	Statement of cash flows
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKFRS 3 (Revised)	Business Combinations
HKFRS 8 (amendment)	Operating Segments

The Group has assessed the impact for the adoption of these new standards, amendments to standards and interpretation and considered that there was no significant effect on the Group's interim financial information.

Other new standards, amendments to standards and interpretations, which are mandatory for the first time for the financial year beginning 1 January 2010, are not currently relevant for the Group or do not have a material impact on the Group in the period ended 30 June 2010.

The Group did not early adopt the new standards, amendments to standards and interpretations, which have been issued but are not effective for the financial year beginning 1 January 2010. The Group has commenced an assessment of the related impact but is not yet in a position to state whether any substantial changes to the Group's accounting policies and presentation of the financial information will result.

4 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 deregistration/disposal of subsidiaries and provision for impairment losses. Other information provided to the Directors is measured in a manner consistent with that in the financial statements.

The total segment revenue also represents the total segment turnover of the Group.

Total segment assets exclude 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 six months ended 30 June 2010 and 2009 is as follows:

	Six months ended 30 June					
	2010			2009		
	Alternative energy *HK$'000*	**Software development** *HK$'000*	**Total reportable segments** *HK$'000*	Alternative energy *HK$'000*	Software development *HK$'000*	Total reportable segments *HK$'000*
Revenue	**–**	**1,374**	**1,374**	–	4,876	4,876
Segment results	**(699)**	**(3,185)**	**(3,884)**	(3,567)	(3,124)	(6,691)
Provision for impairment losses	**–**	**(4,337)**	**(4,337)**	–	–	–
Gain on deregistration/disposal of subsidiaries	**–**	**145**	**145**	7,624	–	7,624
Share of profits less losses of associated companies	**290**	**–**	**290**	–	–	–
Finance income – net	**2**	**76**	**78**	4	54	58
(Loss)/profit before income tax	**(407)**	**(7,301)**	**(7,708)**	4,061	(3,070)	991
Income tax credit	**66**	**1,003**	**1,069**	–	251	251
(Loss)/profit for the period	**(341)**	**(6,298)**	**(6,639)**	4,061	(2,819)	1,242
Depreciation	**–**	**141**	**141**	–	295	295
Amortisation	**–**	**885**	**885**	2,456	1,010	3,466
Provision for impairment losses on customer relationship and software technology know-how	**–**	**4,337**	**4,337**	–	–	–

The segment assets as at 30 June 2010 and 31 December 2009 are as follows:

	30 June 2010			31 December 2009		
	Alternative energy *HK$'000*	**Software development** *HK$'000*	**Total reportable segments** *HK$'000*	Alternative energy *HK$'000*	Software development *HK$'000*	Total reportable segments *HK$'000*
Total segment assets	**221,315**	**13,239**	**234,554**	217,863	20,985	238,848
Total segment assets include:						
Interests in associated companies	**211,244**	**–**	**211,244**	208,076	–	208,076
Additions to non-current assets	**–**	**–**	**–**	6,495	358	6,853

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

	Six months ended 30 June	
	2010 *HK$'000*	2009 *HK$'000*
(Loss)/profit for the period of reportable segments	**(6,639)**	1,242
Unallocated amounts – corporate expenses	**(21,751)**	(8,367)
Loss for the period	**(28,390)**	(7,125)

Reportable segments assets are reconciled to total assets as follows:

	30 June 2010 *HK$'000*	31 December 2009 *HK$'000*
Total segment assets	**234,554**	238,848
Corporate assets		
– cash and cash equivalents	**139,445**	156,967
– others	**204**	236
Total assets	**374,203**	396,051

The total non-current assets by geographical location are detailed below:

	30 June 2010 *HK$'000*	31 December 2009 *HK$'000*
Hong Kong	**153**	335
The PRC	**215,052**	217,033
Total non-current assets	**215,205**	217,368

For the six months ended 30 June 2010 and 2009, the Group's revenue for reportable segments is solely attributable to the Japan market.

For the six months ended 30 June 2010, the Group has one customer with revenue exceeding 10% of the group's total revenue (six months ended 30 June 2009: two customers). Revenue from this customer amounted to HK$1,281,000 (six months ended 30 June 2009: revenue from the two customers amounted to HK$4,381,000 and HK$495,000 respectively). These revenues are attributable to software development.

5 PROVISION FOR IMPAIRMENT LOSSES

	Six months ended 30 June	
	2010 *HK$'000*	2009 *HK$'000*
Provision for impairment losses on customer relationship and software technology know-how	**4,337**	–

6 FINANCE INCOME AND COSTS

	Six months ended 30 June	
	2010 *HK$'000*	2009 *HK$'000*
Finance costs:		
– notional interest on convertible note wholly repayable within five years	**(1,140)**	–
Finance income:		
– interest income on bank deposits	**200**	361
Finance (costs)/income – net	**(940)**	361

7 GAIN ON DEREGISTRATION/DISPOSAL OF SUBSIDIARIES

In May 2010, Namtek Japan Co., Ltd, a company incorporated in Japan and a wholly owned subsidiary of the Company, was voluntarily closed down. A gain on deregistration of HK$145,000 was recorded.

In 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 on 21 May 2009. A gain on disposal of HK$7,624,000 was recorded.

8 INCOME TAX CREDIT

No provision for Hong Kong profits tax has been made as the Group has no assessable profits for the period (2009: Nil).

	Six months ended 30 June	
	2010	2009
	HK$'000	*HK$'000*
Deferred income tax credit	**1,069**	251

Notes:

(a) As at 31 December 2007, a deferred tax liability was recognised in respect of intangible assets of the acquired software development business. For the six months ended 30 June 2010, a deferred tax credit of HK$1,003,000 represents movements in deferred income tax arising from amortisation and impairment of such intangible assets (six months ended 30 June 2009: HK$251,000).

(b) 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.

9 DIVIDENDS

No interim dividend was proposed and paid for the period ended 30 June 2010 (2009: Nil).

10 LOSS PER SHARE

(a) Basic

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

	Six months ended 30 June	
	2010	2009
Loss attributable to equity holders of the Company (HK$ thousand)	**(28,390)**	(5,874)
Weighted average number of ordinary shares in issue	**839,355,570**	839,917,303*
Basis loss per share (HK cents per share)	**(3.38)**	(0.70)

* Weighted average number of ordinary shares in issue for 2009 was adjusted for a bonus share issue in 2010.

(b) Diluted

Diluted loss per share for the six months ended 30 June 2010 and 2009 is equal to the basic loss per share as the bonus warrants, convertible note and share options outstanding during the period (2009: bonus warrants) had anti-dilutive effects on the basic loss per share.

11 TRADE AND OTHER RECEIVABLES

	As at	
	30 June 2010	31 December 2009
	HK$'000	*HK$'000*
Trade receivables	**972**	867
Other receivables	**5,810**	5,590
	6,782	6,457

At 30 June 2010 and 31 December 2009, the ageing analysis of trade receivables is as follows:

	As at	
	30 June 2010	31 December 2009
	HK$'000	*HK$'000*
Less than 30 days	**972**	867

The Group's policy is to allow credit periods ranging from 30 days to 90 days (2009: 30 days to 90 days) to its trade customers. There were no trade receivables being past due as of 30 June 2010 and 31 December 2009.

12 EVENTS AFTER THE REPORTING PERIOD

On 12 May 2010, HKE announced the acquisition of alternative energy business from HKC (Holdings) Limited and its subsidiaries including five wind farms, one waste-to-energy plant as well as a branch office in Beijing. The consideration was HK$1,018.1 million which represented a 25% discount on the business valuation of HK$1,357.4 million as of 31 December 2009. The consideration would be paid by way of convertible preferred shares with an issuing price of HK73.5 cents per share. An extraordinary general meeting was held on 26 July 2010 and the transaction received approval from the shareholders.

Upon completion, subject to the fair value of the alternative energy business at the date of completion and the closing price of the convertible preferred shares, a gain on the transaction is expected to be recognised in the consolidated statement of comprehensive income of the Group.

The transaction is yet to be completed at the date of this announcement.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the six months ended 30 June 2010, the turnover for Hong Kong Energy (Holdings) Limited ("HKE" or "the Company", with its subsidiary companies, collectively, the "Group"), which came solely from the software business, amounted to HK$1.37 million, a decrease of 72% from HK$4.88 million compared to the same period in 2009. The Group recorded a gross loss HK$0.55 million as compared with a gross profit of HK$2.10 million last year. The drop of revenue and gross profit was part of the overall strategy to complete the transformation of HKE from the former software business to a fully fledged alternative energy company and to become HKC's flagship for alternative energy business. Whilst the Group has made a significant progress in the Lunaobao wind farm development and construction; and has entered into an agreement to acquire all the wind farm and waste-to-energy assets ("Acquisition") from the parent company, HKC (Holdings) Limited ("HKC", with its subsidiary companies

"HKC Group") as announced on 12 May 2010, the alternative energy business was only expected to generate meaningful revenue contribution later this year. Thus, this interim report does not reflect these major developments. An impairment loss on software customer base and technical knowhow amounting to HK$4.34 million and an one-time professional fee for the Acquisition HK$7.18 million had resulted in an operating loss of HK$28.95 million for the period end 30 June 2010 as compared to an operating loss of HK$15.36 million last year.

As the Acquisition has yet to be completed, the financial impact of the transaction has not been reflected in the interim results. Unlike last year when the cellulosic ethanol project was divested resulting in a gain of HK$7.62 million, HKE recorded a net loss attributable to equity holders of the Company of HK$28.39 million for the six months ended 30 June 2010; compared to a net loss attributable to equity holders of the Company of HK$5.87 million in 2009. The basic loss per share was HK3.38 cents as compared to the basic loss per share of HK0.70 cents (Note 10) for the same period in 2009.

Liquidity and Financial Resources

As at 30 June 2010, the Group did not have any bank borrowing. Convertible notes of principal amount RMB73.50 million (equivalent to HK$83.06 million) were issued on 30 December 2009 to HKC for the acquisition of an effectively 10% equity interest of the Danjinghe wind farm project company. The notes have a three-year conversion period and carry zero-interest with a fixed conversion price of HK$1.0113 per share. The notional loan amount of the convertible notes was HK$77.15 million as at 30 June 2010.

The Group's unrestricted cash and cash equivalents was HK$152.22 million as at 30 June 2010 as compared to HK$172.23 million as at 31 December 2009. The difference was due to the payment of general operating expenses and professional fees for the Acquisition.

For future projects, the Group will first rely on its internal sources and will actively seek bank financing to fund its future capital expenditure commitments. The Group's parent company, HKC, will also provide financial support whenever necessary.

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

Details of Charges in Group Assets

In the period under review, the Group did not have any charges over the Group's assets (Nil as at 31 December 2009).

Gearing Ratio

As at 30 June 2010, the Group maintained a net cash position of HK$75.07 million (which was the Group's cash and cash equivalents less the notion loan amount of the convertible note) as compared to HK$96.22 million as at 31 December 2009.

Contingent Liabilities

The Group did not have any contingent liabilities as at 30 June 2010 (Nil as at 31 December 2009).

BUSINESS REVIEW

HKE's parent HKC Group entered into the alternative energy business in China in 2005 and was one of the first movers in the China Market. HKE and HKC Group have witnessed and participated in the evolution of the Chinese wind industry and have achieved several significant milestones over the years, including the establishment of the alternative energy division within the HKC Group in 2005; the successful bidding, development, investment and operation of various wind farms and waste-to-energy projects since 2006; the acquisition of HKE in 2008 for the transformation of the Company into a new platform for the alternative energy business; and the acquisition of 10% effective equity interest in the Danjinghe wind farm project by HKE at the end of 2009.

The first half of 2010 has been a critical and promising period for the Group. Successfully executing its business strategy, the Group has taken a major and final step of the strategic transformation into the alternative energy flagship for HKC Group. On 12 May 2010, HKE announced the acquisition of HKC Group's alternative energy business ("the Acquisition") including five wind farms, one waste-to-energy plant as well as a branch office in Beijing. The consideration was HK$1.02 billion which represented a 25% discount on the business valuation of HK$1.36 billion as of 31 December 2009. In order to preserve cash for future business development, the consideration would be paid by way of convertible preferred shares ("CPS") with an issuing price of HK73.5 cents per CPS. An extraordinary general meeting was held on 26 July 2010 and the transaction received overwhelming approval from the shareholders.

On the project side, the Danjinghe and Lunaobao wind farm projects have been progressing well. The Danjinghe wind farm project, located in Hebei Province, People's Republic of China ("PRC", or "China") with a total 200 Megawatt ("MW") wind power generating capacity has been operating better than expectations. Phase 1, consisting of 54 units of 750 kilowatt ("KW") turbines has been in commercial operation, and has continued to perform well. The actual power sold to the grid was 16 million kilowatt-hour ("KWh"), 41%, more than the power sold for the same period in 2009. Phase 2 and 3, which consist of 100 units of 800 KW turbines and 53 units of 1,500 KW turbines respectively, are now undergoing commissioning. Power generated from Phase 2 and 3 was approximately 110 million KWh. Both phases are expected to make revenue contribution once commercial operation starts in the fourth quarter of 2010.

The Lunaobao wind farm project located next to the Danjinghe wind farm has a total 100.5 MW wind power generating capacity. Construction of the 67 sets of 1,500 KW wind turbines was completed in May 2010. Connection to the grid was made and trial run commenced in June 2010. The application for carbon credit trading status is in its final stage. The wind farm is expected to enter into commercial operation in the fourth quarter of 2010.

Another project, Siziwangqi phase 2, is still waiting for the final approval from the National Development and Reform Commission of the Inner Mongolia region ("DRC").

In addition, the Group has been working closely with Garrad Hassan Limited ("Garrad Hassan"), a highly reputable wind power engineering consulting firm from the United Kingdom with considerable experience in PRC, to explore and evaluate a number of potential wind farm projects in the northeastern part of China, such as Jilin, and the southwestern part of China, such as Yunnan. These activities have helped to build up a significant project pipeline for the Group.

OUTLOOK

The global economic recovery is moving into a more mature phase led by growing domestic demand as depicted in the World Bank's 2010 summer report. The slowdown of such domestic demand growth in America and the fiscal positions of several European high-income countries have sparked market concerns and pose new challenge for the world economy. This also lowers the worldwide demand for metal, thus reducing the prices for the raw materials, and hence the costs for constructing wind farms.

In Asia, however, China has an impressive resilient real Gross Domestic Product ("GDP") growth of 11.9% for the first half of 2010 as reported by the National Bureau of Statistics of China. China's massive stimulus package, including increasing government infrastructure spending, promoting internal demand and tax cuts etc., was a major factor in such economic resilience and will continue to increase demand for energy. Alternative energy, such as wind, hydro and nuclear, receive and will continue to receive attention and support from the PRC government. This is evidenced by the announcement from an official of the National Power Bureau on 20 July 2010 that a new plan outlining the future of alternative energy and forefront energy resource for the next 10 years is under final preparation and will be submitted for approval by the National Council. The proposed plan will require direct investment totalling RMB 5 trillion between 2011 and 2020; which will also include the smart grid, an important infrastructure to ensure steady and uninterrupted dispatch of power generated from wind and solar power farms. This will create a positive and beneficial environment for our alternative energy business.

On the project side, following the Acquisition as announced on 12 May 2010 and approved by shareholders on 26 July 2010, the wind farm projects in Mudanjiang and Muling of Heilongjiang Province and Siziwang Qi of Inner Mongolia will be majority and wholly owned by HKE respectively. It is expected that these assets will start making revenue contribution to the Group in the second half of 2010. The Group is also expected to benefit from the good performance of waste-to-energy plant in Linyi of Shandong Province as well as wind farms in Danjinghe and Lunaobao of Hebei Province, Changma of Gansu Province; all will be associated companies of HKE and joint-ventured with the wind energy arm of China Energy Conservation and Environmental Protection Group ("CECEP Group" – formerly before remaining in May 2010, known as China Energy Conservation Investment Corporation or "CECIC").

For business development, the Group will continue to explore and aggressively assess, with support from Garrad Hassan, potential new "green field" wind farm projects. In order to mitigate and manage potential geographical risks, the Group will diversify wind farm locations from the traditional "Three North" regions to include eastern and southern regions such as Shandong, Jiangsu, Yunnan, Guangdong and Hainan. These regions also possess advantages of a higher power tariff, higher local power demand, and a more mature power transmission infrastructure. These prospects will be explored and investigated together with the Group's current pipeline potential of around 2,000MW, a pipeline which the Group expects to develop over the next five years. Apart from developing "green field" wind farms, the Group may also explore acquisition opportunities to accelerate the growth of the Group.

The Group will also actively seek strategic partnerships in order to strengthen HKE's capital base and enhance the Group's competitive advantages. This would increase value for shareholders.

Employees

As at 30 June 2010, the Group's operations in Hong Kong and mainland China employed a total of 50 employees. The Group had appointed technical consultants on contract terms for its alternative energy projects. All employees are remunerated according to the nature of their jobs, their individual performances, the Group's overall performance, and the prevailing marketing conditions.

INTERIM DIVIDEND

The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2010 (2009: Nil).

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") comprises three independent non-executive directors with written terms of reference in accordance with the requirements of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), and reports to the Board. The Audit Committee has reviewed the unaudited condensed consolidated interim financial information of the Group for the six months ended 30 June 2010, which has also been reviewed by the Company's auditor, PricewaterhouseCoopers, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2010.

CORPORATE GOVERNANCE

The Company has complied with the code provisions (the "Code Provisions") and certain recommended best practices set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2010, except for the Code Provisions A.2.1 and A.4.1.

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions. Having made specific enquiry of all directors of the Company, the directors have confirmed that they have complied with the required standards set out in the Model Code throughout the six months ended 30 June 2010.

PUBLICATION OF INTERIM REPORT

The 2010 interim report will be published on the websites of the Company (www.hkenergy.com.hk) and the Stock Exchange (www.hkexnews.hk) and dispatched to the shareholders in due course.

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

Hong Kong, 26 August 2010

As at the date hereof, the Board comprises seven directors of which Mr. OEI Kang, Eric, Dr. YUNG Pak Keung, Bruce and Mr. LEUNG Wing Sum, Samuel are executive directors; Mr. LIU Zhixin is a non-executive director; and Mr. ZHANG Songyi, Mr. TANG Siu Kui, Ernest and Mr. YU Hon To, David are independent non-executive directors.