KAI YUAN HOLDINGS LIMITED
開源控股有限公司

(Incorporated in Bermuda with limited liability)
(Stock Code: 1215)

ANNUAL REPORT 2008

Contents

Corporate Information

BOARD OF DIRECTORS (THE "BOARD")

Executive Directors

Mr. Hu Yishi *(Chairman)*
Mr. Yip Kar Hang, Raymond
Ms. Kwong Wai Man, Karina (appointed on 4 July 2008)

Non-executive Directors

Mr. Hu Jin Xing
Mr. Xue Jian (appointed on 7 January 2009)
Mr. Lam Cheung Shing, Richard (retired on 25 November 2008)

Independent non-executive Directors

Mr. Tam Sun Wing
Mr. Ko Ming Tung, Edward
Mr. Ng Ge Bun

AUDIT COMMITTEE

Mr. Tam Sun Wing *(Chairman)*
Mr. Ko Ming Tung, Edward
Mr. Ng Ge Bun

REMUNERATION COMMITTEE

Mr. Ko Ming Tung, Edward *(Chairman)*
Mr. Hu Yishi
Mr. Tam Sun Wing

NOMINATION COMMITTEE

Mr. Ng Ge Bun *(Chairman)*
Mr. Yip Kar Hang, Raymond
Mr. Ko Ming Tung, Edward

COMPANY SECRETARY

Mr. Yip Kar Hang, Raymond

STOCK CODE

1215

WEBSITE

www.kaiyuanholdings.com

PRINCIPAL REGISTRARS

Butterfield Fularum Group (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM08
Bermuda

SHARE REGISTRARS

Tricor Tengis Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Hong Kong

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

PRINCIPAL OFFICE IN HONG KONG

Unit 4705, 47th Floor
Far East Finance Centre
16 Harcourt Road
Admiralty, Hong Kong

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants
35/F., One Pacific Place
88 Queensway
Hong Kong

SOLICITORS

Kirkpatrick & Lockhart Gates Ellis
Solicitors
35th Floor, Two International Finance Centre
8 Finance Street, Central
Hong Kong

PRINCIPAL BANKERS

The Hong Kong and Shanghai Banking Corporation Limited
Fubon Bank

Chairman's Statement

I hereby present the results of Kai Yuan Holdings Limited (the "Company" or "Kai Yuan") for the six months ended 31 December 2008. During the past six months, Tianjin Heating Development Company Limited ("Tianjin Heating") has begun contribution to the Company since the completion of its acquisition on 30 June 2008, marking the evolution of Kai Yuan's business portfolio towards the promising heat energy supply industry in the prospering municipality of Tianjin. The rising standards of living and continued economic development in the PRC will undoubtedly continue to fuel the demand for heat energy supply, which is a pure necessity in the northern climates. Kai Yuan is readily positioned to capitalize on such growing demand, which will not be greatly affected by the volatility of the economy.

Times of economic volatility may often present valuable opportunities for advancement. The Company is currently undergoing the process for acquiring Fame Risen Development Limited ("Fame Risen"), subject to shareholders' approval. Fame Risen holds significant interests in three companies engaged in steel and steel product manufacturing under the "Rizhao Steel" name, which in aggregate, represent one of the largest private steelmaking enterprise in the PRC. As heat energy supply is a necessity for people's living, steel is a vital resource for the continued development of the PRC. The addition of steelmaking to the Company's business portfolio shall further enhance its asset base and operating results, and ultimately the returns and value to shareholders.

Kai Yuan will continue to seek for opportunities in businesses of necessity across the PRC, focusing on areas with robust growth potential. Regardless of the challenges that the world economic environment brings, the aim for providing the best returns for all our stakeholders shall remain our priority. I would also like to take this opportunity to thank all our Board, management and staff members for their continued contributions towards the fulfillment of this priority.

Hu Yishi
Chairman

3 April 2009

Management Discussion and Analysis

BUSINESS REVIEW

The turnover of the Company together with its subsidiaries (the "Group") for the six months ended 31 December 2008 (the "Six-month Period") amounted to approximately HK$83.3 million, representing a substantial increase over the turnover of the preceding 12 months. The increase in turnover largely reflects the contribution from Tianjin Heating Development Company Limited ("Tianjin Heating") subsequent to the completion of its acquisition on 30 June 2008 and continued stable rental income contribution from the Group's investment properties. Profit of approximately HK$6.0 million was recorded for the Six-month Period and loss attributable to shareholders amounted to approximately HK$15.8 million after deducting minority interests, compared with the relevant losses (approximately HK$79.3 million) for the preceding 12 months. The turnaround to profit during the Six-month Period was recorded after accounting mainly for i) the substantial turnover and gross profits contributed by Tianjin Heating since 1 July 2008; and ii) significant other income including interest income and government subsidies. The deduction of minority interests of Tianjin Heating of approximately HK$21.8 million has led to the loss attributable to shareholders despite the profit for the Six-month Period.

Segmental review of the Group's operations during the period is as follows:

Heat Energy Supply

The Group completed its acquisition of an indirect interest of 49% and entrustment of a further 5% interest in Tianjin Heating Development Co., Ltd. ("Tianjin Heating"), a market leader in the heat energy supply industry of Tianjin, on 30 June 2008. As a result, Tianjin Heating started its contribution to the Group's results during the six months ended 31 December 2008. Tianjin Heating is engaged in the production and heat energy supply, installment, engineering and maintenance of heating systems and management of heating pipes, covering a vast area of heat energy supply within the municipality of Tianjin. The three heat energy supply projects operating under Tianjin Heating, namely the Meijiang Project, the Jinxia Xindu Project and the Xiqing Nanhe Project, are designated to supply heat for the three adjacent regions of Meijiang residential District, Jinxia Xindu District and Xiqing Nanhe District at the southern fringe of Tianjin city, covering an aggregate area of over 21 million sq.m.

During the six months ended 31 December 2008, the heat energy supply operations contributed turnover of approximately HK$81.1 million and segmental profit of approximately HK$32.5 million. Despite the global economic downturn, the Meijiang Project, the Jinxia Xindu Project and the Xiqing Nanhe Project all recorded increases in the floor area to which heat energy is supplied, and aggregate floor area increased to 4.6 million sq.m. from 4.1 million sq.m. as disclosed in the previous annual report. The increases reflect the commencement of operation of the newly constructed facilities at the Xiqing Nanhe Project as well as continued development towards the southwestern fringe of Tianjin as Tianjin city core becomes more and more saturated.

Property Investment

Turnover of the Group's commercial properties remained stable at approximately HK$2.2 million during the Six-month Period, as compared with approximately HK$4.2 million for the preceding 12 months. Despite the relatively stable rental income recorded by the Group's commercial properties, the downturn of the economic environment has led to fair value losses. As a result, segmental loss of approximately HK$6.3 million was recorded for the Six-month Period, as compared with segmental loss of approximately HK$3.6 million for the preceding 12 months.

In Beijing, The Group's 35 A-grade commercial offices and 2-levels underground parking area situated at 33 Deng Shi Kou Main Street, Wangfujing, Dong Cheng District generated rental income of approximately HK$2.1 million during the Six-month Period (12 months ended 30 June 2008: approximately HK$3.7 million) and occupancy rate remained strong at 94% (12 months ended 30 June 2008: 97%).

In Shanghai, Shanghai Underground Centre Company Limited ("SUCCL") yielded healthy revenues of approximately HK$21.3 million for the Six-month Period (12 months ended 30 June 2008: approximately HK$42.7 million). Subsequent to the significant renovations of the direct access to People's Square subway station, the 10,000sq.m well-outfitted underground shopping plaza became ever more conveniently accessible. As a result, tourists and shoppers alike can be easily brought to one of the more attractive shopping venues of Shanghai.

PROSPECTS

Heat Energy Supply

Despite the weak global economic climate, the Group believes that China has the qualities of a growth engine of the world economy and will continue to prosper as the economic turmoil settles. Moreover, as a provider of a people's necessity, Tianjin Heating and its three heat energy supply projects shall continue to bloom from a stable customer base. The significant recent decreases in raw material costs and increases in residential and non-residential heating fees from RMB20 and RMB26 to RMB25 and RMB36 per square metre per heating period respectively in late 2008 further improve Tianjin Heating's operating conditions in the coming year. Through synergizing with the PRC capital of Beijing, Tianjin is set to become a new economic core of northern China. As the economy rebounds, continued real estate development radiating from the saturated Tianjin city core towards the outer edge of the municipality where Tianjin Heating operates can be expected, leading to healthy growth in long term heating fee revenues and connection fees and contribution of recurring cash flow and returns for the Group.

Property Investment

Outlook for the property investments of the Group in Beijing and Shanghai remains optimistic, as these prime-located quality properties continue to demonstrate their ability to maintain healthy occupancy rates and rental levels despite the non-optimal economic environment. The Group is confident that, as the economy recovers, the continual growth of the PRC economy shall bring improving yields and values for the Group's prime properties.

Steel

On 15 January 2009, the Group announced its entering into an agreement for the acquisition (the "Acquisition") of Fame Risen Development Limited, which in turn holds 25%–30% interests in three steel-making enterprises which are non-wholly owned subsidiaries of Rizhao Steel Holding Group Company Limited, one of the leading steel manufacturers in the PRC market (the "Enterprises"). The Enterprises include: 1) Rizhao Medium Section Mill Co., Ltd. (30% interest), which is principally engaged in the manufacturing and selling of wire rod, section steel and related products; 2) Rizhao Steel Co., Ltd. (30% interest), which is principally engaged in the manufacturing and selling of common carbon steel, low alloy steel and other steel billet; and 3) Rizhao Steel Wire Co., Limited (25% interest), which is principally engaged in the manufacturing and selling of high-end metal and wire rod for construction, strips and related products. The consideration for the Acquisition is HK$5,200,000,000, which shall be settled by the issuance of 2,000,000,000 shares of the Company at HK$2.60 per share. The Acquisition constitutes a very substantial acquisition for the Company pursuant to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and will be subject to shareholders' approval at a Special General Meeting, details of which will be announced in due course.

Steel is a necessity for the development of a country. As the PRC continues to grow, demand for steel will grow correspondingly. Based on the strong historical results of the Enterprises, which contributed attributable profits of HK$1.56 billion to Fame Risen Development Limited in 2007 (according to management accounts, subject to audit which will be detailed in the circular to be issued), the Acquisition can greatly strengthen the operations and asset base of the Group without the Group having to incur material cash outflow. Moreover, it was recently reported that in order to ease the impact of the global financial crisis on the PRC economy, the PRC government will introduce and implement stimulus programs for ten major industries, and the steel industry was one of them. The Company is optimistic on the prospect of the steel industry in light of the support given by the PRC government.

Looking ahead

Over the long term, it is often the industries of basic needs that can best weather the cycles of economy. The Company will actively explore other business opportunities in industrial businesses which share such traits of necessity and immense need, with focus on high-growth regions in the People's Republic of China, in order to enhance stakeholders' value and return.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2008, total assets of the Group was approximately HK$2,048.2 million (30 June 2008: HK$1,899.3 million), representing an increase of 7.8%. The increase was mainly due to increases in properties, plants and equipment of Tianjin Heating. Net assets of the Group increased by 0.7% to approximately HK$1,186 million compared with the figure of six months ago (30 June 2008: HK$1,177.5 million). During the six months ended 31 December 2008, no fund raising activities were undertaken by the Group.

As at 31 December 2008, the Group had bank balances and cash and pledged bank deposits totaling approximately HK$38.6 million (30 June 2008: HK$52.0 million), representing an decrease of 25.8%. Current assets increased by 9.7% to approximately HK$769.1 million during the Six-month Period. As at 31 December 2008, the Group's outstanding bank borrowings amounted to approximately HK$112.9 million (30 June 2008: HK$54.0 million), approximately HK$81.2 million of which was due within one year. The increase in borrowing was made in response to the project development requirements of Tianjin Heating. As a result of increased short term borrowings and other current liabilities, the Group's net current assets as at 31 December 2008 was approximately HK$200.5 million (30 June 2008: HK$331.5 million), representing a decrease of 39.5%. However, the Group's leverage level remains healthy and its gearing ratio (total borrowings/total assets) as at 31 December is 24.1% (30 June 2008: 21.7%).

Acquisitions and Disposals

There was no material acquisition or disposal during the six months ended 31 December 2008.

Foreign Exchange Exposure

The investment projects of the Group are located in the PRC. Loans and borrowings taken in relation to such investment projects are mostly denominated in the local currency to match with their relevant local expenditures, thus mitigating risks arising from foreign exchange fluctuations. However, exchange risks may arise as a result of fluctuations in the value of Renminbi when translations and exchanges are made between Renminbi and Hong Kong dollar. Furthermore, a small portion of the Group's borrowings incurred by one of the subsidiaries of Tianjin Heating was denominated in US dollars and exchange risks may arise as a result of fluctuations in the value of Renminbi against the US dollar. However, as Renminbi is not freely convertible into other foreign currencies and cost effective hedging instruments are not widely available, no further hedging was provided and no financial instrument for hedging was employed by the Group during six months ended 31 December 2008. The Group will from time to time review and monitor the exchange risks, and consider employing foreign exchange hedging arrangements when appropriate and necessary.

Contingent Liabilities

As at 31 December 2008, the Group did not have any material contingent liabilities.

Pledge on the Group's Assets

As at 31 December 2008, the bank borrowings and bank facilities granted to the Group were secured by deposits totaling approximately HK$6.5 million and its investment properties with a carrying value of HK$73,483,000.

Employees and Remuneration

The Group had approximately 246 employees as at 31 December 2008 (30 June 2008: 215). Apart from basic remuneration, the Group also provides other employee benefits including medical scheme and provident fund schemes. In addition, the Group has a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

Profile of Directors

The followings are the profile of the Directors of the Company (the "Directors").

EXECUTIVE DIRECTORS

Mr. Hu Yishi

Mr. Hu Yishi, aged 33, was appointed as an executive Director and the Chairman of Kai Yuan Holdings Limited on 17 April 2007. Mr. Hu is responsible for the Group's strategic planning including business objectives and directions. Mr. Hu has extensive experience in China affairs and business. He graduated from Shanghai International Tourism Vocational Technology School and is the President of Shanghai Holdeasy Advertising Company Limited and the Director and General Manager of Shanghai Chuang Yang Advertising & Broadcasting Co., Ltd. Mr. Hu was previously an executive director of China Pipe Group Limited and Tidetime Sun (Group) Limited (formerly known as Sun Media Group Holdings Limited), both companies listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Mr. Hu Yishi is the son of Mr. Hu Jin Xing, non-executive Director of the Company.

Mr. Yip Kar Hang, Raymond

Mr. Yip Kar Hang, Raymond, aged 41, was appointed as an executive Director and the Chief Executive Officer of the Company on 3 March 2008 and was further appointed as company secretary of the Company on 4 July 2008. Mr. Yip is responsible for the overall financial and business operations, company secretarial matters and management of the Group. Mr. Yip has extensive experience in financial management, corporate mergers and acquisitions and company secretarial matters with various listed companies in Hong Kong. Prior to joining the Group, he founded and is a director of Radia Capital Strategy Limited.

Mr. Yip was the executive director, chief financial officer and company secretary of Imagi International Holdings Limited, a Hong Kong listed company. Mr. Yip is a member of the American Institute of Certified Public Accountants and the Hong Kong Institute of Certified Public Accountants. He received his Master of Science degree in finance from University of Leicester and bachelor of science degree in business administration from California State Polytechnic University, Pomona.

Ms. Kwong Wai Man, Karina

Ms. Kwong Wai Man, Karina, aged 39, was appointed as an executive Director and Chief Financial Officer of the Company on 4 July 2008. Ms. Kwong joined the Company as financial controller on 15 February 2005. Ms. Kwong is responsible for the overall finance and administration functions and corporate governance enforcement of the Group. Ms. Kwong holds a bachelor's degree in business administration from the Simon Fraser University, Canada and is a member of the American Institute of Certified Public Accountants. Ms. Kwong has extensive experience in accounting, financial management and corporate finance.

Prior to joining the Company, Ms. Kwong worked for sizable organisations in various industries as senior executives in both Canada and Hong Kong. Ms. Kwong had previously served as an executive director and non-executive director of Grandmass Enterprise Solution Limited (now known as FAVA International Holdings Limited), the shares of which are listed on the Growth Enterprise Market ("GEM") of the Stock Exchange.

NON-EXECUTIVE DIRECTORS

Mr. Hu Jin Xing

Mr. Hu Jin Xing, aged 65, was appointed as an non-executive Director of Kai Yuan Holdings Limited on 04 June 2007. Mr. Hu graduated from Shanghai Normal University with a major in Chinese Language & Literature. He is the president of Shanghai Morelove Foundation and a vice president and general secretary of Shanghai Huajie Affection Foundation. He was a vice principal of Shanghai Hainen Secondary School from February 1994 to July 1997. He spent over 7 years in Shanghai Fu Xing High School as vice principal and later on as principal from October 1997 to February 2005. Mr. Hu was a member of the Tenth Shanghai Committee of the Chinese People's Political Consultative Conference of Hong Kou District, Shanghai, the PRC. Mr. Hu was previously a non-executive director of China Pipe Group Limited, a company listed on the Stock Exchange. Mr. Hu Jin Xing is the father of Mr. Hu Yishi, executive Director and Chairman of the Company.

Mr. Xue Jian

Mr. Xue Jian, aged 43, was appointed as a non-executive Director of Kai Yuan Holdings Limited on 7 January 2009 received his master's degree in business administration from Zhongnan University of Finance, Economics, Politics and Law. Mr. Xue has over two decades of experience in the steelmaking industry and in the commercial sector in the People's Republic of China. He is the legal representative of Rizhao Steel Co., Ltd., and a director and vice general manager of Rizhao Steel Holding Group Co., Ltd. The Rizhao Steel group of companies is one of the largest private steel makers in the People's Republic of China. Mr. Xue is also a director of Rizhao City Commercial Bank and a director of Laishang Bank. Apart from his engagement in private sector, Mr. Xue is active in the pursuit for public causes as he has undertaken the positions as the deputy director of Center for Studies on China's Circular Economy and Environment, the senior consultant of China Health & Medical Development Foundation, vice president of Shandong Enterprise Confederation, Shandong Entrepreneur Association, Shandong Federation of Industrial Economy and Shandong Association of Quality respectively.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Tam Sun Wing

Mr. Tam Sun Wing, aged 51, was appointed as an independent non-executive Director of the Company in December 2001. Mr. Tam is a professional accountant having more than 20 years of audit and business advisory experience of which 8 years were with an international accounting firm. He has also been in private practice since 1992. Mr. Tam is a director of FTW & Partners CPA Limited. He has extensive experience in providing business advisory service and conducting audits of listed and other companies in the businesses of toy manufacturing and trading, electronics, property development and holding, securities, insurance and retailing.

Mr. Ko Ming Tung, Edward

Mr. Ko Ming Tung, Edward, aged 48, was appointed as an independent non-executive Director of the Company in March 2004. Mr. Ko obtained an external Bachelor of Laws Degree from the University of London in the United Kingdom in August 1986 and is a member of The Law Society of Hong Kong. He is the principal of Messrs. Edward Ko & Company and has been practicing as a solicitor in Hong Kong for more than 18 years. He was appointed as Deputy Presiding Officer of the Labour Tribunal and is presently a member of the Panel of Adjudicators of the Obscene Articles Tribunal, the Solicitors Disciplinary Tribunal Panel, the Disciplinary Panel A of the Hong Kong Institute of Certified Public Accountants and the Employment Law Committee of The Law Society of Hong Kong. Mr. Ko has been appointed as Tribunal Chairman of the Appeal Tribunal Panel under the Buildings Ordinance. He is also a manager of the Chiu Chow Association Secondary School. Other than the directorship in the Company, currently, Mr. Ko is an independent non-executive director of Sinofert Holdings Limited, Wai Chun Group Holdings Limited and Interchina Holdings Company Limited, and a non-executive director of New Smart Energy Group Limited, all of which are companies whose shares are listed on the Main Board of the Stock Exchange of Hong Kong Limited. Mr. Ko was an independent non-executive director of China Pipe Group Limited whose shares are listed on the Main Board of the Stock Exchange of Hong Kong Limited and was an independent non-executive director of Thiz Technology Group Limited whose shares are listed on the GEM Board of the Stock Exchange of Hong Kong Limited.

Mr. Ng Ge Bun

Mr. Ng Ge Bun, aged 51, was appointed as an independent non-executive Director of the Company in September 2004. Mr. Ng holds the Degree in Bachelor of Science and Degree in Bachelor of Laws. He obtained a postgraduate certificate of laws from The University of Hong Kong. He is a solicitor of the High Court of Hong Kong and currently serves as a partner of Tang, Lai & Leung Solicitors.

Corporate Governance Report

The Board and management of the Company are committed to maintaining high standards of corporate governance. Continuous efforts are made to review and enhance the Group's internal control policy and procedures in light of local and international developments to instill best practices.

The Board of Directors has set up procedures on corporate governance that comply with the requirements of the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The Company had complied with the CG Code throughout the six months ended 31 December 2008 with the following deviation:

- A4.1 Non-executive Directors are not appointed for a specific term. They are, however, subject to retirement by rotation and re-election at the annual general meetings of the Company pursuant to the Company's Bye-laws. As such, the Company considers that such provisions are sufficient to meet the underlying objectives of the relevant provisions of the CG Code.

- A4.2 The Chairman and the Group Managing Director are not, whilst holding such office, subject to retirement by rotation or taken into account in determining the number of Directors to retire in each year in accordance with the Company's Bye-laws. In the opinion of the Board, it is important for the stability and growth of the Company that there is, and is seen to be, continuity of leadership in these roles and, in consequence, the Board is of the view that both should not be subject to retirement by rotation or hold office for a limited term at the present time.

The Board will keep these matters under review. Following sustained development and growth of the Company, we will continue to monitor and revise the Company's governance policies in order to ensure that such policies meet the general rules and standards required by the shareholders.

The key corporate governance principles and practices of the Company are summarized as follows:

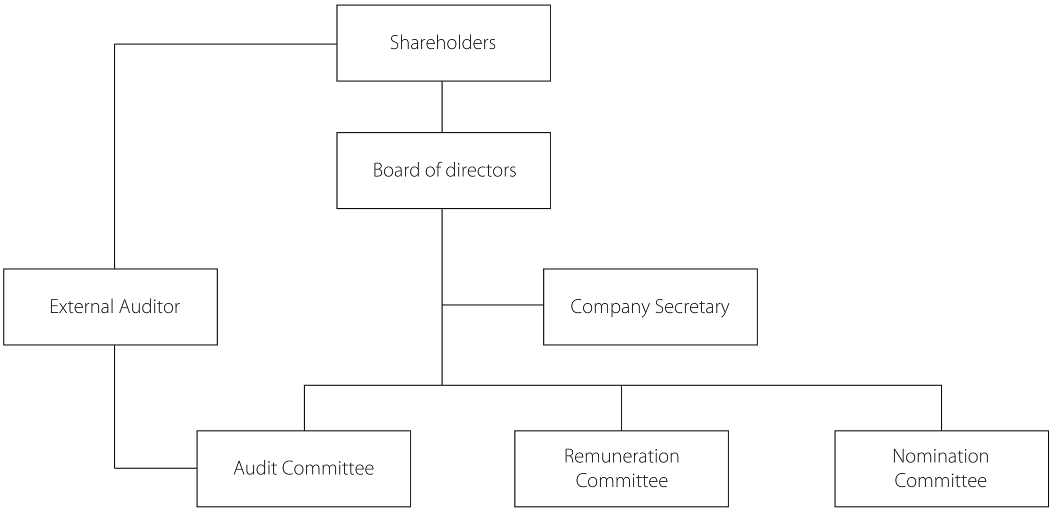
MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 of the Listing Rules. The Company has confirmed with the Directors that they have complied with the required standard set out in the Model Code and its code of conduct regarding Directors' securities transactions.

Corporate Governance Report

THE BOARD AND CORPORATE GOVERNANCE STRUCTURE

The Board is responsible for directing the strategic objectives of the Group and overseeing the management of the business. The Directors are responsible for leadership and control of the Group. The overall corporate governance structure of the Company is depicted in the following chart:



BOARD

(A) Board Composition

The Board currently comprises three executive Directors, two non-executive Directors and three independent non-executive Directors, serving the important function of guiding the management.

The Board members during the Six-month Period and up to the date of this annual report are as follows:-

Chairman
Mr. Hu Yishi

Executive Directors
Mr. Yip Kar Hang, Raymond
Ms. Kwong Wai Man, Karina (appointed on 4 July 2008)

Non-executive Directors
Mr. Hu Jin Xing
Mr. Xue Jian (appointed on 7 January 2009)
Mr. Lam Cheung Shing, Richard (retired on 25 November 2008)

Independent non-executive Directors
Mr. Tam Sun Wing
Mr. Ko Ming Tung, Edward
Mr. Ng Ge Bun

(B) Role and Function

The Board is responsible for formulating the strategic business development, reviewing and monitoring the business performance of the Group, as well as preparing and approving financial statements. The Directors, collectively and individually, are aware of their responsibilities to shareholders, for the manner in which the affairs of the Company are managed and operated. In the appropriate circumstances and as and when necessary, Directors will consent to the seeking of independent professional advice at the Group's expense, ensuring that Board procedures, and all applicable rules and regulations, are followed.

The Board gives clear directions as to the powers delegated to the management for the management and administration functions of the Group, in particular, with respect to the circumstances where management should report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Group. The Board will review those arrangements on a periodic basis to ensure that they remain appropriate to the needs of the Group.

The Board has the full support of the Chief Executive Officer and senior management to discharge its responsibilities. Appropriate insurance cover for the Directors' and officers' liabilities in respect of legal actions against the Directors and officers of the Company and its subsidiaries arising out of corporate activities of the Group has been arranged by the Company.

For the six months ended 31 December 2008, the Board:–

1 reviewed the internal control system and risk management of the Group;

2 discussed the annual result of the Group for the year ended 30 June 2008;

3 considered the recommendation of any final dividend for the year ended 30 June 2008 and the book close period, if any;

4 proposed re-election of retiring Directors;

5 discussed the Auditors remuneration for the annual audit;

6 review the effects on the changes of the Accounting standards and principles;

7 resolved the change of Directors;

8 resolved the change of Chief Financial Officer;

9 approved change of bank signatories;

10 proposed the general mandates to issue and repurchase shares of the Company.

(C) Meeting Records

There were 6 Board meetings held for the six months ended 31 December 2008.

The following was an attendance record of the Board meetings held by the Board during the Six-month Period:

Board Members	Attendance at meetings held for the six months ended 31 December 2008
Mr. Hu Yishi[i]	6/6
Mr. Yip Kar Hang, Raymond	6/6
Ms. Kwong Wai Man, Karina (appointed on 4 July 2008)	4/6
Mr. Hu Jin Xing[i]	6/6
Mr. Tam Sun Wing	6/6
Mr. Ko Ming Tung, Edward	6/6
Mr. Ng Ge Bun	6/6
Mr. Lam Cheung Shing, Richard (retired on 25 November 2008)	1/6

Note:

(i) Mr. Hu Yishi is the son of Mr. Hu Jin Xing.

(D) Independent non-executive Directors

During the six months ended 31 December 2008, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received written annual confirmation from each independent non-executive Director of his independence pursuant to rule 3.13 of the Listing Rules. Based on the contents of such confirmation, the Company considers that the three independent non-executive Directors are independent.

The independent non-executive Directors bring a wide range of business and financial expertise, experiences and independent judgement to the Board. Through active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all independent non-executive Directors make various contributions to the effective direction of the Company.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Chairman of the Company is Mr. Hu Yishi and Chief Executive Officer of the Company is Mr. Yip Kar Hang, Raymond.

The Board, led by the Chairman approves and monitors Group wide strategies and policies and business plans, evaluates the performance of the Company, and supervises the management of the Company. The management of the Company is responsible for the day-to-day operations of the Group under the leadership of the Chief Executive Officer. The division of responsibilities between the Chairman and Chief Executive Officer is clearly established and set out in the Code of Corporate Governance of the Company.

BOARD COMMITTEES

The Board has also established the following committees with defined terms of reference:-

- Audit Committee
- Remuneration Committee
- Nomination Committee

Each Board Committee makes decisions on matters within its term of reference and applicable limits of authority. The terms of reference as well as the structure and membership of each committee will be reviewed from time to time.

(A) Audit Committee

On 14 December 2001, the Audit Committee had been established. It currently consists of three independent non-executive Directors.

Composition of Audit Committee members for the six months ended 31 December 2008:

Mr. Tam Sun Wing *(Chairman)*
Mr. Ko Ming Tung, Edward
Mr. Ng Ge Bun

Role and function

The Audit Committee is mainly responsible for:

1. discussing with the external auditors before the audit commences, the nature and scope of audit and ensure co-ordination where more than one audit firm is involved;

2. reviewing the draft Company's annual report and accounts and interim report before submission to, and providing advice and comments thereon on to the Board of Directors;

3. considering the appointment of external auditors, their audit fees and questions of resignation or dismissal;

4. discussing problems and reservations arising from the interim and final audits and matters that the external auditors may wish to discuss (in the absence of the management, where necessary); and

5. assessing the risk environment and review internal control procedure manual of the Group.

Meeting Record

The Audit Committee met one time during the Six-month Period, reviewing the annual results and the internal control of the Group in particular.

The following was an attendance record of the Audit Committee meetings for the six months ended 31 December 2008:

Committee member	**Attendance at meetings held for the six months ended 31 December 2008**
Mr. Tam Sun Wing	1/1
Mr. Ko Ming Tung, Edward	1/1
Mr. Ng Ge Bun	1/1

During the meeting, the Audit Committee had discussed the following matters:–

(1) Financial Reporting
The Audit Committee met with the external auditors to discuss the annual financial statements and system of control of the Group. The auditors, and the Chief Financial Officer of the Company were also in attendance to answer questions on the financial results.

Where there were questions on the financial statements and system of control of the Group reviewed by the Audit Committee, the management of the Company would provide breakdown, analysis and supporting documents to the audit committee members in order to ensure that the Audit Committee members were fully satisfied and make proper recommendation to the Board.

(2) External Auditors
The appointment of the external auditors and the audit fee were considered by the Audit Committee and recommendations were made to the Board on the selection of external auditors of the Company.

(3) Internal Control
The sufficiency and efficiency of the internal control system and risk management.

(B) Remuneration Committee

The Remuneration Committee was established on 21 March 2005. It currently consists of one executive Director and two independent non-executive Directors.

Composition of Remuneration Committee members for the six months ended 31 December 2008:

Mr. Ko Ming Tung, Edward *(Chairman)*
Mr. Hu Yishi
Mr. Tam Sun Wing

Role and function
The Remuneration Committee is mainly responsible for:

1. reviewing any significant changes in human resources policies and structure made in line with the then prevailing trend and business requirements;

2. making recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;

3. determining the specific remuneration packages of all executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board of the remuneration of non-executive Directors;

4. considering factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the group and desirability of performance-based remuneration;

5. reviewing and approve performance-based remuneration by reference to corporate goals and objectives resolved by the board from time to time;

6. reviewing and approve the compensation payable to executive Directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;

7. reviewing and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate;

8. ensuring that no Director or any of his associates is involved in deciding his own remuneration; and

9. advising the shareholders on how to vote in respect of any service contract of Director which shall be subject to the approval of shareholders (in accordance with the provisions of Rule 13.68 of the Listing Rules).

Where circumstances are considered appropriate, some remuneration committee decisions are approved by way of written resolutions passed by all the committee members.

For the six months ended 31 December 2008, there were two meetings held. The following was an attendance record of the Remuneration Committee meeting for the six months ended 31 December 2008:

Committee member	**Attendance at meetings held for the six months ended 31 December 2008**
Mr. Ko Ming Tung, Edward	2/2
Mr. Hu Yishi	2/2
Mr. Tam Sun Wing	2/2

During the meetings, the Remuneration Committee discussed the remuneration packages of Directors and senior management with reference to the prevailing market conditions.

(C) Nomination Committee

The Nomination Committee was established on 13 April 2007. It currently consists of one executive Director and two independent non-executive Directors.

Composition of Nomination Committee members for the six months ended 31 December 2008:

Mr. Ng Ge Bun *(Chairman)*
Mr. Ko Ming Tung, Edward
Mr. Yip Kar Hang, Raymond (appointed on 21 October 2008)
Mr. Hu Yishi (resigned on 21 October 2008)

Role and function

The Nomination Committee's terms of reference includes those specific duties as set out in the code provision A.4.5 of the CG Code in September 2005. Pursuant to its terms of reference, the Nomination Committee is required, amongst other things, to review the structure, size and composition of the Board and make recommendations for changes as necessary, to identify individuals suitably qualified to become board members and select or make recommendations to the Board on the selection of, individuals nominated for directorships, to assess the independence of independent non-executive Directors, and to make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors in particular the Chairman and the Chief Executive Officer. The Nomination Committee should meet at least once a year and when the need arises.

The Nomination Committee is responsible for identifying, recruiting and evaluating new nominees to the Board and the assessment of the qualifications of the directors. The criteria adopted to select and recommend candidates for directorship includes the candidate's experience, professional knowledge, integrity, time commitment and other statutory or regulatory requirements.

For the six months ended 31 December 2008, there was one meeting held. The following was an attendance record of the Nomination Committee meeting for the six months ended 31 December 2008:

Committee member	**Attendance at meeting held for the six months ended 31 December 2008**
Mr. Ng Ge Bun	1/1
Mr. Hu Yishi (resigned on 21 October 2008)	1/1
Mr. Ko Ming Tung, Edward	1/1
Mr. Yip Kar Hang, Raymond (appointed on 21 October 2008)	0/1

During the meeting, the Nomination Committee appointed Ms. Kwong Wai Man, Karina as executive Director and Chief Financial Officer of the Company.

SHAREHOLDERS' RIGHTS

It is the Company's responsibility to ensure shareholder's interest. To do so, the Company maintains on-going dialogue with shareholders – to communicate with them and encourage their participation - through annual general meetings or other general meetings.

Registered shareholders are notified by post for the shareholders' meetings. The notice of meeting contains the agenda, the proposed resolutions and a postal voting form.

Any registered shareholders is entitled to attend the annual and extraordinary general meetings, provided that their shares have been recorded in the Register of Shareholders.

Shareholders who are unable to attend a general meeting may complete and return to the share registrar the proxy form enclosed with the notice of meeting to give proxy to their representatives, another shareholder or chairman of the meetings.

Shareholders or investors can enquire by putting their proposals with the Company through the following means:-

Hotline no. : 2804-2221

By post : Unit 4705, Floor 47, Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong.

EXTERNAL AUDITORS

It is the auditor's responsibility to form an independent opinion, based on their audit, on those financial statements and to report their opinion solely to the Company, as a body, in accordance with section 141 of the Companies Ordinance, and for no other purpose. They do not assume responsibility towards or accept liability to any other person for the contents of the auditors' report.

Apart from the provision of annual audit services, the Group's external auditors also carried out interim review of the Group's results and taxation advisory service and the due diligence review of the Group.

For the six months ended 31 December 2008, Deloitte Touche Tohmatsu, the external auditor provided following services to the Group:–

	Deloitte Touche Tohmatsu *HK$,000*
Annual audit services	1,100
Taxation advisory services	23
Other advisory services	69

INTERNAL CONTROL

The Audit Committee assisted the Board to perform its duties to maintain an effective and sound internal control system for the Group. The committee reviewed the Group's procedure and workflow for the financial, operational and compliance, and also the risk assessment and its initiatives for business risks management and control. Recommendations will also put forward to the Board for consideration and approval.

INVESTOR RELATIONS

To enhance its transparency, the Company encourages dialogue with institutional investors and analysts. Extensive information about the Company's activities is provided in its interim and annual reports, which are sent to shareholders, analysts and interested parties. The Company also maintains regular communication with the media. The Company's news releases, announcements and publications are circulated timely, to all major news media. The same materials are also available on the Company's website. Media briefings are organized from time to time to relay details of the Group's latest business initiatives and market development plans.

Regular meetings are also held with institutional investors and analysts to disseminate financial and other information related to the Group and its business. These activities keep the public aware of the Group's activities and foster effective communication.

For the six months ended 31 December 2008, the following shareholders' meetings were held by the Company:–

Date	Venue	Type of Meeting	Particulars	Voting at the Meeting
3 July 2008	Elbrus Room, Pacific Place Conference Centre, 5/F, One Pacific Place, 88 Queensway, Hong Kong	Special General Meeting	1. To approve the issuance of convertible notes and change of auditor	By poll
25 Nov 2008	Vinson Room, Pacific Place Conference Centre, 5/F, One Pacific Place, 88 Queensway, Hong Kong.	Annual General Meeting	1. To adopt the audited financial statements and the reports of the Directors and auditors 2. To re-elect Directors and to authorize the Board of Directors to fix their remuneration 3. To re-appoint Deloitte Touche Tohmatsu as the auditors and authorize the Board to determine their remuneration 4. To approve the general mandates to issue and repurchase shares of the Company	By show of hands

FINANCIAL CALENDAR FOR 2009

Event	Proposed Date
Announcement of 2008 annual results	3 April 2009
Annual General Meeting	19 May 2009
Announcement of interim results	mid September 2009

Report of the Directors

The Board of Directors present their annual report and the audited financial statements for the six months ended 31 December 2008.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries is set out in note 46 to the financial statements.

RESULTS

The results of the Group for the six months ended 31 December 2008 and the state of affairs of the Group and the Company at that date are set out in the financial statement on page 25 to 76.

The Directors did not recommend the payment of a dividend for the six months ended 31 December 2008.

FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last four years and the six months ended 31 December 2008 are set out on page 77.

MAJOR CUSTOMERS

During the Six-month Period, the largest customer of the Group by itself and together with the next four largest customers accounted for about 54% and 56% respectively of the Group's turnover.

All transactions between the Group and the customers concerned were carried out on normal commercial terms.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the Six-month Period is set out in note 16 to the financial statements.

INVESTMENT PROPERTIES

Details of the movements in the investment properties of the Group during the Six-month Period is set out in note 18 to the financial statements.

SHARE CAPITAL

Details of the movements in the share capital of the Group during the Six-month Period is set out in note 37 to the financial statements.

RESERVES

Details of movements in the reserves of the Group during the Six-month Period is set out in the consolidated statement of changes in equity on page 28.

DISTRIBUTABLE RESERVE

At 31 December 2008, the Company had no reserve available for distribution to shareholders.

DIRECTORS

The Directors of the Company during the Six-month Period and up to the date of this annual report are as follows:

Executive Directors:

Mr. Hu Yishi
Mr. Yip Kar Hang, Raymond
Ms. Kwong Wai Man, Karina (appointed on 4 July 2008)

Non-executive Directors:

Mr. Hu Jin Xing
Mr. Xue Jian (appointed on 7 January 2009)
Mr. Lam Cheung Shing, Richard (retired on 25 November 2008)

Independent Non-executive Directors:

Mr. Tam Sun Wing
Mr. Ko Ming Tung, Edward
Mr. Ng Ge Bun

The Directors of the Company, are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with clauses 87(1) and 87(2) of the Company's Bye-laws.

No Director being proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to the guidelines set out in Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors are independent.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES, UNDERLYING SHARES AND CONVERTIBLE NOTES

At 31 December 2008, the interests of the Directors and their associates in the shares underlying shares and convertible note of the Company as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Long positions – ordinary shares of HK$0.10 each of the Company

Name of Director	Capacity	Number of shares held as corporate interests	Percentage of the issued share capital of the Company
Mr. Hu Yishi	Corporate *(Note)*	446,930,000	6.28%
Mr. Hu Yishi	Personal	62,540,000	0.88%

Note: These shares are held by Morich International Investments Limited, a company beneficially owned by Mr. Hu Yishi.

Long positions – share options

Name of Directors	Capacity	Number of options held	Number of underlying shares
Mr. Hu Yishi	Beneficial owner	43,720,000	43,720,000
Mr. Yip Kar Hang, Raymond	Beneficial owner	56,000,000	56,000,000
Ms. Kwong Wai Man, Karina	Beneficial owner	10,000,000	10,000,000
Mr. Hu Jin Xing	Beneficial owner	43,720,000	43,720,000

Long positions – convertible notes

Name of Directors	Capacity	Amount of convertible notes *(HK$)*	Number of underlying shares
Mr. Hu Yishi	Beneficial owner	265,500,000	1,500,000,000

Note: The Company and Mr. Hu Yishi entered into a subscription agreement in relation to the convertible notes on 26 May 2008. Completion of the subscription has yet to take place and no convertible note had been issued as of 31 December 2008.

Save as disclosed above, none of the Directors or their associates had any interests or short positions in any shares of the Company or any of its associated corporate as at 31 December 2008.

SHARE OPTIONS

Particulars of the Company's share option scheme is set out in note 43 to the financial statements.

Particulars of the Company's share option granted and exercised is set out in note 43 to the financial statements.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the Six-month Period was the Company or any or its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the period or at any time during the period.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2008, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that, other than interests disclosed above in respect of the Director, Mr. Hu Yishi, the following persons have notifiable interests or short position in the issued share capital of the Company as at 31 December 2008:

Ordinary shares of HK$0.10 each of the Company

Name of shareholders	Capacity	Number of ordinary shares held	Percentage of issued share capital
Mr. Du Shuang Hua	Interest of controlled corporation	700,000,000	9.83%
Happy Sino International Limited[1]	Beneficial interest	700,000,000	9.83%

1 Mr. Du Shuang Hua beneficially owns 85% interest in the issued share capital of Happy Sino International Limited.

PURCHASE, SALE OR REDEMTION OF LISTED SECURITIES

During the Six-month Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

CORPORATE GOVERNANCE

Particulars of the Company's corporate governance practices are set out in the Corporate Governance Report on page 9 to 18 of this report.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the six months ended 31 December 2008.

AUDIT COMMITTEE

The Audit Committee comprises of three independent non-executive Directors of Mr. Tam Sun Wing, Mr. Ko Ming Tung, Edward and Mr. Ng Ge Bun. The Audit Committee has reviewed the accounting policies and practices adopted and the audited results of the Group for the period. The audited results for the six months ended 31 December 2008 have been reviewed by the Audit Committee and external auditors. The Audit Committee is satisfied with the Group's internal control procedures and financial reporting disclosures. The Audit Committee has held regular meetings since its formation, at a frequency of at least twice a year.

REMUNERATION COMMITTEE

The Remuneration Committee has been set up with written term of reference in accordance with the requirements of the Listing Rules. The Remuneration Committee comprises one executive Director, Mr. Hu Yishi and two independent non-executive Directors of Mr. Tam Sun Wing and Mr. Ko Ming Tung, Edward.

NOMINATION COMMITTEE

The Nomination Committee was established on 13 April 2007. It currently consists of one executive Director Mr. Yip Kar Hang, Raymond and two independent non-executive Directors of Mr. Ko Ming Tung, Edward and Mr. Ng Ge Bun.

EMOLUMENT POLICY

Emolument policy on the remuneration of the Directors and the employees of the Group is reviewed periodically and determined by reference to market terms, Company performance, and individual qualifications and performance.

AUDITORS

Messrs. Deloitte Touche Tohmatsu were appointed as the auditors of the Company on 3 July 2008 following the resignation of Messrs HLB Hodgson Impey Cheng ("HLB") on 6 June 2008. HLB were the auditors of the Company in succession to Messrs. BDO McCabe Lo Limited, who resigned from the office with effect from 18 August 2006, who in turn, succeeded KLL Associates CPA Limited, auditors of the Company from 27 April 2005 to 24 February 2006.

Messrs. Deloitte Touche Tohmatsu shall retire and, being eligible, offer themselves for re-appointment. A resolution for the reappointment of Messrs. Deloitte Touche Tohmatsu as auditors of the Company is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

Hu Yishi
3 April 2009

Independent Auditor's Report

Deloitte.
德勤

德勤・關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F, One Pacific Place
88 Queensway,
Hong Kong

TO THE MEMBERS OF KAI YUAN HOLDINGS LIMITED
開源控股有限公司
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Kai Yuan Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 25 to 76, which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the six months period then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2008 and of the Group's profit and cash flows for the period then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
3 April 2009

Consolidated Income Statement

For the period from 1 July 2008 to 31 December 2008

	NOTES	For the 6 months from 1.7.2008 to 31.12.2008 HK$'000	For the 12 months from 1.7.2007 to 30.6.2008 HK$'000
Revenue	5&6	**83,300**	4,157
Direct costs	7	**(44,241)**	(121)
Gross profit		**39,059**	4,036
Other income	8	**25,008**	1,200
Gain on disposal of investment properties		**–**	675
Fair value loss on investment properties		**(6,527)**	(1,693)
Administrative expenses		**(34,027)**	(46,051)
Share of result of a jointly controlled entity		**(2,935)**	(35,531)
Share of result of associates		**67**	–
Finance costs	9	**(2,822)**	(1,968)
Profit (loss) before taxation		**17,823**	(79,332)
Income tax expense	10	**(11,769)**	(14)
Profit (loss) for the period/year	11	**6,054**	(79,346)
Attributable to:			
Equity holders of the Company		**(15,755)**	(79,346)
Minority interests		**21,809**	–
		6,054	(79,346)
Loss per share – basic	15	**HK(0.22) cents**	HK(1.39) cents

Consolidated Balance Sheet

As at 31 December 2008

	NOTES	31.12.2008 HK$'000	30.6.2008 HK$'000
Non-current assets			
Property, plant and equipment	16	579,180	486,756
Prepaid lease payments	17	49,621	39,785
Investment properties	18	101,573	108,100
Goodwill	19	29,435	29,435
Other intangible assets	20	375,470	387,465
Investments in associates	22	1,047	980
Interest in a jointly controlled entity	23	138,265	141,200
Available-for-sale financial assets	24	4,461	4,461
		1,279,052	1,198,182
Current assets			
Inventories	25	9,079	398
Trade and other receivables and prepayments	26	96,046	77,090
Prepaid lease payments	17	2,919	2,392
Amounts due from associates	27	174,983	115,471
Amounts due from related companies	28	396,571	402,826
Dividend receivable from a jointly controlled entity	23	50,935	50,935
Pledged bank deposits	29	6,500	678
Bank balances and cash	29	32,088	51,368
		769,121	701,158
Current liabilities			
Trade and other payables and accruals	30	85,509	63,449
Receipts in advance		48,066	71,784
Amounts due to associates	27	30,026	15,325
Amounts due to related companies	28	55,301	29,421
Loan from a director	31	20,230	15,730
Deferred income – within one year		5,911	5,245
Obligations under finance leases	32	45	45
Borrowings – due within one year	33	81,218	20,581
Loan from a related company – due within one year	34	205,664	126,194
Tax payable		36,659	21,894
		568,629	369,668
Net current assets		200,492	331,490
Total assets less current liabilities		1,479,544	1,529,672

Consolidated Balance Sheet

As at 31 December 2008

	NOTES	31.12.2008 HK$'000	30.6.2008 HK$'000
Non-current liabilities			
Obligations under finance leases	32	92	110
Borrowings – due after one year	33	31,681	33,409
Loan from a related company – due after one year	34	155,151	218,092
Deferred income – due after one year		36,321	27,172
Deferred tax liabilities	36	70,320	73,343
		293,565	352,126
		1,185,979	1,177,546
Capital and reserves			
Share capital	37	711,761	711,761
Reserves		(106,097)	(92,721)
Equity attributable to equity holders of the Company		605,664	619,040
Minority interests		580,315	558,506
Total equity		1,185,979	1,177,546

The financial statements on pages 25 to 76 were approved and authorised for issue by the Board of Directors on 3 April 2009 and are signed on its behalf by:

Hu Yishi
DIRECTOR

Yip Kar Hang, Raymond
DIRECTOR

Consolidated Statement of Changes in Equity

For the period from 1 July 2008 to 31 December 2008

	Attributable to equity holders of the Company								
	Share capital *HK$'000*	Share premium *HK$'000*	Convertible note reserve *HK$'000*	Share options reserve *HK$'000*	Translation reserve *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*	Minority interests *HK$'000*	Equity total *HK$'000*
At 1 July 2007	538,161	137,611	–	–	13,987	(339,505)	350,254	–	350,254
Exchange difference arising on translation and net income recognised directly in equity	–	–	–	–	32,893	–	32,893	–	32,893
Loss for the year	–	–	–	–	–	(79,346)	(79,346)	–	(79,346)
Total recognised income and expense for the year	–	–	–	–	32,893	(79,346)	(46,453)	–	(46,453)
Recognition of equity component of convertible notes	–	–	43,333	–	–	–	43,333	–	43,333
Issue of shares upon conversion of convertible notes	173,600	128,597	(43,333)	–	–	–	258,864	–	258,864
Recognition of share based payments	–	–	–	13,042	–	–	13,042	–	13,042
Acquisition of subsidiaries (note 40)	–	–	–	–	–	–	–	558,506	558,506
At 30 June 2008 and 1 July 2008	711,761	266,208	–	13,042	46,880	(418,851)	619,040	558,506	1,177,546
Exchange difference arising on translation and net income recognised directly in equity	–	–	–	–	(46)	–	(46)	–	(46)
(Loss) profit for the period	–	–	–	–	–	(15,755)	(15,755)	21,809	6,054
Total recognised income and expense for the period	–	–	–	–	(46)	(15,755)	(15,801)	21,809	6,008
Recognition of share based payments	–	–	–	2,425	–	–	2,425	–	2,425
At 31 December 2008	711,761	266,208	–	15,467	46,834	(434,606)	605,664	580,315	1,185,979

Consolidated Cash Flow Statement

For the period from 1 July 2008 to 31 December 2008

	1.7.2008 to 31.12.2008 HK$'000	1.7.2007 to 30.6.2008 HK$'000
Operating activities		
Profit (loss) before taxation	17,823	(79,332)
Adjustments for:		
Gain on disposal of investment property	–	(675)
Share-based payment	2,425	13,042
Depreciation of property, plant and equipment	8,431	1,040
Amortisation of other intangible assets	11,995	–
Fair value loss on investment properties	6,527	1,693
Finance costs	2,822	1,968
Loss on disposals of property, plant and equipment	–	99
Share of result of a jointly controlled entity	2,935	35,531
Share of result of associates	(67)	–
Interest income	(11,807)	(1,165)
Operating cash flows before movements in working capital	41,084	(27,799)
Increase in inventories	(8,681)	–
(Increase) decrease in trade and other receivables and prepayments	(7,271)	89
Increase in trade and other payables and accruals	22,060	6,196
Decrease in receipts in advance	(23,718)	–
Increase in deferred income	9,815	–
Net cash from (used in) operations	33,289	(21,514)
Income tax paid	(27)	(150)
Net cash from (used in) operating activities	33,262	(21,664)
Investing activities		
Purchase of property, plant and equipment	(87,716)	(2,894)
Increase in amounts due from associates	(59,512)	–
Additions in prepaid lease payments	(10,363)	–
Increase in pledged bank deposits	(5,822)	(78)
Decrease in amounts due from related companies	6,255	–
Interest received	122	808
Acquisition of subsidiaries	–	(293,843)
Interest received from deposit for acquisition of an investment property	–	357
Proceeds from disposal of property, plant and equipment	–	364
Refund of deposits for acquisition of land	–	10,113
Proceeds from disposal of investment properties	–	11,675
Net cash used in investing activities	(157,036)	(273,498)

Consolidated Cash Flow Statement

For the period from 1 July 2008 to 31 December 2008

	1.7.2008 to 31.12.2008 HK$'000	1.7.2007 to 30.6.2008 HK$'000
Financing activities		
New borrowings raised	59,790	–
Increase in amounts due to related companies	25,880	–
Increase in amounts due to associates	14,701	–
Advance from a director	4,500	–
Additional loans from a related company	3,390	–
Repayment of obligations under finance leases	(18)	(45)
Repayment of borrowings	(1,225)	(1,152)
Interest paid	(2,478)	(1,416)
Proceeds from issue of convertible notes	–	301,646
Net cash from financing activities	104,540	299,033
Net (decrease) increase in cash and cash equivalents	(19,234)	3,871
Effect of changes in exchange rates	(46)	3,558
Cash and cash equivalents at beginning of the period/year	51,368	43,939
Cash and cash equivalents at the end of the period/year, represented by bank balances and cash	32,088	51,368

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the introduction to the annual report.

The consolidated financial statements for the current period cover the six months period from 1 July 2008 to 31 December 2008. The corresponding comparative amounts shown for the consolidated income statement, consolidated statement of changes in equity, consolidated cash flow statement and related notes to the consolidated financial statements cover a twelve months period from 1 July 2007 to 30 June 2008 and therefore may not be comparable with amount shown for the current period. The period covered by the current period consolidated financial statements is less than twelve months because the Company determined to align the balance sheet date with the Group's operation in the People's Republic of China (the "PRC") whereby the Group's subsidiaries have their financial year end falling on 31 December.

The functional currency of the Company is Renminbi. The consolidated financial statements are presented in Hong Kong dollars for the convenience of the readers as the Company is a listed company in Hong Kong.

The principal activity of the Company is investment holdings. Its subsidiaries are principally engaged in heat energy supply and property investment. The principal activities of its subsidiaries are set out in note 46.

2. APPLICATION OF NEW OR REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current period, the Group has applied the following amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are or have become effective.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 13	Customer Loyalty Programmes
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

2. APPLICATION OF NEW OR REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

The Group has not early applied the following new or revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKAS 39 (Amendment)	Eligible Hedged Items[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 7 (Amendments)	Improving Disclosures about Financial Instruments[2]
HKFRS 8	Operating Segments[2]
HK(IFRIC)-Int 9 & HKAS 39 (Amendments)	Embedded Derivatives[4]
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate[2]
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation[5]
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners[3]
HK(IFRIC)-Int 18	Transfers of Assets from Customers[6]

[1] Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009
[2] Effective for annual periods beginning on or after 1 January 2009
[3] Effective for annual periods beginning on or after 1 July 2009
[4] Effective for annual periods ending on or after 30 June 2009
[5] Effective for annual periods beginning on or after 1 October 2008
[6] Effective for transfers on or after 1 July 2009

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary.

The directors of the Company anticipate that the application of the other new or revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis, except for investment properties and certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by Hong Kong Companies Ordinance.

Basic of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances and income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combinations and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Business combination

The acquisition of business is accounted for using the purchase method. The cost of acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 Business Combinations are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identified assets, liabilities and contingent liabilities exceeds the costs of the business combination, the excess is recognised immediately in profit or loss.

The interest in minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill

Goodwill arising on an acquisition of a business represents the excess of the cost of acquisition over the Group's interest in the fair value of the identified assets, liabilities and contingent liabilities of the relevant business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on acquisition of a business is presented separately in the consolidated balance sheet.

For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or a group of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Interests in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associates, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

Any excess of the Group's share of the net fair value of the identified assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits or losses are eliminated to the extent of the Group's interest in the relevant associate.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Joint ventures

Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of net assets of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the jointly controlled entity recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

Any excess of the Group's share of the net fair value of the identified assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

When a group entity transacts with a jointly controlled entity of the Group, profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Property rental income under operating lease is recognised on a straight line basis over the terms of the relevant leases.

Revenue from heat energy supply is recognised when heat is provided.

Heat energy supply facilities connection fee income is recognised on a straight-line basis over the period of expected lives of heat transmission services with reference to the terms of the operating licence of the relevant entities.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Property, plant and equipment

Property, plant and equipment including heat supply facilities and buildings held for use in the production or supply of goods and services, or for administrative purposes (other than construction in progress) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the period in which the item is derecognised.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected to arise from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the period in which the item is derecognised.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligations so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which cash they are capitalised in accordance with the Group's general policy on borrowing costs (see below).

Rental payable under operating leases are charged to the consolidated income statement on a straight-line basis over the relevant lease term. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasing (Continued)

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases except for those that are classified and accounted for as investment properties under the fair value model.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the entity's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's entities are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowings costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised as an expense in profit or loss in the period in which they are incurred.

Government grants

Grants related to expense items are recognised in the same period as those expenses are charged in the consolidated income statement and are reported separately as "other income".

Retirement benefit costs

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Schemes ("MPF") are charged as expenses when employees have rendered service entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Intangible assets

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are classified into one of two categories, loans and receivables and available-for-sale financial assets.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including dividend receivable from a jointly controlled entity, trade and other receivables, amounts due from related companies, amounts due from associates, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-for-maturity investments.

At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss (see accounting policy on impairment loss on financial assets below).

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for similar financial assets. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in equity.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities generally classified as other financial liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity (Continued)

Other financial liabilities

Other financial liabilities including trade and other payables, obligations under finance leases, amounts due to related companies, amounts due to associates, borrowings, loan from a director and loan from a related company are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivables and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Share-based payment transactions

Share options granted to employees

The fair value of services received under an equity-settled share based payment arrangement is determined by reference to the fair value of share options granted at the grant date and is recognised as expense on a straight-line basis over the vesting period or recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (share options reserve).

At each balance sheet date, the Group revises its estimate of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss, with a corresponding adjustment to share options reserve.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to accumulated losses.

Impairment on tangible and intangible assets with finite useful lives

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the assets is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior period. A reversal of an impairment loss is recognised as income immediately.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies which are described in note 3, management has made the following estimates that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period, are discussed below.

Impairment of interest in a jointly controlled entity

Determining whether interest in a jointly controlled entity is impaired requires an estimation of future cash flows expected to be generated from the operations of the jointly controlled entity. The value in use of investment in the jointly controlled entity is based on financial budgets approved by the management covering a 5-year period. Rental growth rate after the 5-year period to 2022 (the year whereby the operating right of the shopping centre will expire) are extrapolated using a steady 5.29% growth rate. Where the present value of the actual share of future cash flows of the jointly controlled entity are less than the carrying amount of the jointly controlled entity, an impairment loss may arise. As at 31 December 2008, the carrying amount of interest in jointly controlled entity is HK$138,265,000 (30 June 2008: HK$141,200,000) (note 23).

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2008, the carrying amount of goodwill is HK$29,435,000 (30 June 2008: HK$29,435,000). Details of the recoverable amount calculation are disclosed in note 21.

5. REVENUE

Revenue represents heat energy supply income, heat energy supply facilities connection fee, other fee and rental income for the period. An analysis of the Group's revenue for the period is as follows:

	1.7.2008 to 31.12.2008 HK$'000	1.7.2007 to 30.6.2008 HK$'000
Heat energy supply income	**34,566**	–
Heat energy supply facilities connection fee income	**1,571**	–
Other fee income *(note)*	**44,933**	–
Property rental income	**2,230**	4,157
	83,300	4,157

Note: According to an agreement dated on 28 September 2007 signed between a subsidiary and 天津城西供熱有限公司 ("Chengxi Heating"), Chengxi Heating agreed to pay the subsidiary a fee annually. In return, Chengxi Heating would provide services including but not limited to construct connecting pipelines for its customers to the main pipelines of the subsidiary. The subsidiary will supply heat energy to the relevant customers.

Such fees are recognised as income in the consolidated income statement when the relevant customers are connected to the main pipelines of the subsidiary for heat energy supply service. The amount of fees would be negotiated and agreed by Chengxi Heating and the subsidiary annually.

6. BUSINESS AND GEOGRAPHICAL SEGMENTS

(a) Business segments

For management purposes, the Group is currently organised into two main operating divisions – property investment and heat energy supply. These divisions are the basis on which the Group reports its primary segment information. Revenue from property investment segment comprises rental income from investment properties.

Segmental information about these businesses is presented below:

1 July 2008 to 31 December 2008

	Property investment *HK$'000*	Heat energy supply *HK$'000*	Consolidated *HK$'000*
Segment revenue			
External sales	2,230	81,070	83,300
Result			
Segment result	(6,258)	32,542	26,284
Interest income			11,807
Unallocated expenses			(14,578)
Share of result of a jointly controlled entity			(2,935)
Share of result of associates			67
Finance costs			(2,822)
Profit before taxation			17,823
Income tax expense			(11,769)
Profit for the period			6,054

31 December 2008
Consolidated balance sheet

	Property investment *HK$'000*	Heat energy supply *HK$'000*	Consolidated *HK$'000*
Assets			
Segment assets	103,609	1,302,475	1,406,084
Investments in associates			1,047
Interest in a jointly controlled entity			189,200
Unallocated corporate assets			451,842
Consolidated total assets			2,048,173
Liabilities			
Segment liabilities	2,479	200,671	203,150
Unallocated corporate liabilities			659,044
Consolidated total liabilities			862,194

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

(a) Business segments (Continued)

1 July 2008 to 31 December 2008

Other information

	Property investment HK$'000	Heat energy supply HK$'000	Unallocated HK$'000	Consolidated HK$'000
Capital additions	–	100,845	10	100,855
Depreciation of property, plant and equipment	210	7,873	348	8,431
Amortisation of other intangible assets	–	11,995	–	11,995
Net decrease in fair value of investment properties	(6,527)	–	–	(6,527)

1 July 2007 to 30 June 2008

	Property investment HK$'000	Heat energy supply HK$'000	Consolidated HK$'000
Segment revenue			
External sales	4,157	–	4,157
Result			
Segment result	(3,629)	–	(3,629)
Other income			35
Unallocated expenses			(39,404)
Share of result of a jointly controlled entity			(35,531)
Interest income			1,165
Finance costs			(1,968)
Loss before taxation			(79,332)
Income tax expense			(14)
Loss for the year			(79,346)

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

(a) Business segments (Continued)

30 June 2008

Consolidated balance sheet

	Property investment *HK$'000*	Heat energy supply *HK$'000*	Consolidated *HK$'000*
Assets			
Segment assets	112,570	1,134,323	1,246,893
Investments in associates			980
Interest in a jointly controlled entity			141,200
Unallocated corporate assets			510,267
Consolidated total assets			1,899,340
Liabilities			
Segment liabilities	15,563	212,563	228,126
Unallocated corporate liabilities			493,668
Consolidated total liabilities			721,794

1 July 2007 to 30 June 2008

Other information

	Property investment *HK$'000*	Heat energy supply *HK$'000*	Unallocated *HK$'000*	Consolidated *HK$'000*
Capital additions				
Acquisition of subsidiaries	–	483,358	–	483,358
Other additions	2,405	–	489	2,894
Depreciation of property, plant and equipment	717	–	323	1,040
Net decrease in fair value of investment properties	(1,693)	–	–	(1,693)
Loss on disposal of property, plant and equipment	99	–	–	99

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

(b) Geographical segments

The following table provides an analysis of the Group's revenue by geographical market and analysis of total assets and capital expenditures by the geographical area in which the assets are located.

	The PRC other than Hong Kong and Macau		Others		Consolidated	
	31.12.2008	30.6.2008	**31.12.2008**	30.6.2008	**31.12.2008**	30.6.2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue	**83,133**	3,662	**167**	495	**83,300**	4,157
Segment assets	**1,405,126**	1,213,322	**958**	33,571	**1,406,084**	1,246,893
Capital expenditures	**100,855**	485,261	**–**	991	**100,855**	486,252

7. DIRECT COSTS

Direct costs include costs of generating heat energy supply in Tianjin, the PRC which comprise the costs of fuel and depreciation on heat energy supply facilities.

8. OTHER INCOME

	1.7.2008 to 31.12.2008	1.7.2007 to 30.6.2008
	HK$'000	*HK$'000*
Interest income on bank deposits	**122**	808
Interest income on amount due from a related company	**11,685**	–
Other interest income	**–**	357
Total interest income	**11,807**	1,165
Government subsidy-value added tax refund	**3,810**	–
Government subsidy on heating business	**1,793**	–
Others including mainly sales of hot and cold water	**7,598**	35
	25,008	1,200

9. FINANCE COSTS

	1.7.2008 to 31.12.2008 HK$'000	1.7.2007 to 30.6.2008 HK$'000
Interest on bank borrowings		
– wholly repayable within five years	2,214	627
– not wholly repayable within five years	264	665
Imputed interest on convertible notes	–	676
Effective interest on other borrowings	344	–
Interest on loan from a related company	13,139	–
	15,961	1,968
Less: amounts capitalised in construction in progress	(13,139)	–
	2,822	1,968

10. INCOME TAX EXPENSE

	1.7.2008 to 31.12.2008 HK$'000	1.7.2007 to 30.6.2008 HK$'000
The income tax expense comprises:		
Current tax		
Hong Kong	–	–
Other jurisdictions	14,792	65
	14,792	65
Deferred taxation *(note 36)*	(3,023)	(51)
	11,769	14

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore, Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) of the estimated assessable profit for the period. No provision for Hong Kong Profits Tax has been made in the financial statements as the Group does not have any assessable profit arising in Hong Kong.

Taxation arising in other jurisdictions are calculated at the rate prevailing in the relevant jurisdiction.

On 16 March 2007, the People's Republic of China promulgated the Law of the People's Republic of China of Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the People's Republic of China. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations, the Enterprise Income Tax rate of the Group's subsidiaries in the PRC was reduced from 33% to 25% from 1 January 2008 onward. The relevant tax rates for the Group's subsidiaries in the PRC are 25%.

10. INCOME TAX EXPENSE (Continued)

The income tax expense for the period/year can be reconciled to the profit (loss) before taxation per the consolidation income statement as follows:

1 July 2008 to 31 December 2008

	The PRC, other than Hong Kong and Macau HK$'000	Others HK$'000	Total HK$'000
Profit before taxation	32,264	(14,441)	17,823
Statutory tax rate	25%	16.5%	
Tax at statutory tax rate	8,066	(2,382)	5,684
Tax effect of expenses not deductible for tax purpose	1,805	446	2,251
Tax effect of income not taxable for tax purpose	(467)	(4)	(471)
Tax effect of tax loss and temporary differences not recognised	1,873	1,907	3,780
Tax effect of share of result of a jointly controlled entity/associate	717	–	717
Tax effect of deductible temporary difference not recognised	–	33	33
Others	(225)	–	(225)
Income tax expense for the period	11,769	–	11,769

For the year ended 30 June 2008

	The PRC, other than Hong Kong and Macau HK$'000	Others HK$'000	Total HK$'000
Loss before taxation	(38,570)	(40,762)	(79,332)
Statutory tax rate	25%	17.5%	
Tax at statutory tax rate	(9,642)	(7,133)	(16,775)
Tax effect of expenses not deductible for tax purpose	423	3,448	3,871
Tax effect of income not taxable for tax purpose	–	(476)	(476)
Tax effect of tax loss not recognised	880	4,178	5,058
Tax effect of share of result of a jointly controlled entity	8,882	–	8,882
Tax effect of deductible temporary difference not recognised	(345)	(120)	(465)
Others	(64)	(17)	(81)
Income tax expense (credit) for the year	134	(120)	14

11. PROFIT (LOSS) FOR THE PERIOD/YEAR

	1.7.2008 to 31.12.2008 HK$'000	1.7.2007 to 30.6.2008 HK$'000
Profit (loss) for the period/year has been arrived at after charging:		
Auditors' remuneration	1,138	1,898
Depreciation of property, plant and equipment	8,431	1,040
Amortisation of other intangible assets	11,995	–
Loss on disposal of property, plant and equipment	–	99
Staff costs (including directors' emoluments) *(Note12)*	11,250	25,595
Foreign exchange loss	–	3,727
Share of tax of a jointly controlled entity (included in share of results of a jointly controlled entity)	734	1,760
and after crediting:		
Gross rental income	2,230	4,157
Less: outgoings	(109)	(121)
Net rental income	2,121	4,036

12. DIRECTORS' EMOLUMENTS

The emoluments paid or payable on each of the 8 (30 June 2008: 8) directors were as follows:

1 July 2008 to 31 December 2008

	Hu Yi Shi HK$'000	Yip Kar Hang, Raymond HK$'000	Kwong Wai Man, Karina HK$'000 *(note a)*	Lam Cheung Shing, Richard HK$'000	Hu Jin Xing HK$'000	Tam Sun Wing HK$'000	Ko Ming Tung, Edward HK$'000	Ng Ge Bun HK$'000	Total 1.7.2008 to 31.12.2008 HK$'000
Fees	100	100	98	475	300	100	100	100	1,373
Other emoluments									
Salaries and other benefits	1,750	1,378	560	10	–	–	–	–	3,698
Retirement scheme contribution	6	53	28	–	–	–	–	–	87
Share-based payment	606	–	–	–	606	–	–	–	1,212
Total emoluments	2,462	1,531	686	485	906	100	100	100	6,370

12. DIRECTORS' EMOLUMENTS (Continued)

1 July 2007 to 30 June 2008

	Hu Yi Shi HK$'000	Yip Kar Hang, Raymond HK$'000	Li John, Zongyang HK$'000	Lam Cheung Shing, Richard HK$'000	Hu Jin Xing HK$'000	Tam Sun Wing HK$'000	Ko Ming Tung, Edward HK$'000	Ng Ge Bun HK$'000	Total 1.7.2007 to 30.6.2008 HK$'000
Fees	650	66	597	200	600	200	200	200	2,713
Other emoluments									
Salaries and other benefits	2,427	669	1,501	1,300	–	–	–	–	5,897
Retirement scheme contribution	8	12	6	65	–	–	–	–	91
Share-based payment	1,010	3,952	–	3,637	1,010	–	–	–	9,609
Total emoluments	4,095	4,699	2,104	5,202	1,610	200	200	200	18,310

Note:

(a) Ms. Kwong Wai Man, Karina ("Ms. Kwong") was appointed as an executive Director on 4 July 2008. The emolument of Ms. Kwong included above represents her full period emoluments.

13. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (1.7.2007 to 30.6.2008: five) were Directors of the Company whose emoluments are included in note 12 above. The emoluments of the remaining one (1.7.2007 to 30.6.2008: Nil) individual was as follows:

	1.7.2008 to 31.12.2008 *HK$'000*	1.7.2007 to 30.6.2008 *HK$'000*
Salaries and other benefits	**477**	–
Retirement benefit scheme contributions	**19**	–
Total emoluments	**496**	–

14. DIVIDEND

No dividend was paid or proposed during the period from 1 July 2008 to 31 December 2008, nor has any dividend been proposed after the balance sheet date (1.7.2007 to 30.6.2008: nil).

15. LOSS PER SHARE

The calculation of the basic loss per share attributable to the ordinary equity holders of the Company is based on the following data:

	1.7.2008 to 31.12.2008	1.7.2007 to 30.6.2008
	HK$'000	*HK$'000*
Loss attributable to equity holders of the Company for the purpose of basic loss per share	**(15,755)**	(79,346)

	Number of shares	
	31.12.2008	30.6.2008
	HK$'000	*HK$'000*
Weighted average number of ordinary shares for the purpose of basic loss per share	**7,117,613**	5,723,235

No diluted loss per share has been presented because the exercise of the option would result in a decrease in loss per share.

16. PROPERTY, PLANT AND EQUIPMENT

	Heat supplying facilities	Leasehold improvement	Furniture, fixtures and office equipment	Motor vehicles	Construction in progress	Building	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST							
At 1 July 2007	–	1,514	574	566	–	–	2,654
Exchange realignment	–	–	25	100	–	–	125
Additions	–	6	844	2,044	–	–	2,894
Acquisition of subsidiaries	198,120	–	1,288	2,911	271,772	9,267	483,358
Disposals	–	–	(30)	(534)	–	–	(564)
At 30 June 2008 and 1 July 2008	198,120	1,520	2,701	5,087	271,772	9,267	488,467
Additions	956	–	30	–	99,869	–	100,855
Disposals	–	(576)	–	(17)	–	–	(593)
Transfers	116,548	–	(44)	758	(172,811)	55,549	–
At 31 December 2008	**315,624**	**944**	**2,687**	**5,828**	**198,830**	**64,816**	**588,729**
DEPRECIATION							
At 1 July 2007	–	(614)	(109)	(31)	–	–	(754)
Exchange realignment	–	–	(4)	(14)	–	–	(18)
Charge for the year	–	(472)	(202)	(366)	–	–	(1,040)
Eliminated on disposals	–	–	5	96	–	–	101
At 30 June 2008 and 1 July 2008	–	(1,086)	(310)	(315)	–	–	(1,711)
Charge for the period	(6,046)	(237)	(236)	(537)	–	(1,375)	(8,431)
Eliminated on disposals	–	576	–	17	–	–	593
At 31 December 2008	**(6,046)**	**(747)**	**(546)**	**(835)**	**–**	**(1,375)**	**(9,549)**
CARRYING VALUES							
At 31 December 2008	**309,578**	**197**	**2,141**	**4,993**	**198,830**	**63,441**	**579,180**
At 30 June 2008	198,120	434	2,391	4,772	271,772	9,267	486,756

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Heat supplying facilities	Over the remaining operating period of the group entity
Leasehold improvement	Over the shorter of lease terms or 5 years
Furniture, fixtures and office equipment	15 – 20%
Motor vehicles	18 – 20%
Building	Over the remaining operating period of the group entity

The net book value of furniture, fixtures and office equipment of HK$2,141,000 includes an amount of HK$166,000 (30.6.2008: HK$184,000) in respect of assets held under finance leases.

17. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments at 31 December 2008 comprise of leasehold lands outside Hong Kong under medium-term of HK$52,540,000 (30.6.2008: HK$42,177,000).

	31.12.2008	30.6.2008
	HK$'000	*HK$'000*
Analysed for reporting purposes as:		
Current assets	**2,919**	2,392
Non-current assets	**49,621**	39,785

18. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
At 1 July 2007	110,796
Exchange realignment	9,997
Net decrease in fair value recognised in consolidated income statement	(1,693)
Disposals	(11,000)
At 30 June 2008 and 1 July 2008	108,100
Net decrease in fair value recognised in consolidated income statement	(6,527)
At 31 December 2008	**101,573**

The fair value of the Group's investment properties at 31 December 2008 has been arrived at on the basis of a valuation carried out on that date by RHL Appraisal Limited ("RHL"), independent qualified professional valuers not connected with the Group. RHL is a member of The Hong Kong Institute of Surveyors, and have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation was arrived at by reference to market evidence of transaction prices for similar properties in same locations and conditions.

All of the Group's property interests held under operating leases to earn rentals of for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

All the investment properties are located outside Hong Kong under medium-term leases.

At 31 December 2008, certain of the Group's investment properties with a carrying amount of HK$73,483,000 (30.6.2008: HK$79,003,000) were pledged to a bank to secure bank borrowings granted to the Group.

19. GOODWILL

	HK$'000
COST AND CARRYING AMOUNT	
At 30 June 2008 and 31 December 2008	29,435

Particulars regarding impairment testing on goodwill are disclosed in note 21.

20. OTHER INTANGIBLE ASSETS

The intangible assets were purchased as part of a business combination on 30 June 2008 (Note 40). The intangible assets include the contract, which arose from the agreement entered into by a subsidiary of the Company with Changxi Heating as set out in note 5. In addition, intangible assets include operating rights of heat supply for certain locations in Tianjin, and existing construction contracts for connection to the Group's heat transmission facilities. The aggregate fair value of the intangible assets as at the date of the business combination amounts to approximately HK$387,465,000.

	Existing fee contract *HK$'000*	**Existing construction contracts** *HK$'000*	**Operating rights** *HK$'000*	**Total** *HK$'000*
COST				
At 1 July 2007	–	–	–	–
Acquisition of subsidiaries	263,754	5,519	118,192	387,465
At 30 June 2008 and 31 December 2008	263,754	5,519	118,192	387,465
AMORTISATION				
At 30 June 2008 and 1 July 2008	–	–	–	–
Charge for the period	7,332	1,380	3,283	11,995
At 31 December 2008	7,332	1,380	3,283	11,995
CARRYING VALUES				
At 31 December 2008	256,422	4,139	114,909	375,470
At 30 June 2008	263,754	5,519	118,192	387,465

The above intangible assets have finite useful lives. Such intangible assets are amortised on a straight-line basis using the following rates per annum.

Fee contract	5.56%
Construction contracts	25% – 100%
Operating rights	Over the remaining operating period of the group entity

21. IMPAIRMENT ON GOODWILL

The carrying amount of goodwill of HK$29,435,000 (30.6.2008: HK$29,435,000) as at 31 December 2008 is allocated to the heat energy supply cash generating unit ("CGU").

The management of the Group determined that there is no impairment of its goodwill at 31 December 2008.

The basis of the recoverable amount of the CGU and its major underlying assumption are summarised below:

The recoverable amount of the CGU has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by directors of the Company over the operating periods ranging from 13 to 18 years at a discount rate of 20.54% (30.6.2008: 16.08%). A forecast of over five-year period is used because the connection fee income and other fee income generated by the CGU are not expected to grow at a steady rate beyond the five-year period and will start to decline in the later stage during the operating periods. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted heat supply income, connection fee income and other fee income. These estimations are based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the CGU to materially exceed the aggregate recoverable amount of the CGU.

22. INVESTMENTS IN ASSOCIATES

	31.12.2008 HK$'000	30.6.2008 HK$'000
Cost of unlisted investment in associates	980	980
Share of post-acquisition reserve	67	–
	1,047	980

Details of the Group's principal associates as at 31 December 2008 and 30 June 2008 are as follows:

Name	Legal form of business	Place of incorporation or registration/ operation	Percentage of registered capital held by the Group Indirectly	Registered capital	Principal activities
天津市梅江供熱運行管理有限公司 (Tianjin Meijing Heat Supply Operating Management Company Limited)	Limited enterprise	The PRC	40%	RMB2,000,000	Sales of heat materials
天津津濱供熱有限公司 (Tianjin Jinbin Heat Supply Company Limited)	Limited enterprise	The PRC	40%	RMB2,000,000	Provision of pipeline construction

The associates were acquired through business combination which completed on 30 June 2008.

22. INVESTMENTS IN ASSOCIATES (Continued)

The summarised financial information of the Group's associates is set out below:

Financial position

	31.12.2008 HK$'000	30.6.2008 HK$'000
Total assets	244,809	216,191
Total liabilities	(242,192)	(213,741)
Net assets	2,617	2,450
Group's share of net assets of associates	1,047	980

Results for the period/year

	31.12.2008 HK$'000	30.6.2008 HK$'000
Revenue	85	–
Profit for the period/year	166	–
Profit for the period/year attributable to the Group	67	–

23. INTEREST IN A JOINTLY CONTROLLED ENTITY

	31.12.2008 HK$'000	30.6.2008 HK$'000
Cost of unlisted investment in a jointly controlled entity	157,746	157,746
Share of post-acquisition losses and reserve, net of dividend	(19,481)	(16,546)
	138,265	141,200
Dividend receivable from a jointly controlled entity	50,935	50,935

At 31 December 2008 and 30 June 2008, the Group had interest in the following jointly controlled entity:

Name of entity	Legal form of incorporation or registration/ operation	Place of business	Proportion of registered capital indirectly held by the Company 31.12.2008 & 30.6.2008	Registered capital	Principal activities
上海地下商城有限公司 ("SUCCL")	Sino-foreign corporate joint venture	The PRC	50%	USD 9,000,000	Operation and management of shopping mall in the PRC

23. INTEREST IN A JOINTLY CONTROLLED ENTITY (Continued)

Included in the share of result of a jointly controlled entity for the year ended 30 June 2008 was an impairment loss of HK$21,547,000 in relation to SUCCL. The impairment loss recognised is mainly due to the downturn of property market in the PRC during the period.

The basis of the recoverable amount of the interest in the jointly controlled entity and its major underlying assumption were summarised below:

The recoverable amount of the interest in SUCCL has been determined based on a value in use calculation over the operating period of SUCCL. Cash flow projections are based on financial budgets approved by management covering a five-year period at a discount rate of 8.30%. The cash flows beyond the five-year period to the expiry of the operating right of the shopping mall were extrapolated using a 5.29% growth rate. This growth rate was based on the average historical growth of the consumer price index in the PRC. Other key assumptions for the value in use calculations include estimation of future rental income and gross margin, such estimation was based on SUCCL's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of interest in SUCCL to materially exceed the aggregate recoverable amount of investment in SUCCL.

The management determined that there is no impairment of the interest in a jointly controlled entity at 31 December 2008.

The summarised financial information of the Group's interest in the jointly controlled entity which is accounted for using the equity method is set out below.

	31.12.2008 ***HK$'000***	30.6.2008 *HK$'000*
Current assets	**14,542**	8,899
Non-current assets	**158,608**	167,188
Current liabilities	**(34,885)**	(34,887)
Non-current liabilities	**–**	–
Revenue	**12,427**	24,620
Expense	**15,362**	60,151

24. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets comprise:

	31.12.2008 ***HK$'000***	30.6.2008 *HK$'000*
Unlisted equity investment in Hong Kong, at cost	**650**	650
Less: impairment loss recognised	**(650)**	(650)
	–	–
Unlisted equity securities in the PRC	**4,461**	4,461
Total	**4,461**	4,461

The unlisted investment at 31 December 2008 represents 16% interest in 天津市津熱物流有限公司, an unlisted equity securities, in the PRC. It is measured at cost less impairment at the balance sheet date as the directors of the Company are of the opinion that its fair value cannot be measured reliably.

25. INVENTORIES

	31.12.2008 HK$'000	30.6.2008 HK$'000
Raw materials	8,539	188
Consumables	540	210
	9,079	398

26. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	31.12.2008 HK$'000	30.6.2008 HK$'000
Trade receivables	67,407	63,835
Other receivables	10,675	11,829
Temporary payments	15,000	–
Prepayments	1,994	459
Deposits	970	967
	96,046	77,090

For heat energy supply income and heat energy supply facilities connection income, the Group generally receives the relevant fees in advance. Payment term of other fee income is pre-determined between the Group and the counterparty. The aged analysis of trade receivables net of allowance for doubtful debts is stated as follows:

	31.12.2008 HK$'000	30.6.2008 HK$'000
0 – 30 days	67,407	35,470
31 – 90 days	–	24
Over 90 days	–	28,341
	67,407	63,835

Included in trade receivables at 30 June 2008 were debtors with carrying amounts of approximately HK$28,341,000 which are past due at the balance sheet dates for which the Group had not provided for impairment loss as there has not been any significant change in credit quality and the amounts were fully recovered during the current period. The Group does not hold any collateral over these balances. There are no trade receivable that are past due at 31 December 2008.

Trade receivables at the balance sheet dates mainly comprise receivables other fee income.

Included in other receivables are advance to independent third parties with carrying amounts of HK$4,506,000 (30.6.2008: HK$10,393,000). Amounts are unsecured, non-interest bearing and repayable on demand. The management believe that no impairment allowance is necessary in respect of the other receivables as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

27. AMOUNTS DUE FROM (TO) ASSOCIATES

The amounts are not trade in nature, and are unsecured, interest-free and repayable on demand.

The management believe that no impairment allowance is necessary in respect of the amounts due from associates because there has not been a significant change on credit quality and the balances are still considered fully recoverable.

28. AMOUNTS DUE FROM (TO) RELATED COMPANIES

Included in the amounts due from related companies as at 31 December 2008 is an advance to a minority shareholder of a subsidiary of HK$210,112,000. The amount is unsecured and bears interest at 8%. Originally, the advance was made to the related company for it to acquire plant and equipment for the Group. During the period, the parties decided not to proceed with the acquisition and agreed the repayment terms with the related company. The advance was agreed to be repaid by 30 June 2009.

The remaining amounts are not trade in nature, and are unsecured, interest-free and repayable on demand. The related companies are minority shareholders of the Group's subsidiaries who have significant influence over the subsidiaries, and its subsidiaries.

The management believes that no impairment allowance is necessary in respect of the amounts due from related companies because there has not been a significant change on credit quality. The management believes that the outstanding balances would be fully recoverable within one year from the balance sheet date.

29. BANK BALANCES AND CASH/PLEDGED BANK DEPOSITS

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less.

Bank balances are interest bearing at respective saving deposits rate in Hong Kong and the PRC, and the effective interest rate of the Group's bank balances ranged from 0.01% to 0.02% (30.6.2008: 0.01% to 2.5%) per annum.

At 31 December 2008, bank balances amounting to approximately HK$6,500,000 (30.6.2008: HK$678,000) were pledged to banks for securing bank facilities granted to the Group. The pledged bank balances carry floating interest rate ranged from 1.98% to 3.78% (30.6.2008: 2.61% to 3.87%) per annum.

30. TRADE AND OTHER PAYABLES AND ACCRUALS

	31.12.2008 ***HK$'000***	30.6.2008 *HK$'000*
Trade payables	**44,337**	44,773
Other payables	**15,857**	16,991
Accrued charges	**25,315**	1,685
	85,509	63,449

The following is an aged analysis by invoice date of trade payables at the balance sheet date:

	31.12.2008 ***HK$'000***	30.6.2008 *HK$'000*
0 – 30 days	**28,645**	324
31 – 90 days	**853**	3,090
91 – 180 days	**1,249**	27,712
Over 180 days	**13,590**	13,647
	44,337	44,773

The average credit period on purchase is 90 days. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

31. LOANS FROM A DIRECTOR

The amounts are unsecured, interest-free and repayable on demand.

32. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	31.12.2008 *HK$'000*	30.6.2008 *HK$'000*	**31.12.2008** *HK$'000*	30.6.2008 *HK$'000*
Amounts payable under finance leases				
Within one year	**45**	45	**45**	45
In more than one year but not more than two years	**45**	45	**42**	42
In more than two years but not more than five years	**60**	82	**50**	68
	150	172	**137**	155
Less: future finance charges	**(13)**	(17)	**–**	–
Present value of lease obligations	**137**	155	**137**	155
Less: Amount due for settlement with 12 months (shown under current liabilities)			**45**	45
Amount due for settlement after 12 months			**92**	110

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

The effective interest rate of the above finance lease is 7.75% (30.6.2008: 7.75%).

33. BORROWINGS

	31.12.2008 *HK$'000*	30.6.2008 *HK$'000*
Bank borrowings	**89,233**	28,173
Other borrowings *(Note)*	**23,666**	25,817
	112,899	53,990
Secured	**55,525**	28,173
Unsecured	**57,374**	25,817
	112,899	53,990

Note: The amount represents loan advanced from an independent third party. The amount is unsecured, non-interest bearing and will be repaid by installments in full by 2012. The effective interest rate of the other borrowings is 8.36% (30.6.2008: 8.36%).

33. BORROWINGS (Continued)

	31.12.2008 HK$'000	30.6.2008 HK$'000
The bank and other borrowings are repayable as follows:		
On demand or within one year	81,218	20,581
More than one year, but not exceeding two years	7,429	9,156
More than two years, but not exceeding five years	17,385	16,020
More than five years	6,867	8,233
	112,899	53,990
Less: Amount due within one year shown under current liabilities	81,218	20,581
	31,681	33,409

The exposure of the Group's fixed-rate borrowings and the contractual maturity dates are as follows:

	31.12.2008 HK$'000	30.6.2008 HK$'000
Fixed-rate borrowings:		
Within one year	45,858	19,101
In more than one year, but not exceeding two years	5,676	7,556
In more than two year, but not exceeding five years	11,458	10,396
	62,992	37,053

In addition, the Group has variable-rate borrowings which carry interest with reference to the People's Bank of China's Benchmark Borrowing Interest Rate of the PRC ("Benchmark Rate"). Interest is repricing from one month to three months.

The range of effective interest rates (which are also equal to contracted interest rates) on the Group's bank borrowings are as follows:

	31.12.2008	30.6.2008
Effective interest rates:		
Fixed-rate borrowings	7.65% to 8.36%	7.20% to 8.36%
Variable-rate borrowings	6.67% to 7.47%	7.67%

The Group's borrowings that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	31.12.2008 HK$'000	30.6.2008 HK$'000
United States Dollars ("USD")	23,666	25,817

34. LOAN FROM A RELATED COMPANY

The amount is advanced from a minority shareholder of a group entity, which is unsecured and bears interest at 8.00% per annum.

The loan is repayable as follows:

	31.12.2008	30.6.2008
	HK$'000	*HK$'000*
Within one year	**205,664**	126,194
More than one year, but not exceeding two years	**82,987**	101,124
More than two years, but not exceeding five years	**72,164**	116,968
	360,815	344,286
Less: Amount due within one year shown under current liability	**(205,664)**	(126,194)
	155,151	218,092

35. CONVERTIBLE NOTES

During the year ended 30 June 2008, the Company issued seven convertible notes to various independent third parties with aggregate principal amount of HK$310,160,000. The notes entitle the holders to convert them into ordinary shares of the Company at the conversion price stated below at any time during the relevant conversion period, subject to anti-dilutive adjustments. If the notes are not converted, the outstanding principal amounts will be payable on redemption. A fixed exchange rate between Hong Kong dollar and Renminbi would be applied to the Hong Kong dollar principal amounts and Hong Kong dollar conversion prices in the event of redemption or conversion. Interest of 3.5% will be paid annually in arrears up until the settlement date.

Details of the convertible notes issued during the year ended 30 June 2008 are as follows:

Date of issue	**Principal amount**	**Date of settlement**	**Conversion price**	**Interest rate**	**Effective interest rate**
21 December 2007	HK$29,380,000	20 December 2009	HK$0.130 per share	3.5%	12.00%
4 March 2008	HK$39,000,000	3 April 2010	HK$0.130 per share	3.5%	12.00%
19 March 2008	HK$39,000,000	19 March 2010	HK$0.130 per share	3.5%	12.00%
21 April 2008	HK$32,500,000	21 April 2010	HK$0.130 per share	3.5%	12.00%
13 June 2008	HK$51,600,000	13 June 2010	HK$0.258 per share	3.5%	12.00%
18 June 2008	HK$51,600,000	18 June 2010	HK$0.258 per share	3.5%	12.00%
25 June 2008	HK$67,080,000	25 June 2010	HK$0.258 per share	3.5%	12.00%
	HK$310,160,000				

The convertible notes contain two components, liability and equity elements. The equity element is presented in equity heading convertible notes reserve. The total principal amounts of the convertible notes were fully converted into ordinary shares of the Company during the year ended 30 June 2008.

35. CONVERTIBLE NOTES (Continued)

The movement of the liability component of the convertible notes for the period/year is set out below:

	1.7.2008 to 31.12.2008 *HK$'000*	1.7.2007 to 30.6.2008 *HK$'000*
At beginning of the period/year	–	–
Initial recognition of convertible notes	–	258,313
Interest charge *(note 9)*	–	676
Interest paid	–	(125)
Conversion of convertible notes	–	(258,864)
At end of the period/year	–	–

36. DEFERRED TAXATION

The deferred tax liabilities (assets) recognised and movements thereon during the current and prior years are as follows:

	Revaluation of investment properties *HK$'000*	**Accelerated tax depreciation** *HK$'000*	**Fair value adjustment on intangible assets** *HK$'000*	**Fair value adjustment on property, plant and equipment** *HK$'000*	**Fair value adjustment on prepaid lease payments** *HK$'000*	**Fair value adjustment on long term borrowings** *HK$'000*	**Total** *HK$'000*
At 1 July 2007	1,747	–	–	–	–	–	1,747
Exchange realignment	175	–	–	–	–	–	175
Credit to consolidated income statement for the year	(51)	–	–	–	–	–	(51)
Acquisition of subsidiaries	–	5,000	96,866	(41,990)	10,544	1,052	71,472
At 30 June 2008 and 1 July 2008	1,871	5,000	96,866	(41,990)	10,544	1,052	73,343
Credit to consolidated income statement for the period	(252)	–	(2,999)	607	(293)	(86)	(3,023)
At 31 December 2008	1,619	5,000	93,867	(41,383)	10,251	966	70,320

At the balance sheet date, the Group had unused tax losses of approximately HK$90,818,000 (30.6.2008: HK$71,372,000) subject to the confirmation from the relevant tax authorities, available for offset against future profits. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams. Except for unrecognised tax losses of approximately HK$5,022,000 which will expire in 2013, the remaining unrecognised tax losses may be carried forward indefinitely.

37. SHARE CAPITAL

	Number of shares		Share capital	
	31.12.2008	30.6.2008	**31.12.2008**	30.6.2008
	'000	*'000*	***HK$'000***	*HK$'000*
Ordinary shares of HK$0.10 each				
Authorised				
At beginning of period/year	**20,000,000**	7,600,000	**2,000,000**	760,000
Increase of authorised share capital	**–**	12,400,000	**–**	1,240,000
At end of period/year	**20,000,000**	20,000,000	**2,000,000**	2,000,000
Issued and fully paid				
At beginning of period/year	**7,117,613**	5,381,613	**711,761**	538,161
Conversion of convertible Notes *(Note)*	**–**	1,736,000	**–**	173,600
At end of period/year	**7,117,613**	7,117,613	**711,761**	711,761

Note: During the year ended 30 June 2008, convertible notes of principal amount of HK$139,880,000 and HK$170,280,000 were converted into 1,076,000,000 and 660,000,000 ordinary share of HK$0.10 each of the Company at a conversion price of HK$0.130 and HK$0.258 respectively. These shares rank pari passu in all respect with other shares in issue.

38. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior periods. The capital structure of the Group consists of cash and cash equivalents, borrowings, loan from a related company and equity attributable to equity holders of the Group, comprising issued share capital and accumulated losses.

The directors of the Company review the capital structure on a semi-annual basis. As part of this review, the directors consider the cost of capital and risks associates with each class of capital. Based on recommendations of the directors, the Group will balance its overall structure through the payment of dividends, new share issues and share repurchases as well as the issue of new debt or the redemption of existing debt.

39. FINANCIAL INSTRUMENTS

39a. Categories of financial instruments

	31.12.2008 *HK$'000*	30.6.2008 *HK$'000*
Financial assets		
Loans and receivables (including cash and cash equivalents)		
Trade and other receivables	93,082	75,664
Amounts due from associates	174,983	115,471
Amounts due from related companies	396,571	402,826
Dividend receivable from a jointly controlled entity	50,935	50,935
Pledged bank deposits	6,500	678
Bank balances and cash	32,088	51,368
	754,159	696,942
Available-for-sale financial assets	4,461	4,461

	31.12.2008 *HK$'000*	30.6.2008 *HK$'000*
Financial liabilities		
Other financial liabilities at amortized cost		
Trade and other payables	60,194	61,764
Amounts due to associates	30,026	15,325
Amounts due to related companies	55,301	45,151
Loan from a director	20,230	–
Loan from a related company	360,815	344,286
Borrowings	112,899	53,990
Obligations under finance leases	137	155
	639,602	520,671

The Group's major financial instruments include trade and other receivables, dividend receivable from a jointly controlled entity, amounts due from (to) associates, amounts due from (to) related companies, pledged bank deposits, bank balances and cash, trade and other payables, borrowings, loan from a director, loan from a related company and obligations under finance leases. Details of these financial instruments are disclosed in respective notes. The risk associated with these financial instruments includes market risk (interest rate risk and currency risk), credit risk and liquidity risk and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

39. FINANCIAL INSTRUMENTS (Continued)

39b. Financial risk management and policies

Market risk

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings (see note 33 and 34 for details of these borrowings). The Group currently has not entered into interest rate swaps to hedge against its exposures to changes in fair values of the borrowings.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank borrowings (see note 33 for details of these borrowings). It is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note.

Sensitivity analysis

The sensitivity analyses have been determined based on the exposure to interest rates for variable-rate borrowings and bank balances at the balance sheet date. In the opinion of the directors, the variable bank balances are not interest sensitive to the market risk, and accordingly, no such sensitivity analysis is presented. For variable-rate borrowings, the analysis is prepared assuming the variable-rate borrowings outstanding at the balance sheet date were outstanding throughout the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the period ended 31 December 2008 would decrease/increase by HK$250,000 (30 June 2008: loss for the year increase/decrease by HK$85,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate borrowings.

The Group's sensitivity to interest rates has increased during the current year mainly due to the increase in variable-rate borrowings.

Foreign currency risk

The carrying amounts of the Group's significant foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	31.12.2008	30.6.2008	**31.12.2008**	30.6.2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
United States dollars ("USD")	**23,666**	25,817	**2**	–
Hong Kong dollars ("HKD")	**5,330**	4,915	**15,834**	34,774

Monetary assets denominated in foreign currencies mainly represented bank balances and cash and temporary payments, while monetary liabilities denominated in foreign currencies mainly represented borrowings and loan from a director.

39. FINANCIAL INSTRUMENTS (Continued)

39b. Financial risk management and policies (Continued)

Market risk (Continued)

Sensitivity analysis

The Group is mainly exposed to the effect of fluctuation in USD and HKD.

The following table details the Group's sensitivity to a 5% increase and decrease in the functional currencies of the relevant group entities against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 5% change in foreign currency rates. The sensitivity analysis includes current account with foreign operations within the Group where denomination of the balances is in a currency other than the currency of the lender or the borrower. A positive number below indicates an increase in profit (or a decrease in loss) for the period where the functional currency of the relevant subsidiaries strengthens 5% against relevant currency. For a 5% weakening of the functional currencies of the relevant group entities against the relevant currency, there would be an equal and opposite impact on the profit or loss.

	31.12.2008 *HK$'000*	30.6.2008 HK$'000
Profit (loss) for the period/year		
USD	**1,183**	1,291 (i)
HKD	**(525)**	(1,493) (ii)

(i) This is mainly attributable to the exposure outstanding on USD borrowings at period end.

(ii) This is mainly attributable to the exposure outstanding on HKD bank balances and temporary payments at period end.

The Group's sensitivity to foreign currency has increased during the current period mainly due to the decrease in HKD bank balances. In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the period end exposure does not reflect the exposure during the period.

Credit risk management

As at 31 December 2008, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties provided by the Group is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet.

In order to minimise the credit risk, the management has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The credit risk on dividend receivable from a jointly controlled entity (HK$50,935,000), amounts due from related companies (HK$396,571,000) and associates (HK$174,983,000) are limited as the directors of the Company consider the balances are fully recoverable.

Other than concentration of credit risk on liquid funds, dividend receivable from a jointly controlled entity and amounts due from related companies and associates, the Group has concentration of credit risk as 99% (30.6.2008: 99%) of total trade receivables was due from 天津城西供熱有限公司 amounting to HK$67,322,000.

39. FINANCIAL INSTRUMENTS (Continued)

39b. Financial risk management and policies (Continued)

Liquidity risk management

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group relies on borrowings as a significant source of liquidity.

Liquidity tables

The following tables detail the Group's remaining contractual maturity for its financial liabilities. For non-derivative financial liabilities, the tables reflect the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows.

	Effective interest rate %	Repayable on demand HK$'000	Less than 3 months HK$'000	3 months to 1 year HK$'000	1-2 years HK$'000	More than 2 years HK$'000	Total undiscounted cash flows HK$'000	Total carrying amount at 31.12.2008 HK$'000
31.12.2008								
Non-derivative financial liabilities								
Trade and other payables	N/A	–	60,194	–	–	–	60,194	60,194
Amounts due to related companies	N/A	30,026	–	–	–	–	30,026	30,026
Amounts due to associates	N/A	55,301	–	–	–	–	55,301	55,301
Loan from a director	N/A	20,230	–	–	–	–	20,230	20,230
Loan from a related company	8.00%	–	30,832	111,174	133,173	144,765	419,944	360,815
Borrowings	5.95% – 8.32%	–	5,237	80,005	9,102	31,535	125,879	112,899
Obligation under finance lease	7.75%	–	11	34	45	60	150	137
		105,557	96,274	191,213	142,320	176,360	711,724	639,602

	Effective interest rate %	Repayable on demand HK$'000	Less than 3 months HK$'000	3 months to 1 year HK$'000	1-2 years HK$'000	More than 2 years HK$'000	Total undiscounted cash flows HK$'000	Total carrying amount at 30.6.2008 HK$'000
30.6.2008								
Non-derivative financial liabilities								
Trade and other payables	N/A	–	61,764	–	–	–	61,764	61,764
Amounts due to related companies	N/A	45,151	–	–	–	–	45,151	45,151
Amounts due to associates	N/A	15,325	–	–	–	–	15,325	15,325
Loan from a related company	8%	–	96,983	15,610	261,855	–	374,448	344,286
Borrowings	7.20% – 8.36%	–	2,345	19,194	10,248	30,206	61,993	53,990
Obligation under finance lease	7.75%	–	11	34	45	82	172	155
		60,476	161,103	34,838	272,148	30,288	558,853	520,671

39. FINANCIAL INSTRUMENTS (Continued)

39c. Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate to their fair values.

40. ACQUISITION OF SUBSIDIARIES

The Group acquired the following subsidiaries with details below:

For the year ended 30 June 2008

(i) On 30 June 2008, the Group completed the acquisition of 49% interest in 天津市供熱發展有限公司 ("Tianjin Heating"), a company established in the PRC, and its subsidiaries (collectively known as the "Tianjin Heating Group") at a total cash consideration of HK$300,000,000 plus incidental expenses of HK$9,177,000. The principal activities of Tianjin Heating Group are heat energy supply and related services.

On the same date, the Group executed an entrustment agreement with a 5% shareholder of the Tianjin Heating Group. According to the terms of the entrustment agreement, the 5% shareholder will grant the Group the right to exercise all powers as shareholders of such 5% equity interests, including all rights and power of the shareholder under the Tianjin Heating Group's articles of association (save for the right to dividend and other payment) ("Entrustment Agreement").

Upon the completion of the acquisition and the execution of the Entrustment Agreement, the Group is entitled to appoint up to six out of nine directors to the board of directors of the Tianjin Heating Group. Accordingly, the Group obtained control over the Tianjin Heating Group and the acquisition has been accounted for using the purchase method of accounting.

Pursuant to the shareholders' agreement, 天津市津熱供熱集團有限公司 ("Jinre Group") , one of the shareholders of Tianjin Heating, warrants to the Group that they shall guarantee to other Tianjin Heating's shareholder that (i) the net profits after tax of Tianjin Heating attributable to the Tianjin Heating's shareholders for the year ended 31 December 2007 ("2007 Net Profit") as reflected in the audited consolidated financial statements of Tianjin Heating shall not be less than RMB40,000,000; and (ii) the net profits after tax of Tianjin Heating attributable to Tianjin Heating's shareholders for the year ended 31 December 2008 ("2008 Net Profit") as reflected in the audited consolidated financial statements of Tianjin Heating shall not be less than RMB52,000,000. In the event that the 2007 Net Profit and the 2008 Net Profit are less than RMB40,000,000 and RMB52,000,000 respectively, Jinre Group shall pay to the other Tianjin Heating's shareholders an amount equivalent to such shortfall in proportion to their respective shareholding in Tianjin Heating within five Business Days from the date on which the relevant audited consolidated financial statements are made available.

40. ACQUISITION OF SUBSIDIARIES (Continued)

For the year ended 30 June 2008 (Continued)

Details of the net assets acquired in respect of the acquisition of the Tianjin Heating Group are summarised below:

	Acquiree's carrying amount before combination HK$'000	Fair value adjustments HK$'000	Fair value HK$'000
NET ASSETS ACQUIRED			
Property, plant and equipment	651,321	(167,963)	483,358
Prepaid lease payments	–	42,177	42,177
Intangible assets	–	387,465	387,465
Investments in associates	980	–	980
Available-for-sale financial assets	4,461	–	4,461
Inventories	398	–	398
Trade and other receivables and prepayments	76,019	–	76,019
Amounts due from associates	115,471	–	115,471
Amounts due from related companies	402,826	–	402,826
Bank balances and cash	15,334	–	15,334
Trade and other payables and accruals	(51,575)	–	(51,575)
Receipts in advance	(71,784)	–	(71,784)
Amounts due to related companies	(388,765)	–	(388,765)
Amounts due to associates	(15,325)	–	(15,325)
Deferred income	(430,571)	398,154	(32,417)
Tax payable	(21,850)	–	(21,850)
Borrowings	(41,260)	4,207	(37,053)
Deferred tax liabilities	(5,000)	(66,472)	(71,472)
	240,680	597,568	838,248
Minority interests			(558,506)
Goodwill arising on acquisition of subsidiaries			29,435
			309,177
Satisfied by:			
Cash consideration paid			(309,177)
			–
Net cash outflow arising on acquisition:			
Cash consideration paid			(309,177)
Bank balances and cash acquired			15,334
			(293,843)

40. ACQUISITION OF SUBSIDIARIES (Continued)

A. Business combination (Continued)

For the year ended 30 June 2008 (Continued)

The amount of goodwill arising from the acquisition of interests in the Tianjin Heating Group is attributable to the value which adds to the investment by way of the Group's participation in the management of the Tianjin Heating Group. Through such collaboration, reporting and monitoring systems have been strengthened, and a better platform is set for development planning and growth initiatives. The new perspectives of the Group's management also inspire new concepts and ideas for the Tianjin Heating management team that may lead to improvement in business efficiency and better value generation. Furthermore, through the connections of the Group in related businesses, synergies are created with the existing business of the Tianjin Heating Group and values are enhanced accordingly.

The fair value of property, plant and equipments at 30 June 2008 was based on a valuation by Sallmanns. The fair value was arrived by reference to market value of a similar plant and equipment, except for specialised assets, of which the fair values are determined by using income or depreciated replacement cost approach.

The fair value of prepaid lease payments at 30 June 2008 was based on a valuation by Sallmanns. The fair value was arrived by use of market rent approach, assuming that similar piece of land is being leased by an independent land owner over the license period to the Tianjin Heating Group.

The fair value of intangible assets at 30 June 2008 was based on a valuation by Sallmanns. The fair value was arrived by discounting cash flow approach and multi-period excess earning method.

If the acquisition had been completed on 1 July 2007, total Group's revenue for the year would have been HK$205,544,000. The pro forma information is for illustration purposes only and is not necessary an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 July 2007, nor is it intended to be a projection of future results.

41. OPERATING LEASES

As lessee

Minimum lease payments paid under operating leases for rented premises during the period amounted to approximately HK$1,314,000 (1.7.2007 to 30.6.2008: HK$3,425,000).

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rental premises which fall due as follows:

	31.12.2008	30.6.2008
	HK$'000	*HK$'000*
Within one year	**3,540**	2,480
In the second to fifth year inclusive	**1,995**	1,221
	5,535	3,701

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are mainly negotiated for an average term of one or two years and rental are fixed over the terms of the leases.

41. OPERATING LEASES (Continued)

As lessor

Property rental income earned during the period was HK$2,230,000 (1.7.2007 to 30.6.2008: HK$4,157,000). The properties are expected to generate rental yields of 5.2% (1.7.2007 to 30.6.2008: 3.9%) on an ongoing basis.

At the balance sheet date, the Group had contracted with tenants for following future minimum lease payments:

	31.12.2008	30.6.2008
	HK$'000	*HK$'000*
Within one year	**3,045**	2,429
In the second to fifth year inclusive	**3,946**	4,914
	6,991	7,343

42. CAPITAL COMMITMENTS

	31.12.2008	30.6.2008
	HK$'000	*HK$'000*
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**171,390**	112,463

43. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option scheme

The Company's share option scheme (the "Scheme"), was adopted pursuant to a resolution passed on 17 April 2002 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 17 April 2012. Under the Scheme, the board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

Pursuant to the Scheme, the total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme shall not exceed 10% of the issued share capital of the Company from time to time. The maximum number of shares in respect of which option might be granted to a participant, when aggregated with the total number of shares issued and issuable under the Scheme, must not exceed 25% of the aggregate number of shares for the time issued and issuable under the Scheme from time to time. The offer of a grant of options may be accepted within 28 days from the date of the offer with signed acceptance letter comprising consideration of HK$1.00 received by the Company. The exercisable period of the share options granted is determinable by the directors. The subscription price for the shares in respect of which options are granted is determinable by the directors of the Company, but in any case must be the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of the grant; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

At 31 December 2008, the number of shares of the Company in respect of which options had been granted and remained outstanding under the Scheme of the Company was 294,600,000 (30.6.2008: 294,600,000), representing 4.14% (30.6.2008: 4.14%) of the shares of the Company in issue at that date.

43. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

Equity-settled share option scheme (Continued)

No share option were granted or exercised under the Scheme during the period ended 31 December 2008.

The following table discloses details of the share options of the Company held by directors and employees and movements in such holdings during the period.

Grantees	Date of grant	Outstanding at 1 July 2007	Granted during the period	Outstanding at 30 June & 1 July 2008	Appointment (resigned) as director	Outstanding at 30 December 2008	Exercisable period	Exercise price per share (subject to anti-dilutive adjustment)	Closing price per share before date on which the options were granted
		'000	'000	'000	'000	'000		HK$	HK$
Directors of the Company	22 August 2007 *(note a)*	–	43,720	43,720	(43,720)	–	22 February 2008 – 21 August 2011	0.205	0.20
	22 August 2007 *(note b)*	–	87,440	87,440	–	87,440	22 August 2010 – 21 August 2011	0.205	0.20
	22 April 2008 *(note c)*	–	56,000	56,000	10,000	66,000	22 April 2008 – 16 April 2012	0.165	0.17
		–	187,160	187,160	(33,720)	153,440			
Other employees of the Group	22 August 2007 *(note a)*	–	–	–	43,720	43,720	22 February 2008 – 21 August 2011	0.205	0.20
	22 August 2007 *(note b)*	–	87,440	87,440	–	87,440	22 August 2010 – 21 August 2011	0.205	0.20
	22 April 2008 *(note c)*	–	20,000	20,000	(10,000)	10,000	22 April 2008 – 16 April 2012	0.165	0.17
		–	107,440	107,440	33,720	141,160			
		–	294,600	294,600	–	294,600			
Exercisable at the end of the period						119,720			
Weighted average exercise price (HK$)		n/a	0.20	0.20	n/a	0.20			

Notes:

(a) The interests are by virtue of 43,720,000 share options accepted by a director of the Company on 22 August 2007, would entitle the relevant director to subscribe for shares in the Company at an exercise price of HK$0.205 per share. The share options are vested and exercisable in whole or in part on 22 February 2008 and ending on 21 August 2011. The estimated fair values of the options granted were HK$3,637,000 of which the entire amount was charged to the consolidated income statement during the year ended 30 June 2008. The director resigned as director on 25 November 2008 and became an employee of the Group.

(b) The interests are by virtue of 87,440,000 share options accepted by the directors of the Company and 87,440,000 accepted by the employees of the Group, would entitle the relevant directors and employees to subscribe for shares of the Company at an exercise price of HK$0.205 per share. The share options are vested and exercisable in whole or in part on 22 August 2010 and ending on 21 August 2011. The estimated fair values of the options granted are HK$14,549,000 of which HK$2,425,000 was charged to the consolidated income statement during the period (1.7.2007 to 30.6.2008: HK$4,042,000).

(c) The interests are by virtue of 56,000,000 share options accepted by a director of the Company and 20,000,000 accepted by the employees of the Group, would entitle the relevant director and employees to subscribe for shares of the Company at an exercise price of HK$0.165 per share. The share options are vested and exercisable in whole or in part on 22 April 2008 and ending on 16 April 2012. The estimated fair values of the options granted are HK$5,363,000 of which the entire amount was charged to the consolidated income statement during the year ended 30 June 2008. An employee of the Group holding 10,000,000 share options is appointed as director of the Company during the period.

43. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

Equity-settled share option scheme (Continued)

These fair values were calculated using the Binomial model. The inputs into the model were as follows:

	22 August 2007	22 August 2007	**22 April 2008**
Closing share price at the date of offer	HK$0.205	HK$0.205	**HK$0.165**
Exercise price	HK$0.205	HK$0.205	**HK$0.165**
Expected volatility	45.74%	45.74%	**52.98%**
Risk-free rate	4.06%	4.06%	**2.06%**
Expected dividend yield	0%	0%	**0%**
Forfeiture rate	0%	0%	**0%**

Expected volatility was determined by using the historical volatility of the Company's share price over the previous four years. The suboptimal exercise factor used in the model has been based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

The Group recognised the total expense of HK$2,425,000 for the period from 1 July 2008 to 31 December 2008 (1.7.2007 to 30.6.2008: HK$13,042,000) in relation to share options granted by the Company.

44. RETIREMENT BENEFIT PLANS

The Group operates a Mandatory Provident Fund Scheme ("MPF Scheme") for all qualifying employees in Hong Kong. The assets of the Schemes are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of the relevant payroll costs to the Scheme, which contribution is matched by employees.

The retirement benefit scheme contributions arising from the MPF Scheme charged to the consolidated income statement represent contributions paid or payable to the funds by the Group at rates specified in the rules of the schemes.

The employees of the Group's subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the government of the PRC. The subsidiaries are required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The total cost charged to the consolidated income statement of approximately HK$582,000 (30.6.2008: HK$434,000) represents contributions payable to these schemes by the Group for the period/year.

45. RELATED PARTY TRANSACTIONS

During the period, the Group entered into the following transactions with related parties:

	1.7.2008 to 31.12.2008 HK$'000	1.7.2007 to 30.6.2008 HK$'000
Purchases of coal from an associate	17,234	–
Interest income from a minority shareholder of a group entity	(11,685)	–
Interest expense to a minority shareholder of a group entity	13,139	–

Details of the balances with related parties as at balance sheet date are set out in the balance sheet and notes 23, 27, 28, 31 and 34.

In addition, at 31 December 2008, a minority shareholder of a group entity provides assets pledged with a maximum amount of approximately HK$22,472,000 (30 June 2008: HK$22,472,000) to secure the Group's bank borrowings at no charge.

Compensation of key management personnel

The remuneration of directors and other members of key management during the period/year were as follows:

	1.7.2008 to 31.12.2008 HK$'000	1.7.2007 to 30.6.2008 HK$'000
Short-term benefits	3,698	5,897
Post-employment benefits	87	91
Share-based payments	1,212	9,609
	4,997	15,597

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the Company's principal subsidiaries at 31 December 2008 and 30 June 2008 are as follows:

Name of subsidiary	Legal form of business	Place of incorporation or registration/ operations	Issued and fully paid up share/registered capital	Percentage of registered capital held by the Company				Proportion of voting power held by the Company		Principal activities
				Directly		Indirectly				
				December 2008 %	June 2008 %	December 2008 %	June 2008 %	December 2008 %	June 2008 %	
Ample Land International Limited	Incorporated	Hong Kong/Macau	HK$1	100	100	–	–	100	100	Property investments
Burlingame (Chinese) Investment Limited	Incorporated	Hong Kong/The PRC	HK$10,000	–	–	100	100	100	100	Investment holdings
北京博雅宏遠物業有限公司 Beijing Boya Property Management Company Limited	Wholly-owned foreign enterprise	The PRC	RMB20,000,000	–	–	100	100	100	100	Property investments
External Fame Limited	Incorporated	British Virgin Islands	US$1	–	–	100	100	100	100	Investment holdings
Omnigold Resources Limited	Incorporated	British Virgin Islands/ The PRC	US$1	–	–	100	100	100	100	Property investments
天津市供熱發展有限公司 Tianjin Heating Development Company Limited	Sino-foreign owned enterprise	The PRC	RMB50,000,000	–	–	49	–	67	–	Heat energy supply in Tianjin, the PRC
天津市寶勝熱能投資有限公司 Tianjin Baosheng Heating Investment Company Ltd.	Limited enterprise	The PRC	RMB20,000,000	–	–	26.95	–	55	–	Heat energy supply in Tianjin, the PRC
天津市梅江供熱有限公司 Tianjin Meijiang Heating Company Ltd	Limited enterprise	The PRC	RMB66,000,000	–	–	25.97	–	53	–	Heat energy supply in Tianjin, the PRC

Note: 天津市供熱發展有限公司 ("Tianjin Heating") is accounted for as a subsidiary of the Group because the Group has the power to control on the board of directors and operation of Tianjin Heating by execution of the Entrustment Agreement and holding an option to acquire 5% registered capital in the first three years from 30 June 2008. Through the Entrustment Agreement and the option that grant the right to exercise all powers as the shareholder of 5% equity interests, the Group entitled an extra right to appoint one director to the board of director of Tianjin Heating. Together with the Group's original right to appoint directors to the board of directors of Tianjin Heating as its shareholder holding 49% equity interest, the Group entitled to appoint up to six directors out of nine directors to the board of directors of Tianjin Heating.

The above table only includes those subsidiaries which, in the opinion of the directors, principally affected the results for the period or formed a substantial portion of the net assets of the Group. To give details of all subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had any debt capital outstanding at the end of the period or at any time during the period.

47. POST BALANCE SHEET EVENTS

On 5 January 2009, the Company entered into agreement with independent third parties to acquire the entire issued share capital of Fame Risen Development Limited at a consideration through allotment and issue of 2,000,000,000 shares of the Company, subject to various conditions. Details of the acquisition are included in the announcement of the Company dated 15 January 2009. The transaction has not yet been completed up to the date of this report.

RESULTS

			Year ended 30 June		**1 July 2008 to 31 December**
	2005	2006	2007	2008	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
			(restated)		
Revenue	122,067	16,537	13,050	4,157	**83,300**
(Loss) profit before taxation	(54,706)	(5,317)	(10,063)	(79,332)	**17,823**
Income tax expense	–	(42)	(1,898)	(14)	**(11,769)**
(Loss) profit for the year/period	(54,706)	(5,359)	(11,961)	(79,346)	**6,054**

ASSETS AND LIABILITIES

			At 30 June		**At 31 December**
	2005	2006	2007	2008	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
			(restated)		
Assets and liabilities					
Total assets	479,697	581,667	375,344	1,899,340	**2,048,173**
Total liabilities	203,053	320,721	25,090	721,794	**862,194**
	276,644	260,946	350,254	1,177,546	**1,185,979**
Equity attributable to equity holders of the Company	264,284	260,946	350,254	619,040	**605,664**
Minority interests	12,360	–	–	558,506	**580,315**
	276,644	260,946	350,254	1,177,546	**1,185,979**

Particulars of Major Investment Properties

Particulars of major investment properties held by the Group as at 31 December 2008 are as follows:

Location	Effective % held	Type	Lease term
Carpark Basement 2 and 3, 33 Deng Shi Kou Main Street, Dong Cheng District, Beijing	100	Commercial	Medium-term lease
Units 302, 303A 309AB, 320, 322AB, 323AB, 325, 408B, 525, 620, 621, 622 623B, 820, 919B 920, 921A, 922A, 926AB, 1006, 1008B, 1015, 1020, 1021AB, 1022AB, 1023B, 1025, 1026AB, 1027, 1108, 1110A, 1110B, 1120, 1122AB, 1125, 33 Deng Shi Kou Main Street, Dong Cheng District, Beijing	100	Commercial	Medium-term lease