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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2010

HIGHLIGHTS

- Revenue was HK$24.1 million in 2010, a significant increase from HK$10.6 million in 2009.
- Profit attributable to equity holders HK$336.3 million in 2010, a significant improvement from a loss attributable to equity holders HK$10.4 million in 2009.
- Net asset value per share was HK$1.93 in 2010.
- The Group's unrestricted cash and cash equivalents as at 31 December 2010 was HK$362.6 million. Cash per share as at 31 December 2010 was HK42.3 cents.

The board of directors (the "Board") of Hong Kong Energy (Holdings) Limited (the "Company") announces the consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2010 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	Note	**2010** *HK$'000*	2009 *HK$'000*
Revenue	*3*	**24,110**	10,609
Cost of sales	*4*	**(18,565)**	(4,896)
Gross profit		**5,545**	5,713
Selling and distribution costs	*4*	**–**	(1,552)
Administrative expenses	*4*	**(56,508)**	(36,161)
Other expenses	*5*	**(4,735)**	(817)
Operating loss		**(55,698)**	(32,817)
Finance income	*6*	**804**	443
Finance costs	*6*	**(10,852)**	–
Finance (costs)/income – net	*6*	**(10,048)**	443
Gain on deregistration/disposal of subsidiaries		**145**	7,624
Excess of fair value of net assets acquired over cost of acquisition (including both arising from subsidiaries and associated companies)	*12*	**386,553**	27,693
Fair value gain on derivative liabilities		**17,018**	–
Share of profits less losses of associated companies		**21,750**	(289)
Profit before income tax		**359,720**	2,654
Income tax expense	*7*	**(24,396)**	(14,336)
Profit/(loss) for the year		**335,324**	(11,682)
Other comprehensive income:			
Currency translation differences		**53,396**	32
Other comprehensive income for the year, net of tax		**53,396**	32
Total comprehensive income/(expense) for the year		**388,720**	(11,650)

	Note	**2010**	2009
		HK$'000	*HK$'000*
Profit/(loss) attributable to:			
Equity holders of the Company		**336,311**	(10,431)
Non-controlling interests		**(987)**	(1,251)
		335,324	(11,682)
Total comprehensive income/(expense) attributable to:			
Equity holders of the Company		**388,960**	(10,399)
Non-controlling interests		**(240)**	(1,251)
		388,720	(11,650)
Dividends	*9*	**–**	–
Profit/(loss) per share for profit/(loss) attributable to the equity holders of the Company, expressed in (HK cents per share)	*8*		
– Basic		**39.67**	(1.36)
– Diluted		**23.09**	(1.36)

CONSOLIDATED BALANCE SHEET
As at 31 December 2010

	Note	2010 HK$'000	2009 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment		**509,067**	442
Construction in progress		**501,515**	3,311
Prepaid land lease payments		**17,032**	–
Intangible assets		**191,895**	5,539
Interests in associated companies		**1,011,962**	208,076
Total non-current assets		**2,231,471**	217,368
Current assets			
Inventory		**6,091**	–
Trade and other receivables	10	**160,599**	6,457
Restricted cash		**957**	–
Cash and cash equivalents		**362,555**	172,226
Total current assets		**530,202**	178,683
Total assets		**2,761,673**	396,051
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital		**25,422**	7,726
Reserves		**1,631,945**	299,288
Equity attributable to equity holders of the Company		**1,657,367**	307,014
Non-controlling interests		**23,680**	–
Total equity		**1,681,047**	307,014

	Note	**2010**	2009
		HK$'000	*HK$'000*
LIABILITIES			
Non-current liabilities			
Bank borrowings		**660,560**	–
Convertible note		**78,287**	76,007
Deferred income tax liabilities		**76,894**	4,643
Total non-current liabilities		**815,741**	80,650
Current liabilities			
Trade and other payables	*11*	**104,151**	8,387
Amount due to a fellow subsidiary		**20,125**	–
Derivative liabilities		**75,500**	–
Current portion of bank borrowings		**65,109**	–
Total current liabilities		**264,885**	8,387
Total liabilities		**1,080,626**	89,037
Total equity and liabilities		**2,761,673**	396,051
Net current assets		**265,317**	170,296
Total assets less current liabilities		**2,496,788**	387,664

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

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

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

The Company and its subsidiaries (collectively "the Group") are principally engaged in alternative energy business and software development business. The Group has operations mainly in the People's Republic of China (the "PRC").

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 30 March 2011.

2 BASIS OF PREPARATION

The consolidated financial statements of Hong Kong Energy (Holdings) Limited have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). They have been prepared under the historical cost convention, as modified by the revaluation of derivative liabilities, which is carried at fair value.

In 2010, the Group adopted the following new and amended standards and interpretations which are relevant to its consolidated financial statement.

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

HKAS 7 (Amendments)	Statement of cash flows
HKAS 17 (Amendments)	Leases
HKAS 27 (Revised)	Consolidated and separate financial statements
HKAS 38 (Amendments)	Intangible assets
HKFRS 3 (Revised)	Business combinations
HKFRS 8 (Amendment)	Operating segments
HK(IFRIC) – Int 17	Distribution of non-cash assets to owners
HK – Interpretation 5	Presentation of financial statements – classification by the borrower of a term loan that contains a repayment on demand clause

The above new and amended standards and interpretation, which are mandatory for the first time for the financial year beginning 1 January 2010, do not have material impact to the Group for the year ended 31 December 2010.

(b) Amended standards and interpretations mandatory for the first time for the financial year beginning 1 January 2010 but not currently relevant to the group (although they may affect the accounting for future transactions and events)

HK(IFRIC) 18	Transfers of assets from customers
HK(IFRIC) 9	Reassessment of embedded derivatives
HK(IFRIC) 16	Hedges of a net investment in a foreign operation
HKAS 1 (Amendment)	Presentation of financial statements
HKAS 36 (Amendment)	Impairment of assets
HKAS 39 (Amendments)	Financial instruments: Recognition and measurement
HKFRS 2 (Amendments)	Group cash-settled share-based payment transactions
HKFRS 5 (Amendment)	Non-current assets held for sale and discontinued operations

(c) New and revised standards, amendments and interpretations have been issued but are not yet effective for the financial year beginning 1 January 2010 and have not been early adopted by the Group

		Effective for accounting periods beginning on or after
HKAS 32 (Amendments)	Classification of rights issues	1 February 2010
HKFRS 9	Financial instruments	1 January 2013
HKAS 24 (Revised)	Related party disclosures	1 January 2011
HKAS 12 (Amendments)	Deferred tax: Recovery of underlying assets	1 January 2012
Amendments to HK (IFRIC) – Int 14	Prepayments of a minimum funding requirement	1 January 2011
HK(IFRIC) – Int 19	Extinguishing financial liabilities with equity instruments	1 July 2010
Annual improvements project	Improvements to HKFRSs 2010	1 January 2011

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

3 SEGMENT INFORMATION

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

The Group's revenue is primarily derived from the generation of electricity and the sales of software.

The Directors assess the performance of operating segments based on a measure of segment results and share of profits less losses of associated companies. This measurement basis excludes the effects of non-recurring expenditure from the operating segments, such as gain on deregistration/disposal of subsidiaries, excess of fair value of net assets acquired over cost of acquisition and provision for impairment losses. Fair value gain on derivative liabilities and other corporate expenses are also not included in the segment results as they mainly represent the income and expenses arising from the holding companies. Other information provided to the Directors is measured in a manner consistent with that in the financial statements.

Total segment assets exclude corporate assets which are centrally managed. This is part of the reconciliation to total consolidated balance sheet asset. Corporate assets mainly include the cash and cash equivalents, other receivables and prepayments held by the head office.

The segment information provided to the Directors for the reportable segments for the years ended 31 December 2010 and 2009 are as follows:

	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	**17,897**	**6,213**	**24,110**	–	10,609	10,609
Segment results	**(7,719)**	**(1,065)**	**(8,784)**	(5,369)	(2,975)	(8,344)
Provision for impairment losses	**–**	**(4,735)**	**(4,735)**	–	(817)	(817)
Gain on deregistration/disposal of subsidiaries	**–**	**145**	**145**	7,624	–	7,624
Share of profits less losses of associated companies	**21,750**	**–**	**21,750**	(289)	–	(289)
Excess of fair value of net assets acquired over cost of acquisition (including both arising from subsidiaries and associated companies)	**386,553**	**–**	**386,553**	27,693	–	27,693
Finance income	**49**	**142**	**191**	8	106	114
Finance costs	**(8,572)**	**–**	**(8,572)**	–	–	–
Profit/(loss) before income tax	**392,061**	**(5,513)**	**386,548**	29,667	(3,686)	25,981
Income tax (expense)/credit	**(25,399)**	**1,003**	**(24,396)**	(14,862)	526	(14,336)
Profit/(loss) for the year	**366,662**	**(4,510)**	**362,152**	14,805	(3,160)	11,645
Depreciation	**9,999**	**197**	**10,196**	–	512	512
Amortisation	**2,851**	**902**	**3,753**	2,456	2,023	4,479
Provision for impairment losses						
– property, plant and equipment	**–**	**269**	**269**	–	–	–
– computer software	**–**	**129**	**129**	–	–	–
– customer relationship and software technology know-how	**–**	**4,337**	**4,337**	–	817	817

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

	2010			2009		
	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	**2,437,057**	**14,814**	**2,451,871**	217,863	20,985	238,848
Total segment assets include:						
– Interests in associated companies	**1,011,962**	**–**	**1,011,962**	208,076	–	208,076
– Additions to non-current assets	**16,329**	**–**	**16,329**	6,495	358	6,853

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

	2010	2009
	HK$'000	*HK$'000*
Profit for the year of total reportable segments	**362,152**	11,645
Unallocated amounts:		
– Fair value gain on derivative liabilities	**17,018**	–
– Other corporate expenses, net	**(43,846)**	(23,327)
Profit/(loss) for the year	**335,324**	(11,682)

Reportable segment assets are reconciled to total assets as follows:

	2010	2009
	HK$'000	*HK$'000*
Total segment assets	**2,451,871**	238,848
Corporate assets		
– cash and cash equivalents	**309,341**	156,967
– others	**461**	236
Total assets	**2,761,673**	396,051

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

	2010	2009
	HK$'000	*HK$'000*
Hong Kong	**129**	335
The PRC	**2,231,342**	217,033
Total non-current assets	**2,231,471**	217,368

For the year ended 31 December 2010, the Group's revenue for reportable segments from external customers of HK$17,897,000 and HK$6,213,000 are attributable to the China and Japan markets respectively.

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

For the year ended 31 December 2010, the Group has two customers with revenue exceeding 10% of the Group's total revenue (2009: one customer). Revenue from these customers amounted to HK$17,897,000 (2009: Nil) and HK$6,120,000 (2009: HK$10,013,000) are attributable to alternative energy business and software development business respectively.

4 EXPENSES BY NATURE

	2010	2009
	HK$'000	*HK$'000*
Auditor's remuneration	**2,486**	950
Amortisation of prepaid land lease payments	**290**	–
Amortisation of intangible assets	**3,514**	4,529
Depreciation of property, plant and equipment	**10,196**	512
Net exchange losses	**4,586**	57
Employee benefit expenses	**22,711**	16,457
Operating lease rental	**1,107**	1,140
Research and development expenditure	**–**	323
Repair and maintenance expenses	**4,131**	–
Corporate expenses	**2,091**	1,647
Legal and professional fees		
– for the acquisition of alternative energy business	**8,416**	–
– others	**1,669**	5,437
	10,085	5,437
Management service fee	**8,843**	5,875
Other expenses	**5,033**	5,682
	75,073	42,609

5 OTHER EXPENSES

	2010	2009
	HK$'000	*HK$'000*
Provision for impairment losses on		
– customer relationship and software technology know-how	**4,337**	817
– computer software	**129**	–
– property, plant and equipment	**269**	–
	4,735	817

6 FINANCE INCOME AND COSTS

	2010	2009
	HK$'000	*HK$'000*
Finance costs:		
– notional interest expense on convertible note wholly repayable within 5 years	**(2,280)**	–
– interest expenses on bank borrowings not wholly repayable within 5 years	**(15,291)**	–
Less: amount capitalised in construction in progress (*Note*)	**6,719**	–
Finance costs	**(10,852)**	–
Finance income:		
– interest income on bank deposits	**804**	443
Finance (costs)/income – net	**(10,048)**	443

Note: The capitalisation rate applied to funds borrowed and use for the construction of wind farm was between 5.94% and 6.40% per annum during the year.

7 INCOME TAX EXPENSE

No provision for Hong Kong profits tax has been made as the Group has no assessable profit for the year (2009: 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.

	2010	2009
	HK$'000	*HK$'000*
Current income tax – overseas tax credit	**–**	23
Deferred income tax expense in respect of excess of fair value of net assets acquired over cost of acquisition of an associated company *(Note)*	**–**	(12,385)
Deferred income tax expense, net	**(24,396)**	(1,974)
Income tax expense	**(24,396)**	(14,336)

Note: Deferred income tax was provided for the excess of the fair value of 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.

8 EARNINGS PER SHARE

(a) Basic

Basic earnings/(loss) per share is calculated by dividing the profit/(loss) attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2010	2009
Profit/(loss) attributable to equity holders of the Company (HK$ thousand)	**336,311**	(10,431)
Weighted average number of ordinary shares in issue (thousand)	**847,729**	765,863
Basic earnings/(loss) per share (HK cents per share)	**39.67**	(1.36)

(b) Diluted

Diluted earnings/(loss) per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares including the bonus warrants, convertible note and convertible preference shares. The convertible note and convertible preference share are assumed to have been converted into ordinary shares, and the net profit is adjusted to eliminate the interest expense on convertible note less the tax effect. For the bonus warrants, a calculation is made in order to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares during the year) based on the monetary value of the subscription rights attached to outstanding bonus warrants. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the bonus warrants.

	2010	2009
Profit/(loss) attributable to equity holders of the Company (HK$ thousand)	**336,311**	(10,431)
Interest expense on convertible note (HK$ thousand)	**2,280**	–
	338,591	(10,431)
Weighted average number of ordinary shares in issue (thousand)	**847,729**	765,863
Adjustment for :		
– Assumed conversion of convertible preference shares (thousand)	**498,838**	–
– Assumed conversion of convertible note (thousand)	**82,127**	–
– Assumed exercise of bonus warrants (thousand)	**37,648**	–
Weighted average number of ordinary shares for diluted earnings/(loss) per share (thousand)	**1,466,342**	765,863
Diluted earnings/(loss) per share (HK cents per share)	**23.09**	(1.36)

Diluted earnings per share for the year ended 31 December 2010 did not assume the exercise of the share options and the subscription rights for convertible preference shares outstanding during the year since the exercise would have an anti-dilutive effect.

Diluted loss per share for the year ended 31 December 2009 did not assume the exercise of bonus warrants and convertible note outstanding during the year since the exercise would have an anti-dilutive effect.

9 DIVIDENDS

No dividend was proposed and paid for the year ended 31 December 2010 (2009: Nil).

10 TRADE AND OTHER RECEIVABLES

	Group	
	2010	2009
	HK$'000	*HK$'000*
Trade receivables	**50,611**	867
Other receivables	**109,988**	5,590
	160,599	6,457

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

	2010	2009
	HK$'000	*HK$'000*
Less than 30 days	**35,810**	867
More than 30 days and within 60 days	**1,176**	–
More than 60 days and within 90 days	**856**	–
More than 90 days	**12,769**	–
	50,611	867

Note:

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

The Group's policy on alternative energy business is to allow credit period 30 days to its trade customers. Trade receivables that are less than 30 days past due are not considered impaired. As at 31 December 2010, trade receivables of amount HK$14.8 million (2009: Nil) were past due but not impaired. These relate to the electricity tariff of government subsidies which have been substantially collected after balance sheet date. There were no trade receivables on alternative energy business being past due over 12 months (2009: Nil).

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.

11 TRADE AND OTHER PAYABLES

	Group 2010 HK$'000	2009 HK$'000
Trade payables	**117**	–
Other payables and accruals	**104,034**	8,387
	104,151	8,387

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

	Group 2010 HK$'000	2009 HK$'000
6 to less than 12 months	**103**	–
12 months and more	**14**	–
	117	–

12 EXCESS OF FAIR VALUE OF NET ASSETS ACQUIRED OVER COST OF ACQUISITION

On 12 May 2010, the Group entered into a sales and purchase agreement ("S&P") with HKC to acquire 100% equity interest in HKE (BVI) Ltd. ("HKE(BVI)"). The principal activity of HKE(BVI) is to operate wind farms and waste-to-energy plant through its subsidiaries and associated companies. The acquisition is consistent with the Group's strategy to focus on the alternative energy business. Based on the S&P, the purchase consideration is settled by way of issuing and allotting 1,385,170,068 convertible preference shares. The fair value of which, on the S&P date, was HK$1,018,100,000.

On 31 August 2010, the Group completed the acquisition. The fair values of the respective convertible preference shares and the net assets of HKE(BVI) were HK$853,802,000 and HK$1,240,355,000 respectively. This has resulted in an excess of fair value of net assets acquired over cost of acquisition which was recognised in the consolidated statement of comprehensive income.

Details of net assets acquired are as follows:

	HK$'000
Fair value of convertible preference shares on S&P date	1,018,100
Less: Fair value changes	(164,298)
Fair value of convertible preference shares on the completion date	853,802
Fair value of net assets acquired	(1,240,355)
Excess of fair value of net assets acquired over cost of acquisition	(386,553)
Deferred tax liabilities	26,463
Excess of fair value of net assets acquired over cost of acquisition, net of tax	(360,090)

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

For the year ended 31 December 2010, the turnover for Hong Kong Energy (Holdings) Limited ("HKE" or "the Company", and with its subsidiaries, collectively, the "Group") amounted to HK$24.11 million, an increase of 127% from HK$10.61 million for the same period ended 31 December 2009. Such increase was mainly due to the inclusion of alternative energy business results starting from 1 September 2010. Gross profit for the year, however, dropped by 3% from last year's HK$5.71 million to HK$5.55 million as a higher depreciation charge on the capital-intensive alternative energy business compared to the software business was incurred.

Following the alternative energy business acquisition ("Business Acquisition") from the parent company, HKC (Holdings) Limited ("HKC", and with its subsidiaries, collectively, the "HKC Group") completed on 31 August 2010, the Group has a share of the net profits of HK$21.75 million derived from the joint-venture wind farm projects and waste-to-energy project in Danjinghe, Changma and Linyi for the 2010 financial year.

In addition, the Group recognised a gain of HK$386.55 million due to the Business Acquisition. The amount included a HK$222.25 million gain on discount received and a HK$164.30 million mark-to-market valuation gain on share-based consideration at the date of completion. An additional investment right to a global private investment firm TPG Growth (with its subsidiaries, collectively, the "TPG") on 23 November 2010 had resulted in a fair value gain of HK$17.02 million for the year ended 31 December 2010.

A net profit before tax of HK$359.72 million was recorded after writing off HK$4.74 million worth of fixed assets and intangible assets associated with the software business. Net profit after tax attributable to equity holders of the Group was HK$336.31 million this year, as compared with last year's net loss after tax attributable to equity holders of HK$10.43 million. Basic earnings per share were HK39.67 cents as compared to last year basic loss per share of HK1.36 cents.

Placing and Subscription of Shares

On 31 August 2010, HKE issued and allotted 1,385,170,068 convertible preference shares ("CPSs") at HK61.64 cents per share to HKC Group for the Business Acquisition. There was no cash transfer as it was HKC Group's intention that HKE should preserve cash for future alternative energy business development.

On 23 November 2010, HKE issued and allotted 300,000,000 CPSs at the price of HK65 cents to TPG, an investment firm independent to the Group. The gross proceeds were approximately HK$195.00 million.

Liquidity and Financial Resources

As at 31 December 2010, the Group had total bank borrowings of HK$725.67 million as compared to nil borrowing in 2009.

The bank borrowings included interest-bearing Renminbi bank loans to the Group's wind farm projects in the People's Republic of China ("PRC", or "China"), with interest rates fixed at the People's Bank of China ("PBOC") rates. The maturity dates for the Group's outstanding bank borrowings were spread over the next eleven years. There were HK$65.11 million repayable within one year, HK$269.91 million repayable within two to five years and HK$390.65 million repayable after five years.

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 coupon with a fixed conversion price of HK$1.0113 per share. The notional loan amount of the convertible notes was HK$78.29 million as at 31 December 2010.

The Group's unrestricted cash and cash equivalents were HK$362.56 million as at 31 December 2010 as compared to HK$172.23 million in 2009. The increase was largely contributed by TPG investment. 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 did not use financial instruments for financial hedging purposes during the period under review.

Details of Charges in Group Assets

The Group's subsidiaries had charged their assets including wind power equipment, construction in progress, prepaid land lease payments and trade receivables, worth approximately RMB838.06 million (equivalent to HK$992.10 million) as security for the bank borrowings compared to no charges over the Group's assets in 2009.

Gearing Ratio

The Group's gearing ratio as at 31 December 2010 was 26% as compared to a net cash position of HK$96.22 million (which represented the Group's cash and cash equivalents of HK$172.23 million less the notional loan amount of the convertible note HK$76.01 million) in 2009. The ratio represents total borrowings less cash and cash equivalents (including restricted cash) divided by total equity.

Contingent Liabilities

The Group did not have any contingent liabilities as at 31 December 2010 same as 2009.

Business review

Persistent efforts of strategy & business cultivation have yielded strong results for the Group in 2010. Following the business plan, HKE has made significant steps in transforming the Group into HKC Group's alternative energy flagship and in improving the Group's competitive strength.

A major achievement in year 2010 was the completion of the Business Acquisition from HKC Group on 31 August 2010. This acquisition covered a 200 Mega-Watt ("MW") wind farm in Danjinghe of Hebei, a 201 MW wind farm in Changma of Gansu, a 59.5 MW wind farm in Mudanjiang and Muling of Heilongjiang, a 25 MW waste-to-energy plant in Linyi of Shandong and a branch office in Beijing. The fair value of the consideration on the date of entering into sales and purchase agreement was HK$1,018.10 million, which represented a 25% discount to the business valuation and a 22% premium over the original HKC Group's book value, was paid by way of issuing and allotting 1,385,170,068 CPSs. The restructuring of the alternative energy assets has resulted in a better business management focus and use of resources.

Another important achievement was the introduction of TPG, one of the world's largest private equity firms, as a strategic partner on 23 November 2010. A total of 300,000,000 CPSs were issued and allotted to TPG in exchange for HK$195.00 million. TPG has the right to subscribe to an additional 260,000,000 additional CPSs for another HK$195.00 million in the next four years. After deducting the transaction costs, approximately HK$190.00 million was received on 23 November 2010. The proceeds were used as operating capital and for future expansion and to strengthen our capital base. In addition, a non-executive director was nominated by TPG to the HKE board (the "Board") and to participate in the Investment Committee and the Audit Committee. TPG's participation will provide the Group with valuable financial and alternative energy expertise.

On the project level, the Group has made a significant progress in 2010. After the construction and pre-commercial operating period, a total of 360 MW gross wind power capacities were put into commercial operation in late 2010. Together with the existing operating alternative energy projects, all projects are now contributing revenue to the Group. In addition, there was another 150 MW of gross wind power capacity that would be in full commercial operation within the first quarter of 2011.

Mudanjiang and Muling Wind Farms

Mudanjiang and Muling wind farms have a total of 59.5 MW of wind power capacity. Located in Heilongjiang province, the wind farms started commercial operation in the fourth quarter of 2007. The Group is the majority shareholder holding 86% and 86.68% equity stake respectively. In 2010, the wind farms experienced significant curtailment. However, the curtailment is expected to ease over the next several years. The Mudanjiang and Muling wind farms dispatched 71.65 million Kilowatt-hour ("KWh") of power in 2010, which was 15% below budget.

Danjinghe Wind Farm

The Group has a 40% effective equity interest in the Danjinghe wind farm project company while the majority and controlling shareholder, the wind division subsidiary of China Energy Conversation and Environmental Protection Group (collectively, "CECEP", formerly known as China Energy Conversation Investment Corporation or "CECIC"), holds 60% of the equity stake. The Danjinghe wind farm of 200 MW wind power capacity is located in Hebei province and is made up of three phases. The first phase of wind power capacity 40.5 MW started commercial operation in January 2010 while the second and third phase in total of 159.5 MW commenced operation in September 2010. The power dispatched for 2010, including power dispatched during trial run and commissioning period prior to commercial operation, was around 372.76 million KWh. This was approximately 25% better than the prediction in the feasibility study report. Due to close proximity to power demand areas, only less than 1% of curtailment was experienced on power dispatch.

Changma Wind Farm

Changma wind farm is a joint venture with CECEP located in Gansu province. The Group has a 40% effective interest in the project company. The 201 MW wind farm started commercial operation in November 2010. Despite some curtailment, the power dispatched for 2010, including power dispatched during trial run and commissioning period prior to commercial operation, was approximately 387.55 million KWh.

Linyi Waste-to-energy Plant

Linyi waste-to-energy plant of 25MW power generating capacity is a joint venture with CECEP located in Shandong province. The Group owns 40% interest. The plant went into commercial operation in September 2007. Approximately 244,000 tonnes of garbage was being handled and 112.26 million KWh of power was dispatched in 2010.

Other Alternative Energy Projects

The construction of wind farm projects in Lunaobao of Hebei province and Siziwangqi of Inner Mongolia was completed and trial runs were finished in 2010. The 100.5 MW Lunaobao wind farm, 30% owned by the Group, is a joint venture with CECEP. The wholly-owned 49.5 MW wind farm in Siziwangqi is only the first phase ("Siziwangqi Phase I") of a large investment that can be further developed into a 1,000 MW wind power base. Both wind farms were under commissioning stage before final commercial operation. However, around 84.82 million KWh and 42.82 million KWh of power had already been dispatched and sold to the grid by the Lunaobao wind farm and Siziwangqi wind farm respectively during 2010.

Apart from these projects, the Group expanded the potential project pipeline in 2010. An additional 1,600 MW capacity was accumulated as at 31 December 2010. Memorandum of understanding ("MOU") or co-development framework agreements were signed.

Outlook

Commencing the Twelfth Five-Year Programme for National Economic and Social Development ("12th FYP") which covers 2011 to 2015, the government in China (the "Chinese Government") will focus on transforming the country's growth model, both to boost domestic consumption and to reduce carbon intensity in order to facilitate long term sustainable development. Over capacity in the traditional capital intensive, capacity-building sectors will be curbed. Reform will be introduced for energy and environmental factors. In addition, the targets for seven new low-carbon related growth sectors (of which alternative energy is a part) accounting for 15% of GDP by 2020 and non-fossil energy accounting for 15% of primary energy consumption by 2020, will imply substantial growth potentials for the alternative energy sector during the 12th FYP.

Nuclear, hydro, wind and solar power will be encouraged to grow during the 12th FYP with wind power taking the lion-skin of the incremental expansion of alternative energy.

Policy support and financial incentives, such as tariff subsidy and tax relief, in favour of the alternative energy operators will continue in the foreseeable future. Wind projects in the north-western regions, such as our projects in Changma, Gansu and Siziwangqi in Inner Mongolia might be subject to further tax incentives benefiting from the "North-Western Development Incentives".

Considerable efforts and resources have been put in place by the Chinese Government to improve the power transmission grid and develop the "smart" grid system. The Chinese Government is planning to spend around RMB4 trillion on power grid infrastructures by 2020. Improvement on power dispatch curtailment, which has been a major issue commonly experienced by the alternative energy industry, is anticipated.

A series of merger and acquisition on wind equipment suppliers, as part of the industry consolidation, is expected with the over-abundant manufacturing capacities. The market price of wind turbines, which is a major component of the overall project cost, will likely to come down further as a result. Returns on wind farm project development would therefore increase accordingly.

It is the Group's intention to take advantage of this encouraging business and market environment to expedite the development of the 1,600 MW wind farm project pipeline into premium wind farms. In addition, new potential wind farms in the southern part of China are being explored that will further expand the Group's project pipeline. The Group will also opportunistically evaluate potential merger and acquisition opportunities of both "Greenfield" and "Brownfield" wind farm projects.

On existing projects, the Group is working on preparing the Siziwangqi Phase I project and the Lunaobao wind farm project into commercial operation in early 2011. Proper controls over operating expenses, including maintenance costs, will be taken to ensure that all operating alternative energy projects can continue to contribute steady revenue to the Group.

Bank financing for alternative energy project development is being explored. This may be a challenge this year as the Chinese Government has tightened up funding for capital expansion. Other financing sources or methods will be investigated to ensure the Group funding requirements are met.

Employees

As at the end of December 2010, the Group's operations in Hong Kong and mainland China employed a total of 103 employees. The Group had also 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.

FINAL DIVIDEND

The Directors do not recommend the payment of final dividend for the year ended 31 December 2010 (2009: Nil).

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 30 May 2011 to 1 June 2011, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for attending and voting at the annual general meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 27 May 2011.

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 year ended 31 December 2010.

INTERNAL CONTROL

The Group has had in place an integrated framework of internal controls which is consistent with the Committee of Sponsoring Organisations of the Treadway Commission's framework. Under the framework, the management is primarily responsible for the design, implementation and maintenance of internal controls while the Board and its audit committee oversee the actions of the management and monitor the effectiveness of the controls that have been put in place.

The Board is responsible for the Group's system of internal controls and for reviewing its effectiveness. The Internal Control and Risk Management ("ICRM") Department conducts reviews of the effectiveness of the Group's system of internal controls, including those of its subsidiaries. The Board and the Audit Committee review the findings and consider the recommendations of the ICRM Department after such reviews. In respect of the year ended 31 December 2010, the Board considered the internal controls system effective and adequate.

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 Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") during the year ended 31 December 2010, except for the Code Provisions A.2.1 and A.4.1.

Code Provision A.2.1

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

Code Provision A.4.1

Under the Code Provision A.4.1, non-executive directors should be appointed for specific term and subject to re-election. However, all the Independent Non-executive Directors of the Company were not appointed for 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 set out in Appendix 10 to the Listing Rules (the "Model Code") as its own code of conduct regarding Directors' securities transactions. Having made specific enquiries, all Directors confirmed that they have complied with the required standards set out in the Model Code during the year ended 31 December 2010.

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

AUDIT COMMITTEE

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

The Audit Committee has reviewed the Group's audited consolidated financial statements for the year ended 31 December 2010.

REVIEW OF PRELIMINARY ANNOUNCEMENT

The figures in respect of the announcement of the Group's results for the year ended 31 December 2010 have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagement issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the announcement.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This announcement is published on the websites of the Company (www.hkenergy.com.hk) and the Stock Exchange (www.hkexnews.hk). The 2010 annual report containing all the information required by the Listing Rules will be published on the above websites and dispatched to the shareholders in due course.

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

Hong Kong, 30 March 2011

As at the date of this announcement, the Board comprises eight 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; Mr. Tanguy Vincent SERRA is non-executive Director; and Mr. ZHANG Songyi, Mr. TANG Siu Kui, Ernest and Mr. YU Hon To, David are independent non-executive Directors.