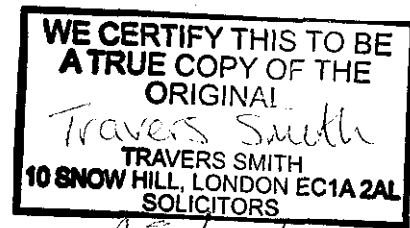


5581827.

TRAVERS SMITH



DATED

23

JANUARY 2006

(1) HONITON ENERGY LIMITED

(2) PAUL EVELEIGH

SHARE EXCHANGE AGREEMENT

RELATING TO

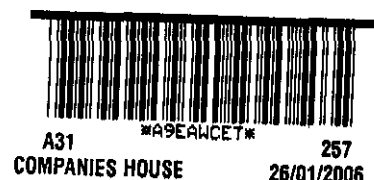
HONITON ENERGY LIMITED'S ACQUISITION

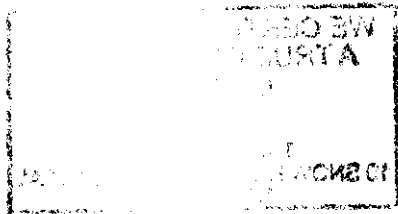
OF

HONITON BAOTOU (ENERGY) CO. LTD.

Travers Smith is acting for Gordon Crawford, CF Group Limited, Robert Adair and certain Adair Family Trusts (the "Travers Smith Clients") and for no one else in connection with this Agreement and will not be responsible to anyone other than the Travers Smith Clients for providing the protections afforded to clients of Travers Smith nor for providing advice in relation to the Agreement.

Those parties not advised by Travers Smith should seek independent advice on such matters and on the legal implications of entering into the Agreement. It is not Travers Smith's role to invite or induce you to enter into the Agreement and nothing which is prepared, sent or communicated to you by Travers Smith should be regarded as such an invitation or inducement.





- (1) **Paul Eveleigh**, an individual of Canadian nationality with passport no. JK274010 and whose address is at 131 West 40th Avenue, Vancouver, BC V5Y 2R3, Canada (the "**Honiton Baotou Shareholder**"); and
- (2) **Honiton Energy Limited**, a limited company registered in England and Wales under number 5581822 whose registered address is at c/o Robert F. M. Adair, Terrace Hill Group PLC, 1 Portland Place, London, W1B 1PN, United Kingdom ("**Honiton Energy**").

INTRODUCTION:

- (A) The Honiton Baotou Shareholder is the legal and beneficial owner of the entire issued share capital of the Chinese Wholly-Foreign Owned Entity Honiton Baotou (Energy) Co. Ltd. (established in the Peoples Republic of China under approval number 2005 0032) ("**Honiton Baotou**") consisting of 100 per cent. of the equity interests in Honiton Baotou (the "**Honiton Baotou Shares**").
- (B) Honiton Energy is 100% legally and beneficially owned by Gordon Crawford and Robert Adair (the "**Honiton Energy Shareholders**") and has been established for the purpose, *inter alia*, of acquiring Honiton Baotou.
- (C) Honiton Baotou is, and Honiton Energy will through Honiton Baotou and other Chinese subsidiaries to be established be, engaged in developing wind farm projects in the Peoples Republic of China, including the BaiLingMiao, Xiwu and Xichang projects (the "**Projects**").
- (D) The Honiton Baotou Shareholder has agreed to transfer all of his shares in Honiton Baotou to Honiton Energy in exchange for a 52 per cent. share interest in Honiton Energy on the terms and conditions of this share exchange agreement (the "**Agreement**"). Part of the 52 per cent. share interest in Honiton Energy to be held by the Honiton Baotou Shareholder is intended to be distributed among certain other persons in accordance with the list of proposed shareholders in Honiton Energy attached as Schedule 1.

IT IS AGREED as follows:

1. SALE OF SHARES IN HONITON BAOTOU

With legal effect as of Completion, subject however to satisfaction or waiver of the Conditions (as defined below), the Honiton Baotou Shareholder shall sell and Honiton Energy shall buy the Honiton Baotou Shares, with full legal and beneficial title, free from all liens, charges, encumbrances and other third party rights of any other nature, and together with all rights and advantages attaching to them.

2. CONSIDERATION

- 2.1 The consideration for the Honiton Baotou Shareholder's sale of the Honiton Baotou Shares to Honiton Energy shall be the issue credited as fully paid of 19,500 ordinary shares of £1 each in the capital of Honiton Energy representing in aggregate 52 per cent. of the enlarged issued and allotted share capital of Honiton Energy immediately following Completion (the "**Exchange Shares**").
- 2.2 Subject to satisfaction or waiver of the Conditions, the Exchange Shares shall be issued to the Honiton Baotou Shareholder in accordance with clause 3.3.2 with legal effect from Completion, with full legal and beneficial title, free from all liens, charges, encumbrances and other third party rights of any other nature, and together with all rights and advantages attaching to them on or after such date.

3. COMPLETION AND CONDITIONS

3.1 CONDITIONS

- 3.1.1 The obligations of Honiton Energy hereunder are conditional upon the satisfaction or waiver (by Honiton Energy) of each of the following conditions precedent (the "**Honiton Energy Conditions**"):

- (i) the receipt by Honiton Energy of a legal due diligence report regarding Honiton Baotou prepared by Johnson Stokes & Master ("**JSM**" and such report the "**Due Diligence Report**") in a form and with such content as is entirely satisfactory to Honiton Energy and the Honiton Energy Shareholders, in their absolute sole discretion;
- (ii) prior to Completion there not existing or coming into existence any fact or circumstance that does, will or might constitute a breach by the Honiton Baotou Shareholder of this Agreement, including the warranties given and to be restated at Completion by the Honiton Baotou Shareholder pursuant to clause 4.1;
- (iii) receipt by Honiton Energy and the Honiton Energy Shareholders of a detailed business plan regarding the Projects in a form satisfactory to the Honiton Energy Shareholders in their absolute sole discretion.

- 3.1.2 The obligations of the parties hereunder are conditional upon the satisfaction or waiver of each of the following additional conditions precedent ("**General Conditions**" and together with the Honiton Energy Conditions the "**Conditions**"):

- (i) Honiton Energy adopting new Articles of Association in the approved terms to reflect the terms set out in the Heads of Agreement;

- (ii) the parties hereto entering into an investment and shareholders agreement in the approved terms (the "**Shareholders' Agreement**"), in respect of certain matters concerning the operation of Honiton Energy to reflect the terms set out in the Heads of Agreement and providing for an acknowledgement from any allottee or transferee of Exchange Shares that such agreement supersedes any previous agreements between them or any of them relating to their rights or interests as potential shareholders of Honiton Baotou.

3.1.3 Each of the parties undertakes to the other that it shall (with the reasonable co-operation of the other, which the other undertakes to give) use its reasonable endeavours to procure the satisfaction of the Conditions as soon as reasonably practicable after the date of this Agreement.

3.1.4 If the Conditions have not been satisfied or waived by 28 February 2006 Honiton Energy and (in the case of the General Conditions in clause 3.1.2 only) the Honiton Baotou Shareholder shall be entitled to rescind this Agreement.

3.2 OPERATION AND ACTIONS PENDING COMPLETION

3.2.1 Pending Completion the Honiton Baotou Shareholder shall allow Honiton Energy to operate and exercise control of Honiton Baotou as if Honiton Energy had become the owner of Honiton Baotou, subject to Honiton Energy:

- (i) consulting the Honiton Baotou Shareholder about the conduct of matters material to the business of Honiton Baotou;
- (ii) procuring (so far as it is able by exercising its rights as a shareholder in Honiton Baotou) that the business of Honiton Baotou is carried on in the ordinary and usual course as regards its nature, scope and manner, including as set out in the business plan attached as Schedule 2; and
- (iii) allowing the Honiton Baotou Shareholder to be appointed and remain a member of its Board of Directors.

3.2.2 Pending Completion (the "Exclusivity Period") the Honiton Baotou Shareholder undertakes to Honiton Energy that he will not and he will procure that Honiton Baotou and their respective advisers will not engage in any discussions or negotiations with any other party regarding transactions similar to those contemplated by this Agreement (to include any transaction whereby Honiton Baotou Shares or assets belonging to Honiton Baotou are sold or transferred to third parties, other than in the ordinary course of business). Without prejudice to any other rights Honiton Energy may have, if the Honiton Baotou Shareholder (or Honiton Baotou) breaches this clause 3.2.2 then the Honiton Baotou Shareholder shall be liable to Honiton Energy for all properly documented reasonable costs and expenses incurred by it and its

advisers in respect of the transactions contemplated by this Agreement and any related transactions.

3.3 COMPLETION

Completion of the sale of the Shares and the issue of the Exchange Shares as set out in this clause 3.3 ("**Completion**") shall take place after satisfaction or waiver of each the Conditions, whereupon:

3.3.1 the Honiton Baotou Shareholder shall deliver to Honiton Energy:

- (i) a duly executed transfer agreement in the form set out in Schedule 7 accompanied by any additional documentation necessary to establish Honiton Energy's title to the Honiton Baotou Shares and to authorise the execution of such transfer (including any documents necessary to give legal effect to such sale under Chinese law); and
- (ii) such other documents required in connection with the transfer or the Honiton Baotou Shares to Honiton Energy under relevant state or local law in the Peoples Republic of China in accordance with Part I of Schedule 3;

3.3.2 Honiton Energy shall allot and issue to the Honiton Baotou Shareholder or, at his directions and in the proportions set out in Schedule 1, to the persons listed in Part II of Schedule 1 subject to their delivering to Honiton Energy a letter in the form set out in Schedule 6 to the Shareholders' Agreement, the Exchange Shares credited as fully paid and enter the names of the allottee(s) in the register of members of Honiton Energy and issue certificates in respect of such shares to the relevant allottee(s); and

3.3.3 Gordon Crawford shall be appointed a director and the Chairman of Honiton Baotou and Robert Adair shall be appointed a director of Honiton Baotou.

3.3.4 The parties shall procure the adoption by Honiton Baotou of new Articles of Association in the form set out in Schedule 6.

3.3.5 Honiton Energy shall arrange the delivery to Honiton Baotou of the documents referred to in Part II of Schedule 3.

3.3.6 The parties shall procure the filing with the relevant authorities of all relevant documents as listed in Schedule 3.

4. WARRANTIES

4.1 The Honiton Baotou Shareholder warrants and represents to Honiton Energy on the date of this Agreement (except in relation to the warranties set out in clause 4.1.8) and shall be deemed to warrant again as at the date of Completion, in both respects with reference to the circumstances then subsisting that:

- 4.1.1** the Honiton Baotou Shares are legally and beneficially owned by him and are free from all liens, charges and encumbrances or interests in favour of, or claims made by, or which could be made by, any other person and the Honiton Baotou Shares are fully paid and have been properly and validly allotted and represent the entire allotted and issued share capital of Honiton Baotou;
- 4.1.2** Honiton Baotou is properly incorporated and validly existing under all relevant state and local law in the Peoples Republic of China and has full authority and power to carry on its business;
- 4.1.3** Honiton Baotou has not entered into any agreement or otherwise undertaken any commitment whereby its rights to develop and exploit wind farms in the province of Baotou or elsewhere in the Peoples Republic of China for its own benefit may have been restricted or, partly or wholly, disposed of;
- 4.1.4** no third party has been granted options or any other rights to acquire, subscribe for, have transferred or otherwise be allowed to be interested in the share capital of Honiton Baotou; and
- 4.1.5** the timetable for the development of the Projects, attached as Schedule 5, has been prepared after all reasonable consideration and is reasonably achievable;
- 4.1.6** Honiton Baotou has valid and legal title, free of third party rights, to all assets used in its business;
- 4.1.7** Honiton has acquired and maintains all licences, approvals, permissions, authorisations and consents (the "Licences") necessary to enable it to carry on its business, such Licences are in full force and effect and have been properly issued and authorised and Honiton Baotou complies with all applicable conditions for maintaining the Licences, there are no acts or omissions on the part of Honiton Baotou which indicate that any of them may be revoked, rescinded, avoided or repudiated or not renewed in whole or in part and Honiton Baotou carries out its business in accordance with the Licences and all relevant state and local law in the Peoples Republic of China;

4.1.8 he has carefully read and considered the Due Diligence Report, and:

- (i) he does not disagree with any opinions or expectations expressed in the Due Diligence Report and he does not consider any such opinion or expectation to be unreasonably held or not based on all relevant assumptions;
- (ii) the factual information contained in the Due Diligence Report is true and accurate;
- (iii) there is no other matter, fact or circumstance which renders any of the factual information or the opinions and expectations in the Due Diligence Report misleading in any material respect; and
- (iv) all information relating to Honiton Baotou which might materially or adversely affect the value or future business prospects of Honiton Baotou has been notified in writing to Honiton Energy and the Honiton Energy Shareholders.

4.1.9 all information requested by JSM, the Honiton Energy Shareholders and/or Travers Smith (including in the course of preparation of the Due Diligence Report) has been supplied to each of them and all information and documentation supplied by Honiton Baotou to JSM for the purposes of the Due Diligence Report was when given and remains (save to then extent amended, varied or updated subsequently after to the date of the Due Diligence Report as reported in writing to Honiton Energy) true and accurate and not misleading in any way.

4.2 Honiton Energy warrants and represents to the Honiton Baotou Shareholder that:

- 4.2.1 it has full power and authority and has obtained all necessary consents to enter into and perform the obligations expressed to be assumed by it under this Agreement; and
- 4.2.2 the Exchange Shares will be free from all liens, charges and encumbrances or interests in favour of, or claims made by, or which could be made by, any other person and the Exchange Shares are fully paid and have been properly and validly allotted and will represent 52 per cent. of the enlarged allotted and issued share capital of Honiton Energy as at completion.

4.3 Each of the warranties contained in clause 4.1 (the “Warranties”) is given subject only to matters disclosed in Part I of Schedule 4. For this purpose, and for all purposes under this Agreement, the expression “disclosed” means fully, fairly and accurately disclosed in such a

manner and in such detail as to enable Honiton Energy to make an informed and accurate assessment of the matter concerned.

- 4.4 The Warranties shall continue in full force and effect notwithstanding Completion.
- 4.5 Each Warranty shall be separate and independent and, save as expressly provided, shall not be limited by reference to any other Warranty or any other provision in this Agreement.
- 4.6 Any claim under the Warranties shall be limited in accordance with Part II of Schedule 4, provided that none of the provisions in such Part II shall apply if the Honiton Baotou Shareholder fraudulently, dishonestly, deliberately or recklessly makes or omits to make a disclosure in Part I of Schedule 4 in such a way as to render any Warranty (when read with such Part I) misleading, false or deceptive.

5. INDEMNITY

Each of the parties unconditionally and irrevocably agrees, as a continuing obligation, to indemnify the other party against, and to pay on demand an amount equal to, any loss which the other party may incur at any time or from time to time (whether by way of damages, settlement, costs or otherwise) and all costs and expenses (including reasonable legal fees and together with any applicable VAT) in respect of or as a result of any breach of this Agreement.

6. APPLICABLE LAW AND JURISDICTION

- 6.1 This Agreement and the rights and obligations of the parties shall be governed by and construed in accordance with the laws of England and Wales.
- 6.2 The parties irrevocably submit to the non-exclusive jurisdiction of the courts of England and Wales in respect of any claim, dispute or difference arising out of or in connection with this Agreement, provided that nothing contained in this clause shall be taken to have limited the right of the Buyer to proceed in the courts of any other competent jurisdiction.

7. GENERAL

7.1 Entire agreement

This Agreement (together with any documents referred to herein or required to be entered into pursuant to this Agreement) contains the entire agreement and understanding of the parties in relation to the exchange of shares contemplated hereby and supersedes all prior agreements, understandings or arrangements (both oral and written) relating to the subject matter of this Agreement and any such document.

7.2 Variations and waivers

7.2.1 No variation of this Agreement shall be effective unless made in writing signed by or on behalf of all the parties and expressed to be such a variation.

7.2.2 No failure or delay by a party or time or indulgence given in exercising any remedy or right under or in relation to this Agreement shall operate as a waiver of the same nor shall any single or partial exercise of any remedy or right preclude any further exercise of the same or the exercise of any other remedy or right.

7.2.3 No waiver by any party of any requirement of this Agreement, or of any remedy or right under this Agreement, shall have effect unless given in writing and signed by such party. No waiver of any particular breach of the provisions of this Agreement shall operate as a waiver of any repetition of such breach.

7.3 Assignment

No party shall be entitled to assign, transfer or create any trust in respect of the benefit or burden of any provision of this Agreement (or any of the documents referred to herein) unless specifically allowed pursuant to this Agreement or without the prior written consent of the other parties. The Honiton Energy Shareholders shall be entitled to assign, partly or fully, this Agreement (including obligations and rights hereunder) to any *bona fide* third party to whom they transfer shares in Honiton Energy, provided that such third party shall be bound by the provisions of this Agreement as if originally a party hereto.

7.4 Effect of Completion

The provisions of this Agreement, insofar as the same shall not have been fully performed at Completion, shall remain in full force and effect notwithstanding Completion.

7.5 Counterparts

This Agreement may be executed as two or more counterparts and execution by each of the parties of any one of such counterparts will constitute due execution of this Agreement.

7.6 Confidentiality and Announcements

7.6.1 Each of the parties undertakes to keep confidential the facts and content of this Agreement and related documents and communications and discussions between the parties in relation to this Agreement and related transactions (the "Confidential Information"). No party may, without the prior written consent of the other parties, use or disclose, directly or indirectly, Confidential Information for any purpose other than for the confidential evaluation of this Agreement and the transactions contemplated thereby.

7.6.2 Each party will disclose the Confidential Information only to those of its representatives and advisers who need to know such information for the purpose of evaluating the Agreement and

the transactions related thereto. Such persons shall agree to keep the Confidential Information confidential.

7.6.3 The provisions of this clause 7.6 shall not apply to information which becomes generally known (other than through a breach of this clause 7.6) or to any information which is required to be disclosed by law or by any competent judicial or regulatory authority or by any recognised investment exchange (provided that, so far as practicable, consultations with the other parties shall be made prior to any such disclosure).

7.6.4 The form of any publicity concerning Honiton Energy and/or Honiton Baotou shall be agreed among parties in beforehand.

7.7 Costs

Each party shall pay its own costs and expenses incurred in connection with the preparation, negotiation and completion or termination of this Agreement.

7.8 Further assurance

Each party shall, and shall use all reasonable endeavours to procure that any necessary third party shall, do and execute and perform all such further deeds, documents, assurances, acts and things as may reasonably be required to give effect to this Agreement.

8. NOTICES

8.1 Any notice, consent, request, demand, approval or other communication to be given or made under or in connection with this Agreement shall be in writing and signed by or on behalf of the person giving it. Service of a notice must be effected either in person, by prepaid first-class post or by facsimile.

8.2 Addresses for service

Notices for Honiton Energy shall be marked for the attention of:

Name: Robert Adair
Address: Terrace Hill Group PLC
1 Portland Place
London, W1B 1PN
United Kingdom
Fax number: +44 1845 537660

Notices for the Honiton Baotou Shareholder shall be marked for the attention of:

Name: Paul Eveleigh
Address: 131 West 40th Avenue,
Vancouver

BC V5Y 2R3

Canada

Fax number: +1 504 830 2866

8.3 Change of details

A party may change its address for service provided that the new address is in England and that it gives the other party not less than 28 days' prior notice in accordance with this clause 8. Until the end of such notice period, service on either address shall remain effective. If the Honiton Baotou Shareholder fails to appoint or maintain a process agent in England service on the former process agent shall remain effective service on the Honiton Baotou Shareholder.

9. INTERPRETATION

9.1 The headings in this Agreement are for convenience only and shall not affect its meaning. Unless the context requires otherwise, references in this Agreement to:

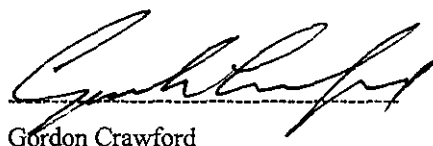
- any of the masculine, feminine and neuter genders shall include other genders;
- the singular shall include the plural and vice versa;
- a "person" shall include a reference to any natural person, body corporate, unincorporated association, partnership and trust;
- any English legal term for any action, remedy, method of judicial proceeding, legal document, legal status, court, official or any legal concept or thing shall, in respect of any jurisdiction other than that of England, be deemed to include what most nearly approximates in that jurisdiction to the English legal term; and
- any time or date shall be construed as a reference to the time or date prevailing in England.

9.2 Any document expressed to be in the approved terms shall mean a document the terms of which have been agreed by the parties and a copy of which has been identified as such and initialled by each of the parties hereto.

SHARE EXCHANGE AGREEMENT

THIS AGREEMENT has been duly executed by the parties on the date stated above.

SIGNED by Robert Adair)
and Gordon Crawford)
for and on behalf of)
Honiton Energy Ltd.)



Gordon Crawford



Robert Adair

SIGNED by Paul Eveleigh)
in the presence of:)

Paul Eveleigh

Witness Signature: _____

Witness Name: _____

Witness Address: _____

Date: _____

Witness Occupation: _____

SHARE EXCHANGE AGREEMENT

THIS AGREEMENT has been duly executed by the parties on the date stated above.

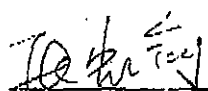
SIGNED by Robert Adair)
and Gordon Crawford)
for and on behalf of)
Honiton Energy Ltd.)

Gordon Crawford

Robert Adair

SIGNED by Paul Eveleigh)
in the presence of:)

Paul Eveleigh

Witness Signature: 

Witness Name: Zhang Hong Jian

Witness Address: 1 Jiangnanmenwai Ave., Da Zhiyao, Beijing 10000, China

Date: January 23, 2006

Witness Occupation: Hotel Front Desk Manager

SCHEDULE 1

List of Shareholders

Paul Eveleigh	20%
Jim Fang Li	20%
Jin Long Yeh	7%
Bowark Energy Ltd.	5%

Honiton Energy

Honiton Energy (Baotou) Company Ltd.

Guangfusi Guangchang

Jiefangjie

Bailingmiao, Inner Mongolia, 014500

86-472-842-2829

86-472-842-8429

paul@honitonenergy.com

Confidentiality Agreement

The undersigned reader acknowledges that the information provided by _____ in this business plan is confidential; therefore, reader agrees not to disclose it without the express written permission of _____.

It is acknowledged by reader that information to be furnished in this business plan is in all respects confidential in nature, other than information which is in the public domain through other means and that any disclosure or use of same by reader, may cause serious harm or damage to _____.

Upon request, this document is to be immediately returned to _____.

Signature

Name (typed or printed)

Date

This is a business plan. It does not imply an offering of securities.

1. Executive Summary

Honiton Energy presents the European investor with a prime opportunity to capitalize on China's growth and to profit from its energy needs and economic liberalization. It is a complete package comprising all of the hottest trends in investing today: China, alternative energy, carbon credits, power and annuity-like cash flows. Specifically it is China's first and fastest-growing foreign alternative energy provider. 100% foreign-owned yet operating locally, Honiton is a true Sino-Anglo hybrid fusing western-style management with local nimbleness and intelligence.

Honiton currently owns the rights to a 100 square kilometre property and has signed agreements to acquire a further two totaling more than 820 square kilometres in China's Inner Mongolia Autonomous Region that have the potential to produce up to 4,000 megawatts of power, which could power several million homes. This production of clean energy could potentially reduce more than 6 million tonnes of carbon dioxide from China's polluted atmosphere. It is this reduction in carbon dioxide for which Honiton will apply for carbon credits under the Kyoto Protocol's Clean Development Mechanism ("CDM") to sell into the carbon markets. Another potential revenue stream, carbon credits have actively-traded liquid markets worldwide. In September of 2005, Honiton became the first wholly foreign entity to receive the Chinese Government's approval to apply for these CDM carbon credits (China is the only Kyoto-approving developing country that requires Government permission before applying to the United Nations Framework Convention on Climate Change Council. It is one of the many firsts in Honiton's capitalization on a First-Mover Advantage in China

Initially Honiton's plan is to progress on its three projects simultaneously, the second two requiring the initial steps of attaining the necessary approvals to be able to move forward. Its first project, Bailingmiao, located in the central-North part of Inner Mongolia, is slated for two phases: 50 MW initially followed by a further 150 MW. Although 600 MW of generation is possible, it would likely incur large wind shear losses and the local grid's capacity to accept so much is currently suspect. The second project, XiChang, located in the East part of Inner Mongolia and also comprising 100 square kilometers, will have two phases of 50 MW and 250 MW consecutively. XiWu, the company's third project and located very close to XiChang, dwarfs the first two comprising 720 square kilometres with a potential of up to 4,000 MW in capacity. Properties One and Two have verbal promises from the local Governments to expand the land area to build more capacity in future if desired. Honiton is also examining two other projects located close to XiChang to add to its portfolio soon.

Based on China's recent new legislative policies, the secured purchase of Honiton's power is entrenched in the constitution such that all power produced must be purchased by the State. Honiton expects that before March 2006, the Government will issue a directive on pricing making it standardized across the country for all wind producers, with common Power Purchase Agreements ("PPAs") to be adhered to. Sources close to Honiton believe that the term of the new PPAs will be 15 years, a dramatic departure from the erratic agreements of the past that typically only lasted three years. Following the press release of China's National Department for Reform and Commerce (NDRC) in November 2006, that promised a consumer-paid subsidy of 0.25RMB to the tariff paid to wind power, the company estimates that the average price for Inner Mongolia will approximate RMB 0.63, or about £0.045 per kilowatt-hour. Financially this will translate into almost £28 million in top line revenues for Bailingmiao, and £23 million in EBITDA. For the investor this equates to a pre-tax IRR of more than 10% and a payback period of 12 years, not including the revenue add-on of carbon credits (Most believe that carbon credits can add 10% to revenues). In the case of XiChang, with its superior wind and proximity to the higher voltage North-East Grid, the picture looks even better. XiChang, once fully rolled out, will generate up to £53 million in revenues with £44 million in EBITDA. This translates into a stunning pre-tax IRR of almost 16% and a payback period of less than 9 years. Honiton is currently focusing its longer-term project development on areas surrounding the XiChang and XiWu areas, as they are rich in wind resources.

The market valuations for wind energy assets have also been rocketing as of late. As recently as July 2005, Pacific Hydro Ltd. of Australia, a publicly traded company, was acquired in a takeover battle by an Australian pension fund for A\$759 million or A\$3,343.612 (£1,420,000) per MW in operating capacity. Upon completion of Honiton's 500 MW between its first two projects alone, this would value the company at over £700 million. Additionally, carbon credit prices have also risen in double-digit percentages in the last few years, and many expect prices to only go higher in future. Thus the market valuations for producing alternative energy assets is strong and is expected to increase over time as fossil fuel prices remain high and the public's distaste for greenhouse emissions grows.

Honiton is currently undergoing due diligence to potentially build its own wind turbines. It has narrowed the field of potential partners down to two: RePower and Clipper. Due diligence and negotiations with both are still in process. As the supply for turbines worldwide is extremely tight, this would provide the company's own assembly line to acquire the turbines at more aggressive time schedules than currently afforded by the market. Furthermore, in July of 2005, the Chinese Government mandated that all future installed turbines in China must be manufactured with at least 70% local content. This presents the company with an opportunity to not only supply its own turbines through local manufacturing, but also become a lead supplier to other wind developers expanding in China. Honiton is also undergoing a search for the right partners to link up with or outsource to for the construction of the turbine towers and connection lines to China's electrical grid. Outsourcing construction will save the company millions of dollars in cost reductions and grant it more control over the construction process. The more expensive alternative would be to have the turbine manufacturers handle this process instead.

As China is the World's third largest nation, Honiton believes that China having such a huge land base, penchant for chasing new efficient technologies, and exponentially growing energy market, acquiring wind projects should fully utilize the company's capital for some years to come. Should the supply of projects start to saturate, the Company will then begin to explore other alternative energy technologies. In the meantime, the company looks forward to acquiring an increasing number of projects, capitalizing further on economies of scale by having projects located close together, and building a highly profitable portfolio of steady cash flows for the benefit of its investors. It feels this business model to be the safest way to play the growth in China without having to invest directly in Chinese companies themselves.

1.1. Objectives

1. Run a minimum of 5 wind farms before 2010, minimum 200 MW each
2. Maintain a running profit margin of more than 80%, excluding financing costs
3. Attain the highest reputation among energy companies in China for ethics, speed, and sustainability, including a reputation for giving back to each community where a wind farm is stationed

1.2. Mission

Honiton is in the business of providing the cleanest forms of energy to the People of China. It is the Company's deep respect for China that drives it to maximize its electrical production while striving to eliminate any forms of emitting pollution. We have pride in our people and an endless drive increasing profit margins through relentless pursuit of efficiencies.

1.3. Keys to Success

The Keys to Success for Honiton would sequentially be:

1. Quickly and efficiently construct Bailingmiao Phase I (50 MW) such that the market recognizes Honiton as a leader and a confirmed business model

This project is fully approved and able to utilize foreign turbines (all future projects will be subject to the Chinese content rules), and so can be developed quickly and thus generate revenues within 12 months from initial construction (expected April 2006). This will ensure further stock market support as Honiton rolls out its future projects.

2. Upon completion of Phase I, move out to acquire as many quality properties as possible and begin the approval processes on each while aggressively rolling out the more profitable second and third projects

China has announced that in short order it will begin auctioning wind sites, and therefore Honiton's practice of forging strong relations with government to acquire projects will eventually become a redundant strategy. Thus we are focused on acquiring as many properties prior to this new auctioning methodology takes hold in China, particularly Inner Mongolia. The company will also begin to focus on its current (and hopefully future) projects in the eastern region surrounding its Xichang and Xiwu sites. The location is close to the higher capacity North-East Grid of China that is the backbone of China's industrious North-East region. Pricing historically for this grid has tended to be higher than the central Inner Mongolia Grid. Even more attractive is that the region features some of the world's greatest on-land wind resources. The company can achieve much higher profitability and energy yields from these sites than its primary Bailingmiao site.

3. Emphasize local empowerment following a strict program of Western training and management style

One of the keys to the Company's success to date has been its ability to be viewed as a local company, despite its investment capital coming from overseas. Breaking into an industry that it is critical to the future development of China's future is often barred to foreigners. Thus Honiton decided early on to hire nothing but Chinese locals to further develop the founders' government connections and provide a "Chinese face" to the company. On the back of this, the Company intends to continue hiring Chinese employees for its operations in China to continue this strategy, while also providing a cost-advantage to any other foreign competitors. While keeping with following Chinese business styles and customs, we will instill Western principles and efficiency into the mix as well.

4. Once established as a wind energy leader in China, begin to exploit the advancement of new renewable energy technologies, abetted by China's appetite for new technologies and its scale

Our only focus for the foreseeable future is the wind energy business. A look to other renewable energies will be there after saturation of the wind market in China, and not before. The founders believe in developing one core efficiency and maximizing its potential.

5. Continue to maintain and improve its strong relations with local Government

2. Company Summary

Honiton is Unique Because:

1. Its founding partners bring a perfect blend of Chinese and foreign expertise to the company.

- a. Paul Eveleigh – CEO

Upon graduation, he commenced his career as a retail/institutional investment advisor without any clients or contacts. For the next eleven years he successfully and single-handedly grew his portfolio management business to a level of over US\$150 million in assets, directly and indirectly managed. During this time, he toiled at what started as a hobby and later became a passion, trying to master the Chinese language.

Today, Paul is fluent in Mandarin, and well positioned to capitalize on his understanding of the language and wealth of Chinese connections. He has recently left the financial advisory business as Vice-President for TD Waterhouse Canada. At the time of selling his investment advisory business, more than 80% of his clientele were Chinese individuals and institutions.

Paul began to travel to China in late 2002, and has since been back many times. He is as passionate about China as though it was his own homeland, and has begun the long process of understanding its history. His mastery and love of the culture has led his Chinese friends and associates to call him the distinguished title of, "Zhong Guo Tong", or "China's Comrade.

- b. Li Jin Fang – Vice-Chairman and GM

Mr. Jin Fang Li, Vice-Chairman co-founded Honiton Energy with Paul Eveleigh and has been the driving force behind attaining the company's myriad of approvals and permits necessary to move forward into wind energy production. He is also the Chairman of a public company in Canada, HOST International Holdings Inc., a bio foods processing concern in China.

Mr. Li has a Masters degree (1987) specializing in Entomology from Northwestern Agricultural University, Shanxi Province, and a Bachelor of Agronomy degree (1983) specializing in plant protection from Huazhong Agricultural University.

With over 10 years in government experience after graduation, Mr. Li went on to a successful career in trading and eventually agricultural products and production, processing and management. Prior to founding HOST, Mr. Li was manager of Shenzhen Lianfu Agricultural Products Enterprise Co. Ltd., a company he had been associated with since 1991 when he started as a Business Manager.

Jin Fang joins Paul to drive the operations of Honiton Energy to grow into China's largest foreign renewable energy company.

2. 100% foreign-owned

This allows the company to be acquired without China Government approvals by any corporation anywhere in the world. It also is the perfect vehicle to raise the huge sums of capital required to finance a wind project using investor capital from the West. As a Wholly-Owned Foreign Entity ("WOFE"), Honiton also will enjoy preferential tax treatment from Chinese authorities. For example, any turbines purchased overseas will receive VAT rebates in China. Furthermore, the Company's projects will all be subject to a three year tax holiday, followed by two years at half the going corporate WOFE rates.

3. Speed

Honiton is focused 100% on wind energy projects. While most wind farms in China have spent several years applying for permits and approvals to proceed, Honiton expects to have all of its approvals to move forward in under four months.

4. Sustainability

In addition to its primary functions as a corporation, Honiton's primary objective is to help build a cleaner and greener China. While assisting in the growth of a vital electricity supply, the company's wind projects can displace millions of tonnes of carbon dioxide into China's atmosphere,

The CEO's desire to further give back to local communities through creating its own charities further exemplifies its uniqueness among China's energy producers. Specifically, following the first full year of revenues, Honiton will begin installing English language training centres for children in the hub of each community that its wind projects neighbour. Students will be chosen, with Government assistance, so that only those unable to afford existing schools are permitted to enroll. Tuition would be nil.

Honiton's Drive to be Best in Class:

The fundamental belief at Honiton comes from a famous ancient Chinese folk tale and idiom: "Li Yu Yue Long Men" or "Jumping the Dragon Gate" tells of thousands of golden carp that swim upstream against the strong current of the Huang River to arrive at the foot of a legendary Dragon Mountain. It is there that only one strongest and bravest carp can metamorphose into a dragon by jumping over the Dragon Mountain's legendary gate. Its corporate Carp insignia symbolizes this epic struggle to achieve greatness in the tradition of one of China's oldest legends. At Honiton, we believe success comes to only those who strive to outmaneuver obstacles through discipline and dedication.

Our perfect blend of Chinese and Western management ensures efficiency, speed, and knowledge of local regulatory and foreign capital landscapes. Its reputation already in the province of Inner Mongolia Autonomous Region is widespread and well respected.

At Honiton we are building a world-class organization that will rapidly grow into China's leader in renewable energy. Our desire to improve China's environment is the primary passion to spur us to achieve this status.

2.1. Company Ownership

Honiton Energy (Baotou) Company Ltd. was incorporated in the Inner Mongolia Autonomous Region of the People's Republic of China in April of 2005. It is set to have a Registered Capital base initially of USD\$50 Million, before eventually embarking on the rollout of the balance of its projects. As of January 2006, the company has six shareholders, of which the two founders and two recent investors, Paul Eveleigh, Jin Fang Li, Robert Adair and Gordon Crawford (respectively), are almost equally split as the major shareholders. The company is registered as a "WOFE", or wholly owned foreign entity and thus has no restrictions on international ownership. Its parent and 100% owner, recently incorporated Honiton Energy Ltd. of the UK, can be floated on any foreign market (Currently slated for the London AIM Market for the Summer of 2006).

2.2. Start-up Summary

The typical start-up cost ratio for wind energy farms is approximately £1 Million per 1 MW of power capacity. Since the Bailingmiao Project for Honiton will be completed in two phases with the first phase being 50 MW, expected total start-up costs are likely to be about £45 Million. Thirty percent of this will be financed by equity and the balance through debt finance. This number essentially covers off the turbine and tower costs. Other office set-up costs, administration and underwriting fees would be detailed and financed separately.

China has a condition of incorporation that requires the company to register how much capital it will need (in Honiton's case about USD\$50 Million) to complete its "mission". Then within 6 months (by September 30, 2005), at least 15% of this registered amount must be deposited in cash into the company's bank account in China and have an authorized accounting firm to issue a certificate evidencing this. Failure to do so results in the expiry of the company's business license. Missing this deadline is not fatal, however, but rather a loss of face for Honiton and can easily be reinstated with the deposit being made and a minimum time of bureaucracy. Honiton had originally pledged to put \$10 Million in within 6 months of incorporation, more than the \$7.5 Million required by law. It did so to ensure the Government would approve its project (demonstrates commitment to speed and scalability, since Honiton was an unknown to the Government initially). Such over-commitments will not be required for future projects due to Honiton's increased size and reputation.

Naturally, the bulk of the costs are the purchase of the wind turbines and towers. Honiton will be responsible for contracting the construction of the wind towers. The Company is currently in discussions with Mott MacDonald of the UK, a specialized engineering firm, to whom the Company would contract out the construction.

2.2.a Expected Timeline

January 2006 Select potential turbine manufacturer to JV on manufacturing facility; Isolate which city and district will house the facility; finish all corporate restructuring in UK and China for the "new" Honiton Energy Ltd., including its new shareholders Gordon Crawford and Robert Adair; finalize negotiations with Scurr Energy Ltd. and Mott MacDonald for the commencement of their advisory/consulting services; further develop potential project finance lenders

February 2006 Finalize joint venture structure with turbine manufacturer; commence due diligence with JV partner for manufacturing facility construction and local Chinese partner; begin approval process for Projects 2 and 3; select construction company as per Mott's recommendations; finalize list of potential lenders; begin IPO process

March 2006 Finalize agreement with JV partners for commencement of construction on manufacturing facility; open Beijing office; continue aggressively with Xichang approvals; begin construction of manufacturing facility

April 2006 Likely to receive Energy Yield Report from Garrad Hassan on Project 1 and from Scurr Energy on Project 2; prepare PPA document for approvals for both projects; begin initial foundation construction for Bailingmiao project; complete micrositings for Xichang and Bailingmiao; begin negotiations with approved project finance lender list

May 2006 Begin foundation construction in Xichang; complete turbine purchasing orders for Bailingmiao and Xichang; finalize Board and management team

June 2006 Worst case date to receive Energy Yield report on Bailingmiao – thereafter seek PPA and financing; continue narrowing down lender list to one

July 2006 IPO on AIM

August 2006 Finish approval process for Xichang

September 2006 Potentially accept delivery of turbines for Bailingmiao

October 2006 Finalize negotiations with Preferred project finance lender

November 2006 If delivery in September then could connect Bailingmiao to Grid and commence revenues; complete approvals for Xiwu

January 2007 Receive Energy Yield Report for Xiwu; order Xiwu turbines

March 2007 Receive delivery of Xichang turbines

September 2007 Receive turbines for Xiwu Phase I

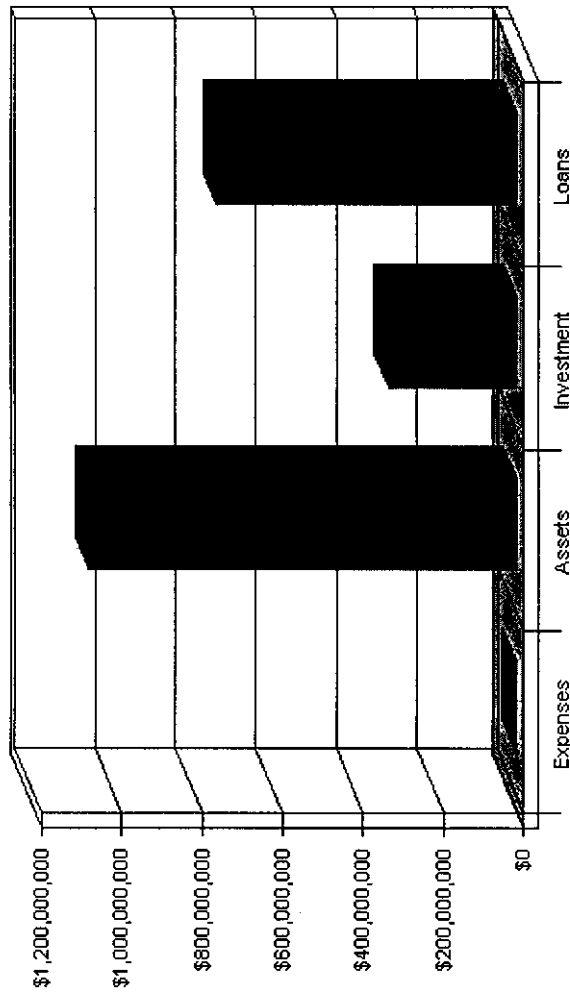
<i>Start-up</i>	
Requirements	
Start-up Expenses	
Legal	\$425,000
Office Set-up Costs (Beijing)	\$15,000
Office Set-up Costs (London)	\$75,000
Underwriting Fees	\$2,200,000
Insurance	\$500,000
Travel and Salary Expense	\$200,000
Other	\$0
Other	\$0
Total Start-up Expenses	\$3,415,000
Start-up Assets	
Cash Required	\$3,500,000
Other Current Assets	\$0
Fixed Assets	\$1,064,000,000
Total Assets	\$1,067,500,000
Total Requirements	\$1,070,915,000

Start-up Funding	
Start-up Expenses to Fund	\$3,415,000
Start-up Assets to Fund	\$1,067,500,000
Total Funding Required	\$1,070,915,000
Assets	
Non-cash Assets from Start-up	\$1,064,000,000
Cash Requirements from Start-up	\$3,500,000
Additional Cash Raised	\$0
Cash Balance on Starting Date	\$3,500,000
Total Assets	\$1,067,500,000
Liabilities and Capital	
Liabilities	
Current Borrowing	\$0
Fixed Liabilities	\$745,000,000
Accounts Payable (Outstanding Bills)	\$0
Other Current Liabilities	\$3,500,000
Total Liabilities	\$748,500,000
Capital	

Business Plan – Honiton Energy Ltd.

Planned Investment	
Initial Shareholder Investment	\$160,000
Pre-IPO Financing	\$3,500,000
IPO Financing	\$62,000,000
Additional Investment Requirement	\$256,755,000
Total Planned Investment	\$322,415,000
Loss at Start-up (Start-up Expenses)	(\$3,415,000)
Total Capital	\$319,000,000
Total Capital and Liabilities	\$1,067,500,000
Total Funding	\$1,070,915,000

Start-up



2.2.b Honiton Budget – Month-by-Month

Honiton Energy (Baotou) Inc.- Budget for 150 MW in 2006

RMB*

	Dec. 31/05	Jan. 31/06	Feb. 28/06	Mar. 31/06	Apr. 30/06	May 30/06	June 30/06	July 31/06	Aug. 31/06	Sept. 30/06	Oct. 31/06	Nov. 30/06	Dec. 31/06	Total
Feasibility Study Report	900,000.00	All or Monthly?	Amount											900,000
Environmental Report	150,000	All												150,000
Aerial Reconnaissance Report	450,000	All												450,000
Grid Connection Design	450,000	All												450,000
Travel	60,000	Monthly	5,000											5,000
British Wind Consultant	400,000	2 Payments												400,000
Office Administration/Overhead	1,700	Monthly												1,700
Staff Salary Expense	6,000	Monthly												6,000
Sub-total	¥2,492,200													¥2,492,200
=USDS	\$ 307,000													\$ 307,000

Honiton Energy (Chifeng) Inc. - Budget for 49.5 MW During 2005 - 2006

RMB*

	Dec. 31/05	Jan. 31/06	Feb. 28/06	Mar. 31/06	Apr. 30/06	May 30/06	June 30/06	July 31/06	Aug. 31/06	Sept. 30/06	Oct. 31/06	Nov. 30/06	Dec. 31/06	Total
Feasibility Study Report	900,000.00	All or Monthly?	Amount											900,000
Environmental Report	120,000	All												120,000
Aerial Reconnaissance Report	330,000	All												330,000
Grid Connection Design	350,000	All												350,000
Business License	44,000	All												44,000
3 Wind Measurement Towers	390,000	All												390,000
Jeep	410,000	All												410,000
Office Equipment/Furniture	25,000	All												25,000
1 Year Office Rent	20,000	All												20,000
Staff Salary Expense	132,000	Monthly												132,000
Travel	120,000	Monthly												120,000
Office Administration/Overhead	1,700	Monthly												1,700
British Wind Consultant	400,000	2 Payments												400,000
Sub-total	¥3,261,400													¥3,261,400
=USDS	\$ 402,000													\$ 402,000

Honiton Energy (Xiwu) Inc. - Budget for 49.5 MW and 500 MW During 2005-2006

RMB*

	Dec. 31/05	Jan. 31/06	Feb. 28/06	Mar. 31/06	Apr. 30/06	May 30/06	June 30/06	July 31/06	Aug. 31/06	Sept. 30/06	Oct. 31/06	Nov. 30/06	Dec. 31/06	Total
Feasibility Study Report	1,800,000.00	All or Monthly?	Amount											1,800,000
Environmental Report	240,000	All												240,000
Aerial Reconnaissance Report	720,000	All												720,000
Grid Connection Design	800,000	All												800,000
Business License	44,000	All												44,000
10 Measurement Towers	1,300,000	All												1,300,000
SUV Vehicle	320,000	All												320,000
Office Equipment/Furniture	25,000	All												25,000
Staff Salary Expense	122,400	Monthly												122,400
Housing	360,000	All												360,000
Decoration for house	30,000	All												30,000
Travel	120,000	Monthly												120,000
Office Administration/Overhead	20,400	Monthly												20,400
British Wind Consultant	400,000	2 Payments												400,000
Sub-total	¥6,301,800													¥6,301,800
=USDS	\$ 777,000													\$ 777,000

Honiton Energy Ltd. Beijing Representative Office - Budget for 2006

USD\$

	Dec. 31/05	Jan. 31/06	Feb. 28/06	Mar. 31/06	Apr. 30/06	May 30/06	June 30/06	July 31/06	Aug. 31/06	Sept. 30/06	Oct. 31/06	Nov. 30/06	Dec. 31/06	Total
Salary ¹	30,000	30,000	120,000	30,000	30,000	30,000	30,000	30,000	40,800	40,800	40,800	40,800	40,800	474,000
Living Adjustment ²	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	66,000
Travel	10,000	10,000	40,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	140,000
Admin. Staff ³	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	132,000
Business Development Expense	11,000	11,000	3,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	13,200
Technical Advisory Fees (Saurin/W)	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	550,000
Ground-Breaking Ceremonies	37,500	37,500	12,500	12,500	12,500	12,500	12,500	12,500	12,500	12,500	12,500	12,500	12,500	37,500
Beijing Transportation	88,000	88,000	88,000	88,000	88,000	88,000	88,000	88,000	88,000	88,000	88,000	88,000	88,000	88,000
Beijing Office Setup (incl. Deposit)	47,000	47,000	47,000	47,000	47,000	47,000	47,000	47,000	47,000	47,000	47,000	47,000	47,000	47,000
Office Monthly Expense	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	14,300
Office Rent	5,800	5,800	5,800	5,800	5,800	5,800	5,800	5,800	5,800	5,800	5,800	5,800	5,800	63,800
Accrued Expense Reimbursement	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000
Subtotal	\$ 1,031,400	\$ 1,031,400	\$ 1,031,400	\$ 1,031,400	\$ 1,031,400	\$ 1,031,400	\$ 1,031,400	\$ 1,031,400	\$ 1,031,400	\$ 1,031,400	\$ 1,031,400	\$ 1,031,400	\$ 1,031,400	\$ 1,156,600

Honiton Energy Ltd. London Head Office - Budget for 2006

UK£

	Dec. 31/05	Jan. 31/06	Feb. 28/06	Mar. 31/06	Apr. 30/06	May 30/06	June 30/06	July 31/06	Aug. 31/06	Sept. 30/06	Oct. 31/06	Nov. 30/06	Dec. 31/06	Total
Office Rent (assume sublease from 1 Portland Place)	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	22,000
FD Salary	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	60,000
Other Staff Expense	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	96,000
Misc. Office Expense	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	55,000
Directors Fees	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	55,000
Sub-total	\$ 256,000	\$ 256,000	\$ 256,000	\$ 256,000	\$ 256,000	\$ 256,000	\$ 256,000	\$ 256,000	\$ 256,000	\$ 256,000	\$ 256,000	\$ 256,000	\$ 256,000	\$ 2,891,800
Total (USD\$)	\$ 2,517,400	\$ 2,517,400	\$ 2,517,400	\$ 2,517,400	\$ 2,517,400	\$ 2,517,400	\$ 2,517,400	\$ 2,517,400	\$ 2,517,400	\$ 2,517,400	\$ 2,517,400	\$ 2,517,400	\$ 2,517,400	\$ 2,891,800

Note 1: Paul and Jeaf £100,000 each from Sept. 2005 until IPO or equivalent financing secured, then UK standard salaries (e.g. £140,000) thereafter. Their salaries will always be equal.

Note 2: Paul to move to Beijing with family and focus 100% in China

Note 3: Includes one accountant/Office Manager and one executive assistant

3. Products

Honiton Energy acquires and develops land in China to build into wind tower farms capable of generating hundreds of thousands of kilowatt hours of electricity without any consequence whatsoever to China's environment. As a renewable energy company, it may in future also consider other forms of environmentally-friendly power generation to add to its stable of businesses. Initially though it will provide only wind-generated power to local government power agencies.

4. Market Analysis Summary

In China, the market is very simple: Only Government agencies can purchase power for distribution through the National Grid. Thus, Honiton will sell to the local Government power agency that has jurisdiction over that particular area surrounding Balingmao and its other projects. It is this agency that will have one price on offer that being contained in the Government Power Purchase Agreement ("PPA") that Honiton will sign with that particular agency.

The company, however, had also begun exploring possibilities of supplying electricity directly to mine sites over the border in Mongolia. However, after discussions with Ivanhoe Energy Inc., the main mining concern in Mongolia, it was discovered that only the Government can control the supply of energy cross-border and so ultimately the Government is still the sole customer for power in China.

4.1. Market Segmentation

1. Government: Honiton's primary customer is the Provincial Government's Power Corporation. As of 2005, it is a Government requirement to sell all power to the State for redistribution over the national power grid. Until this law changes, Honiton will continue to strive for the most lucrative PPA with this single customer.
2. Mongolian Mining Concerns: The company was exploring the possibility of constructing a line over the border into (Outer) Mongolia. Within range is the Ivanhoe Mines Corp. massive copper deposit that will require more power than the country can currently provide. Subject to a feasibility report, Chinese approval, and a negotiated agreement with Ivanhoe (or other similar mining concerns in that area), this may have been a new source of business for the company in the future. However, Ivanhoe already has an agreement with the Government of China, and since the Renewable Energy Law was passed, Honiton feels no need to venture outside the major customer.

Market Analysis		2005	2006	2007	2008	2009	CAGR
Potential Customers							
Chinese Government		1	1	1	1	1	0.00%
Potential Mongolian Mining Co's		0	0	0	0	0	0.00%
Other		0	0	0	0	0	0.00%
Total		1	1	1	1	1	0%

Market Analysis (Pie)



>>>

4.2. Target Market Segment Strategy

The Government will be the prime, and most likely only, customer of Honiton's electrical output. Although this negates the need for any marketing strategy, not including public relations, this is essentially the main risk of doing business in an autocratic country. The company may be subject to rule and government changes going forward. However it is our intention to pursue strong relations with Government, and its members in departments that affect our future.

4.3. Industry Analysis

Growth of Wind Power Generation

Wind energy is the world's fastest growing energy source, with sustained growth rates in excess of 30 percent per year. According to AWEA (American Wind Energy Association), cumulative global wind energy generating capacity topped 39,000 megawatts (MW) and reached 39,294 MW at the end of 2003. New equipment totaling 8,133 MW in capacity was installed worldwide during the year, an increase of 26%, according to estimates by AWEA and the European Wind Energy Association (EWEA). Wind plants now power the equivalent of 9 million average American homes (19 million average European homes) worldwide. Growth is widely forecast to continue in the double-digits into the next decade, even as the industry matures. Some \$9 billion were invested in new wind power generating equipment in 2003, up from \$7 billion in 2002.

Source: AWEA.

Wind Power Production Cost

Over the last 20 years, the cost of electricity for wind systems has dropped by more than 80 percent. In the early 1980s during this booming industry's infancy, wind-generated electricity had cost as much as U.S.\$0.30 per kWh. According to the Canadian Wind Energy Association (CanWEA), modern wind energy plants in North America at decent wind sites can generate electricity for less than U.S.\$0.05 per kWh, a price that is in a competitive range with other conventional energy technologies. Honiton expects the cost of wind energy production to decrease as technology improvements continue to drive the efficiency of wind turbines.

Year	1981	2000
Rated Capacity	25 kW	1,650 kW
Rotor Diameter	10 m	71 m
Total Cost (USD\$000)	\$65	\$1,300
Cost per kW	\$2,600	\$790

Output, kWh/year	45,000	5,600,000
------------------	--------	-----------

Source: AWEA

Wind Power in China

By the end of 2003, the total grid-connected installed capacity of wind power in China was 567 MW, with 1,042 grid-connected wind turbines. The country has over 40 wind farms and more than 170,000 stand-alone small-scale wind turbines (with average installed capacity of 25 MW) that provide electricity to rural households located in remote areas (more than any other country in the world).

China also has qualified technical personnel in the areas of wind power design and construction, but its turbine manufacturing industry still lags behind its western competitors. Recent Government statements have forced the industry to rise to Western standards within the next few years. Currently China does not produce turbines with over 1 MW of capacity, and thus Honiton is only currently considering Western equipment for its first Bailingmiao project.

The current Government's energy strategy is to achieve a goal of 4 GW in nation-wide capacity by 2010 and 20 GW by 2020. With increasing support from Beijing, the industry is expected to grow at an increasing rate well into the future.

Beijing's Support of Renewable Energy.

In a recent renewable energy conference held in May of 2005 in China's Xinjiang province, it was made clear that wind is the preferred choice of China as the most effective and cleanest form of power that the country can produce in large quantities. To that end, wind energy initiatives are showing up in *communiqués from Government in a torrid pace.*

The biggest development was the Renewable Energy Law of China passed in March of 2005, which among many initiatives therein, mandated that starting January 1, 2006, all renewable energy produced in China must be purchased on an off-take basis. The law made it clear that there is to be no exception to this, such that any contravention can invite lawsuits against the guilty against department that does not comply. Before this turning point at the beginning of 2006, the Government is also expected to pass a new regulation determining pricing for the industry such that all participants can be expected to generate a "satisfactory" rate of return. These two initiatives are elaborated below.

The Government has also made it encouraging to generate wind electricity revenues through some economically beneficial tax policies. Currently a new project generating revenues can enjoy a three year tax holiday, followed by two years of tax paid at a 50% reduction, after which all future years would be fully taxed. Many believe that this policy will soon be further enhanced, but nothing has been announced to this point in time.

While all these initiatives are good, Beijing is also making sure that China gets its fair share of the manufacturing market. To that end, in July 5, 2005 the central government announced new rules on wind turbine purchases such that thereafter all installed turbines must have at least 70% local content in their production. By the end of 2006, most of the foreign manufacturers expect to have facilities up and running that will qualify.

In 2005 the central government came out with several communiqués mandating that China outdo its requirement for participation in the Kyoto Protocol on Greenhouse Gas Emissions. As a signing member, but denoted still as a "developing country", China can observe the Protocols requirements but does not have to necessarily implement them before the intermediate 2010 deadline. Most signing Western states are required to realize annual carbon emission levels of the year 1990 by the year 2010. To this end, China has publicly stated its intention to have 10% of all power to derive from renewable sources by the year 2010.

Emissions Trading

As are a growing number of other companies, Honiton is looking to emissions trading as an integral part of its strategy to further maximize revenues while participating in the World's overall reduction of greenhouse gases. A trade will occur between an organization seeking to reduce its emissions and one who has reduced its emissions beyond its requirements to do so. The trade naturally benefits both parties. To this end, purchasers are able to reach goals that require reductions in emissions on a more cost-effective basis than they would have done through operational changes in their businesses, and sellers like Honiton are rewarded financially for investments in emissions reductions. Green Credits are tradable units that represent the commodity formed by unbundling the environmental attributes of a unit of renewable energy from the underlying electricity.

The market for Green Credits is typically a geographically distinct market, defined by each region's rules, legislation, and definition of tradable emissions certificates. Thus currently the worldwide market for Green Credits is still highly fragmented by geographical and political boundaries. Honiton believes that in the near future the global markets for Green Credits will consolidate, as harmonization of international standards enhances both the liquidity and marketability of these units.

According to a recent prospectus of a Creststreet Limited Partnership in Canada, the renewable energy markets in operation worldwide consist of both voluntary and mandatory schemes. In the U.S. for example, Green Credits trade on a voluntary basis at the Chicago Climate Exchange. For the first half of 2005, prices of such carbon financial instruments on the Chicago Climate Exchange have ranged from U.S.\$1.50 to U.S.\$2.02 per metric tonne of CO₂. As of March 31, 2005 volume for the year was 194,700 metric tonnes of CO₂. In 2004, a total volume of 2.25 million metric tonnes of CO₂ was recorded, with volume and price steadily increasing throughout the second half of the year.

In the European Union, Green Credits trade on the European Union Greenhouse Gas Emission Trading Scheme that imposes legally enforceable emission reduction obligations and penalties for non-compliance. According to the Evolution Markets Greenhouse Gas Markets March 2005 Monthly Market Update, European Union carbon allowance (equivalent to one metric tonne of CO₂ emissions) prices climbed over 50 percent to a high of €16.55 per allowance. More than 17 million carbon allowances were transferred in March 2005. As of April 18, 2005, the price of European Union carbon allowances was €15.98(\$25.95). During the period of March 31, 2004 to April 30, 2005, the price of European Union carbon allowances ranged from a low of €6.50(\$10.56) to a high of €29(\$47.11).

Although there is no assurance that markets for tradable Green Credits will develop in China, or that any market that does develop will be similar to the markets that have developed in the United States or Europe. However, Honiton expects the market for tradable Green Credits will continue to evolve. It is our understanding that in mid-2005, the Singapore Government is pushing carbon emission credit trading as a high priority to create the World's largest and open exchange in this area.

Power Market in Inner Mongolia

Supply

China currently consumes over 25% of the world's total annual consumption of coal. Coal-fired thermal energy supplies over 60% of China's primary energy use, and the country has sufficient reserves to continue current production levels to beyond the year 2100. China is now firmly the world's second largest energy consuming country.

In 2002 China's electricity generating capacity had reached 53.8 GW, of which coal-fired power stations accounted for 93.8% of the installed capacity, hydro power 6.0%, and wind 0.2%. Due to its relative abundance, coal is expected to continue to be the fuel used for the majority of new electricity generating capacity being built in the country for many years to come, although a number of nuclear power facilities have been commissioned. Electricity consumption in China continues to grow annually by 10 percent or more raising grave concerns about how the country will power its factories, businesses, and homes over the coming decades. China's traditional power choices - coal and hydro - have significant environmental and social repercussions that have become increasingly serious political and economic issues. Natural gas has received much attention lately as an alternative, but renewable energy sources such as wind are also gaining favour.

By the year 2000 and after more than a decade of developing its wind, China had only about 345 megawatts of installed capacity - equivalent to the output of a small coal or gas-fired plant. The industry has been rife with broken Power Purchase Agreements ("PPAs") and tendered PPA pricing that was uneconomic for developers. Hence the industry is still in infancy. For comparison, in the same year Germany led the world with 6,100 megawatts, while the U.S. and India had 2,500 and 1,200 megawatts, respectively. The "Tenth Five-Year Plan" (2001-2005) calls for a nearly five-fold increase in China's wind capacity by 2005 to 1.5 gigawatts. With recent supporting legislative initiatives, China will easily surpass this target. In fact, if it develops even one-half of its conservatively-estimated wind resources, it could generate about 275 billion kilowatt-hours of power each year - about one-fifth the country's current demand - displacing the need for 125 million tons of coal and the accompanying two million tons of sulfur dioxide and 65 million tons of carbon emissions.

With a power generating capacity of 6.2 million kWh, Inner Mongolia has become a major power supplier for China's Northeast Power Grid, the Beijing-Tianjin-Tangshan Power Grid, and (Outer) Mongolia. And with its proximity to Beijing and the industrious North-East, Inner Mongolia's vast wind-swept plains make it the most attractive region to develop wind power.

Hurdles

Technical, commercial, and regulatory barriers restrain expansion of wind power in China. Although the "Renewable Law of China" is encouraging rapid development, the industry is still plagued with inconsistent implementation of policies by the provincial and municipal governments. Most notably the myriad of approvals and permits required and the seemingly infinite time and patience required to complete all of these successfully has driven away many new entrants.

Despite great technological advances and cheaper materials, wind-generated electricity still remains relatively expensive and technical problems need to be solved before wind can contribute more significantly to China's power mix. In July 2005, the central government passed a new regulation

requiring that all future turbines placed in China have 70% of their construction be procured locally. Although the manufacture of large, high-quality turbines in China could lower costs compared to the units it currently imports, the foreign manufacturers are still struggling to not only build infrastructure in China to meet the Government's 70% requirements, but their facilities overseas are also overwhelmed from U.S. demand since that country's tax incentives to build wind energy capacity were brought out in 2004-05. Most imported wind turbines to date have been placed in concessionary projects. The 70% local content requirement will go a long way to accelerate the development of a market for wind power in China, especially among potential foreign players.

Improvements in Future

Although China currently has no local carbon emissions trading schemes, new regulations introduced by the State Environmental Protection Agency in September 2000 increased the fee on sulfur dioxide emissions from roughly \$25 to \$100 per ton. However, China still must address other health and environmental damages due to coal combustion that weigh on its ability to reduce its high cost of proper medical care to its citizens. Recent media reports have forecast that China's SO₂ emissions will exceed its airspace's capacity by more than 12 million tonnes by the year 2020. Although Chinese wind farms are encouraged to apply for CDM status that would allow them to sell carbon credits to other Kyoto Protocol developed nations, currently the government restricts the applicants to majority-Chinese-owned enterprises. Continued pressure on its own environment could eventually force the government to set up such local trading markets.

China has also recently begun restructuring its power sector to lower costs and improve efficiency. Various grid systems have been promised upgrades and competition is being introduced among some generators. Currently, many wind power developers are subsidiaries of provincial utilities. The two major legislative policies fortifying the industry should greatly stimulate new development from the foreign and private sectors.

The July 5 initiative is a thrust for China to develop its own wind turbine technology industry, both to ensure self-sufficiency and to further cut capital costs. Like many other industries before it, China can coerce the foreign grants into setting up factories for the domestic market and thereby allowing its local competitor companies to upgrade themselves to compete on similar higher technology. Once entrenched, not only do foreign local Chinese companies upgrade themselves to competitiveness, but the foreign factories become their main manufacturing facilities for external demand. China wins in both cases. Labour costs in China are considerably lower than in industrialized countries, so it is thought that "localizing" the production of wind turbines could result in units that are 10 to 40 percent less costly than imports.

Assistance from Intranational Credit Agencies

Danish, Dutch, German, Spanish, Canadian and American governments will very often provide concessionary loans to developers working in "developing" countries. For example, the Government of Denmark has been known to provide zero-interest loans for 10-year terms for their turbine manufacturers to gain access to the Chinese market. Concessionary loans can assist the Chinese wind industry by facilitating installations of wind farms, but longer term they must be able to offer similar programs to non-concessionary (like Honiton) projects or face the prospects of a stagnating commercial market development. Although such restrictions are becoming more relaxed in recent years, these loans are typically tied to purchase of equipment from the host country, reducing competition and discouraging use of Chinese-manufactured equipment.

Such subsidies can also reduce competition and encourage higher capital costs. In 1999, the World Bank and Global Environmental Facility approved the Renewable Energy Development Project to promote commercialization of wind energy in China through competitive bids for 190 megawatts of

wind turbines at five different wind farms. This also included technical assistance for local production, standards and certification, and commercial development. The Bank had hoped this project would establish clear and consistent guidelines for power purchase agreements and foreign investment. This path-breaking project has faced a number of difficulties including finding buyers for its wind power in Inner Mongolia and delayed final project approvals due to internal struggles within the Chinese government. With the exception of a recently approved 50 MW (2005) project in Huitengxile, Honiton believes this program never came to fruition. From this, one can know that if the World Bank has trouble with Chinese governments, then this environment will most certainly be full of obstacles for private developers.

From public records, Honiton found that in late 2000, the Asian Development Bank and Global Environmental Facility (GEF) approved a \$98 million project for 78 megawatts of wind power at three wind farms in Xinjiang, Heilongjiang, and Liaoning. The GEF is providing a \$6 million grant and a \$6 million interest-free "contingent loan". Repayment of the loan would be nullified and converted into a grant if the projects are not successful. Honiton hopes to contact this agency and others to explore the most advantageous project financing scheme available.

The most successful project to date by a foreign company was done by the Dutch developer Nuon on Nan'ao Island, as a build-operate-transfer (BOT) project with foreign investment. The 24 megawatt wind farm was commissioned in June 1998 and has started operating with a PPA term of 20 years before transfer to the local utility. The PPA also features an unusually high tariff rate of USD\$0.065/kWh during the first year, with annual increases of three percent over the following 10 years. This was the first project that featured a power purchase agreement with a foreign company for a wind farm, agreeing to both pay hard currency and index the price to inflation. After this project was implemented, however, such approvals, which had up to then been approved locally by provincial governments, were moved out of their hands and over to the Central government. Since this one outstanding project was approved, no similarly commercial projects have been approved since.

Recent Policy Initiatives to Build Wind Markets

The most important two pieces of government legislation have come in recent months. First, the "Renewable Law of China" that was passed in March of 2005 stated primarily that any renewable power produced from a government-approved project would be subject to mandatory purchase from government. The law comes into effect on January 1, 2006 and is the first major step toward securing rights under a PPA for foreign and local companies. The passing of this law also sent a flood of new entrants into China's wind industry and is widely viewed as the real beginning of a major industry build-up.

At the time of writing it had not been tabled and passed yet, but Honiton was able to view the draft legislation for a pricing initiative to be announced likely in November of 2005. The legislation, also to come into effect the beginning of 2006, would standardize and guarantee pricing country-wide for non-concessionary projects and lay out guidelines for all future PPAs to be written and signed. This second piece of legislation also includes a mandatory 15 year term for the PPA, which up to this point was non-existent and frequently was five years or less. The Author will update this plan when formal rules and regulations have been officially announced and instituted.

The combination of these two laws, while not necessary ensuring a highly profitable venture for any wind farm, has gone a long way to better protect the developer and better predict the future cash flows for the purposes of financing. The obtaining of a PPA has also become a much simpler task.

Previously, the Chinese government had taken other steps to promote the wind industry, although not altogether successful, but some having greater impact than others. For example in 1999, the State Development Planning Commission (whose role was later usurped by the National Development and Reform Commission "NDRC") and the Ministry of Science and Technology issued a circular to support renewable energy. It said that renewable

energy power projects would have priority in securing loans from Chinese banks at lower interest rates. Grid administrators would also be required to allow for the nearest interconnection and purchase all interconnected power generated by renewable energy. Wind farm developers would then be paid on a cost-plus basis, with slightly higher profits given to domestically manufactured wind farms. However, until the laws passed in 2005, this mandate was in almost all instances withheld for any foreign developer, and has had a remarkably poor adoption-rate. An article from China Online in 2001 shed some light on the reasons for this:

"While incremental costs are supposed to be shared within the grid, the policy does not specify whether this is the regional or local grid. Utilities often still do not allow all renewable energy projects to connect to the grid. And prices paid for wind power vary, with utility-sponsored projects sometimes receiving higher prices than other developers. Discussions with local renewable energy experts indicate that projects taking advantage of this 1999 announcement have not yet been approved. The lack of clarity in this policy is slowing project development."

Other new measures hold more promise. The Tenth Five-Year Plan proposes market-based policy instruments such as a mandated market share (also known as renewable portfolio standard) policy to promote renewable energy. This policy would be a legal requirement that some share of electricity comes from renewable energy and a market-based instrument, such as trading of green certificates, would be introduced to share the incremental costs and benefits among the regions in China. However, the details on how such a policy can be implemented in China remain to be determined. The World Bank and GEF are preparing a Strategic Partnership for Renewable Energy that will assist in development of this mandated market share policy for China.

Wind Power Market to Date

In China, however, the market for wind power has developed more slowly than anticipated, largely due to a lack of a clear, consistent, streamlined framework for wind power, as well as incentives for wind developers. Further barriers to developing a more robust market for wind power in China include:

High costs Developers have been given little incentive to lower the cost of power produced at wind farms. Pressure from market competition is needed to trim costs and improve efficiency. China's recent plan to offer wind concessions to the lowest bidder may be a good starting point.

Limited wind resource assessment data. Project developers need more information about China's wind resources in order to minimize risk and choose the best sites. China should develop a detailed assessment of wind resources, and international assistance is likely needed to accelerate these activities.

Immature local manufacturing capability. China is strongly promoting local manufacturing capability for wind turbines. Testing and certification of these turbines is necessary to assure local developers of safety and quality issues. Markets for these turbines must be increased in order to lower costs by providing greater economies of scale. Market drivers such as the proposed mandated market share policy should help in expanding markets and reducing costs.

Difficulty in securing project approval and negotiating power purchase agreements. Getting project approval from the central government and negotiating power purchase agreements with the local utility may be the most difficult task for wind power developers in China. These problems are not unique to the wind power field, and should become less burdensome as overall transparency within China improves. Accession to the World Trade Organization (WTO) should further accelerate the development of a market-based economy driven by rule-of-law.

Failure to account for the full environmental benefits of wind power. China has become more serious in fighting its pollution problems, including new fines for sulfur dioxide emissions. Additional environmental externalities associated with coal combustion should be accounted for to level the playing field for wind.

Subsidized financing for imported wind turbines. Soft loans from wind turbine exporters may delay emergence of a commercial market in China. Wind projects that do move forward are limited to those that offer concessionary finance. In the long run, it will be in the foreign manufacturers' own interest to eliminate these subsidies.

Conclusions

It is hoped that with the passage of these two pieces of legislation in 2005 that the wind industry will finally grow and gain momentum. But more importantly, a sense of optimism has arisen among foreign developers, investors, and financiers that the future is more secure. With standardized and long term PPA contracts, guaranteed off-take rules, and decent pricing, Honiton believes that the time has come to take advantage and move quickly to secure several good projects in the coming years.

4.4 Competition and Buying Patterns

Since the passage of the Renewable Law of China, there really is no competition for Honiton's projects. Once land is acquired and the various levels and departments of Government have approved the project, there are no future competitive threats.

The competitive landscape is essentially locating and developing properties. This includes the key task of acquiring all the necessary approvals from those governmental departments. Honiton has a first-mover advantage in the province of Inner Mongolia, and so will continue to develop properties there first. Following some saturation of that market, the company will shift to other jurisdictions. We will continue to keep our ear to the ground about other favourable areas in the meantime.

5. Strategy and Implementation Summary

Honiton's strategy will be built upon sustainable advantages from superior local knowledge and government connections, in-house expertise, potential to monopolize the purchase of turbines in China through its own potential turbine manufacturing operation, and its invaluable first-mover advantage. Furthermore, the company will take advantage of its local connections to continue to suss out premier wind energy properties to ensure above-average rates of return on its entire portfolio of current and future projects. Finally, Honiton will become a role model for foreign companies operating like locals in China, while rewarding its shareholders with the potential growth rates of the world's fastest-growing energy market. Once the company feels it has saturated the wind energy market in China, it will diversify into other equally profitable alternative energy industries.

5.1. Competitive Edge

Every company must have a competitive edge if it is to survive in today's business world. Simply saying the you are "the best" and "working hard" will not cut it in the long term. At Honiton, it is our hybrid management team that sets us apart. For foreign players in China, most either fit one of two models: a local management team sourced and trained by a foreign group from the company's parent headquarters; or, a foreign management team parachuted in to China to build operations. Historically, neither have had any form of major success.

Honiton's CEO, Paul Eveleigh, has been working on the ground in China building the company with his partner, Jin Fang Li, since the company's early days in late 2004. As its business grew, Honiton began organically attracting new talent to join its team, and have each new employee learn the industry with the management team, not from them. As a result we have created a team that is small, with tremendous amounts of local knowledge of how to do business in China, highly mobile, and dynamic. This is our competitive edge and separates from every other operator in the renewable energy space.

Furthermore, the company signed its first wind energy project deal many months before the recent spate of supporting environmental laws came from China's Government in 2005. As a result, our reputation is pristine among local bureaucrats as being a pioneer committed to development with or without government assistance. In China, this stance goes a long way, especially in more economically-challenged regions within China. Too many foreign entities lost any such reputation by either quitting early due to frustration, or by not completing the approval process, calling it onerous and fraught with challenges and frustration. Having completed all of our approvals for the Bailingmao project within seven months (a record according to local officials), Honiton has elevated itself to "favoured" status among the local and provincial government officials.

Honiton will continue to grow from its internal base in China, training local partners armed with tremendous local knowledge, but eager to learn the company's internal principles and style of growth. It will continue to respect, the local rules, regulations and customs with which to push its approvals through quickly. It will continue to pride in its "Made in China" birth, and commitment to its employees. Following the principles that have brought it success can continue to deliver future success until too many other operators copy its genetic and operational makeup. To date, the company has no competitors quite like itself.

People, not energy, are our true assets. We know that without their loyalty and dedication, attrition and related costs will increase dramatically, as in other Chinese companies. We shall ensure, that within reason from local pay scales, significantly reward and incent our staff for efficiency and expediency. We want to guarantee through intangible and tangible measures, their high level of job satisfaction and corresponding loyalty.

5.2. Marketing Strategy

Honiton's marketing strategy is essentially two-fold: striving to convince government officials to push approvals through for us; and convincing existing developers to give up their projects and sell out to us at below-market prices.

1. Working hard on Government officials

Unlike other, mainly Chinese firms who resort to bribery, Honiton prides itself to adapting to local mechanisms for courting favour with a more Western approach. Rather than buying dinners to encourage officials to bend, we focus rather on dinners to celebrate an approval with the officials

concerned. This way, the officials still receive the dinner but it cannot be viewed as a bribe or inducement. Honiton also strives to cultivate friendships with each of the particular government officials who can assist in generating approvals. This can often take time, and although seen as wasteful in competitors West, has worked particularly well in China. Paul's friendships with local officials has further enamoured them to Honiton, as many of these individuals have never had a foreign friend, let alone stimulating conversations with one.

Keeping this pristine reputation is also key, as each time we move into a new area, we have tremendous word of mouth and a referral network that can promote us with the new local players in that particular area. Any weak link that could jeopardize this reputation must be isolated and eliminated quickly because in China your reputation is paramount. Management continues to attract media to deliver its strong message and fast early development that will assist in new areas learning about us prior to our arrival. It is already paying dividends in that many locales are contacting us to come over and evaluate their wind sites for possible development.

2. Acquiring already-tested greenfield projects

Having good relationships within approval departments and wind testing equipment companies, Honiton has strong connections to inform it of which areas are particularly suited to wind energy in China. From these suggested areas, we begin by isolating projects with some testing already complete, but yet have struggled to achieve their approvals. These situations, more often than not, will involve a struggling entrepreneur/developer whom we are confident will have no ability to solely raise enough funds to complete the project.

In these cases, we can meet with the developer, befriend him, and convince him of the benefits of receiving stock in a rapidly growing foreign company with the resources to see his project through. We may keep them on as a consultant but more often than not, we continue the project on our own. With this acquisition formula (no money required up front), we have been able to begin acquiring projects for very little future value costs. Once a fully funded company, either publicly listed or with strong Joint Venture partners, we intend to go out and very quickly add several new projects to our portfolio, just in this way.

5.3. Sales Strategy

All sales for Honiton will be a direct result of generating power and providing it to the local power authority as per a signed power purchase agreement. Effective 2006, the Government will set prices for all renewable PPAs, the company cannot rely on raising prices. Thus, in order to increase sales, we need to generate more projects. In this section, Honiton's strategy for expansion will be detailed.

Honiton will continue its Revolving Local Management Training Program ("RLMTP"), whereby key personnel from Project #1 will relocate to Project #2 to train a new team for development, construction, and operating phases. Each team, at the development stage, will be comprised of an experienced team leader, a secondary assistant seconded from another project or area, and the new local employees to be trained. As each employee becomes trained and experienced, they will be given the opportunity to temporarily relocate in future to manage a different project. Management will try to isolate a core group that is highly mobile and able to go into each new project area to develop the local team. This strategy enables a nice blend of outside experience with knowledgeable local talent.

Honiton's management of its China operations will be superior to all other developers and utilities in that we combine western management techniques with local Chinese practice and customs. For example Honiton would have lower labour costs than other foreign operators because of its mainly Chinese management team that better understands the local labour markets, but yet would complement salary compensation with some Western-style initiatives such as stock options, or profit-based bonuses.

5.4. Milestones

The following table lists important project milestones during the pre-construction and construction phases of the Bailingmiao Project-Phase 1 of Honiton Energy. During this period initial work will begin on the 2nd project ("XiChang") and acquisition of a third project. Budget projections are for the full costs; for example, even though the next 12 months will only require a deposit for the turbine acquisition, the table lays out the entire cost. Finally, the table also separates costs into units: Development and Manufacturing. The latter is based on the proposed intention of the company to build and operate a turbine manufacturing facility in addition to its wind development business.

Business Plan -- Honiton Energy Ltd.

Milestones						
Milestone	Start Date	End Date	Budget	Manager	Department	
Bailingmiao Phase 1 Government Approvals	2/1/2005	9/27/2005	\$530,000	Honiton	Development	
Acquisition of Project 3	9/1/2005	11/1/2005	\$2,000	Baotou	Development	
Bailingmiao Wind Resource Report	6/1/2005	11/17/2005	\$25,000	Jeaf Li	Development	
Website	9/1/2009	12/1/2005	\$7,500	Garrad	Development	
Manufacturing Due Diligence	10/1/2005	12/1/2005	\$5,000	Hassan	Development	
IPO	10/15/2005	2/15/2006	\$200,000	Irix Design	Manufacturing	
Beijing Office	1/1/2006	3/1/2006	\$60,000	John Seed	Development	
Complete Purchase Order of Turbines:	12/1/2005	1/1/2006	\$72,000,000	Karl Watkin	Development	
Bailingmiao Phase 1				Paul Eveleigh	Development	
Construction of Bailingmiao Phase 1 (Foundations)	4/1/2006	6/1/2006	\$13,000,000	Paul Eveleigh	Development	
Name me	1/1/2001	1/1/2001	\$0	Jeaf Li	Development	
Totals			\$85,829,500	ABC	Department	

Milestones

	2001	2003	2005	2007	2009	2011	2013
Bailingmiao Phase 1 Government Approvals							
Acquisition of Project 3							
Bailingmiao Wind Resource Report							
Website							
Manufacturing Due Diligence							
IP0							
Beijing Office							
Complete Purchase Order of Turbines: Bailingmiao Phase 1							
Construction of Bailingmiao Phase 1 (Foundations)							
Name me							

6. Web Plan Summary

Honiton's website will be a dynamic marketing tool for the company that serves the needs of investor relations, business and government relations development, sales, and recruiting. The company site will provide information about Honiton's products and services for the alternative energy market in China, such as its projects, its manufacturing aspirations, and general information educating about wind power. As the company grows, its recruiting needs can be addressed by posting career opportunities and FAQs about the company. Honitonenergy.com will also communicate company news and its sustainability programs to create and maintain positive public relations with the community and its investors. The goal will be to implement a functional and professionally designed website that can be adapted to meet the company's growing needs.

At the time of writing, Irix Design Inc. ("Irix") of Vancouver, BC is designing and editing the company's website. The project is expected to complete by mid-December 2005. It can be accessed by the url www.horitonenergy.com

6.1. Website Marketing Strategy

The company website will be primarily geared toward its current and potential shareholders to convey information and interest in its activities. The website itself will feature several "meta-tags" which will enable it to feature prominently when users are searching the internet for companies involved in alternative energy or wind power in China. Aiming to be the premier foreign entity focused on renewable energy in China, the website's potential traffic will act as a driver in interest in its share price..

6.2. Development Requirements

The website is currently being designed and constructed by Irix and will be hosted by GoDaddy Services, an American internet hosting company. The hosting contract will expire in July 2007, and has been fully prepaid. Irix will deliver a turnkey website in mid-November 2005 and will train Honiton management on how to update news releases of Honiton onto the website directly. Any further major changes will likely be handled by Irix under a maintenance contract. Terms of this contract are not available at the current time. However, it is expected that Honiton will proceed with such a contract as this outsourcing is expected to be significantly less expensive than hiring internal resources for such services.

7. Management Summary

Key Management at Honiton can be divided into executive and non-executive directors and senior management personnel. Both Boards are expected to check and balance each other, while each of the executive management team bring complementary skills to the company in every facet of its potential business. While its operations remain 100% in China, the company's investors and stock listing will primarily be in the United Kingdom, and so experience from both regions is critical to the company's success going forward.

Honiton's Management Team is well appointed to ensure the company's success well into the future. It features:

Chairman	Gordon Crawford (+ Description)
CEO	Paul Eveleigh (+ Description)
VP China	Jin Fang Li (+ Description)
FD	Simon Parsliffe (+ Description)
Director	Robert Adair (+ Description)
Director	Patrick Bowes (+ Description)

7.1. Personnel Plan

Salary levels are generally in line with market pay for both the UK and local Chinese market. Our advantage of being a quasi-Chinese company is that we can get away with paying local Chinese salary standards, thus saving the company a lot of money, but will add other Western fringe benefits such as a stock option plan. The company will also research the pros and cons of adding other insurance benefits such as medical. Inner Mongolia is also a lower wage location than most of the more developed industry areas on the east coast of China.

As we grow, we expect to see steady increases in our personnel to match the increases in projects. Because the first project in Bailingmiao has received all of its approvals, its primary staffing functions will be for the construction phase of the project. This will likely be contracted out, and so will not be included in this plan. However upon completion, the Company will need a small staff to train with the Turbine manufacturer's team for the first 24 months. Beyond Bailingmiao, Honiton is in the process of hiring its teams to proceed with the approval process for XiChang (its second project) and a potential third project will likely be attained in November 2005.

Should the company form a manufacturing subsidiary, Honiton would then require a further hiring for these positions. Again however, these will not be included in this plan as it is not a confirmed business decision.

The company is in the process of attracting a VP HR & Strategy who will manage all China hiring and staffing functions. He is Taiwanese, having worked in Canada for many years. Thus he would be able to bridge Western performance standards with local Chinese cultural and business practices. As the company's growth is expected to be substantial and rapid, his mandate will be to hire the best within the company's cost structure that will flourish in such a hybrid company.

The Personnel table for the first 12 months appears in the appendix and is an approximate estimate of salaries for both the UK senior management and local management and employees. The company will strive to hire and train local managers to continue to keep costs down, rather than sending out expats. The HR VP will be instrumental in building this training program.

For the time being Honiton will be hiring teams of 3-4 to handle the approval process for each new project.

Personnel Plan		FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
UK Management		\$1,104,000	\$0	\$0	\$0	\$0
China Management		\$48,000	\$0	\$0	\$0	\$0
China Ground Employees		\$144,000	\$0	\$0	\$0	\$0
Other		\$0	\$0	\$0	\$0	\$0
Total People		0	0	0	0	0
Total Payroll		\$1,296,000	\$0	\$0	\$0	\$0

8. Financial Plan and its Important Assumptions

Growth rates for pricing are 0% due to the 15 year PPA being fixed. However, pending the Government's announcement for pricing, Honiton expects pricing to be broken down into fixed and variable components. Specifically, a high fixed price will be paid for a primary block of MWh generated, followed by the balance of MWh generated at a much lower price. After 10 years, the pricing will change to one low fixed rate for all MWh generated. In our tables below, we have assumed RMB0.50/kWh, or about \$77/MWh..

There are six tables laid out below:

—

Immunofluorescent Carb. Fluor. Quantitation

1000

Investor Pre-Tax Cash Flow (1000's BF)

555

After Tax 20 year NPV12

Per Ton 20 year NPV12 14,136.03

Bailing Mio 2 Phase Consolidated Statement

	2007	2008	2009	2010	2011	2012	2013	2014	2015
Production									
Total Plant Capacity (MW)	50.00	200.15	200.15	200.15	200.15	200.15	200.15	200.15	200.15
Net Generation (MWh)	154,095.76	16,845.38	16,845.38	16,845.38	16,845.38	16,845.38	16,845.38	16,845.38	16,845.38
Net Capacity Factor	35.18%	35.18%	35.18%	35.18%	35.18%	35.18%	35.18%	35.18%	35.18%
Tariff Energy Tariff (£/MWh)	36.96	36.96	36.96	36.96	36.96	36.96	36.96	36.96	36.96
Operating Revenues (1000's B£)									
Energy Sales	5,695.38	22,798.60	22,798.60	22,798.60	22,798.60	22,798.60	22,798.60	22,798.60	22,798.60
Carbon Emission Trading	672.20	2,690.83	2,690.83	2,690.83	2,690.83	2,690.83	2,690.83	2,690.83	2,690.83
Total Operating Revenues	6,367.58	25,489.43	25,489.43	25,489.43	25,489.43	25,489.43	25,489.43	25,489.43	25,489.43
Operating Expenses (1000's B£)									
Total Operating Expenses	1,082.52	3,484.26	3,513.83	3,544.02	3,574.87	3,324.60	2,424.43	2,551.81	2,476.40
(£/MWh)	7.03	5.65	5.70	5.75	5.80	5.39	3.93	4.14	4.00
Earnings Before Int., Tax, Depr'n & Amort. (EBITDA)	5,285.06	22,005.17	21,975.61	21,945.41	21,914.56	22,164.83	23,065.00	22,937.62	23,013.01
Cash Surplus (Shortfall) Before Investor Acti	(17,678.64)	(43,846.78)	(233.54)	9,203.99	9,173.78	9,142.97	9,393.24	10,293.37	10,166.00
Investor Pre-Tax Cash Flow (1000's B£)	(17,678.64)	(43,846.78)	(233.54)	9,203.99	9,173.78	9,142.97	9,393.24	10,293.37	10,166.00
Pre Tax Payback (Years)	8.50								
PerTax 20 year NPV12	13,780.53								
PerTax 20 year IRR	15.19%								
Income Taxes (1000's B£)	-	-	-	-	1,125	1,122	2,239	2,524	2,479
Investor After-Tax Cash Flow (1000's B£)	(17,678.64)	(43,846.78)	(233.54)	9,203.99	8,049.17	8,020.97	7,154.57	7,769.15	7,686.68
AfterTax Payback (Years)	9.57								
AfterTax 20 year NPV12	2,337.17								
AfterTax 20 year IRR	12.59%								

Table Three represents a consolidated project view of Bailingmiao (Total 200 MW)

Xi Chang Wind Energy Project Phase 1

Table Four details the financials for Phase One of the XiChang project (50 MW)

Business Plan – Homlon Energy Ltd.

Table Five is for XiChang Phase Two (250 MW)

Xi Chang 2 Phase Consolidated Statement 2007

Business Plan – Honiton Energy Ltd.

	2008	2009	2010	2011	2012	2013	2014	2015
Production								
Total Plant Capacity (MW)	50.00	300.80	300.80	300.80	300.80	300.80	300.80	300.80
Net Generation (MWh)	189,601.33	1,130,683.04	1,130,683.04	1,130,683.04	1,130,683.04	1,130,683.04	1,130,683.04	1,130,683.04
Net Capacity Factor	43.29%	42.91%	42.91%	42.91%	42.91%	42.91%	42.91%	42.91%
Tariff Energy Tariff (£/MWh)	36.96	36.96	36.96	36.96	36.96	36.96	36.96	36.96
Operating Revenues (1000's B£)								
Energy Sales	7,007.66	41,790.05	41,790.05	41,790.05	41,790.05	41,790.05	41,790.05	41,790.05
Carbon Emission Trading	827.09	4,932.31	4,932.31	4,932.31	4,932.31	4,932.31	4,932.31	4,932.31
Total Operating Revenues	7,834.75	46,722.36	46,722.36	46,722.36	46,722.36	46,722.36	46,722.36	46,722.36
Operating Expenses (1000's B£)								
Total Operating Expenses	1,127.91	5,438.71	5,544.71	5,653.18	5,764.21	5,875.23	5,986.26	6,097.29
Earnings Before Int., Tax, Depr'n & Amort. (EBITDA)	5.95	4.81	4.90	5.00	5.10	5.20	5.30	5.40
Cash Surplus (Shortfall) Before Investor Activity	6,706.84	41,283.64	41,177.65	41,069.17	40,958.15	40,847.13	40,736.11	40,625.09
Investor Pre-Tax Cash Flow (1000's B£)	(18,266.67)	(78,760.13)	(78,760.13)	(78,760.13)	(78,760.13)	(78,760.13)	(78,760.13)	(78,760.13)
Pre Tax Payback (Years)	6.93							
PerTax 20 year NPV12	\$62,004.25							
PerTax 20 year IRR	20.66%							
Income Taxes (1000's B£)								
Investor After-Tax Cash Flow (1000's B£)	(18,266.67)	(78,760.13)	(78,760.13)	(78,760.13)	(78,760.13)	(78,760.13)	(78,760.13)	(78,760.13)
AfterTax Payback (Years)	7.37							
AfterTax 20 year NPV12	\$32,251.83							
AfterTax 20 year IRR	17.18%							

Table Six represents a consolidated project view for XiChang (Total 300MW)

Potential VAT costs at this time are still unknown

All dollar figures are expressed in pounds sterling. Turbine and construction costs are based on Canadian cost standards, and thus are very conservative for a cheaper raw material and labour market in China. Funding for the projects are expected to be derived from 70-30 Debt-Equity financing. This is the benchmark for the wind industry. However, should our financial statements and numbers prove strong enough, the company may be able to arrange more leveraged financing.

Business Plan – Honiton Energy Ltd.

At the time of writing, exact IPO proceeds and costs are unknown, but an assumed cost of \$2,200,000 for IPO and \$425,000 legal fees were built in. This was estimated against raising 30 million pounds sterling in the IPO.

<i>General Assumptions</i>					
Plan Month	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Current Interest Rate	1 6.00%	2 10.00%	3 6.00%	4 6.00%	5 6.00%
Long-term Interest Rate	7.00%	10.00%	7.00%	7.00%	7.00%
Tax Rate	0.00%	0.00%	30.00%	30.00%	30.00%
Other	0	0	0	0	0

SCHEDULE 3

Documents required for the transfer of the Honiton Baotou Shares

Part I

- (1) Application Letter to Baotou City Business Affairs (Commerce) Baotou for the change of investor of Honiton Baotou
- (2) Original Articles of Association of the Honiton Baotou
- (3) Amendments to the Articles of Association of the Honiton Baotou
- (4) Letter of Appointment for Director(s)
- (5) Identification documents and Resume of the Newly Appointed Director(s), Legal Representative and General Manager
- (6) Letter of Withdrawal of Appointment of Director(s)
- (7) Resolution of the Board of Directors (before share transfer)
- (8) Resolution of the Board of Directors (after share transfer)
- (9) List of Members of Board of Directors (before share transfer)
- (10) List of Members of Board of Directors (after share transfer)
- (11) Lease Agreement of Honiton Baotou and supporting documents provided by the Landlord of the office of Honiton Baotou
- (12) Chinese Application Forms

Part II

- (1) Bank Reference Letter of Honiton Energy
- (2) Certificate of Incorporation of Honiton Energy
- (3) List of Members of Board of Directors of Honiton Energy

PART II

LIMITATIONS ON CLAIMS

1. INTERPRETATION

In this Schedule (unless the context otherwise requires):

- 1.1 a "**claim**" means any claim against the Honiton Baotou Shareholder under the Warranties; and
- 1.2 "**determination**" means a final determination by a court of competent jurisdiction or a final award or decision of a duly appointed arbitrator or expert (as the case may be) and "**determined**" shall be construed accordingly.

2. TIME LIMITS

- 2.1 The Honiton Baotou Shareholder shall not be liable for any claim unless written notice of the claim has been given to him by or on behalf of Honiton Energy on or before the date falling 6 months after the delivery to the Honiton Energy Shareholders of the audited consolidated accounts of the Company for the financial year ending 31 December 2008.
- 2.2 The written notice of the claim shall give such details of the nature of the claim and the circumstances giving rise to it as are then known by the person giving such notice.
- 2.3 Any claim shall be deemed to be withdrawn (if it has not been previously satisfied, settled or withdrawn) unless legal proceedings in respect thereof have been commenced within nine months of the giving of written notice of the claim, and for this purpose such legal proceedings shall not be deemed to have commenced unless both issued and served.

3. UPPER LIMIT

- 3.1 The aggregate liability of the Honiton Baotou Shareholder for all claims and all claims under the warranties contained in the Shareholders' Agreement shall be limited to the greater of £500,000 and the Fair Value (as defined in the articles of association of Honiton Energy) of those shares in Honiton Energy held by the Honiton Baotou Shareholders from time to time.

4. DOUBLE CLAIMS

If the same fact, matter, event or circumstance gives rise to more than one claim for breach of any Warranties, Honiton Energy shall not be entitled to recover more than once each in respect of such fact, matter, event or circumstance.

5. CHANGES ON AND/OR AFTER COMPLETION

5.1 The Honiton Baotou Shareholder shall not be liable for any claim to the extent that it arises, or is increased or extended by:

5.1.1 any change to legislation, any increase in rates of taxation or any change in the published practice of a revenue authority, in each case made on and/or after Completion with retrospective effect;

5.1.2 any change in the accounting reference date of Honiton Baotou made on and/or after Completion; or

5.1.3 any change in any accounting policy or practice of Honiton Baotou made on and/or after Completion, save where such change is required to conform such policy or practice with generally accepted policies or practices or where such change is necessary to correct an improper policy or practice.

6. REMEDIABLE BREACHES

The Honiton Baotou Shareholder shall not be liable for any claim to the extent that the fact, matter, event or circumstances giving rise to such claim is remediable and is remedied (at no expense to Honiton Baotou) within twenty five days of the date on which written notice of such claim is given to the Honiton Baotou Shareholder.

Expected Timeline

January 2006	Select potential turbine manufacturer to JV on manufacturing facility; Isolate which city and district will house the facility; finish all corporate restructuring in UK and China for the "new" Honiton Energy Ltd., including its new shareholders Gordon Crawford and Robert Adair; finalize negotiations with Sgurr Energy Ltd. and Mott MacDonald for the commencement of their advisory/consulting services; further develop potential project finance lenders
February 2006	Finalize joint venture structure with turbine manufacturer; commence due diligence with JV partner for manufacturing facility construction and local Chinese partner; begin approval process for Projects 2 and 3; select construction company as per Mott's recommendations; finalize list of potential lenders; begin IPO process
March 2006	Finalize agreement with JV partners for commencement of construction on manufacturing facility; open Beijing office; continue aggressively with Xichang approvals; begin construction of manufacturing facility
April 2006	Likely to receive Energy Yield Report from Garrad Hassan on Project 1 and from Sgurr Energy on Project 2; prepare PPA document for approvals for both projects; begin initial foundation construction for Bailingmiao project; complete micrositings for Xichang and Bailingmiao; begin negotiations with approved project finance lender list
May 2006	Begin foundation construction in Xichang; complete turbine purchasing orders for Bailingmiao and Xichang; finalize Board and management team
June 2006	Worst case date to receive Energy Yield report on Bailingmiao – thereafter seek PPA and financing; continue narrowing down lender list to one
July 2006	IPO on AIM
August 2006	Finish approval process for Xichang
September 2006	Potentially accept delivery of turbines for Bailingmiao
October 2006	Finalize negotiations with Preferred project finance lender
November 2006	If delivery in September then could connect Bailingmiao to Grid and commence revenues; complete approvals for Xiwu
January 2007	Receive Energy Yield Report for Xiwu; order Xiwu turbines
March 2007	Receive delivery of Xichang turbines
September 2007	Receive turbines for Xiwu Phase I

SCHEDULE 6

Agreed form of Articles of Association of Honiton Baotou

Articles of Association

Chapter 1 General Provisions

Article 1 According to the Law of the People's Republic of China (hereinafter "PRC" or "China") on Foreign Invested Enterprises and other relevant laws and regulations, Honiton Energy Limited plans to establish Honiton Energy (Baotou) Co, Ltd. (hereinafter the "Company") at Bailingmiao Wind Power Generation Farm of Damao County Baotou City. Therefore, these Articles of Association are drafted and executed.

Chapter 2 The Investor of the Company

Article 2

Investor of the Company: Honiton Energy Limited

Address:

Telephone:

Fax:

Chapter 3 The Company

Article 3.1

The registered name: The Chinese Name: "宏腾能源（包头）有限公司"

The English Name: Honiton Energy (Baotou) Co., Ltd.

The registered address: Bayin Aobao Sumu of Damao County, Baotou City

Article 3.2 The Company shall be registered in Baotou City and shall be a wholly foreign-owned enterprise and a Chinese legal person, and shall be a limited liability company. The investor's responsibility for the Company's liability shall be limited by the registered capital of the Company.

Article 3.3 The Company shall be governed and protected by Chinese laws and regulations. Its activities shall be in line with Chinese laws, ordinances

and rules and shall not do any harm to Chinese public interests.

Chapter 4 Total Investment and Registered Capital

- Article 4.1** The total investment of the Company shall be USD 98,000,000.00 and the registered capital of the Company shall be USD 50,000,000.00.
- Article 4.2** The form of investment: The investor shall contribute brand new machines and equipment with the value of USD 35,000,000.00 and contribute USD 15,000,000.00 in cash.
- Article 4.3** The investor's contribution in cash shall be remitted into the bank account opened by the Company in a bank in Baotou City within 18 months while the contribution of machines and equipment shall be completed within 36 months, each from the issuance of the business license to the Company after the establishment of the Company is approved by the Chinese approving authority.
- Article 4.4** After the investor makes its contribution to the registered capital of the Company, a public accountant registered in China shall be engaged to verify the contribution of such investment and render a capital verification report. Such capital verification report shall be filed to relevant authorities for records.
- Article 4.5** Within the duration of the Company, the registered capital of the Company shall not be reduced and if it is found that the Company is in lack of capital, the board of the Company may resolve to increase the registered capital of the Company. After the original approving authority approves such resolution, the investor shall make such increased capital contribution. Application shall be made to the administration authority of industry and commerce for registration of such change in registered capital.
- Article 4.6** Within the duration of the Company, if necessary and approved by the original approving authority, the Company may be divided, transferred or merged with other economic organization(s).

Chapter 5 The Business Scope of the Company

The business scope of the Company shall be developing and utilizing the wind power resources, transforming and selling renewable resources.

Chapter 6 The Board of Directors

Article 6.1 The Company shall have a board of directors. The board of directors shall be the supreme authority of the Company and shall decide on all the important issues of the Company. The date of the registration of the Company with the registration authority shall be the date of the establishment of the board of directors.

Article 6.2 The board of directors shall be composed of three (3) directors, including one (1) Chairman and one (1) Deputy Chairman of the board of directors. The investor shall appoint the Chairman, Deputy Chairman and other directors. Chairman shall be the legal representative of the Company. When the Chairman cannot perform its duties, he shall authorize the Deputy Chairman or other directors to represent the Company.

Article 6.3 The Powers of the Board of Directors shall include:

- 1、 Formulating and revising the Articles of Association of the Company;
- 2、 Formulating the development plan and operation plan of the Company;
- 3、 Deciding on the increase and transfer of the registered capital of the Company;
- 4、 Formulating the rules and regulations on salary, welfares and rewarding and punishing and other employment issues;
- 5、 Reviewing the operation status, the financial budgets and final accounts.
- 6、 Deciding on the profit distribution and measures to make up the losses of the Company;
- 7、 Appointing and dismissing the General Manager, the Deputy General Manager, the General Engineer, the General Accountant and other senior managerial staff and decide on their powers and reimbursements;
- 8、 Deciding on the close, termination and dissolution of the Company, and merge of the Company with other economic organizations;
- 9、 Taking charge of the liquidation of the Company when it is decided that the Company shall be terminated or dissolved.
- 10、 Discussing and deciding on other relevant important issues of the Company.

- Article 6.4** Board meeting shall be held at least twice a year and if required by one third or more of the directors, the Chairman shall convene a temporary board meeting at any time.
- Article 6.5** Board meetings shall be convened and chaired by the Chairman. Should the Chairman cannot attend a board meeting, the Chairman shall authorize the Deputy Chairman to chair the board meeting.
- Article 6.6** If a director cannot attend a board meeting, he shall authorize his proxy in written to attend the board meeting. If he fails to attend the board meeting or authorizes his proxy to attend the meeting, it shall be regarded as he has given up the right to vote.
- Article 6.7** A board meeting can only be held when a quorum of three directors are present.
- Article 6.8** There shall be detailed written records for every board meeting and such records shall be signed by all the attending directors. The records shall be taken in English and kept in the files of the Company. A board meeting can be validly held by telephone conference.
- Article 6.9** All decisions of the board shall require the unanimous consent of all directors to be effective:

Chapter 7 Management Institution

- Article 7.1** A General Manager will take charge of the operation of the Company under the leadership of the board of directors. There will be one (1) General Manager, one (1) Deputy General Manager, who shall be appointed by the board of directors.
- Article 7.2** The General Manager shall report to the board of directors directly, and. The Deputy General Manager shall assist the General Manager in his work.
- Article 7.3** The Duties of the General Manage:
- 1、 Carrying out the board resolutions;
 - 2、 Organizing and instructing all daily management and production activities of the Company;
 - 3、 Representing the Company in handling the daily affairs within the powers conferring in him by the board of directors and appointing and dismissing his subordinate employees;
 - 4、 Taking charge of other matters as authorized by the board of directors.

Chapter 8 Employment and Social Insurance

- Article 8.1** The Company shall employ Chinese employees in accordance with the relevant specifications of China law and other employment regulations. The Company shall sign employment agreements with its employees and in such agreement shall agree on such items as employing, dismissing, salary, resigning, welfares, labor protection, social insurance, and work discipline and etc.
- Article 8.2** The employees of the Company shall enroll in the endowment insurance, medical care insurance and other social insurances pursuant to the provisions of Baotou municipal government.

Chapter 9 Trade Union

The employees of this Company have the right to establish their trade union organizations and organize union events to protect the interests of the employees as per specifications in the Law of the PRC on Labor Union and the Articles of Association of National Labor Union of China. The Company shall provide the trade union of the Company with necessary facilities.

Chapter 10 Tax, Finance, and Foreign Exchange Control

- Article 10.1** The Company shall pay the taxes as per the provisions of China Law and other relevant tax regulations.
- Article 10.2** The employees of the Company shall pay personal income tax pursuant to the Law of the PRC on Personal Income. Salaries and other legitimate income of foreign employees may be remitted outside China after personal income taxes are paid.
- Article 10.3** The profit of the Company, after enterprise income tax is paid and "three funds" are deducted, can be remitted out of China in accordance with the Law of the PPRC on Foreign Invested Enterprises and its implementing rules.
- Article 10.4** The accounting regulations of the Company shall be in compliance with the relevant PRC regulations in respect of financial and accounting systems.

- Article 10.5** The Company is a wholly foreign owned enterprise and shall keep independent accounting books within China, conduct independent accounting, take full responsibility of its profits and losses and shall submit its accounting statements to and be supervised by the relevant finance and tax authorities.
- Article 10.6** The fiscal year of the Company shall be the calendar year, i.e. from January 1st of each calendar year to December 31st of the same calendar year.
- Article 10.7** The Company may engage accountants registered in China to do the auditing for the Company and the auditing result shall be reported to the board of directors and the General Manager.
- Article 10.8** The foreign exchange affairs of the Company shall be handled as per the regulations on the administration of foreign exchange of China.
- Article 10.9** The Company shall set up its bank account in a bank in Baotou City.

Chapter 11 The Purchase of Materials

Should the Company needs to purchase the necessary materials as the approved business scope may require, such materials may be purchases either in domestic market or in international markets. Under the same terms and conditions, the Company shall purchase in domestic market.

Chapter 12 Insurance

The Company shall purchase insurances from an insurance company that is within China. The insurance type, insurance value and insurance term shall be decided as per the agreement with such insurance company.

Chapter 13 Duration, Dissolution and Liquidation

- Article 13.1** The time duration of the Company shall be 25 years as of the date of the issuance of the business license of the Company.
- Article 13.2** When the time duration expires, the Company may apply to the approving authority for an extension. If it is decided that the Company should be dissolved, the board of directors shall produce the liquidation procedures and form a liquidation committee to conduct the liquidation.

The remaining assets after all the liabilities of the Company are discharged shall go to the investor of the Company.

Article 13.3 Upon the occurrence of any of the following events, the Company shall dissolve:

- 1、 The time duration of the Company expires and the board of directors does not agree to extend;
- 2、 The Company makes severe loss and is incapable of further operation;
- 3、 The Company encounters natural disasters, wars and other force majeure events which cause great losses to the Company and disable the Company to continue its operation.

If either of the events described in sub-clause 2 and 3 occurs, the board of directors shall first submit a dissolution application for approval. When approval is given, the dissolution resolution shall take effect. Liquidation affairs shall be handled pursuant to the stipulation of Article 13.2 herein and the provisions of relevant PRC laws and regulations.

Article 13.4 After the liquidation completes, the Company shall be dissolved, deregistration procedures shall be completed with the administration of industry and commerce, and the business license shall be returned and revoked.

Chapter 14 Governing Law

The execution, validity, interpretation, the modification of these Articles of Association and the resolution of any dispute relating to and arising from these Articles of Association shall be governed by PRC laws.

Chapter 15 Taking Effect and Miscellaneous Articles

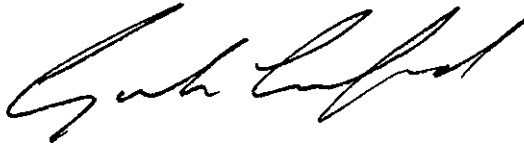
Article 15.1 These Articles of Association shall be signed by the investor of the Company and take effect as of the date they are approved by the approving authority. Any revision or amendment to these Articles of Association shall follow the same procedures as it takes effect.

Article 15.2 Any issues that are not addressed hereunder shall be addressed in amendments to these Articles of Association subject to the approval of the board of directors. Such amendments shall be submitted for approval by the original approving authority. The amendments so approved shall

become a valid part and effective attachment of these Articles of Association.

Article 15.3 These Articles of Association shall be executed in both English and Chinese. When English version conflicts with Chinese version, the Chinese version shall prevail.

Honiton Energy Limited (Signature and Stamp)



The day of 11th January, 2006

章 程

第一章 总则

根据《中华人民共和国外资企业法》及中国其它有关法律法规 Honiton Energy Limited 拟在包头市设立：“宏腾能源（包头）有限公司”（下称本公司）。为此，特制定本章程。

第二章 本公司投资者

投资者：Honiton Energy Limited

地址：

电话：

传真：

第三章 本公司

第3.1条：

法定名称：

中文名：宏腾能源（包头）有限公司

英文名：Honiton Energy (Baotou) Co., Ltd.

法定地址：包头市达茂旗巴音敖包苏木

第3.2条： 本公司在包头市注册，为具有中国企业法人资格的外资企业，系独立的有限责任公司。责任限额为本公司注册资本总额。

第3.3条： 本公司受中国法律管辖和保护，其一切活动必须遵守中国的法律、法令和有关条例的规定，不得损害中国的社会公共利益。

第四章 投资总额与注册资本

第4.1条： 本公司的投资总额为 9,800 万美元；注册资本为 5,000 万美元。

第4.2条： 出资方式：全新机械设备折合 3,500 万美元；现金 1,500 万美元。

- 第4.3条： 投资者的现金出资应在本公司经中国审批机关批准后签发工商营业执照之日起 18 个月内汇入本公司在包头市开设的银行帐户，机器设备出资应在工商营业执照签发日起 36 个月内缴付本公司。
- 第4.4条： 投资者缴付投资后，应聘请中国注册的会计师验资和出具验资报告。验资报告须报政府有关部门备案。
- 第4.5条： 本公司在经营期内，不得减少其注册资本。在经营中，如发现资金不足，经本公司董事会会议决定增加数额，报原审批机关批准后，由投资者投资，并向工商行政管理机关办理变更登记手续。
- 第4.6条： 本公司在经营中，根据需要并报原审批机关批准，可以分立、转让或其它经济组织合并。

第五章 本公司的经营范围

风力资源的开发和利用，再生资源的转化及销售。

第六章 董事会

- 第6.1条： 本公司设董事会。董事会是本公司的最高权力机构，决定本公司的一切重大问题。本公司注册成立之日即为董事会成立之日。
- 第6.2条： 董事会由 3 名董事组成，其中包括董事长 1 名，副董事长 1 名。董事长、副董事长和其他董事会成员由投资方委派。董事长是本公司的法定代表人。董事长不能履行职责时，应授权副董事长或其它董事代表本公司。
- 第6.3条： 董事会的职权：
- 1、 制订和修改本公司章程；
 - 2、 制订本公司的发展规划及经营方案；
 - 3、 决定本公司的注册资本增加、转让；
 - 4、 制订员工的劳动工资、福利和奖惩等制度；
 - 5、 审查经营状况、财务预算和决算；
 - 6、 决定利润分配和亏损的弥补办法；
 - 7、 任免本公司总经理、副总经理、总工程师、会计师和其它高级管理人员及确定其职权待遇；
 - 8、 讨论决定本公司的停产、终止、解散或其它经济组织合并；

9、负责本公司终止和期满时的清算工作；

10、讨论决定本公司的其它重大问题。

第6.4条：董事会会议应每年召开二次。如经三分之一以上董事提议可由董事长召开临时会议。

第6.5条：董事会会议由董事长召集并主持，如董事长不能出席时，应授权副董事长代理并主持董事会会议。

第6.6条：董事因故不能出席董事会会议时，可以书面委托代理人出席董事会，如届时未出席也未委托他人出席，则作弃权。

第6.7条：董事会会议应有三名董事出席方能举行。

第6.8条：每次董事会会议均应详细记录，并由出席会议的全体董事签字。会议记录用英文书写，副本公司存档备查。董事会会议可以电话会议的形式召开。

第6.9条：董事会的所有决议应在全体董事同意后方可生效。

第七章 管理机构

第7.1条：本公司在董事会领导下的总经理负责制，设总经理一人，副总经理一人；总经理、副总经理由董事会聘任。

第7.2条：总经理直接对董事会负责，组织和领导本公司的全面生产，副总经理协助总经理开展工作。

第7.3条：总经理的职责：

- 1、贯彻执行董事会的决议；
- 2、组织和领导本公司日常的经营管理及生产活动；
- 3、在董事会授权范围内，对外代表本公司处理经营业务，对内任免下属管理人员；
- 4、负责董事会授权的其它事宜。

第八章 劳动管理、社会保险

第8.1条：本公司雇用中国员工应按照中国有关法律和劳动管理的有关规定办理，依法签订合同，并在合同中订明雇用、解雇、工资、辞职、福利、劳动保护，社会保险、劳动纪律等事项。

第8.2条：本公司的职工按照包头市政府的有关规定，参加养老保险，医疗保

险及其他社会保险。

第九章 工会组织

本公司的职工有权按照《中华人民共和国工会法》和《中国工会章程》的规定，依法建立基层工会组织，开展工会活动，以维护职工的合法权益。本公司应当为本公司工会提供必要的活动条件。

第十章 税务、财务、外汇管理

- 第10.1条： 本公司依照中国法律和有关税收的规定缴纳各种税金。
- 第10.2条： 本公司职工按照《中华人民共和国个人所得税》缴纳个人所得税。外籍员工的工资收和其它正当收入，依法缴纳个人所得税后，可以汇往国外。
- 第10.3条： 本公司交纳所得税后的利润扣除“三金”后按照《中华人民共和国外资企业法》及实施细则规定，可以汇往外国。
- 第10.4条： 本公司的会计制度，按照中华人民共和国的有关财会管理制度执行。
- 第10.5条： 本公司是独资经营企业，在中国境内设置独立的会计帐簿，进行独立核算、自负盈亏按规定报送会计报表、并接受财政税务机关的监督。
- 第10.6条： 本公司的会计年度为公历年制，即公历一月一日到十二月三十一日止。
- 第10.7条： 本公司的财会审计聘请在中国注册的会计师审查、稽核，并将审查结果报告董事会和总经理。
- 第10.8条： 本公司的外汇事宜，依照中国国家外汇管理规定办理。
- 第10.9条： 本公司在包头市有关银行设立帐户。

第十一章 物资的购买

本公司在批准的经营范围需要的物资，可以在中国购买，也可以往国际市场购买，在同等条件下，尽量在中国购买。

第十二章 保险

本公司的各项保险均在中国的保险公司投保，投保险别、保险价值、保期等按照与该保险公司的约定办理。

第十三章 经营限期、解散与清算

第13.1条： 本公司的经营期限为 25 年，从营业执照签发之日起计算。

第13.2条： 本公司经营期满后，可以向审批机构申请延长。本公司的解散，应由董事会提出清算程序并组成清算委员会进行清算。本公司清偿债务后的剩余资产，归本公司的投资者所有。

第13.3条： 在下列情况下，本公司解散：

- 1、 经营期满，董事会不同意续办时；
- 2、 本公司发生严重亏损，无力继续经营；
- 3、 本公司发生自然灾害、战争等不可抗力造成严重损失，无法继续经营

在上述第 2、3 种情况下，应由董事会提出解散申请书，报原审批机关批准后方可生效。本公司解散时的清算事项按第 13.2 条的规定及中国有关法律和规定办理和执行。

第13.4条： 本公司在清算结束后宣布解散，并向工商行政管理机关办理注销登记手续，缴销营业执照。

第十四章 适用法律

本公司章程的订立、生效、解释、变更和争议的裁决均以中华人民共和国法律为依据。

第十五章 生效与其他

第15.1条： 本公司章程由公司投资者正式签署后，报中国政府审批机关批准之日起生效，其修改时同；

第15.2条： 本章程未尽事宜，经董事会同意可以修改补充，并报原审批机关批准，经修改补充的条款，作为章程的有效附件。

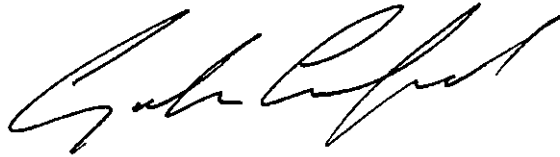
第15.3条： 本章程以中、英文两种语言写成，两种文本发生冲突的，以中文为

章程

Articles of Association

准。

公司投资者：（签印）

A handwritten signature in black ink, appearing to be 'Gabe R. [unclear]', written in a cursive style.

二 00 六年元月十日

股权转让协议

甲方: Paul Eveleigh (李保罗)

地址:

乙方: Honiton Energy Limited (HEL)

地址:

甲、乙双方经平等协商,一致同意甲方转让其合法拥有的宏腾能源(包头)有限公司(以下简称“公司”)的全部股权(“该股权”)给乙方。根据中国《公司法》有关股权转让的规定及相关政策规定,就股权转让事宜达成如下协议:

一、本次转让的股权

甲方合法拥有“公司”的 100%股权(全部股权)。

二、股权转让的方式

作为甲方转让该股权的对价,乙方将向甲方发行[]的 HEL 普通 B 股(“对价”)。

三、股权对价交换时间

乙方在本协议签署之日起的 3 个工作日内完成股权的对价交换,将交换后的 HEL 的股份转入甲方指定的受益人名下。

四、股权转移的方式及时间

本协议签定之日起的 15 个工作日内双方在内蒙古包头市商务局提出审批申请然后到包头工商行政管理局办理有关股东变更登记手

续。

五、甲方的声明、保证和承诺

1、甲方将基于公平和诚信原则，与乙方共同妥善处理本协议所涉交易过程中的任何未尽事宜。

2、截止股权转让时，甲方所转让给乙方的股权没有任何抵押、设立担保和权属争议及被有关部门查封、限制出售的事项，没有任何或有债务和其他潜在的责任，也不存在任何对该股权的法律诉讼、仲裁事项。

3、自本协议签署之日起，甲方切实履行本协议中的有关约定和承诺。

4、甲方保证，由于上述声明、保证、承诺的不真实导致乙方的经济损失，概由甲方赔偿。

六、乙方的声明、保证和承诺

1、乙方将基于公平和诚信原则，与甲方共同妥善处理本协议所涉交易过程中的任何未尽事宜。

2、乙方就本协议签署和履行采获得必要的授权和公司批准。

2、乙方按本协议的约定将对价的股份转入甲方指定的受益人名下。

3、自本协议签署之日起，乙方切实履行本协议中的有关约定和承诺。

4、乙方保证，由于上述声明、保证、承诺的不真实及移交文件的不真实或缺少、遗漏导致甲方的经济损失，概由乙方赔偿。

七、协议权利

未经对方书面许可，任何一方不得转让其依本协议所享有的权利。

八、适应的法律和争议的解决

本协议及双方的权利义务受英格兰及威尔士法律管辖，并据其解释。

就本协议产生的或与本协议有关的任何主张、争议或异议，双方不可撤销的同意提交英格兰及威尔士法院，受其非排他性管辖，但本条款的约定不得约束乙方到其它有管辖权的法院提起法律程序的权利。

九、保密

在本协议签署后，双方应对本协议的内容保密。

十、协议的生效

本协议于获得包头市商务局审批之日生效：

十一、修订

本协议未尽事宜由双方协商解决，双方协商一致的可签订补充协议，补充协议与本协议具有同等法律效力。

本协议生效后，双方原有的任何书面意向、纪要、函件或任何其他记载如与本协议不一致的，则以本协议为准。

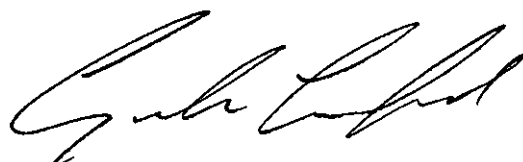
十二、协议文本

本协议正本一式陆份，甲、乙方各执两份，两份送有关部门，具

有同等法律效力。

甲方：

乙方：

A handwritten signature in black ink, appearing to be 'G. L. L. L.', written in a cursive style.

二〇〇六年元月九日于伦敦

Equity Interest Transfer Agreement

Party A: Paul Eveleigh

Address:

Party B: Honiton Energy Limited (HEL)

Address:

Both parties hereby agree that Party A shall transfer the entire equity interests that he holds in Honiton Energy (Baotou) Co., Ltd (hereafter as "the Company") ("the Equity Interest") to Party B following fair negotiation. In accordance with the Company Law of the People's Republic of China and relevant policies on equity interest transfers, both parties agree to transfer the Equity Interest as follows:

1. The Equity Interest to Be Transferred

The 100% Equity Interest of the Company (the entire equity interest) that Party A legally holds

2. Method of the Equity Interest Transfer

As the consideration for the transfer of the Equity Interest, Party B will issue [] Ordinary "B" shares in HEL ("the Consideration") to Party A.

3. Date of the Equity Interest Exchange

Party B shall complete the transfer of the Consideration within 3 working days following signing of this agreement to the beneficiaries appointed by Party A.

4. The Manner and Date for the Transfer of the Equity Interest

Both parties shall apply for the approval of Baotou Bureau of Commerce within 15 business days following the date of the signing of this agreement then submit to Baotou Municipal Administration of Industry and Commerce for registration update.

5. Party A's Representation, Warranties and Undertakings

(1). Party A will in good faith make joint efforts with Party B to properly settle any further issues arising out of this Agreement.

(2) The Equity Interest to be transferred by Party A to Party B is not set any pledge, mortgage, guarantee or dispute as to entitlement, sequestration or restrictions by relevant governmental agencies, or any contingent or potential liabilities, and no legal proceeding or arbitration concerning the same restrict

Party A's right to transfer.

(3) Party A shall practically perform his obligations and undertakings as agreed following the date of signature of this agreement.

(4) Party A warrants that Party A shall be responsible for the compensation of any and all loss of Party B caused by any misrepresentation or breach of undertakings of Party A hereof.

6. Party B's Representation, Warranties and Undertakings

(1) Party B will in good faith make joint efforts with Party A to properly settle any further issues arising out of this Agreement.

(2) Party B shall obtain the authorization and corporate approval necessary for the execution and performance of this Agreement.

(2) Party B shall transfer the Consideration to the beneficiaries assigned by Party A as stipulated in this agreement.

(3) Party B shall practically perform its obligations and undertakings as agreed following the date of signature of this agreement.

(4) Party B warrants that Party B shall be responsible for the compensation of any and all loss of Party A caused by any misrepresentation or falseness or omission of documentary of Party B hereof .

7. Rights of this Agreement

No party shall transfer its rights under this agreement without the prior written permission of the other party.

8. Governing Law and Dispute Solution

This Agreement and the rights and obligations of the parties shall be governed by and construed in accordance with the laws of England and Wales.

The parties irrevocably submit to the non-exclusive jurisdiction of the courts of England and Wales in respect of any claim, dispute or difference arising out of or in connection with this Agreement, provided that nothing contained in this clause shall be taken to have limited the right of Party B to proceed in the courts of any other competent jurisdiction.

9. Confidentiality

Both parties shall keep all content confidential after signing this agreement.

10. Effectiveness

The agreement shall come into force upon the date of approval by Baotou Bureau of Commerce. .

(2) The said agreement shall come into force after the later date of the above mentioned approval documents.

11. Amendment

For any issues not mentioned in this agreement, the parties may reach supplemental agreements, which will be of equal effect with this agreement.

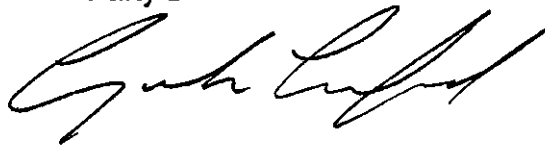
After this agreement takes effect, in case of any previous written proposal, summary, letters or any other records between the parties in conformity to the said agreement, this agreement shall prevail.

12. Original Copies of the Agreement

This agreement shall have six original copies, with each party holding two originals, and the other two originals submitted to the governmental agencies concerned. All original copies shall have equal effect.

Party A

Party B

A handwritten signature in black ink, appearing to be "Guth L. [unclear]", written in a cursive style.