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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)

PROPOSED ISSUE OF PREFERENCE SHARES

INVESTMENT AGREEMENT

The Board is pleased to announce that on 14 October 2010, the Company entered into the Investment Agreement with the Investor, pursuant to which (i) the Company agreed to allot and issue, and the Investor agreed to subscribe for, 300,000,000 New Preference Shares at a total consideration of HK\$195,000,000; and (ii) the Investor may at any time during the Relevant Period require the Company to issue to the Investor (or its Affiliate) up to a maximum of 260,000,000 Additional Preference Shares (subject to adjustment) at a price of HK\$0.75 per Additional Preference Share upon and subject to the terms of the Investment Agreement.

Completion of the Investment Agreement is conditional upon, among others, (i) the approval of the issue of the New Preference Shares and the Additional Preference Shares by the Shareholders at the EGM; and (ii) the listing committee of the Stock Exchange granting the approval for listing of, and permission to deal in, the Ordinary Shares which may fall to be issued upon conversion in full of the New Preference Shares and the Additional Preference Shares.

Reference is made to the announcement of the Company dated 29 September 2010.

The Board is pleased to announce that on 14 October 2010, the Company entered into the Investment Agreement with the Investor, pursuant to which (i) the Company agreed to allot and issue, and the Investor agreed to subscribe for, 300,000,000 New Preference Shares at a total consideration of HK\$195,000,000; and (ii) the Investor may at any time during the Relevant Period require the Company to issue to the Investor (or its Affiliate) up to a maximum of 260,000,000 Additional Preference Shares (subject to adjustment) at a price of HK\$0.75 per Additional Preference Share upon and subject to the terms of the Investment Agreement.

The New Preference Shares and the Additional Preference Shares are to be issued pursuant to a specific mandate to be sought from the Shareholders at the EGM.

INVESTMENT AGREEMENT

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| Date: | 14 October 2010 |
| Parties: | The Company, as the issuer The Investor, as the investor |
| | To the best of the Directors' knowledge, having made all reasonable enquiries, the Investor and its ultimate beneficial owners are third parties independent of and not connected with the Company or any connected person of the Company. |
| Number of New Preference Shares subscribe for: | 300,000,000 New Preference Shares |
| Subscription price for New Preference Shares: | HK\$0.65 per New Preference Share |
| Aggregate nominal value of the New Preference Shares subscribe for | HK\$3,000,000 |
| Total consideration payable for the New Preference Shares: | HK\$195,000,000 |
| Additional Preference Shares: | Upon Completion, the Investor may at any time (on one or more occasions) during the Relevant Period require the Company to issue to the Investor (or its Affiliate) up to a maximum of 260,000,000 Additional Preference Shares (in whole or in part) at a price of HK\$0.75 per Additional Preference Share upon and subject to the terms of the Investment Agreement. The maximum number of 260,000,000 Additional Preference Shares which the Investor may subscribe for is subject to adjustment upon any consolidation, subdivision or other reorganisation of similar effect of the Preference Shares. |
| Aggregate nominal value of maximum number of 260,000,000 Additional Preference Shares | HK\$2,600,000 |
| Total consideration payable for 260,000,000 Additional Preference Shares | HK\$195,000,000 |

Listing: The Company shall have obtained, among others, approval from the Stock Exchange for listing of, and permission to deal in, the Ordinary Shares to be issued on conversion in full of the New Preference Shares and the Additional Preference Shares.

Ranking: The New Preference Shares and the Additional Preference Shares, when issued, shall rank *pari passu* with, and carry the same rights in all aspects as, the other Preference Shares then issued and outstanding.

Conditions precedent: Completion shall be conditional on the following conditions precedent being satisfied (or, waived by the Investor in writing, other than the condition set out in paragraph (1) below which is not capable of waiver by the Investor):

- (1) the Company shall have obtained the necessary approval of its shareholders for the issue of the New Preference Shares and the Additional Preference Shares to the Investor on and subject to the terms set out in the Investment Agreement in accordance with the requirements of the Listing Rules and the Articles;
- (2) the Company shall have obtained all necessary approvals, consents and waivers from the Stock Exchange for the Transaction and the listing of, and permission to deal in, the Ordinary Shares to be issued on conversion in full of the New Preference Shares and the Additional Preference Shares;
- (3) the Company shall have obtained the approval of its shareholders in accordance with the requirements of the Listing Rules and the Articles for, subject to Completion having taken place, the appointment to the Board of the initial nominee Investor Director (such appointment to take effect only from the Completion Date);
- (4) the Company shall be in compliance with all requirements of applicable law and the Listing Rules;
- (5) there shall not have occurred any change of control in respect of the Company as stipulated in the Investment Agreement;
- (6) there shall not have occurred any material adverse change in respect of the Company as stipulated in the Investment Agreement;

- (7) the warranties given by the Company in the Investment Agreement are as at the date of the Investment Agreement and will as at the Completion Date be true, accurate and correct in all material respects;
- (8) no orders shall have been made by any competent governmental authority, and no statute, rule, regulation or other requirement shall have been promulgated or enacted, that restrains, prohibits or invalidates any part of the Transaction; and
- (9) no suit or other proceedings shall be pending or threatened by any party before any court or competent governmental authority seeking to restrain or prohibit or declare illegal, or seeking substantial damages in connection with any part of the Transaction.

Completion:

Subject to the satisfaction (or waiver as the case may be) of all the conditions precedent, Completion shall take place on the Completion Date.

If Completion has not occurred prior to 31 December 2010, then the Investment Agreement (other than the surviving provisions as specified in the Investment Agreement) shall automatically terminate and (without prejudice to the rights and/or obligations of any party in respect of any antecedent breach), the parties shall be released and discharged from their respective obligations under the Investment Agreement.

RIGHTS, PRIVILEGES AND RESTRICTIONS ATTACHED TO THE PREFERENCE SHARES

The New Preference Shares and the Additional Preference Shares, when issued, will rank *pari passu* with, and carry the same rights in all aspects as, the other Preference Shares then issued and outstanding. The rights, privileges and restrictions attached to the Preference Shares under the Articles are summarised below:

Par value: HK\$0.01 each

Conversion: A holder of the Preference Shares shall have the right to convert from the issue of the Preference Shares all or any part(s) of the Preference Shares into Ordinary Shares at the initial conversion rate of 1 Preference Share to 1 Ordinary Share, such conversion rate is subject to adjustments upon occurrence of certain adjusting events, such as consolidation or sub-division or re-classification, capitalisation issues, capital distribution, rights issue or grant of any options, warrants or other rights, issue of shares or convertible securities at discount.

- Conversion period:** Any time after issue, provided that no conversion of the Preference Shares (the “**Conversion**”) shall take place if and to the extent that, immediately following the Conversion, the Company will be unable to meet the public float requirement under the Listing Rules. Where a Conversion would result in the Company failing to meet its public float requirement, then the Company shall allot and issue the number of the Ordinary 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 the Ordinary Shares shall be issued and allotted as soon as the Company 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 Preference Shares shall rank pari passu with the Ordinary Shares
- Ranking on liquidation:** In the event of any liquidation, dissolution, winding up of the Company, whether voluntary or not, or a sale, lease, license or any form of disposal of all or substantially all of the assets of the Company, in one or a series of related transactions:
- (a) the assets of the Company available for distribution amongst the shareholders of the Company shall be applied to pay the holders of the Preference Shares the amount of HK\$0.01 for every Preference Share held, in priority to any payment to the holders of any other class of shares in the capital of the Company;
 - (b) if the assets of the Company available for distribution amongst holders of the Preference 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 Preference Shares in proportion to the number of the relevant Preference 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 the Company shall be applied to pay the holders of the Ordinary Shares the amount of HK\$0.01 for every Ordinary Share held; and

- (d) provided that the payments referred to in subparagraphs (a) and (c) above are made in full, the Preference Shares and the Ordinary Shares shall rank pari passu in any further distribution of assets.

Redemption:

The Preference Shares shall be non-redeemable

Listing:

No application will be made for the listing of, and permission to deal in, the Preference Shares on the Stock Exchange or any other stock exchange

Transferability:

Any Preference Share may be transferred at any time, provided such transfer shall also be in compliance with the conditions under the Articles 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 Preference Shares issued and outstanding shall be entitled to receive notices of, attend and speak at all general meetings of the Company but not to vote except for the matters otherwise provided for to the contrary in the Articles

Under the Investment Agreement, the parties agree that:

- (a) notwithstanding the terms of the Articles or the terms of the Investment Agreement, the Investor shall not (i) transfer any of the New Preference Shares or the Additional Preference Shares to any person, other than to its Affiliate in accordance with the Investment Agreement; or (ii) require the Company to issue any of the Additional Preference Shares to any of its Affiliates pursuant to the Investment Agreement unless in compliance with the terms of the Investment Agreement; and
- (b) the Company shall not be obliged to convert any Preference Shares held by the Investor and issue Ordinary Shares to the Investor to the extent that such issue of Ordinary Shares will result in the Investor or any of its affiliates or parties Acting in Concert with it being required to make a mandatory general offer for the shares of the Company under the Takeovers Code.

BASIS FOR DETERMINING THE SUBSCRIPTION PRICE

The issue price of HK\$0.65 for each New Preference Share and HK\$0.75 for each Additional Preference Share were determined after arm's length negotiations between the parties to the Investment Agreement, which represent:

- (i) a premium of approximately 8.33% and approximately 25.00% respectively over the closing price of HK\$0.600 per Ordinary Share as quoted on the Stock Exchange on the Last Trading Date;

- (ii) a premium of approximately 7.79% and approximately 24.38% respectively over the average closing price per Ordinary Share of approximately HK\$0.603 for the last 10 trading days up to and including the Last Trading Date;
- (iii) a premium of approximately 14.04% and approximately 31.58% respectively over the average closing price per Ordinary Share of approximately HK\$0.570 for the last 30 trading days up to and including the Last Trading Date;
- (iv) a premium of approximately 9.98% and approximately 26.90% respectively over the average closing price per Ordinary Share of approximately HK\$0.591 for the last 90 trading days up to and including the Last Trading Date; and
- (v) a premium of approximately 63.73% and approximately 88.92% respectively over the audited consolidated net assets value attributable to equity holders of the Company per Ordinary 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 million as at 31 December 2009 and the number of outstanding Ordinary Shares of 772,592,209 as at 31 December 2009).

REASONS AND BENEFITS FOR THE ISSUE OF THE PREFERENCE SHARES

Taking into account the market conditions and the nature of the Group's business, the Directors consider that the terms of the Investment Agreement represent a good opportunity for the Company to introduce valuable investor to the Company so as to widen its shareholder base, and to obtain further funding so as to accelerate its future development and expansion.

USE OF PROCEEDS

The aggregate net proceeds of the issue of 300,000,000 New Preference Shares and 260,000,000 Additional Preference Shares, after deduction of all related expenses, will be approximately HK\$190,000,000 (representing a net price of HK\$0.633 per New Preference Share) and approximately HK\$190,000,000 (representing a net price of HK\$0.731 per Additional Preference Share). The Company intends to use the proceeds as working capital of the Company and for future expansion.

ISSUE OF EQUITY SECURITIES IN THE PAST 12 MONTHS

Save as disclosed below, the Group has not conducted any equity fund raising activities in the past 12 months immediately before the date of this announcement:

- (1) the issuance of convertible notes on 31 December 2009 with a principal amount of RMB73,500,000 carrying rights to convert into Ordinary Shares at a conversion price of HK\$1.0113 per Ordinary Share (adjusted) as consideration for the acquisition of a 10% effective equity interest in 中節能港建風力發電(張北)有限公司 (CECIC HKC Wind Power Company Limited*) as disclosed in the announcement and the circular of the Company dated 20 November 2009 and 14 December 2009 respectively;

- (2) the issuance of 77,733,834 bonus warrants and 77,733,834 bonus shares on 9 June 2010 as disclosed in the announcement and the circular of the Company dated 22 March 2010 and 30 April 2010 respectively;
- (3) the issuance of 1,385,170,068 Preference Shares on 31 August 2010 as the consideration for the acquisition of HKE (BVI) Limited as disclosed in the announcement and the circular of the Company dated 12 May 2010 and 30 June 2010 respectively; and
- (4) the issuance of 7,500,000 share options (adjusted to 8,250,000 share options on 1 June 2010) and 5,000,000 share options pursuant to the share option scheme adopted on 27 May 2008 as disclosed in the announcements of the Company dated 20 January 2010 and 1 September 2010 respectively.

PROPOSED APPOINTMENT OF DIRECTOR, OBSERVER AND COMMITTEE MEMBER

Pursuant to the Investment Agreement, (a) on and from Completion and for such time the Investor (together with its Affiliates) holds, directly or indirectly, such number of Shares as represents not less than one third of the total number of New Preference Shares issued to the Investor at Completion, the Investor shall have the right to nominate one Investor Director as a non-executive Director and a member of the audit committee of the Company; and (b) upon issuance of the Additional Preference Shares and for such time as the Investor (together with its Affiliates) holds, directly or indirectly, such number of Shares as represents not less than the aggregate of (i) the total amount of New Preference Shares issued to the Investor at Completion; and (ii) one third of the maximum number of Additional Preference Shares that the Investor is entitled to subscribe for pursuant to the Investment Agreement, the Investor shall have the right to nominate an additional Investor Director as a non-executive Director and a member of the audit committee of the Company. For so long as the Investor is entitled to nominate an Investor Director, if and for such time as no Investor Director is so appointed to the Board, the Investor shall have the right to appoint an observer to the meetings of the Board.

Immediately on Completion and for so long as the Investor (together with its Affiliates) holds, directly or indirectly, such number of Shares as represents not less than half of the total number of New Preference Shares issued to the Investor at Completion, the Board shall constitute and maintain an investment committee overseeing the investment and capital expenditure activities of the Group, such committee to be comprised of one Investor Director and such other Directors as the Board may determine.

SHAREHOLDING STRUCTURE OF THE COMPANY

As at the date of this announcement, the Company has an aggregate authorized share capital of HK\$150,000,000.00, consisting of 9,000,000,000 Ordinary Shares and 6,000,000,000 Preference Shares, of which 855,688,459 Ordinary Shares and 1,385,170,068 Preference Shares have been issued. The shareholding structure of the Company (i) as at the date of this announcement; (ii) immediately after Completion assuming no conversion of the New Preference Shares; (iii) immediately after Completion assuming full conversion of the New Preference Shares; (iv) immediately after Completion assuming full conversion of the New Preference Shares and 260,000,000 Additional Preference Shares; and (v) immediately after Completion assuming full conversion of the New Preference Shares, 260,000,000 Additional Preference Shares and all the convertible securities of the Company is and will be as follows:

| Shareholders | As at the date of this announcement | | Immediately after Completion assuming no conversion of the New Preference Shares | | Immediately after Completion assuming full conversion of the New Preference Shares | | Immediately after Completion assuming full conversion of the New Preference Shares and 260,000,000 Additional Preference Shares | | Immediately after Completion assuming full conversion of the New Preference Shares, 260,000,000 Additional Preference Shares and all convertible securities | |
|------------------------|-------------------------------------|----------|--|---------|--|----------|---|----------|---|----------|
| | No. of Ordinary Shares | % | No. of Ordinary Shares | % | No. of Ordinary Shares | % | No. of Ordinary Shares | % | No. of Ordinary Shares | % |
| HKC and its associates | 558,034,937 | 65.215% | 558,034,937 | 65.215 | 558,034,937 | 48.286% | 558,034,937 | 39.418% | 2,083,867,178 | 68.641% |
| Directors | 440,000 | 0.051% | 440,000 | 0.051 | 440,000 | 0.038% | 440,000 | 0.031% | 13,730,000 | 0.452% |
| Investor | - | - | - | - | 300,000,000 | 25.959% | 560,000,000 | 39.557% | 560,000,000 | 18.446% |
| Public Shareholders | 297,213,522 | 34.734% | 297,213,522 | 34.734 | 297,213,522 | 25.717% | 297,213,522 | 20.994% | 378,305,753 | 12.461% |
| Total | 855,688,459 | 100.000% | 855,688,459 | 100.000 | 1,155,688,459 | 100.000% | 1,415,688,459 | 100.000% | 3,035,902,931 | 100.000% |

Note: As at the date of this announcement, convertible securities of the Company include (a) the outstanding bonus warrants that were issued by the Company on 14 May 2009 (warrant code: 748); (b) the outstanding bonus warrants that were issued by the Company on 9 June 2010 (warrant code: 795); (c) the convertible note issued by the Company to HKC on 31 December 2009; (d) the outstanding share options granted by the Company pursuant to its share option scheme adopted on 27 May 2008; and (e) the outstanding Preference Shares that were issued by the Company to HKC on 31 August 2010.

INFORMATION OF THE INVESTOR

The Investor is owned and controlled by TPG Star, L.P., part of TPG Growth. TPG Growth is the middle market and growth equity investment platform of TPG, the global private investment firm. TPG Growth has more than US\$2.5 billion under management, and targets investments in a broad range of industries and geographies, utilizing leveraged buyout, growth equity, and private investment in public equity (PIPE) structures.

INFORMATION OF THE GROUP

The Group is principally engaged in alternative energy business and software development business, operations of the Group are mainly in the People's Republic of China.

EGM

An EGM will be convened at which approval of the Shareholders will be sought to approve, among others, (i) the granting of a specific mandate for the allotment and issue of the New Preference Shares and the Additional Preference Shares; and (ii) the appointment of the Investor Director as initially nominated by the Investor.

A circular containing, among other things, further details of the Transaction and notice of the EGM will be despatched by the Company to its Shareholders in due course.

LISTING APPROVAL

An application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Ordinary Shares to be issued on conversion in full of the New Preference Shares and the Additional Preference Shares.

Warning: Shareholders and potential investors should note that the Transaction is subject to the fulfilment of a number of conditions, and accordingly, the transactions under the Investment Agreement may or may not proceed. Shareholders and potential investors should exercise caution when dealing in the securities of the Company.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions have the following meanings:

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| “Acting in Concert” | has the meaning given to it in the Takeovers Code; |
| “Additional Preference Shares” | means up to a maximum of 260,000,000 Preference Shares (subject to adjustment) which the Investor may additionally subscribe for pursuant to the terms of the Investment Agreement; |

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| “Affiliate” of any specified persons | means any other person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified person; and for the purpose of this definition, “control” means (i) the ownership or control (directly or indirectly) of more than 50% of the voting share capital of a person; or (ii) the ability to direct the casting of more than 50% of the votes exercisable at general meetings of such person on all or substantially all matters; or (iii) the power to appoint or elect the majority of the board of directors or any equivalent body; or (iv) the power to control the decision making process of such person on all or substantially all matters and “controlled”, “controlling” and “control” shall be construed accordingly; |
| “Articles” | means the articles of association of the Company, as amended from time to time; |
| “associate(s)” | has the meaning ascribed thereto under the Listing Rules; |
| “Board” | means the board of the Directors; |
| “Business Day” | means a day other than a Saturday or Sunday on which commercial banks are open for business in Hong Kong; |
| “Company” | means Hong Kong Energy (Holdings) Limited 香港新能源（控股）有限公司, a company incorporated in the Cayman Islands with limited liability, the Ordinary Shares of which are listed on the main board of the Stock Exchange; |
| “Completion” | means the completion of the Investment Agreement; |
| “Completion Date” | means the date of Completion, which shall be the tenth Business Day after the Unconditional Date, or on such other date as the parties to the Investment Agreement may agree; |
| “Directors” | means the directors of the Company; |
| “EGM” | means the extraordinary general meeting of the Company (or any adjournment thereof) to be convened for the purpose of approving, among other matters, (i) the granting of a specific mandate for the allotment and issue of the New Preference Shares and the Additional Preference Shares; and (ii) the appointment of the Investor Director as initially nominated by the Investor in accordance with the Investment Agreement; |

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| “Group” | means the Company and its subsidiaries; |
| “HKC” | means 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; |
| “HK\$” | means Hong Kong dollars, the lawful currency of Hong Kong; |
| “Hong Kong” | means Hong Kong Special Administrative Region of the People’s Republic of China; |
| “Investment Agreement” | means the investment agreement dated 14 October 2010, pursuant to which the Company agreed to allot and issue and the Investor agree to subscribe for, the New Preference Shares and the Additional Preference Shares upon and subject to the terms thereof; |
| “Investor” | means STAR Butterfly Energy, Ltd.; |
| “Investor Director” | means the person to be nominated by the Investor and to be appointed as a non-executive Director pursuant to the Investment Agreement; |
| “Last Trading Date” | 14 October 2010, being the last trading date on which the Investment Agreement is signed; |
| “Listing Rules” | means the Rules Governing the Listing of Securities on the Stock Exchange; |
| “New Preference Shares” | means 300,000,000 Preference Shares to be issued by the Company and subscribed for by the Investor on Completion pursuant to the Investment Agreement; |
| “Ordinary Shares” | means the ordinary shares with par value of HK\$0.01 each in the capital of the Company; |
| “Preference Shares” | means the non-voting convertible preference shares with a par value of HK\$0.01 each in the capital of the Company with the rights set out in the Articles; |
| “Relevant Period” | means the period commencing on the Completion Date and ending on the date that falls on the fourth anniversary of the Completion Date; |
| “Shares” | means the Ordinary Shares and the Preference Shares; |

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| “Shareholders” | means the shareholders of the Company; |
| “Stock Exchange” | means The Stock Exchange of Hong Kong Limited; |
| “Takeovers Code” | Code on Takeovers and Mergers of the Securities and Futures Commission in Hong Kong; |
| “Transaction” | means the allotment and issuance by the Company and the subscription by the Investor of the New Preference Shares and the Additional Preference Shares, and the other transactions contemplated by the Investment Agreement on the terms of the Investment Agreement; |
| “Unconditional Date” | means the date on which all the conditions precedent set out under the section headed “Conditions precedent” hereof have been (and continue to be) satisfied or waived by the Investor; and |
| “%” | means per cent. |

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

Hong Kong, 14 October 2010

As at the date of this announcement, the Board comprises seven directors of which Mr. OEI Kang, Eric, Mr. CHANG Li Hsien, Leslie, Dr. YUNG Pak Keung, Bruce and Mr. LEUNG Wing Sum, Samuel are executive directors; and Mr. ZHANG Songyi, Mr. TANG Siu Kui, Ernest and Mr. YU Hon To, David are independent non-executive directors.

* *For identification purposes only*