



INTERIM REPORT 2010
二零一零年度中期業績報告

Stock Code 股份代號：987

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

(incorporated in the Cayman Islands with limited liability)
(於開曼群島註冊成立之有限公司)



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CORPORATE INFORMATION

DIRECTORS

- # Mr. OEI Kang, Eric (Chairman and Chief Executive Officer)
- # Mr. CHANG Li Hsien, Leslie (Vice Chairman)[△]
- # Dr. YUNG Pak Keung, Bruce (Managing Director)
- # Mr. LEUNG Wing Sum, Samuel
- ⊗ Mr. ZHANG Songyi
- ⊗ Mr. TANG Siu Kui, Ernest
- ⊗ Mr. YU Hon To, David

Executive Director

* Non-executive Director

⊗ Independent non-executive Director

[△] Appointed on 1 September 2010

AUDITOR

PricewaterhouseCoopers

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
The Bank of East Asia, Limited

COMPANY SECRETARY

Ms. MOK Ming Wai

REGISTERED OFFICE

Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House
68 Fort Street, P.O. Box 609
Grand Cayman KY1-1107
Cayman Islands



HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

9/F., Tower 1, South Seas Centre, 75 Mody Road

Tsimshatsui East, Kowloon, Hong Kong

Telephone: (852) 2731 1000

Fax: (852) 2722 1323

BRANCH SHARE REGISTRAR AND TRANSFER AGENT IN HONG KONG

Computershare Hong Kong Investor Services Limited

46th Floor, Hopewell Centre, 183 Queen's Road East

Hong Kong

E-MAIL ADDRESS

info@hkenergy.com.hk

WEBSITE ADDRESS

<http://www.hkenergy.com.hk>

STOCK CODE

987

WARRANT CODE

748

795

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

	Note	Unaudited Six months ended 30 June	
		2010 HK\$'000	2009 HK\$'000
Revenue	4	1,374	4,876
Cost of sales	5	(1,926)	(2,775)
Gross (loss)/profit		(552)	2,101
Selling and distribution costs	5	(1)	(1,472)
Administrative expenses	5	(24,064)	(15,990)
Provision for impairment losses	6	(4,337)	–
Operating loss		(28,954)	(15,361)
Finance income	7	200	361
Finance costs	7	(1,140)	–
Finance (costs)/income – net	7	(940)	361
Gain on deregistration/disposal of subsidiaries	8	145	7,624
Share of profits less losses of associated companies		290	–
Loss before income tax		(29,459)	(7,376)
Income tax credit	9	1,069	251
Loss for the period		(28,390)	(7,125)
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	10	–	–
Loss per share for loss attributable to the equity holders of the Company, expressed in HK cents per share			
– Basic and diluted	11	(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	12	306	442
Construction in progress	12	3,360	3,311
Intangible assets	12	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	13	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	14	8,557	7,726
Reserves		277,504	299,288
Total equity		286,061	307,014
LIABILITIES			
Non-current liabilities			
Convertible note	15	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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2010

	Unaudited								
	Attributable to equity holders of the Company								
	Share capital HK\$'000	Share premium HK\$'000	Exchange reserve HK\$'000	Employee share-based compensation reserve HK\$'000	Other reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
Balance at 1 January 2009	7,635	175	1,085	-	-	299,916	308,811	13,913	322,724
Loss for the period	-	-	-	-	-	(5,874)	(5,874)	(1,251)	(7,125)
Other comprehensive loss:									
Currency translation differences	-	-	(61)	-	-	-	(61)	-	(61)
Total comprehensive loss for the period	-	-	(61)	-	-	(5,874)	(5,935)	(1,251)	(7,186)
Exercise of bonus warrants	3	62	-	-	-	-	65	-	65
Disposal of subsidiaries	-	-	-	-	-	-	-	(12,662)	(12,662)
Balance at 30 June 2009	7,638	237	1,024	-	-	294,042	302,941	-	302,941
Balance at 1 January 2010	7,726	2,801	1,117	-	5,885	289,485	307,014	-	307,014
Loss for the period	-	-	-	-	-	(28,390)	(28,390)	-	(28,390)
Other comprehensive income:									
Currency translation differences	-	-	5,008	-	-	-	5,008	-	5,008
Total comprehensive loss for the period	-	-	5,008	-	-	(28,390)	(23,382)	-	(23,382)
Employee share option benefits	-	-	-	657	-	-	657	-	657
Reversal of deferred tax liabilities related to equity component of convertible note	-	-	-	-	188	-	188	-	188
Issue of bonus shares	777	(777)	-	-	-	-	-	-	-
Exercise of bonus warrants	54	1,530	-	-	-	-	1,584	-	1,584
Balance at 30 June 2010	8,557	3,554	6,125	657	6,073	261,095	286,061	-	286,061

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2010

	Unaudited Six months ended 30 June	
	2010 HK\$'000	2009 HK\$'000
Net cash used in operating activities	(22,052)	(11,424)
Net cash generated from/(used in) investing activities	176	(1,874)
Net cash generated from financing activities	1,584	65
Net decrease in cash and cash equivalents	(20,292)	(13,233)
Cash and cash equivalents at 1 January	172,226	289,095
Exchange gains/(losses) on cash and cash equivalents	282	(60)
Cash and cash equivalents at 30 June	152,216	275,802

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			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	–	–	–

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

4 SEGMENT INFORMATION (CONTINUED)

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

4 SEGMENT INFORMATION (CONTINUED)

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 EXPENSES BY NATURE

	Six months ended 30 June	
	2010 HK\$'000	2009 HK\$'000
Auditor's remuneration	328	300
Amortisation of intangible assets	909	3,491
Depreciation of property, plant and equipment	141	295
Net exchange losses	2,027	72
Employee benefit expenses (including directors' emoluments)	6,947	9,025
Employee share option benefits	657	–
Operating lease rental	300	792
Research and development expenditure	–	323
Corporate expenses	1,033	823
Legal and professional fees		
– Professional fee for the acquisition of alternative energy businesses	7,180	–
– Others	809	912
Management service fee	4,421	2,938
Other expenses	1,239	1,266
	25,991	20,237

6 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	–

7 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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

8 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.

9 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 HK\$'000	2009 HK\$'000
Deferred income tax credit	1,069	251

Notes:

- 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).
- 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.

10 DIVIDENDS

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

11 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.

12 CAPITAL EXPENDITURE

Movements in property, plant and equipment, construction in progress and intangible assets during the period are analysed as follows:

	Property, plant and equipment HK\$'000	Construction in progress HK\$'000	Intangible assets HK\$'000
Six months ended 30 June 2010			
Opening net book amount as at 1 January 2010	442	3,311	5,539
Depreciation	(141)	–	–
Amortisation	–	–	(909)
Impairment losses (Note)	–	–	(4,337)
Exchange difference	5	49	2
Closing net book amount as at 30 June 2010	306	3,360	295
Six months ended 30 June 2009			
Opening net book amount as at 1 January 2009	762	–	35,557
Additions	10	5,348	73
Disposals	(15)	–	(24,844)
Depreciation	(295)	–	–
Amortisation	–	–	(3,491)
Closing net book amount as at 30 June 2009	462	5,348	7,295

Note:

As at 30 June 2010, the Group performed an impairment test which resulted in impairment losses of HK\$4,337,000 over the carrying amount of intangible assets being recorded.

13 TRADE AND OTHER RECEIVABLES

	As at 30 June 2010 HK\$'000	31 December 2009 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 HK\$'000	31 December 2009 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

14 SHARE CAPITAL

	Note	Ordinary shares of HK\$0.01 each		Non-redeemable convertible preference shares of HK\$0.01 each (Note (a))		Total HK\$'000
		Number of shares	HK\$'000	Number of shares	HK\$'000	
Authorised:						
At 1 January 2009, 30 June 2009, 1 January 2010, 30 June 2010		2,000,000,000	20,000	600,000,000	6,000	26,000
Issued and fully paid:						
At 1 January 2009		763,534,755	7,635	–	–	7,635
Exercise of Bonus Warrants 748	(b)	217,195	3	–	–	3
At 30 June 2009		763,751,950	7,638	–	–	7,638
At 1 January 2010		772,592,209	7,726	–	–	7,726
Exercise of Bonus Warrants 748	(b)	5,314,240	53	–	–	53
Exercise of Bonus Warrants 795	(c)	14,784	1	–	–	1
Issue of bonus shares	(d)	77,733,834	777	–	–	777
At 30 June 2010		855,655,067	8,557	–	–	8,557

Notes:

- (a) The preference shares are not redeemable and the holders are not entitled to vote. At any time after allotment, each holder of preference shares is entitled to convert all or a portion of his/her preference shares into fully paid ordinary shares at the initial conversion rate of 1 ordinary share for every 1.03 preference shares, provided that for the purposes of ensuring the continued listing of the Company's ordinary shares on the Stock Exchange after the conversion of the preference shares, no holder of preference shares should be entitled to exercise the conversion rights if the Company's ordinary shares issued upon conversion together with any ordinary shares of the Company then in issue would result in the minimum prescribed percentage of the Company's ordinary shares in public hands (as defined in the Rules Governing the Listing of Securities on the Stock Exchange from time to time) not being satisfied. On any payment of dividend or distributions (other than a distribution on winding up), the preference shares should rank pari passu with the ordinary shares. No preference shares were issued as of 30 June 2010 and 30 June 2009.
- (b) On 14 May 2009, the Company issued 76,353,475 warrants (Warrant Code: 748) on the basis of one warrant for every ten existing shares of the Company held by the shareholders ("Bonus Warrants 748"). The holders of Bonus Warrants 748 are entitled to subscribe at any time during 14 May 2009 to 13 May 2011 for fully paid shares at a subscription price of HK\$0.30 per share.
- On 1 June 2010, the subscription price of Bonus Warrants 748 was adjusted to HK\$0.266 per share as a result of a new issue of bonus warrants (Warrant Code: 795) and bonus shares in June 2010. Such adjustment took retroactive effect from 30 April 2010.
- For the six months ended 30 June 2010, 5,314,240 (six months ended 30 June 2009: 217,195) new ordinary shares of HK\$0.01 each were issued upon the exercise of 5,314,240 (six months ended 30 June 2009: 217,195) units of Bonus Warrants 748. As at 30 June 2010, 61,981,781 (30 June 2009: 76,136,280) units of Bonus Warrants 748 remained outstanding.
- (c) On 9 June 2010, the Company issued 77,733,834 warrants (Warrant Code: 795) on the basis of one warrant for every ten existing shares of the Company held by the shareholders ("Bonus Warrants 795"). The holders of Bonus Warrants 795 are entitled to subscribe at any time during 9 June 2010 to 8 June 2011 for fully paid shares at a subscription price of HK\$0.60 per share. For the six months ended 30 June 2010, 14,784 new ordinary shares of HK\$0.01 each were issued upon the exercise of 14,784 units of Bonus Warrants 795. As at 30 June 2010, 77,719,050 units of Bonus Warrants 795 remained outstanding.
- (d) At the annual general meeting held on 1 June 2010, the resolution to approve the issue of 77,733,834 bonus shares on the basis of 1 bonus share for every 10 ordinary shares held was passed by the shareholders. The bonus shares were issued on 9 June 2010. The bonus shares are issued, allotted and distributed, credited as fully paid up, upon issue and rank pari passu in all respects with the existing shares with effect from the date of issue, except that they will not be entitled to the Bonus Warrants 795 as mentioned in note (c).
- (e) Share options are granted to employees, senior executives or officers, managers, directors or consultants of any members of the Group or any Invested Entity.
- The exercise price must be at least the higher of
- the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant;
 - the average closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and
 - the nominal value of a share.

14 SHARE CAPITAL (CONTINUED)

Notes: (Continued)

- (e) An option must be exercised within 10 years from the date on which it is granted or such shorter period as the Board may specify at the time of grant. An offer of the grant of an option shall remain open for acceptance for a period of 10 business days from the date of offer and a consideration of HK\$1 must be paid upon acceptance.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2010 Average exercise price in HK dollars per share	Number of options
At 1 January	–	–
Granted	0.840	7,500,000
Exercised	–	–
Issues of bonus shares	(0.076)	750,000
At 30 June	0.764	8,250,000

Outstanding share options at 30 June 2010 are as follows:

Date of grant	Exercise period	Exercise price per share (adjusted) (HK\$)	Outstanding at 30 June 2010
20 January 2010	20 January 2011 to 19 January 2013	0.764	1,650,000
20 January 2010	20 January 2012 to 19 January 2014	0.764	2,475,000
20 January 2010	20 January 2013 to 19 January 2015	0.764	4,125,000
		Total	8,250,000

Using the Binomial Valuation model, the fair value of 7,500,000 share options granted on 20 January 2010 was HK\$2,939,000 for the period under review. The significant inputs into the model were share price of HK\$0.84 at the grant date, exercise price of HK\$0.84, volatility ranging from 60% to 72%, dividend yield of 0%, an option life ranging from 3 years to 5 years, and on annual risk-free interest rate ranging from 1.003% to 1.877%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of weekly share prices over the last 12 months. The vesting period is between 20 January 2011 to 19 January 2015. The value of the share options is subject to a number of assumptions and with regard to the limitation of model. Therefore, the value may be subjective and difficult to determine.

On 1 June 2010, the exercise price of share options was adjusted from HK\$0.84 per share to HK\$0.764 per share, and the total number of shares to be allotted and issued upon full exercise of the outstanding share options was adjusted from 7,500,000 shares to 8,250,000 shares as a result of the new issue of bonus shares in June 2010. Such adjustment took retroactive effect from 30 April 2010.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

15 CONVERTIBLE NOTE

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

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

On 1 June 2010, the conversion price of the convertible note was adjusted to HK\$1.0113 per share as a result of the new issue of Bonus Warrants 795 and bonus shares. Such adjustment took retroactive effect from 30 April 2010.

16 COMMITMENTS

(a) Capital commitments

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

	As at	
	30 June	31 December
	2010	2009
	HK\$'000	HK\$'000
Capital expenditure in respect of alternative energy projects:		
Contracted but not provided for	68,027	67,030
Authorised but not contracted for	313,904	309,303
	381,931	376,333

(b) Commitments under operating leases

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

	As at	
	30 June	31 December
	2010	2009
	HK\$'000	HK\$'000
No later than 1 year	4,494	9,246

17 RELATED PARTY TRANSACTIONS

Other than the transactions and balances disclosed elsewhere in these financial statements, the Group entered into transactions with the following related parties for the six months ended 30 June 2010 and 2009.

- (a) Management services fee of HK\$4,421,000 (six months ended 30 June 2009: HK\$2,938,000) was paid to the ultimate holding company. The fee was charged based on the terms agreed by both parties.
- (b) Office rental of HK\$214,000 (six months ended 30 June 2009: Nil) was paid to a fellow subsidiary. The office rental was charged at terms pursuant to agreements which were agreed by both parties.
- (c) Property management fee of HK\$137,000 (six months ended 30 June 2009: Nil) was paid to a fellow subsidiary. The property management fee was charged at terms pursuant to agreements which were agreed by both parties.
- (d) Key management compensation

Related party	Nature of transaction	Six months ended 30 June	
		2010 HK\$'000	2009 HK\$'000
Directors and key management of the Company	Directors fee, salaries and benefits paid by the Group	2,651	2,424

18 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. 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 report.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong
羅兵咸永道會計師事務所
香港中環
太子大廈二十二樓

TO THE BOARD OF DIRECTORS OF HONG KONG ENERGY (HOLDINGS) LIMITED

(incorporated in Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 4 to 17, which comprises the condensed consolidated balance sheet of Hong Kong Energy (Holdings) Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2010 and the related condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review 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. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 26 August 2010

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 know-how 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 ended 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 11) 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 effective 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. 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.



OUTLOOK (CONTINUED)

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” – formerly before renaming 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.

OTHER INFORMATION

DIRECTORS' INTERESTS

As at 30 June 2010, the interests of the directors and chief executive of the Company in the shares and underlying shares of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests which they were taken or deemed to have under such provisions of the SFO) or were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), to be notified to the Company and the Stock Exchange were as follows:

(i) Long positions in the shares and underlying shares of the Company:

Name of Director	Nature of interest	Number of shares and underlying shares of the Company	Approximate percentage of the existing issued share capital of the Company
Mr. OEI Kang, Eric	Personal ¹	1,190,848	0.139
	Corporate ²	2,055,480,316	240.223
	Joint ³	18,001,083	2.104
Dr. YUNG Pak Keung, Bruce	Joint ⁴	480,000	0.056
	Personal ⁵	5,500,000	0.643
Mr. LEUNG Wing Sum, Samuel	Personal ⁶	2,750,000	0.321
Mr. LIU Zhixin (Resigned on 1 September 2010)	Personal ⁷	4,992	0.0006

Notes:

- The personal interest of Mr. OEI Kang, Eric represents an interest in 1,190,848 underlying shares in respect of warrants issued by the Company.
- Since HKC (Holdings) Limited ("HKC") is held as to approximately 35.95% by Creator Holdings Limited ("Creator"), a company owned as to 50% by Mr. OEI Kang, Eric and as to the remaining 50% by his wife, Mrs. OEI Valonia Lau, Mr. OEI Kang, Eric is deemed to be interested in the same parcel of shares of the Company in which HKC is interested. The corporate interest of Mr. OEI Kang, Eric includes (i) an interest in 507,179,732 shares of the Company held by HKC; (ii) an interest in a zero coupon convertible note issued by the Company to HKC with a principle amount of RMB73.5 million carrying rights to convert into 72,932,034 shares of the Company at the conversion price of HK\$1.0113 per share (subject to adjustment); (iii) an interest in the 1,385,170,068 convertible preferred shares of the Company carrying rights to convert into shares of the Company at the initial conversion rate of 1 convertible preferred share to 1 share of the Company (subject to adjustment); (iv) an interest in 43,902,066 shares of the Company and an interest in 40,566,816 underlying shares in respect of warrants issued by the Company held by Creator; and (v) an interest in 3,003,526 shares of the Company and an interest in 2,726,074 underlying shares in respect of warrants issued by the Company held by Genesis Capital Group Limited ("Genesis"), a company owned as to 50% by Mr. OEI Kang, Eric and as to the remaining 50% by his wife, Mrs. OEI Valonia Lau.
- The joint interest of Mr. OEI Kang, Eric represents an interest in 3,949,613 shares of the Company and an interest in 14,051,470 underlying shares in respect of warrants issued by the Company jointly held with his wife, Mrs. OEI Valonia, Lau.
- The joint interest of Dr. YUNG Pak Keung, Bruce represents an interest in 440,000 shares of the Company and 40,000 underlying shares in respect of warrants issued by the Company jointly held with his wife.
- The personal interest of Dr. YUNG Pak Keung, Bruce represents an interest in 5,500,000 underlying shares in respect of options granted by the Company as detailed in "Interest in share options of the Company" section below.
- The personal interest of Mr. LEUNG Wing Sum, Samuel represents an interest in 2,750,000 underlying shares in respect of options granted by the Company as detailed in "Interest in share options of the Company" section below.
- The personal interest of Mr. LIU Zhixin represents an interest in 4,992 underlying shares in respect of warrants issued by the Company.

DIRECTORS' INTERESTS (CONTINUED)

(ii) Interest in share options of the Company:

The existing share option scheme of the Company was adopted on 27 May 2008 (the "HKE Option Scheme"). Movement of the share options under the HKE Option Scheme during the six months ended 30 June 2010 were as follows:—

Name of Director	Nature of interest	Number of share options					Outstanding at 30 June 2010	Date of grant	Exercise period (Note 3)	Exercise price per share (HK\$) (Note 1)
		Outstanding at 1 January 2010	Granted (Note 2)	Exercised	Cancelled/ Lapsed	Adjustment made during the period (Note 1)				
Dr. YUNG Pak Keung, Bruce	Personal	–	1,000,000	–	–	100,000	1,100,000	20 January 2010	20 January 2011 to 19 January 2013	0.764
		–	1,500,000	–	–	150,000	1,650,000	20 January 2010	20 January 2012 to 19 January 2014	0.764
		–	2,500,000	–	–	250,000	2,750,000	20 January 2010	20 January 2013 to 19 January 2015	0.764
Mr. LEUNG Wing Sum, Samuel	Personal	–	500,000	–	–	50,000	550,000	20 January 2010	20 January 2011 to 19 January 2013	0.764
		–	750,000	–	–	75,000	825,000	20 January 2010	20 January 2012 to 19 January 2014	0.764
		–	1,250,000	–	–	125,000	1,375,000	20 January 2010	20 January 2013 to 19 January 2015	0.764
Total		–	7,500,000	–	–	750,000	8,250,000			

Notes:

- In accordance with the HKE Option Scheme, the exercise price of the share option was adjusted from HK\$0.840 per share to HK\$0.764 per share, and the total number of shares to be issued upon exercise of the outstanding share options was also adjusted correspondingly on 1 June 2010 as a result of the bonus issue of shares by the Company in June 2010. Such adjustments took retroactive effect from 30 April 2010, being the day immediately following the record date.
- The closing price of the shares of the Company immediately before the date on which the share options were granted on 20 January 2010 was HK\$0.727 (adjusted).
- The share options will be vested and exercisable subject to the attainment of the performance target as determined by the board of directors of the Company (the "Board").

Using the Binominal Valuation model, the fair value of 7,500,000 share options granted on 20 January 2010 (adjusted to 8,250,000 share options) was HK\$2,939,000 for the period under review. The significant inputs into the model were share price of HK\$0.764 (adjusted) at the grant date, exercise price of HK\$0.764 (adjusted), volatility of ranging from 60% to 72%, dividend yield of 0%, an expected option life of 3 years to 5 years and on normal risk-free interest rate ranging from 1.003% to 1.877%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of weekly share prices over the last 12 months. The vesting period is between 20 January 2011 to 19 January 2015. The value of the share options is subject to a number of assumptions and with regard to the limitation of model. Therefore, the value may be subjective and difficult to determine.

Save as disclosed above, no share option was granted, exercised, cancelled nor lapsed during the six months ended 30 June 2010 under the HKE Option Scheme.

OTHER INFORMATION

DIRECTORS' INTERESTS (CONTINUED)

(iii) Long positions in the shares and underlying shares of associated corporation:

Name of associated corporation	Name of Director	Nature of interest	Number of shares and underlying shares of the associated corporation	Approximate percentage of existing issued share capital of the associated corporation
HKC	Mr. OEI Kang, Eric	Personal ¹	20,897,310	0.202
		Corporate ²	4,458,938,271	43.009
		Joint ³	126,242,591	1.218
		Family ⁴	3,630,000	0.035
	Mr. LEUNG Wing Sum, Samuel	Personal ⁵	6,292,000	0.061
	Mr. LIU Zhixin (Resigned on 1 September 2010)	Personal ⁶	9,147,397	0.088

Notes:

- The personal interest of Mr. OEI Kang, Eric represents an interest in 17,267,310 underlying shares in respect of warrants issued by HKC and an interest in 3,630,000 underlying shares in respect of options granted by HKC as detailed in "Interest in share options of associated corporation" section below.
- The corporate interest of Mr. OEI Kang, Eric represents an interest in 3,727,073,029 shares of HKC and an interest in 453,699,914 underlying shares in respect of warrants issued by HKC held by Creator, and an interest in 254,984,884 shares of HKC and an interest in 23,180,444 underlying shares in respect of warrants issued by HKC held by Genesis.
- The joint interest of Mr. OEI Kang, Eric represents an interest in 91,195,648 shares of HKC and an interest in 35,046,943 underlying shares in respect of warrants issued by HKC jointly held with his wife, Mrs. OEI Valonia Lau.
- The family interest of Mr. OEI Kang, Eric represents an interest in 3,630,000 underlying shares in respect of options granted by HKC to Mrs. OEI Valonia Lau.
- The personal interest of Mr. LEUNG Wing Sum, Samuel represents an interest in 6,292,000 underlying shares in respect of options granted by HKC as detailed in "Interest in share options of associated corporation" section below.
- The personal interest of Mr. LIU Zhixin represents an interest in 72,397 underlying shares in respect of warrants issued by HKC and an interest in 9,075,000 underlying shares in respect of options granted by HKC as detailed in "Interest in share options of associated corporation" section below.

DIRECTORS' INTERESTS (CONTINUED)

(iv) Interest in share options of associated corporation:

The existing share option scheme of HKC was adopted on 16 June 2006 (the "HKC Option Scheme"). Share options granted to the directors of the Company under the HKC Option Scheme were as follows:–

Name of Director	Nature of interest	Number of share options					Outstanding at 30 June 2010	Date of grant	Exercise period	Exercise price per share (HK\$) (Note)
		Outstanding at 1 January 2010	Granted	Exercised	Cancelled/ Lapsed	Adjustment made during the period (Note)				
Mr. OEI Kang, Eric	Personal	618,750	–	–	–	61,875	680,625	15 December 2006	15 December 2007 to 14 December 2016	1.174
		1,031,250	–	–	–	103,125	1,134,375	15 December 2006	15 December 2008 to 14 December 2016	1.174
		330,000	–	–	–	33,000	363,000	1 February 2008	1 February 2009 to 31 January 2018	1.368
		495,000	–	–	–	49,500	544,500	1 February 2008	1 February 2010 to 31 January 2018	1.368
		825,000	–	–	–	82,500	907,500	1 February 2008	1 February 2011 to 31 January 2018	1.368
	Family	618,750	–	–	–	61,875	680,625	15 December 2006	15 December 2007 to 14 December 2016	1.174
		1,031,250	–	–	–	103,125	1,134,375	15 December 2006	15 December 2008 to 14 December 2016	1.174
		330,000	–	–	–	33,000	363,000	1 February 2008	1 February 2009 to 31 January 2018	1.368
		495,000	–	–	–	49,500	544,500	1 February 2008	1 February 2010 to 31 January 2018	1.368
		825,000	–	–	–	82,500	907,500	1 February 2008	1 February 2011 to 31 January 2018	1.368
Mr. LEUNG Wing Sum, Samuel	Personal	1,320,000	–	–	–	132,000	1,452,000	15 December 2006	15 December 2007 to 14 December 2016	1.174
		2,200,000	–	–	–	220,000	2,420,000	15 December 2006	15 December 2008 to 14 December 2016	1.174
		440,000	–	–	–	44,000	484,000	1 February 2008	1 February 2009 to 31 January 2018	1.368
		660,000	–	–	–	66,000	726,000	1 February 2008	1 February 2010 to 31 January 2018	1.368
		1,100,000	–	–	–	110,000	1,210,000	1 February 2008	1 February 2011 to 31 January 2018	1.368

OTHER INFORMATION

DIRECTORS' INTERESTS (CONTINUED)

(iv) Interest in share options of associated corporation: (Continued)

Name of Director	Nature of interest	Number of share options					Adjustment made during the period (Note)	Outstanding at 30 June 2010	Date of grant	Exercise period	Exercise price per share (HK\$) (Note)
		Outstanding at 1 January 2010	Granted	Exercised	Cancelled/ Lapsed						
Mr. LIU Zhixin (Resigned on 1 September 2010)	Personal	1,980,000	-	-	-	198,000	2,178,000	15 December 2006	15 December 2007 to 14 December 2016	1.174	
		3,300,000	-	-	-	330,000	3,630,000	15 December 2006	15 December 2008 to 14 December 2016	1.174	
		594,000	-	-	-	59,400	653,400	1 February 2008	1 February 2009 to 31 January 2018	1.368	
		891,000	-	-	-	89,100	980,100	1 February 2008	1 February 2010 to 31 January 2018	1.368	
		1,485,000	-	-	-	148,500	1,633,500	1 February 2008	1 February 2011 to 31 January 2018	1.368	
Total		20,570,000	-	-	-	2,057,000	22,627,000				

Note:

In accordance with the HKC Option Scheme, the exercise price of the share option was adjusted from HK\$1.291 per share and HK\$1.505 per share to HK\$1.174 per share and HK\$1.368 per share respectively, and the total number of shares to be issued upon exercise of the outstanding share options was also adjusted correspondingly on 1 June 2010 as a result of the bonus issue of shares by HKC in June 2010. Such adjustments took retroactive effect from 30 April 2010, being the day immediately following the record date.

Save as disclosed above, as at 30 June 2010, none of the directors or chief executive of the Company held any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30 June 2010, the following persons (other than a director or chief executive of the Company) had interests in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Long positions in the shares and underlying shares of the Company

Name	Nature of interest	Number of shares and underlying shares of the Company	Approximate percentage of the existing issued share capital of the Company
HKC	Beneficial owner ¹	1,965,281,834	229.682%
Creator	Corporate ²	2,049,750,716	239.553%
Mrs. OEI Valonia Lau	Family ³	2,074,672,247	242.466%

SUBSTANTIAL SHAREHOLDERS' INTERESTS (CONTINUED)

Notes:

1. The beneficial interest of HKC includes (i) an interest in 507,179,732 shares of the Company; (ii) an interest in a zero coupon convertible note issued by the Company to HKC with a principle amount of RMB73.5 million carrying rights to convert into 72,932,034 shares of the Company at the conversion price of HK\$1.0113 per share (subject to adjustment); and (iii) an interest in the 1,385,170,068 convertible preferred shares carrying rights to convert into shares of the Company at the initial conversion rate of 1 convertible preferred share to 1 share (subject to adjustment).
2. Creator is beneficially interested in 35.95% of the issued share capital of HKC and thus, is deemed to be interested in the same parcel of shares of the Company in which HKC is interested. In addition, the corporate interest includes an interest in 43,902,066 shares of the Company and an interest in 40,566,816 underlying shares in respect of warrants issued by the Company
3. Mrs. OEI Valonia Lau is deemed to be interested in the same parcel of shares in which Mr. OEI Kang, Eric is taken to be interested (as detailed in "Directors' Interests" section above).

Save as disclosed above, at 30 June 2010, the Company had not been notified by any person, other than directors and chief executive of the Company, who had interests or short positions in the shares and underlying shares of the Company which are required to be recorded in the register required to be kept by the Company under section 336 of Part XV of the SFO.

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 Listing Rules, 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.

DISCLOSURE PURSUANT TO RULES 13.20 AND 13.22 OF THE LISTING RULES

On 20 November 2009, the Company (as the Purchaser), Hong Kong Construction (Hong Kong) Limited (as the Vendor) and HKC (as the Vendor Guarantor) entered into a sale and purchase agreement and as part of the transactions contemplated thereunder, the Vendor (i) assigned to the Purchaser 25% of the shareholders' loan owed by HKE (Danjinghe) Wind Power Limited ("HKE (Danjinghe)") to the Vendor (the "Vendor Loan") immediately before completion of the transaction in the sum of approximately HK\$235.3 million; and (ii) procured its wholly-owned subsidiary to assign to the Purchaser 25% of the shareholders' loan owed by HKE (Danjinghe) to that wholly-owned subsidiary (the "HKE (BVI) Loan") immediately before completion of the transaction in the sum of approximately HK\$50.2 million. Such 25% of the Vendor Loan and 25% of the HKE (BVI) Loan owed by HKE (Danjinghe) to the Company constituted the provision of financial assistance by the Company to a connected person under Rule 14A.13(2)(a)(i) of the Listing Rules. As at 30 June 2010, HKE (Danjinghe) was owned as to 25% by the Company and thus was an affiliated company of the Group. The Vendor Loan and the HKE (BVI) Loan are unsecured, interest free and have no definite repayment terms.

In accordance with the requirement under Rule 13.20 of the Listing Rules, HKE (Danjinghe) was indebted to the Group for the 25% of the Vendor Loan and the 25% of the HKE (BVI) Loan in an aggregate amount of HK\$71.4 million which represented approximately 19.1% of the Group's total assets value as at 30 June 2010.

OTHER INFORMATION

DISCLOSURE PURSUANT TO RULES 13.20 AND 13.22 OF THE LISTING RULES (CONTINUED)

In accordance with the requirement under Rule 13.22 of the Listing Rules, the pro forma combined balance sheet of the affiliated company and the Group's attributable interests in the affiliated company based on its latest financial statements available are presented below:

	Combined balance sheet HK\$ million	Group's attributable interests HK\$ million
Assets	300.7	75.2
Liabilities	(281.6)	(70.4)
Net assets	19.1	4.8

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 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 organisation 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 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.

By order of the Board

Hong Kong Energy (Holdings) Limited

OEI Kang, Eric

Chairman and Chief Executive Officer

Hong Kong, 26 August 2010

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

9/F, Tower 1, South Seas Centre, 75 Mody Road
Tsimshatsui East, Kowloon, Hong Kong
香港九龍尖沙咀東麼地道75號南洋中心1期9樓

www.hkenergy.com.hk