



# 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](http://www.hkenergy.com.hk))

### INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30TH JUNE 2008

The Board of Directors (“the Board”) of Hong Kong Energy (Holdings) Limited (“the Company”) wishes to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (“the Group”) for the six months ended 30th June 2008 as follows:–

#### CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June 2008

	Notes	Unaudited					
		Continuing operations		Discontinued operations		Total	
		Six months ended 2008	2007	Six months ended 2008	2007	Six months ended 2008	2007
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	5	5,566	–	–	304,179	5,566	304,179
Cost of sales		(2,970)	–	–	(272,497)	(2,970)	(272,497)
<b>Gross profit</b>		<b>2,596</b>	–	–	31,682	<b>2,596</b>	31,682
Selling and distribution costs		(1,534)	(323)	–	(7,353)	(1,534)	(7,676)
Administrative expenses		(18,554)	(5,481)	–	(15,598)	(18,554)	(21,079)
Other expenses	6	(48,309)	–	–	–	(48,309)	–
<b>Operating (loss)/profit</b>		<b>(65,801)</b>	(5,804)	–	8,731	<b>(65,801)</b>	2,927
Share of loss of an associate		–	(903)	–	–	–	(903)
Finance income	7	2,149	19	–	88	2,149	107
Finance cost	7	(135)	(602)	–	(1,027)	(135)	(1,629)
<b>(Loss)/profit before income tax</b>		<b>(63,787)</b>	(7,290)	–	7,792	<b>(63,787)</b>	502
Income tax credit	8	3,433	–	–	5,829	3,433	5,829
<b>(Loss)/profit for the period</b>		<b>(60,354)</b>	(7,290)	–	13,621	<b>(60,354)</b>	6,331
<b>Attributable to:</b>							
– equity holders of the Company		(59,858)	(7,290)	–	13,621	(59,858)	6,331
– minority interest		(496)	–	–	–	(496)	–
		<b>(60,354)</b>	(7,290)	–	13,621	<b>(60,354)</b>	6,331
<b>Dividends</b>	9	–	–	–	–	–	–
<b>(Loss)/earnings per share</b>							
(HK cents) Basic	10	(7.84)	(0.95)	–	1.78	(7.84)	0.83

**CONDENSED CONSOLIDATED BALANCE SHEET**  
As at 30th June 2008

	<i>Notes</i>	<b>Unaudited 30th June 2008 HK\$'000</b>	Audited 31st December 2007 HK\$'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		1,913	1,785
Intangible assets		51,949	30,849
Goodwill		–	42,044
<b>Total non-current assets</b>		<b>53,862</b>	74,678
<b>Current assets</b>			
Trade and other receivables	<i>11</i>	8,184	2,431
Tax recoverable		238	345
Cash and cash equivalents		304,860	344,558
<b>Total current assets</b>		<b>313,282</b>	347,334
<b>Total assets</b>		<b>367,144</b>	422,012
<b>EQUITY</b>			
<b>Capital and reserves attributable to equity holders of the Company</b>			
Capital		7,635	7,635
Reserves		331,203	389,811
<b>Minority Interest</b>		<b>338,838</b>	397,446
		18,404	–
<b>Total equity</b>		<b>357,242</b>	397,446
<b>LIABILITIES</b>			
<b>Non-current liability</b>			
Deferred income tax liabilities		5,077	7,414
<b>Current liabilities</b>			
Other payables		3,073	7,362
Current income tax liabilities		–	1,210
Bank borrowings		1,752	8,580
<b>Total current liabilities</b>		<b>4,825</b>	17,152
<b>Total liabilities</b>		<b>9,902</b>	24,566
<b>Total equity and liabilities</b>		<b>367,144</b>	422,012
<b>Net current assets</b>		<b>308,457</b>	330,182
<b>Total assets less current liabilities</b>		<b>362,319</b>	404,860

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the six months ended 30th June 2008*

Unaudited

	Attributable to equity holders of the Company						Total	Minority interest	Total equity
	Share capital	Share premium	Goodwill reserve	Exchange reserve	Special reserve	Retained profits			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Balance at 1st January 2007	7,635	175	(8,351)	-	(6,774)	176,299	168,984	-	168,984
Profit for the period	-	-	-	-	-	6,331	6,331	-	6,331
<b>Balance at 30th June 2007</b>	<u>7,635</u>	<u>175</u>	<u>(8,351)</u>	<u>-</u>	<u>(6,774)</u>	<u>182,630</u>	<u>175,315</u>	<u>-</u>	<u>175,315</u>
Balance at 1st January 2008	7,635	175	-	-	(6,774)	396,410	397,446	-	397,446
Transfer to retained earning	-	-	-	-	6,774	(6,774)	-	-	-
Currency translation differences	-	-	-	1,250	-	-	1,250	-	1,250
Contribution from a minority shareholder in a subsidiary	-	-	-	-	-	-	-	18,900	18,900
Loss for the period	-	-	-	-	-	(59,858)	(59,858)	(496)	(60,354)
<b>Balance at 30th June 2008</b>	<u>7,635</u>	<u>175</u>	<u>-</u>	<u>1,250</u>	<u>-</u>	<u>329,778</u>	<u>338,838</u>	<u>18,404</u>	<u>357,242</u>

## **NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION**

### **1 GENERAL INFORMATION**

Hong Kong Energy (Holdings) Limited ('the Company') is an investment holding company and its subsidiaries (together, 'the Group') are principally engaged in alternative energy business and software development business. The financial statements are presented in thousands of units of Hong Kong dollars (HK\$ thousand), unless otherwise stated. The functional currency of the Company is Hong Kong dollars.

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

The condensed consolidated interim financial information was approved for issue on 10th September 2008.

### **2 BASIS OF PREPARATION**

The condensed consolidated interim financial information for the six months ended 30th June 2008 has been prepared in accordance with HKAS 34 "Interim financial reporting". The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31st December 2007, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the HKICPA.

### **3 ACCOUNTING POLICIES**

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31st December 2007, as described in the annual financial statements for the year ended 31st December 2007.

The following new standards, amendments to standards or interpretations are mandatory for the first time for the financial year beginning 1st January 2008 but are not currently relevant for the Group.

- HK(IFRIC) – Int 11, "HKFRS 2 – Group and Treasury Share Transactions"
- HK(IFRIC) – Int 12, "Service Concession Arrangements"
- HK(IFRIC) – Int 14, "HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"

### **4 FINANCIAL RISK MANAGEMENT**

All aspects of the Group's financial risk management objectives and policies are consistent with those disclosed in the 2007 annual financial statements.

## 5 SEGMENT INFORMATION

### (a) Primary reporting format – business segments

Commencing from 1st January 2008, the Group is organised into two main business segments: alternative energy and software development.

The segment results for the six months ended 30th June 2008 and 30th June 2007 are as follows:

	Six months ended 30th June					
	2008			2007		
	Continuing operations			Continuing operations	Discontinued operations	Total
Alternative energy	Software development	Total Group		LCD production		
<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	
Revenue	<u>-</u>	<u>5,566</u>	<u>5,566</u>	<u>-</u>	<u>304,179</u>	<u>304,179</u>
Operating results	(1,093)	(54,141)	(55,234)	-	19,185	19,185
Unallocated expenses			(10,567)	(5,804)	(10,454)	(16,258)
Finance income			2,149	19	88	107
Finance cost			(135)	(602)	(1,027)	(1,629)
Share of loss of an associate			-	(903)	-	(903)
(Loss)/profit before income tax			(63,787)	(7,290)	7,792	502
Income tax credit			3,433	-	5,829	5,829
(Loss)/profit from operations for the period			<u>(60,354)</u>	<u>(7,290)</u>	<u>13,621</u>	<u>6,331</u>
Depreciation	9	308	317	29	15,896	15,925
Amortisation	1,050	3,085	4,135	-	-	-
Impairment losses	-	48,309	48,309	-	-	-
Capital expenditure	<u>31,500</u>	<u>163</u>	<u>31,663</u>	<u>-</u>	<u>13,345</u>	<u>13,345</u>

Note:

- (a) During the six months ended 30th June 2007, the Group was entirely engaged in the manufacturing and distribution of LCD products which was disposed on 31st December 2007. Accordingly, the Group had only one business segment.
- (b) The software development business was acquired by the Group on 31st December 2007.

The segment assets and liabilities as at 30th June 2008 and 31st December 2007 are as follows:

	<b>30th June 2008</b>			31st December 2007
	<b>Alternative energy HK\$'000</b>	<b>Software development HK\$'000</b>	<b>Total HK\$'000</b>	Software development HK\$'000
Total segment assets	43,049	38,285	81,334	91,523
Unallocated assets			285,810	330,489
<b>Total assets</b>			<b>367,144</b>	<b>422,012</b>
<b>Total liabilities</b>	<b>3,264</b>	<b>6,638</b>	<b>9,902</b>	<b>24,566</b>

(b) **Secondary reporting format – geographical segments**

Revenue is allocated based on the region in which the customers are located. All revenue is generated from sales of products. Capital expenditure is allocated based on where the assets are located.

	<b>Six months ended 30th June</b>	
	<b>2008 HK\$'000</b>	<b>2007 HK\$'000</b>
<b>Revenue</b>		
Hong Kong	–	202,367
The PRC	–	85,405
Japan	5,566	1,931
Europe	–	10,396
Others	–	4,080
	<b>5,566</b>	<b>304,179</b>

	<b>Six months ended 30th June</b>	
	<b>2008 HK\$'000</b>	<b>2007 HK\$'000</b>
<b>Capital expenditure</b>		
Hong Kong	31,500	–
The PRC	163	13,345
	<b>31,663</b>	<b>13,345</b>

Total assets are allocated based on where the assets are located.

	<b>30th June 2008 HK\$'000</b>	31st December 2007 HK\$'000
	<b>Segment assets</b>	
Hong Kong	285,923	327,583
The PRC	80,639	92,908
Japan	582	1,521
Total assets	<b>367,144</b>	<b>422,012</b>

## 6 OTHER EXPENSES

	Six months ended 30th June	
	2008 HK\$'000	2007 HK\$'000
Written-off of goodwill	42,044	–
Impairment losses of intangible assets	6,265	–
	<u>48,309</u>	<u>–</u>

## 7 FINANCE INCOME AND COST

	Six months ended 30th June	
	2008 HK\$'000	2007 HK\$'000
<b>Finance cost :</b>		
Interest expenses on bank loans and other borrowings – wholly repayable within 5 years	(135)	(1,629)
<b>Finance income:</b>		
– interest income on bank deposits	2,149	107
Net finance income/(cost)	<u>2,014</u>	<u>(1,522)</u>

## 8 INCOME TAX CREDIT

No tax provision has been made for the Group as they have no estimated assessable profits in Hong Kong or the PRC for the period (2007: Nil).

	Six months ended 30th June	
	2008 HK\$'000	2007 HK\$'000
Current income tax		
Overprovision in prior years	1,096	–
Deferred income tax credit	2,337	5,829
Income tax credit	<u>3,433</u>	<u>5,829</u>

### Notes

- (a) As at 31st December 2007, a deferred income tax liability was recognised in respect of intangible assets of the acquired software development business. The deferred income tax credit for the period ended 30th June 2008 represents movement in deferred income tax arising from amortisation and impairment of such intangible assets. The deferred income tax credit for the period ended 30th June 2007 mainly represents recognition of deferred income tax asset on accelerated depreciation of property, plant and equipment of the discontinued operations. The deferred tax asset was derecognised upon disposal of discontinued operations as at 31st December 2007.
- (b) J.I.C. (Macao Commercial Offshore) Company Limited, a wholly owned subsidiary of the Company, is exempted from Macao Complementary Tax in accordance with the Macao Decree Law No. 58/99/M.

## 9 DIVIDENDS

No interim dividend was proposed and no dividend was paid for the period ended 30th June 2008 (2007: Nil).

## 10 (LOSS)/EARNINGS PER SHARE

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

	Six months ended 30th June	
	2008	2007
(Loss)/profit attributable to equity holders of the Company (HK\$ thousand)	(59,858)	6,331
Weighted average number of ordinary shares in issue	763,534,755	763,534,755
Basis (loss)/earnings per share (HK cents per share)	(7.84)	0.83

Diluted earnings per share has not been disclosed as there was no dilutive potential shares in issue in both periods.

## 11 TRADE AND OTHER RECEIVABLES

	30th June 2008 HK\$'000	As at 31st December 2007 HK\$'000
Trade receivables	8,264	2,431
Less: provision for impairment of receivables	(80)	–
	<u>8,184</u>	<u>2,431</u>

At 30th June 2008 and 31st December 2007, the ageing analysis of trade receivables, net of provision for impairment of receivables, is as follows:

	30th June 2008 HK\$'000	As at 31st December 2007 HK\$'000
Less than 30 days	827	1,365
30 days to less than 60 days	–	156
60 days to less than 90 days	193	–
	<u>1,020</u>	<u>1,521</u>
Other receivables	7,164	910
	<u>8,184</u>	<u>2,431</u>

The Group's policy is to allow credit periods ranging from 30 days to 90 days (2007: 30 days to 90 days) to its trade customers.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **FINANCIAL REVIEW**

For the six months ended 30th June 2008, turnover for the Group amounted to HK\$5.57 million, a decrease of 98% over turnover of HK\$304.18 million for the same period in 2007. Gross profit for the period also decreased to HK\$2.60 million from HK\$31.68 million for the same period last year. Net loss attributable to equity holders of the Group amounted to HK\$59.86 million for the period under review (2007: Net profit HK\$6.33 million). The decrease in revenue and profit was largely the result of the discontinuation of the Group's LCD business which was the principal activity for the Group in 2007. The Group acquired its software business in December 2007; however, because of its small scale, has not been able to replace the revenues lost from the LCD business. Meanwhile, the Group has been making investments in the high growth alternative energy business; however, the projects are still in the investment stage, and have not been completed. Therefore, alternative energy is not yet generating any revenues. Basic loss per share amounted to HK7.84 cents (2007: basic earnings per share HK0.83 cents).

#### **Liquidity and Financial Resources**

As at 30th June 2008, the Group's total Hong Kong Dollar borrowings amounted to HK\$1.75 million, representing a drop of 80% when compared with the equivalent figure of HK\$8.58 million as at 31st December 2007.

All outstanding borrowings take the form of interest-bearing loans, with interest rates comparable to market rate, and will mature within one year.

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

The Group will continue its efforts to create an optimum financial structure that best reflects the long-term interests of its shareholders, and will actively consider a variety of alternative sources of funding to finance future investments.

#### **Details of Charges in Group Assets**

In the period under review, the Group did not have any charges over the Group's assets.

#### **Gearing Ratio**

As at 30th June 2008 the Group maintained a net cash position of HK\$303.11 million, compared with a net cash position of approximately HK\$335.98 million as at 31st December 2007. The Group has not yet needed to raise debt financing to fund its projects given its cash position. However, as the Group expands into more alternative energy projects, the Group may seek funds from external sources, or, if necessary, financial support from its parent company, HKC (Holdings) Limited ("HKC") (stock code: 190), to finance its future capital commitment of HK\$508.06 million.

#### **Contingent Liabilities**

The Group did not have any contingent liabilities as at 30th June 2008.

## **BUSINESS REVIEW**

### **The Establishment of Hong Kong Energy (Holdings) Limited**

On 10th April 2008 HKC completed the acquisition of 74.99% of the issued share capital of J.I.C. Technology Company Limited (now renamed as Hong Kong Energy (Holdings) Limited (“HKE”)) listed on the Main Board of the Stock Exchange of Hong Kong. The purpose of HKC’s acquisition was to create a separate listed vehicle for HKC’s alternative energy business.

On 31st December 2007, shortly before HKC made its acquisition of share capital, HKE underwent a business reorganisation. It closed down its original business manufacturing LCD products, and acquired a software development business. HKE’s current management will closely monitor and review the performance of the software development operation to satisfy existing customers’ needs.

### **Alternative Energy**

HKE has been set up by parent company HKC as a dedicated alternative business because opportunities for development within the alternative industry in China are extremely promising. This positive situation has arisen as a result of powerful government moves to encourage alternative energy technologies, with the purpose of reducing reliance on fossil fuels in order to cut down on the negative environmental and social effects caused by fossil fuel pollution. The urgency of this move has been emphasised by recent spikes in the price of oil, along with sharp increases in the price of coal during the first half of the year. The need to find clean, sustainable and economical alternatives to oil and coal has become particularly pressing and a matter of considerable economic importance.

China’s government is taking a multi-faceted approach to expanding its use of alternative energy, combining incentives, new regulations, price adjustments, and other strategies. Generally, the government has committed itself to increasing the country’s use of renewable energy sources so that they will account for 10% of total energy consumption by 2010 and 15% by 2020. Moreover, power companies with greater than 5,000MW of generating capacity, must have alternative energy, excluding hydro, account for 3% of its total energy generated by 2010, and 8% by 2020, or they will not be allowed to build more power plants. As a result, those companies with ownership of alternative assets will become increasingly valuable as the deadlines approach.

The government’s “Renewable Energy Law 2006” requires the power grid to purchase all electricity generated by alternative energy. In addition, the government has increased electricity tariffs by around RMB5 cents over the last several months; and similarly, has increased pollution taxes on end-users of electricity to subsidise alternative energy. Having recognised clearly the importance of reasonable wind power tariff rates, the National Development and Reform Commission (“NDRC”) is no longer asking bidders to bid for the lowest price at national level concession projects. Instead, the bidders are requested to meet the average bid submitted.

In terms of specific incentives for wind power, one of the Group’s major areas of investment, the government provides a 17% rebate on value added tax on domestically produced wind turbines, and subsidises transmission costs for electricity generated by wind power.

The government has also recently introduced new initiatives encouraging the use of biofuels. For instance, in April 2008 the NDRC announced formal consent for five provinces to develop fuel ethanol projects, with the aim of launching a gasoline product with a 10% ethanol blend. The NDRC also announced in June an increase in gasoline prices, a rise that will benefit ethanol producers because the ethanol pricing mechanism is linked to the price of gasoline.

### *Three initial alternative energy projects*

HKE is still at the early stages of its operations; several alternative energy projects remain under the umbrella of HKE's parent company, HKC. This situation may change in the future as the two companies explore options for rationalising business operations and the possibility of HKC injecting assets in to HKE. To clarify the current situation regarding holdings of alternative energy projects, the charts below lay out the various projects held by the two companies as at 30th June 2008.

Projects	Type of energy	Shareholdings (%)	Capacity (MW)		Wind Turbine Arrangement	Commercial Operation	Under
			Wind	Other			
Lunaobao, Hebei Province	Wind power	30%	100.5MW		67 units of 1,500kW wind turbines	2010	HKE
Siziwang Qi Phase 2, Inner Mongolia <sup>#</sup>	Wind power	100%	49.5MW		33 units of 1,500kW wind turbines	1Q.2010	HKE
Cellulosic Ethanol Project	Biofuel	55%					HKE
	Total wind capacity in HKE		150MW				
Mudanjiang & Muling, Heilongjiang	Wind power	86% & 86.68%	2 x 29.75MW		70 units of 52V/850kW wind turbines	September 2007	HKC
Danjinghe, Hebei Province	Wind power	40%	200MW		A combination of 750kW, 800kW, and 1.5MW wind turbines	4Q.2008/4Q.2009/4Q.2010	HKC
Siziwang Qi Phase 1, Inner Mongolia	Wind power	100%	49.5MW		33 units of 1,500kW wind turbines	3Q.2009	HKC
Changma Phase 1, Gansu Province	Wind power	40%	201MW		134 units of 1,500kW wind turbines	3Q.2010	HKC
Linyi, Shandong Province*	Biomass/waste-to-energy	40%		Electricity Generation -25 MW Domestic Garbage Handling -800 tonnes per day		September 2007	HKC
Ethanol Plant, Chongqing	Biofuel	70.65%					HKC
	Total wind capacity in HKC		510MW				
	Total wind capacity in HKE & HKC		660MW				

\* *Garbage handling charge: CNY 46 / tonne*

# *The project is under application for project approval*

(i) Lunaobao Wind Farm

During the period under review, HKE made its first step into the alternative energy industry when it signed a framework agreement with a subsidiary of China Energy Conservation Investment Corporation (“CECIC”) to invest in and develop a 100.5 MW wind farm at Lunaobao, Zhangbei, in Hebei Province. CECIC is the largest national level state-owned-enterprise (“SOE”) involved in environmental protection, with a strong track record in important energy conservation projects. Total planned investment in this project is approximately RMB950.8 million (HK\$1,081.2 million). HKE will contribute 30% of the registered capital. The project will involve construction of 67 sets of 1,500 kW wind turbines. Construction is targeted to be completed in 2010.

(ii) Wind Power Project at Siziwang Qi Region, Inner Mongolia

HKE is in the progress of obtaining approval from the Development and Reform Commission of Siziwang Qi to establish a 49.5MW wind farm at Siziwang Qi, Wulanchabu City, in China’s Inner Mongolia Autonomous Region. Total investment will amount to approximately RMB480.5 million (HK\$546.4 million). The project will involve construction of 33 sets of 1,500 kW wind turbines. Completion is estimated to be end of December 2009. This project represents Phase 2 of an existing wind farm development at this site: Phase 1, which has an equivalent generating capacity, is currently held by HKE’s parent company, HKC. HKC owns exclusive rights to develop wind farms with a total capacity of 1,000MW across a total area of 980 sq.km. at Siziwang Qi, so there are good prospects for the construction of further phases of this wind power plant in the future.

(iii) Cellulosic Ethanol Pilot Project

In a first move into biofuel development, HKE signed a “Cellulosic-Ethanol Technology Co-operation Agreement” with GeneHarbour (Hong Kong) Technologies Limited (“GeneHarbour”). Cellulosic ethanol involves the conversion of cellulosic materials such as corn stalks and grass into ethanol. The current problem with existing biofuel technologies is that biofuel is converted from food crops, such as corn and palm oil, resulting in severe demand pressures; and, hence, food inflation. Cellulosic ethanol offers the opportunity to turn non-food plant products into ethanol without affecting the supply of food crops.

This agreement will see the Group invest in a pilot cellulosic ethanol plant project, using Cellulosic Ethanol Technology developed by GeneHarbour. A workshop and pilot plant has been set up in Jiangmen in Guangdong Province, where the project is being carried out and results tested for overall feasibility. The pilot plant for the production of ethanol using this technology will have a production capacity of up to 300 tons per year.

## **Software Development**

HKE’s software development arm, acquired during the Group’s reorganisation in December 2007 shortly before the company was taken over by HKC, is called the Namtek Group. Its main development site is located in Shekou in Shenzhen, Guangdong Province, with a sales office in Tokyo, Japan.

Namtek's main products are digital dictionary software solutions for customers within the Japanese electronics industry. Such products generate two-thirds of Namtek's total revenue. Digital dictionaries are favoured over traditional printed dictionaries due to their portability and ease of use. A number of major Japanese manufacturers of electronic goods still regularly redesign and upgrade their electronic dictionaries, and they return repeatedly to take advantage of the high quality software solutions provided by Namtek.

The operating results of the software development business were impacted primarily by the ongoing appreciation of the RMB and the rise in operating costs in the PRC during the period under review.

## **OUTLOOK**

Given the strong prospects for and the government's financial incentives provided to the alternative energy industry, HKE will continue to focus on alternative energy opportunities in the coming years.

The increased utilisation of wind power is one of the prominent success stories in China's push for change. Originally, the government set a target of achieving a total installed wind energy capacity of 5,000MW by 2010. This target was in fact met by 2007, at which point the target figure for 2010 was revised to 10,000MW. That revised target is now expected to be met by the end of 2008, and estimates suggest that total installed capacity will reach 20,000MW by 2010. These significant efforts in rolling out wind power as a viable energy option over the past few years mean that China is well on track to become a major utiliser of wind energy in the next few years.

In terms of competitiveness, the government's ongoing increases in electricity tariffs (and further rises are expected in the coming year) is reducing the cost differential between coal-fired and wind-generated electricity. In addition, the costs associated with setting up wind farms, such as the cost of purchasing wind turbines, are expected to fall. By 2009, China is predicted to be the world's leading manufacturer of wind turbines, and the current situation in which demand for wind turbines outstrips supply should ease. As a result, prices are expected to fall, leading to lower initial investment costs per kW of wind power.

With such a positive environment associated with the wind power sector, HKE believes that the time is ripe for further investment in wind power projects. In particular, the Group aims to explore options involving further joint venture projects with CECIC and other proven wind power developers, so as to add further capacity to its burgeoning portfolio of renewable energy projects. At the same time, the Group will continue to keep close track of the progress of its Siziwang Qi wind power site in Inner Mongolia, with a view to pinpointing the optimum timing for developing a Phase 3 50MW wind farm at the site.

Meanwhile, further increases in the price of gasoline are expected in the coming year, making fuel ethanol more competitive. This should benefit both the industrial ethanol project in Chongqing held by HKE's parent company, HKC, and the Cellulosic Ethanol project jointly being run by HKE and Geneharbour.

## **New Projects in the Pipeline**

In the relatively short period that HKE has been operating as an alternative energy player, it has already become involved in some high-potential energy projects in collaboration with other parties. For instance, the Group submitted a joint tender with CECIC for a wind power project at Changma, Gansu Province. The tender was accepted by government authorities. The project will involve the Group establishing a joint venture with CECIC that will invest in, construct and operate a wind power plant at Changma with a total capacity of 201MW. This project represents Phase 2 of a wind farm development at this site. HKC is developing 201MW Changma Phase 1 windfarm. The Group and CECIC will initially contribute 30% and 70% of the registered capital for the Phase 2 project respectively. HKE has an option to acquire a further 10% stake in the project company from CECIC at a price to be valued upon satisfaction of certain conditions. With this addition, the total wind capacity in HKE and HKC would be around 861MW.

The parent company of HKE, HKC, currently maintains several alternative energy projects within its own umbrella. The management of both companies through their financial advisers are presently studying the options for injecting alternative energy assets from HKC into HKE, in a way that would further rationalise the two companies' business operations and lead to greater operational efficiency, closer synergies between projects, and other similar benefits.

## **Software Development**

The Group's software development arm will maintain its research and development of new and improved products. Besides making the most of its traditional niche in Japan, the Group plans to begin exploring new markets, such as Europe.

Besides its digital dictionary solutions, Namtek has recently expanded its technology to take in vehicle navigation and portable navigation devices. It is now developing products such as navigation engines (e.g. with map matching and route planning functions), global positioning systems, 3G sensors, and other point-of-interest (POI) content searching engines.

## **Employees**

As at the end of June 2008, the Group's operations in Hong Kong and mainland China employed a total of approximately 87 employees. The Group also appoints technical consultants on contract terms for its alternative energy projects, and sales consultants for its software development operation. All employees are remunerated according to the nature of their jobs, their individual performances, the Group's overall performance, and prevailing marketing conditions.

## **INTERIM DIVIDEND**

The Directors do not recommend the payment of an interim dividend (2007: Nil) for the six months ended 30th June 2008.

## **AUDIT COMMITTEE**

The audit committee of the Company (the “Audit Committee”) comprises three independent non-executive directors with written terms of reference in accordance with the requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”), and reports to the Board. The Audit Committee has reviewed the unaudited interim results of the Group for the six months ended 30th June 2008, which has also been reviewed by the Company’s auditor, PricewaterhouseCoopers, in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants.

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

There was no purchase, sale or redemption of the Company’s listed shares by the Company or any of its subsidiaries during the six months ended 30th June 2008.

## **CORPORATE GOVERNANCE**

The Company has complied throughout the six months ended 30th June 2008 with all the code provisions (the “Code Provisions”) and, where applicable, the recommended best practices as set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules, except for the following:

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 a CEO are performed by the Executive Chairman, Mr. Oei Kang, Eric, with support from other Executive Directors and senior management. We consider that this structure will not impair the balance of power and authority between the Board and the management of the Company. The Board will nevertheless review the structure from time to time and will consider to look for a suitable candidate to take up the role of the CEO.

Under the Code Provision A.4.1, non-executive directors should be appointed for specific term and subject to re-election. However, the independent non-executive Directors of the Company were not appointed for specific term but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company’s articles of association.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) set out in Appendix 10 of the Listing Rules as its own code of conduct regarding Directors’ securities transactions. Having made specific enquiry of all Directors of the Company, the Directors have confirmed that they have complied with the required standards set out in the Model Code throughout the six months ended 30th June 2008.

## **PUBLICATION OF INTERIM REPORT**

The 2008 interim report will be published on the websites of the Company ([www.hkenergy.com.hk](http://www.hkenergy.com.hk)) and the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and dispatched to the shareholders in due course.

By order of the Board  
**HONG KONG ENERGY (HOLDINGS) LIMITED**  
**TSANG Sai Chung, Kirk**  
*Company Secretary*

Hong Kong, 10th September 2008

*As at the date hereof, the Board comprises eight Directors of which Mr. Oei Kang, Eric, Mr. Chen Libo, Mr. Tsang Sai Chung, Kirk and Mr. Chan Kwok Fong, Joseph are executive Directors; Mr. Liu Zhixin is a non-executive Director; and Mr. Zhang Songyi, Mr. Tang Siu Kui, Ernest and Mr. Yu Hon To, David are independent non-executive Directors.*