



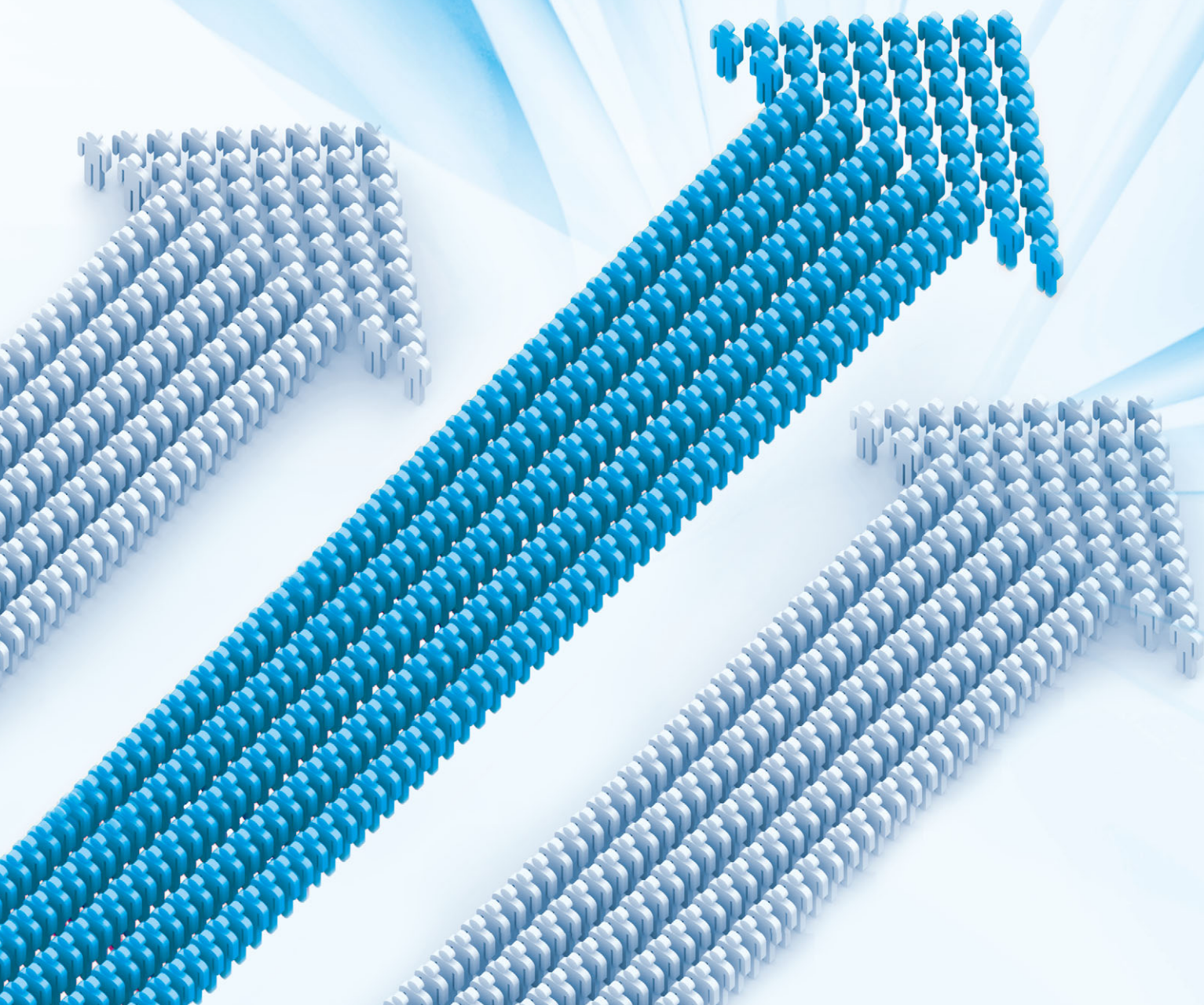
KAI YUAN HOLDINGS LIMITED

開源控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 1215)

2009
Interim Report



CONTENTS

	Page
Corporate information	2
Report on review of interim financial information	3
Condensed consolidated income statement	4
Condensed consolidated statement of comprehensive income	5
Condensed consolidated statement of financial position	6-7
Condensed consolidated statement of changes in equity	8
Condensed consolidated statement of cash flows	9
Notes to the condensed consolidated financial statements	10-21
Interim dividend	22
Management discussion and analysis	22-25
Directors' interests in shares	26
Substantial shareholders	27
Share options	28
Purchase, sales or redemption of listed securities	29
Corporate governance	29-30
Model code for securities transactions by Directors	30

CORPORATE INFORMATION

BOARD OF DIRECTORS (THE “BOARD”)

Executive Directors

Mr. Hu Yishi (Chairman)
Mr. Yip Kar Hang, Raymond
Ms. Kwong Wai Man, Karina

Non-executive Directors

Mr. Hu Jin Xing
Mr. Xue Jian (appointed on 7 January 2009)

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 REGISTRAR

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

SHARE REGISTRAR

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

28th Floor, Chinachem Century Tower
178 Gloucester Road, Wanchai
Hong Kong

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants
35th Floor, 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 & Shanghai Banking Corporation Limited
Fubon Bank

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION**Deloitte.****德勤****TO THE BOARD OF DIRECTOR OF KAI YUAN HOLDINGS LIMITED**

開源控股有限公司

*(incorporated in Bermuda with limited liability)***Introduction**

We have reviewed the interim financial information set out on pages 4 to 21, which comprise the condensed consolidation statement of financial position of Kai Yuan Holdings Limited (the “Company”) and its subsidiaries as of 30 June 2009 and the related condensed consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended and certain explanatory notes. The Main Board Listing Rules governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the content of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagement 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantively less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu*Certified Public Accountants*

Hong Kong

16 September 2009

KAI YUAN HOLDINGS LIMITED

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2009

	NOTES	1.1.2009 to 30.6.2009 HK\$'000 (Unaudited)	1.7.2008 to 31.12.2008 HK\$'000 (Audited)
Revenue	3	106,729	83,300
Direct costs		(61,036)	(36,773)
Other income		5,623	25,008
Fair value loss on investment properties		–	(6,527)
Depreciation and amortisation		(22,844)	(20,426)
Staff costs		(16,238)	(11,250)
Other operating and administrative expenses		(11,363)	(9,819)
Share of loss of a jointly controlled entity		(2,298)	(2,935)
Share of profit of associates		67,431	67
Finance costs		(2,886)	(2,822)
Discount on acquisition of associates		936,131	–
Profit before tax		999,249	17,823
Income tax expense	4	(10,120)	(11,769)
Profit for the period	5	<u>989,129</u>	<u>6,054</u>
Profit (loss) for the period attributable to:			
Owners of the Company		986,617	(15,755)
Minority interests		2,512	21,809
		<u>989,129</u>	<u>6,054</u>
Earnings (loss) per share			
– basic	7	<u>HK13.44 cents</u>	<u>HK(0.22) cents</u>
– diluted	7	<u>HK13.36 cents</u>	<u>N/A</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2009

	1.1.2009 to 30.6.2009 HK\$'000 (Unaudited)	1.7.2008 to 31.12.2008 HK\$'000 (Audited)
Profit for the period	989,129	6,054
Other comprehensive income		
Exchange differences arising on translation and other comprehensive income for the period	<u>(961)</u>	<u>(46)</u>
Total comprehensive income for the period	<u>988,168</u>	<u>6,008</u>
Total comprehensive income attributable to:		
Owners of the Company	985,656	(15,801)
Minority interests	<u>2,512</u>	<u>21,809</u>
	<u>988,168</u>	<u>6,008</u>

KAI YUAN HOLDINGS LIMITED

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2009

	NOTES	30.6.2009 HK\$'000 (Unaudited)	31.12.2008 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	8	555,136	579,180
Prepaid lease payments		47,883	49,621
Investment properties	8	101,573	101,573
Goodwill		29,435	29,435
Other intangible assets		363,481	375,470
Interests in associates	9	1,548,097	1,047
Interest in a jointly controlled entity		135,967	138,265
Available-for-sale financial assets		5,145	4,461
		<u>2,786,717</u>	<u>1,279,052</u>
Current assets			
Inventories		1,089	9,079
Trade and other receivables and prepayments	10	90,187	96,046
Prepaid lease payments		3,048	2,919
Amounts due from associates		3,429	174,983
Amounts due from related companies		334,292	396,571
Dividend receivable from a jointly controlled entity		50,937	50,935
Dividend receivable from associates		74,804	–
Pledged bank deposits		704	6,500
Bank balances and cash		119,732	32,088
		<u>678,222</u>	<u>769,121</u>
Current liabilities			
Trade and other payables and accruals	11	78,286	85,509
Receipts in advance		34,524	48,066
Amounts due to associates		–	30,026
Amounts due to related companies		74,819	55,301
Loan from a director		20,000	20,230
Deferred income – within one year		5,483	5,911
Obligations under finance leases		45	45
Borrowings – due within one year	12	36,324	81,218
Loan from a related company – due within one year		242,567	205,664
Tax payable		44,998	36,659
		<u>537,046</u>	<u>568,629</u>
Net current assets		<u>141,176</u>	<u>200,492</u>
Total assets less current liabilities		<u>2,927,893</u>	<u>1,479,544</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

AT 30 JUNE 2009

	NOTES	30.6.2009 HK\$'000 (Unaudited)	31.12.2008 HK\$'000 (Audited)
Non-current liabilities			
Obligations under finance leases		74	92
Borrowings – due after one year	12	27,478	31,681
Loan from a related company – due after one year		–	155,151
Deferred income – due after one year		34,626	36,321
Deferred tax liabilities	13	150,049	70,320
		<u>212,227</u>	<u>293,565</u>
		<u>2,715,666</u>	<u>1,185,979</u>
Capital and reserves			
Share capital	14	913,733	711,761
Reserves		1,219,106	(106,097)
		<u>2,132,839</u>	<u>605,664</u>
Equity attributable to owners of the Company		2,132,839	605,664
Minority interests		582,827	580,315
		<u>2,715,666</u>	<u>1,185,979</u>
Total equity		<u>2,715,666</u>	<u>1,185,979</u>

KAI YUAN HOLDINGS LIMITED

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2009

	Attributable to owners of the Company							Total
	Share capital	Share premium	Share options reserve	Translation reserve	(Accumulated losses) retained earnings	Total	Minority interests	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 July 2008 (audited)	711,761	266,208	13,042	46,880	(418,851)	619,040	558,506	1,177,546
Exchange difference arising on translation	-	-	-	(46)	-	(46)	-	(46)
(Loss) profit for the period	-	-	-	-	(15,755)	(15,755)	21,809	6,054
Total comprehensive income for the period	-	-	-	(46)	(15,755)	(15,801)	21,809	6,008
Recognition of equity-settled share based payments	-	-	2,425	-	-	2,425	-	2,425
At 31 December 2008 and 1 January 2009 (audited)	711,761	266,208	15,467	46,834	(434,606)	605,664	580,315	1,185,979
Exchange difference arising on translation	-	-	-	(961)	-	(961)	-	(961)
Profit for the period	-	-	-	-	986,617	986,617	2,512	989,129
Total comprehensive income for the period	-	-	-	(961)	986,617	985,656	2,512	988,168
Share issued at premium	200,000	330,000	-	-	-	530,000	-	530,000
Exercised under equity-settled option scheme	1,972	3,713	(1,641)	-	-	4,044	-	4,044
Recognition of equity-settled share based payments	-	-	7,475	-	-	7,475	-	7,475
At 30 June 2009 (unaudited)	913,733	599,921	21,301	45,873	552,011	2,132,839	582,827	2,715,666

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2009

	1.7.2009 to 30.6.2009 HK\$'000 (Unaudited)	1.7.2008 to 31.12.2008 HK\$'000 (Audited)
Net cash from operating activities	<u>20,836</u>	<u>33,262</u>
Net cash from (used in) investing activities		
Additions to property, plant and equipment	(14,639)	(87,716)
Direct attributable costs on acquisition of associates	(10,987)	–
Decrease (increase) in amounts due from associates	171,554	(59,512)
Decrease in amounts due from related companies	62,279	6,255
Additions in prepaid lease payment	–	(10,363)
Others	9,082	(5,700)
	<u>217,289</u>	<u>(157,036)</u>
Net cash (used in) from financing activities		
Increase in amount due to related companies	19,518	25,880
New borrowings raised	11,237	59,790
Proceeds from issue of shares	4,044	–
Repayment of loan from related company	(91,779)	–
Repayment of borrowings	(60,334)	(1,225)
(Decrease) increase in amounts due to associates	(30,026)	14,701
(Repayment of) advance from a director	(230)	4,500
Others	(2,904)	894
	<u>(150,474)</u>	<u>104,540</u>
Net increase (decrease) in cash and cash equivalents	<u>87,651</u>	<u>(19,234)</u>
Effect of changes in exchange rates	(7)	(46)
Cash and cash equivalents at beginning of the period	<u>32,088</u>	<u>51,368</u>
Cash and cash equivalents at end of the period, represented by bank balances and cash	<u>119,732</u>	<u>32,088</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2009

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Hong Kong Accounting Standard ("HKAS") 34, Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The condensed consolidated financial statements for the current period cover the six months ended 30 June 2009. The corresponding comparative amounts shown for the condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows cover the six months ended 31 December 2008 and therefore may not be comparable with amount shown for the current period. The period covered by the current period's condensed consolidated financial statements does not correspond to the period covered by the comparatives because the Company changed its financial reporting year end date to 31 December with effect from the year ended 31 December 2008 in order to align the date with the Group's operations in the People's Republic of China (the "PRC") whereby the Group's subsidiaries have their financial year end falling on 31 December.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost convention, except for certain properties and financial instruments that are measured at fair values, as appropriate.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the period ended 31 December 2008.

In the current interim Period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by HKICPA, which are effective for the Group's financial year beginning on 1 January 2009.

HKAS 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised 2007)	Borrowing Costs
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC)-Int 9 & HKAS 39 (Amendments)	Embedded Derivatives
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

HKAS 1 (Revised 2007) has introduced a number of terminology changes, including revised titles for the condensed consolidated financial statements, and has resulted in a number of changes in presentation and disclosure.

HKFRS 8 is a disclosure standard that requires the identification of operating segments to be performed on the same basis as financial information that is reported internally for the purpose of allocating resources between segments and assessing their performance. The predecessor Standard, HKAS 14 *Segment Reporting*, required the identification of two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group's primary reporting format was business segments. The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14 (see note 3).

The adoption of the new and revised HKFRSs has had no material effect on the reported results and financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

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)	Amendment to HKFRS 5 as part of Improvements to HKFRSs issued in 2008 ¹
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 ²
HKAS 27 (Revised 2008)	Consolidated and Separate Financial Statements ¹
HKAS 39 (Amendment)	Eligible Hedged Items ¹
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters ³
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions ³
HKFRS 3 (Revised 2008)	Business Combinations ¹
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners ¹
HK(IFRIC)-Int 18	Transfers of Assets from Customers ⁴

¹ Effective for annual periods beginning on or after 1 July 2009.

² Amendments that are effective for annual periods beginning on or after 1 July 2009 or 1 January 2010, as appropriate.

³ Effective for annual periods beginning on or after 1 January 2010.

⁴ Effective for transfers on or after 1 July 2009.

The adoption of HKFRS 3 (Revised 2008) may affect the Group's accounting for business combinations for which the acquisition dates are on or after 1 January 2010. HKAS 27 (Revised 2008) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary. The directors of the Company anticipate that the application of other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. SEGMENT INFORMATION

The Group has adopted HKFRS 8 *Operating Segments* with effect from 1 January 2009. HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (the “CODM”), in order to allocate resources to the segment and to assess its performance. In contrast, the predecessor standard (HKAS 14, *Segment Reporting*) required an entity to identify two sets of segments (business and geographical) using a risks and returns approach, with the entities’ system of internal financial reporting to key management personnel’ serving only as the starting point for the identification of such segments. In the past, the Group’s primary reporting format was business segments. The application of HKFRS 8 has not resulted in redesignation of the Group’s reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14. The adoption of HKFRS 8 has also changed the basis of measurement of segment revenue and results.

Information regarding these segments is presented below. The Group acquired three associates which engaged in the manufacturing and trading of steel products during the interim Period. For HKFRS 8 purposes, a new reportable segment is identified as Steel Manufacturing and Trading.

The following is an analysis of the Group’s revenue and results by operating segment for the periods under review:

	Revenue		Segment profit	
	Six months ended		Six months ended	
	1.1.2009 to 30.6.2009 (Unaudited)	1.7.2008 to 31.12.2008 (Audited)	1.1.2009 to 30.6.2009 (Unaudited)	1.7.2008 to 31.12.2008 (Audited)
Property Investment	2,274	2,230	2,360	(5,351)
Heat Energy Supply	104,455	81,070	16,793	41,921
Steel Manufacturing and Trading	–	–	67,431	–
Total	106,729	83,300	86,584	36,570
Central administration costs			(21,168)	(15,812)
Share of loss of a jointly controlled entity			(2,298)	(2,935)
Discount on acquisition of associates			936,131	–
Profit before tax			999,249	17,823

Segment profit represents the profit earned by each segment without allocation of central administration costs, discount on acquisition of associates and share of loss of a jointly controlled entity. This is the measure reported to the board of directors, the CODM, for the purposes of resource allocation and performance assessment.

3. SEGMENT INFORMATION (Continued)

The following is an analysis of the Group's assets by operating segments:

	30.6.2009 HK\$'000	31.12.2008 HK\$'000
Property Investment	104,655	103,504
Heat Energy Supply	1,533,369	1,716,270
Steel Manufacturing and Trading	1,622,901	–
Unallocated assets	204,014	228,399
	<hr/>	<hr/>
Total assets	3,464,939	2,048,173

4. INCOME TAX EXPENSE

	1.1.2009 to 30.6.2009 HK\$'000 (Unaudited)	1.7.2008 to 31.12.2008 HK\$'000 (Audited)
Current Tax		
Hong Kong	–	–
PRC	9,334	14,792
	<hr/>	<hr/>
	9,334	14,792
Deferred Tax		
Current Period	786	(3,023)
	<hr/>	<hr/>
	10,120	11,769

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit, no provision for Hong Kong Profits Tax has been made for both periods.

The relevant tax rates for the Group's subsidiaries in the People's Republic of China are 25%.

Taxation is recognized based on the management's best estimate of the weighted average annual income tax rate expected for the full financial year.

5. PROFIT FOR THE PERIOD

	1.1.2009 to 30.6.2009 HK\$'000	1.7.2008 to 31.12.2008 HK\$'000
Profit for the period has been arrived at after charging:		
Depreciation of property, plant and equipment	10,855	8,431
Amortisation of other intangible assets	11,989	11,995
	<hr/>	<hr/>
Total depreciation and amortisation	22,844	20,426
Foreign exchange loss (included in other operating and administrative expenses)	1	-
	<hr/>	<hr/>

6. DIVIDEND

No dividend was paid or proposed during the period from 1 January 2009 to 30 June 2009, nor has any dividend been proposed since the balance sheet date (1.7.2008 to 31.12.2008: nil).

7. EARNINGS (LOSS) PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	1.1.2009 to 30.6.2009 HK\$'000	1.7.2008 to 31.12.2008 HK\$'000
Earnings (loss) for the purposes of basic and diluted earnings (loss) per share (Profit (loss) for the period attributable to owners of the Company)	986,617	(15,755)
	<hr/>	<hr/>
Number of shares		
	'000	'000
Weighted average number of ordinary shares for the purposes of basic earnings (loss) per share	7,341,473	7,117,613
	<hr/>	<hr/>
Effect of dilutive share options	41,595	
	<hr/>	
Weighted average number of ordinary shares for the purposes of diluted earnings (loss) per share	7,383,068	N/A
	<hr/>	<hr/>

No diluted loss per share has been presented for the period from 1 July 2008 to 31 December 2008 because the exercise of options would result in a decrease in loss per share.

8. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

During the six months ended 30 June 2009, additions to the Group's property, plant and equipment amounted to approximately HK\$14,639,000 (1.7.2008 to 31.12.2008: HK\$100,855,000). In addition, during the current period, the Group disposed of certain of its furniture, fixtures and office equipment with carrying amounts of HK\$210,000, and certain of its heat supplying facilities with carrying amounts of HK\$1,149,000 for proceeds of approximately HK\$125,000.

The Group's investment properties were fair-valued by the directors of the Company by reference to market evidence of transaction prices of similar properties in the relevant locations. The directors estimated that the fair value of investment properties at 30 June 2009 is HK\$101,573,000 and consequently, no gain or loss in fair value change is recognised in current period.

9. INTERESTS IN ASSOCIATES

	30.6.2009 HK\$'000	31.12.2008 HK\$'000
Cost of unlisted investment in associates	1,480,863	980
Share of post-acquisition reserve	67,234	67
	<u>1,548,097</u>	<u>1,047</u>

In May 2009, the Group acquired 100% equity interest in Fame Risen Development Limited ("Fame Risen"), an investment holding company which holds 30% equity interest in Rizhao Medium Section Mill Co., Limited ("Rizhao MSM"), 30% equity interest in Rizhao Steel Co., Limited ("Rizhao Steel"), and 25% equity interest in Rizhao Steel Wire Co., Limited ("Rizhao Steel Wire"). Details of the acquisition of Fame Risen are included in note 15.

Details of the Group's principal associates as at 30 June 2009 are as follows:

Name	Legal form of business	Place of incorporation or registration/ operation	Percentage of registered capital attributable to the Group	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
日照鋼鐵有限公司 (Rizhao Steel Co., Limited)	Limited enterprise	The PRC	30%	RMB100,000,000	Manufacturing and trading of steel products
日照型鋼有限公司 (Rizhao Medium Section Mill Co., Limited)	Limited enterprise	The PRC	30%	RMB100,000,000	Manufacturing and trading of steel products
日照鋼鐵軋鋼有限公司 (Rizhao Steel Wire Co., Limited)	Limited enterprise	The PRC	25%	RMB80,000,000	Manufacturing and trading of steel products

9. INTERESTS IN ASSOCIATES (Continued)

The following table illustrates the summarised financial information of the Group's associates:

	30.6.2009 HK\$'000	31.12.2008 HK\$'000
Assets	45,935,808	244,809
Liabilities	(40,338,672)	(242,192)
Net assets	<u>5,597,136</u>	<u>2,617</u>

On 11 June 2009, Ministry of Environmental Protection of the PRC issued a notice to suspend the review and approval of environmental impact evaluation for steel manufacturing industry in Shandong province, where Rizhao Steel, Rizhao MSM and Rizhao Steel Wire are located. As set out in the notice, the construction of some of the property, plant and equipment of the three associates were asked to be halted. Since the majority of the relevant property, plant and equipment have already been put into use before the issuance of the above mentioned notice, the directors of the Company considered that the above mentioned notice would not have a material impact to the operation of the associates. The management of the associates is in communication with the government authority in response to the notice.

During the period, the Group's equity interest in Tianjin Jinbin Heat Supply Company Limited ("Jinbin"), decreased from 40% to 4% and, accordingly, the Group's investment in Jinbin was classified as available for sales financial assets at 30 June 2009.

10. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	30.6.2009 HK\$'000	31.12.2008 HK\$'000
Trade receivables	79,403	67,407
Other receivables and prepayments	10,784	28,639
	<u>90,187</u>	<u>96,046</u>

The following is an aged analysis of trade receivables at the reporting date:

	30.6.2009 HK\$'000	31.12.2008 HK\$'000
0-30 days	52,221	67,407
31-90 days	87	-
Over 90 days	27,095	-
	<u>79,403</u>	<u>67,407</u>

11. TRADE AND OTHER PAYABLES AND ACCRUALS

	30.6.2009 HK\$'000	31.12.2008 HK\$'000
Trade payables	37,633	44,337
Other payables and accruals	40,653	41,172
	<u>78,286</u>	<u>85,509</u>

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

	30.6.2009 HK\$'000	31.12.2008 HK\$'000
0-30 days	3,066	28,645
31-90 days	–	853
Over 90 days	34,567	14,839
	<u>37,633</u>	<u>44,337</u>

12. BORROWINGS

During the period, the Group obtained a new short-term bank loan amounting to approximately HK\$11,237,000 (1.7.2008 to 31.12.2008: HK\$59,790,000). The new loan bears interest at fixed rate of 5.84% and is repayable within one year. The proceeds were used to meet short-term working capital requirement. Repayments of other bank loans, amounting to approximately HK\$60,334,000 (1.7.2008 to 31.12.2008: HK\$1,225,000), were made during the period in line with the relevant repayment terms.

13. DEFERRED TAX LIABILITIES

Increase in the deferred tax liability is mainly attributable to the deferred tax liabilities assumed during the acquisition of Fame Risen and the undistributed post-acquisition profits of the acquired associates.

14. SHARE CAPITAL

	Number of shares '000	Share capital HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
At 1 July 2008, 31 December 2008 and 30 June 2009	<u>20,000,000</u>	<u>2,000,000</u>
Issued and fully paid:		
At 1 July 2008	5,381,613	538,161
Conversion of convertible notes	1,736,000	173,600
At 31 December 2008	7,117,613	711,761
Exercise of options under equity-settled option scheme	19,720	1,972
Allotment and issue of new shares	2,000,000	200,000
At 30 June 2009	<u>9,137,333</u>	<u>913,733</u>

15. ACQUISITION OF ASSOCIATES

In May 2009, the Group completed the acquisition of 100% interest in Fame Risen for a total cost of business combination of approximately HK\$540,987,000 (inclusive of directly attributable costs of approximately HK\$10,987,000), which was settled by the allotment and issue of 2,000,000,000 ordinary shares of the Company (“the Acquisition”). The fair value of the shares issued for the acquisition of Fame Risen amounted to approximately HK\$530,000,000, which is determined using the published prices available at the date of the Acquisition of HK\$0.265. This Acquisition has been accounted for using the purchase method of accounting. Details of the net assets acquired in respect of the Acquisition are summarised below:

	Acquiree's Carrying amount before combination	Provisional fair value adjustments	Provisional fair value
	HK\$'000	HK\$'000	HK\$'000
Net assets acquired:			
Interest in associates	565,401	915,166	1,480,567
Dividend receivables from associates	75,494	–	75,494
Deferred tax liabilities	(78,943)	–	(78,943)
	<u>561,952</u>	<u>915,166</u>	<u>1,477,118</u>
Total consideration satisfied by:			
– Shares of the Company			530,000
– Directly attributable costs			10,987
			<u>540,987</u>
Discount on acquisition of associates			<u>936,131</u>
Net cash outflow arising on acquisition			
– Directly attributable costs			<u>(10,987)</u>

The Group's share of the net fair value of the associates' identifiable assets and liabilities is determined based on preliminary valuation carried out by an independent valuer, Jones Lang LaSalle Sallmanns Limited. The value of assets of the associates are measured based on provisional values and are subject to change pending finalisation of the valuation of these assets. The finalisation of those valuations could affect the amounts assigned to the assets and the related depreciation/amortisation charges for assets and the amount of discount on acquisition of the associates. Details of the acquisition of Fame Risen are set out in the circular of the Company dated 27 April 2009.

16. SHARE-BASED PAYMENT TRANSACTION

The Company has a share option scheme for eligible employees of the Group. Details of the share options outstanding during the current period are as follows:

	<u>Number of share options</u>
Outstanding at 1 January 2009	294,600,000
Granted during the period	71,000,000
Exercised during the period	<u>(19,720,000)</u>
Outstanding at 30 June 2009	<u>345,880,000</u>

The closing price of the Company's shares immediately before 16 January 2009, the date of grant was HK\$0.265.

The 5-day weighted average closing price of the Company's shares immediately before the date on which the options were granted was HK\$0.193.

In the current period, share options were granted on 16 January 2009. The fair value of each option determined at the date of grant using the binomial model was HK\$0.0711.

The following assumptions were used to calculate the fair values of each share option granted:

	<u>16 January 2009</u>
Grant date share price	0.265
Exercise price	0.265
Expected life	3.26 years
Expected volatility	87.30%
Dividend yield	0%
Risk-free interest rate	0.77%

The binomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. Changes in variables and assumptions may result in changes in the fair value of the options.

At each reporting date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in profit and loss, with a corresponding adjustment to the share options reserve.

The Group recognised the total expense of HK\$7,475,000 for the period from 1 January 2009 to 30 June 2009 (1.7.2008 to 31.12.2008: HK\$2,425,000) in relation to share options granted by the Company.

17. RELATED PARTY TRANSACTIONS

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

	1.1.2009 to 30.6.2009 HK\$'000 (unaudited)	1.7.2008 to 31.12.2008 HK\$'000 (audited)
Purchases of coal from an associate	–	17,234
Purchase of coal from related company	23,280	–
Interest income from a minority shareholder of a group entity	(2,921)	(11,685)
Interest expenses to a minority shareholder of a group entity	6,418	13,139
	<hr/>	<hr/>

Compensation of key management personnel

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

	1.1.2009 to 30.6.2009 HK\$'000 (unaudited)	1.7.2008 to 31.12.2008 HK\$'000 (audited)
Short-term benefits	3,000	3,698
Post-employment benefits	81	87
Share-based payments	6,263	1,212
	<hr/>	<hr/>
	9,344	4,997
	<hr/>	<hr/>

18. EVENTS AFTER THE END OF THE INTERIM PERIOD

On 2 July 2009, the Company issued convertible notes of HK\$265,500,000 to Mr. Hu Yishi, the director of the Company according to the convertible notes subscription agreement dated 26 May 2008. The convertible notes carry interest at 3.5% per annum. The holder has the option to convert the convertible notes into ordinary shares of HK\$0.10 per share of the Company at a conversion price of HK\$0.177 per share. Subsequently on 7 August 2009, convertible notes with principal amount of HK\$35,400,000 were converted into 200,000,000 ordinary shares of the Company.

On 6 September 2009, the three associates of the Group, namely Rizhao Steel Co., Limited, Rizhao Medium Section Mills Co., Limited and Rizhao Steel Wire Co., Limited, together with their parent company and two of their fellow subsidiaries (collectively as the "Party A Companies") entered into an asset restructuring and co-operation agreement with an independent third party, 山東鋼鐵集團有限公司 (Shandong Steel Group Co., Limited ("SSG")). The signing parties shall jointly invest in a new joint venture enterprise with a 33% ownership by the Party A Companies and the remaining 67% by SSG. Details of the agreement are included in the announcement of the Company dated 7 September 2009. The transaction has not yet been completed up to the date of this report.

19. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with current period's presentation. In particular, the condensed consolidated income statement aggregate expenses by nature for the current period, previously the consolidated income statement for the six months ended 31 December 2008 aggregate expenses by function.

INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend for the six months ended 30 June 2009 (six months ended 31.12.2008: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the six months ended 30 June 2009 (the "Period"), profit of the Company together with its subsidiaries (the "Group") has significantly increased to approximately HK\$989.1 million from approximately HK\$6.0 million for the six months ended 31 December 2008 (the "Preceding Six-Month Period"). The increase is largely attributable i) one month's contribution in share of profit from the Group's associates engaged in steel and steel product manufacturing of approximately HK\$67.4 million subsequent to the completion of the acquisition of Fame Risen Development Limited ("Fame Risen") on 29 May 2009; and ii) approximately HK\$936.1 million arising from the discount on acquisition of Fame Risen. Further details of the acquisition of Fame Risen may be found in a circular dated 27 April 2009 and announcements dated 15 January 2009 and 11 June 2009. Profit attributable to shareholders for the Period amounted to HK\$986.6 million after deducting minority interests, as compared with a loss of approximately HK\$15.8 million for the Preceding Six-Month Period, translating into earnings per share of HK\$13.44 cents.

Turnover for the Period amounted to approximately HK\$106.7 million, representing a 28% increase over the turnover of the Preceding Six-Month Period. The increase in turnover is largely due to an increase in turnover for the Group's heat energy supply operations.

As at 30 June 2009, total assets of the Group was approximately HK\$3,464.9 million, representing a substantial increase of 69.2% over that of 31 December 2008 HK\$2,048.2 million. The increase mainly arose from the completion of the acquisition of Fame Risen in May. As the acquisition of Fame Risen was settled by way of issuance of shares of the Company as consideration, net assets of the Group also increased significantly by 129% to HK\$2,715.7 million as compared with approximately HK\$1,186 million of six months ago. During the Period, no fund raising activities were undertaken by the Group, save for the issuance of 2,000,000,000 shares of the Company to the vendors as consideration for the acquisition of Fame Risen. Bank balances and cash and pledged bank deposits of the Group as at 30 June 2009 totaled approximately HK\$120.4 million (31.12.2008: HK\$38.6 million), representing an increase of 211.9%. Current assets decreased by 11.8% to approximately HK\$678.2 million during the Period. As at 30 June 2009, the Group's outstanding bank borrowings amounted to approximately HK\$63.8 million (31.12.2008: HK\$112.9 million), approximately HK\$36.3 million of which was due within one year. During the Period, the Group's current assets and current liabilities have both decreased and net current assets as at 30 June 2009 was approximately HK\$141.2 million. (31.12.2008: HK\$200.5 million), representing a decrease of 29.6%. Given the Group's substantial increase in assets and significant reduction in borrowing, its gearing ratio (total borrowings/total assets) has seen a significant improvement to 9.4% as at 30 June 2009, versus 24.1% six months ago.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Business Review and Prospects

Steel Manufacturing and Trading

On 29 May 2009, the Group completed the acquisition (the “Acquisition”) of Fame Risen, 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 (“RSHG”), one of the leading steel manufacturing enterprises in the PRC market (the “Enterprises”). The Enterprises include: 1) Rizhao Steel Co., Ltd. (“Rizhao Steel”) (30% interest), which is principally engaged in the manufacturing and selling of common carbon steel, low alloy steel and other steel billet; 2) Rizhao Medium Section Mill Co., Ltd. (“Rizhao Medium”) (30% interest), which is principally engaged in the manufacturing and selling of wire rod, section steel and related products; and 3) Rizhao Steel Wire Co., Limited (“Rizhao Wire”) (25% interest), which is principally engaged in the manufacturing and selling of high-end metal and wire rod for construction, strips and related products.

Subsequent to the completion of the Acquisition, Fame Risen began contributing to the Group’s results in June 2009. The strong performance of the underlying Enterprises have provided a one-month results contribution of June 2009 amounting to approximately HK\$67.4 million. Furthermore, the discount on acquisition of Fame Risen has resulted in a further contribution of approximately HK\$936.1 million to the profit of the Group for the Period. The Acquisition has greatly strengthened the results and asset base of the Group without the Group having to incur material cash outflow, as the consideration for the Acquisition was solely settled by 2 billion shares of the Company.

As of 30 June 2009, Rizhao Steel, Rizhao Medium and Rizhao Wire respectively had production capacity of approximately 12.6, 1.5 and 10 million tonnes per year. During the first six months of 2009, production output reached approximately 5.9, 0.7 and 4.9 million tonnes respectively. As the steel market of the PRC have recovered in tandem with the economy in general, steel prices have recovered and stabilized from the drop in the latter half of 2009. Given their coastal locations and modern management expertise, the Enterprises are able to exercise inventory control and margin maintenance that are amongst the best in the industry. Leveraging on these advantages, the Enterprises generated healthy aggregate profit despite the challenging operating environment during the first six months of 2009.

On 6 September 2009, (i) the Enterprises, together with RSHG and two other companies controlled by RSHG (together, the “Party A Companies”) and (ii) 山東鋼鐵集團有限公司 (for English identification, Shandong Steel Group Co., Limited) (“Party B”) on the other hand, entered into an asset restructuring and co-operation agreement (the “Agreement”). Party A Companies and Party B shall jointly invest in a new joint venture enterprise (the “New JVE”), being 山東鋼鐵集團日照有限公司 (for English identification, Shandong Steel Group Rizhao Co., Limited), which shall be owned as to 33% by Party A Companies and as to 67% by Party B. The New JVE shall construct and operate 日照鋼鐵精品基地 (for English identification, Rizhao Steel Base), a steel manufacturing base with a planned production capacity of over 20 million tonnes per year located near the coastline of Rizhao, which employs new-generation manufacturing, energy conservation and environmental protection technology and techniques, and of which the facilities currently operated under the Party A Companies shall form part. Party A Companies shall contribute to the registered capital of the New JVE by transferring their entire fixed assets and land and the relevant bank loans, as well as other liabilities which have been legally incurred with a determined monetary value to the New JVE, and Party B shall contribute to the registered capital by way of cash in the same proportion as its shareholding. Further details of the Agreement may be found in the announcement of the Company dated 7 September 2009.

Given the continual growth and development of the PRC, steel has been and continues to be a very important industry for the country that would directly benefit from the country’s strong growth. As a result of the restructuring described above, the Group will gain the opportunity of participating in Rizhao Steel Base, which will become one of the biggest and more advanced steel manufacturing facilities in the PRC as it is completed in the coming few years. While the Rizhao Steel Base is being constructed, the Group will continue benefiting from the existing businesses of the Enterprises, which continue to demonstrate a strong track record of earnings. The Group is confident that the Enterprises will continue to provide strong contributions and further enhance the value of the Group in the years to come.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Business Review and Prospects (Continued)

Heat Energy Supply

During the six months ended 30 June 2009, the heat energy supply operations generated turnover of approximately HK\$104.5 million and segmental profit of approximately HK\$16.8 million, as compared with approximately HK\$81.1 million and approximately HK\$41.9 million of the Preceding Six-month Period. The decrease in segmental profit reflects the increase in amortization costs as the new facilities of the Xiqing Nanhe Project commenced production in December 2008, and that corresponding heating fee revenue for such project was still at a start-up stage during the Period.

The Group is engaged in heat energy supply in the municipality of Tianjin via its subsidiary, Tianjin Heating Development Co., Ltd. ("Tianjin Heating"), which operates three heat energy supply projects, namely the Meijiang Project, the Jinxia Xindu Project and the Xiqing Nanhe Project, all located at the southwest fringe of Tianjin city. As reported in the 2008 annual report of the Company, the aggregate floor area to which Tianjin Heating supplies heat energy for the 2008/2009 heating season (spanning from mid-November to mid-March) was approximately 4.6 million sq.m. With a maximum heat energy supply coverage of over 21 million sq.m. in aggregate and their strategic locations, Tianjin Heating's projects are set to capture the potential heating fee and connection fee income arising from increased heat energy supply coverage fueled by the continued development of Tianjin radiating from the saturated city core to the adjacent areas where Tianjin Heating's projects are located.

Property Investment

During the Period, the Group's commercial properties generated turnover of approximately HK\$2.3 million, representing a 2% increase from approximately HK\$2.2 million for the Preceding Six-month Period. The turnover has remained stable despite a lower occupancy rate for the Group's offices in Beijing due to increases in rents and strong performance from the Group's parking facilities. The segment has turned around to a segmental gain of approximately HK\$2.4 million, as compared with segmental loss of approximately HK\$5.4 million for the Preceding Six-month Period.

Affected by the economic climate, occupancy rate of the Group's 35 A-grade commercial offices situated at 33 Deng Shi Kou Main Street, Wangfujing, Dong Cheng District decreased to 89% as at 30 June 2009 (31.12.2008: 94%). However, rental agreements have been renewed at higher rent levels and performance of the two levels of underground parking area has improved during the Period, thereby maintaining a stable turnover for the Beijing properties.

In Shanghai, as a result of recent renovations of the direct access to People's Square subway station enhancing access and the Group's active involvement in improving the operations of the 10,000 sq.m underground shopping plaza, revenues of Shanghai Underground Centre Company Limited ("SUCCL") have increased, reaching approximately HK\$24.8 million for the Period (six months ended 31.12.2008: approximately HK\$21.3 million).

Given the recent signs of recovery of the PRC economy, the Group is optimistic that performance improvements will be achievable at the Group's property investments.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Acquisitions and Disposals

On 29 May 2009, the Company completed the acquisition of Fame Risen Development Limited, which was settled by way of issuance of 2 billion shares of the Company to the vendors as consideration. The Acquisition is further described in the “Business Review and Prospects” section above. Save for the above, there was no material acquisition or disposal during the Period.

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 30 June 2009. 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 30 June 2009, the Group did not have any material contingent liabilities (31.12.2008: Nil).

Pledge on the Group’s Assets

As at 30 June 2009, the bank borrowings granted to the Group were secured by deposits totaling approximately HK\$0.7 million (31.12.2008: HKD6.5 million) and its investment properties with a carrying value of HK\$73.5 million (31.12.2008: HK\$73.5 million).

Employees and Remuneration

The Group had approximately 164 employees as at 30 June 2009 (31.12.2008: 246). 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.

DIRECTORS' INTERESTS IN SHARES

At 30 June 2009, the interests and the short positions of the Directors and chief executives of the company in the shares underlying shares and convertible note of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), were as follows:

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

Name of Directors	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	4.89%
Mr. Hu Yishi	Personal	62,540,000	0.68%

Note: These shares are held by Morich International 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
Mr. Xue Jian	Beneficial owner	71,000,000	71,000,000

Long positions – convertible notes

Name of Directors		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 30 June 2009.

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 30 June 2009.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2009, 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 30 June 2009:

Long positions – Ordinary shares of HK\$0.10 each of the Company

Name of shareholder	Capacity	Number of issued ordinary shares held	Percentage of issued shares capital of the company
Mr. Du Shuang Hua	Interest of controlled corporation	708,000,000	7.75%
Happy Sino International Limited ¹	Beneficial interest	708,000,000	7.75%
Mr. Zhang He Yi	Beneficial interest	1,400,000,000	15.32%
Mr. Qi Shi An	Beneficial interest	600,000,000	6.57%

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

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 30 June 2009.

KAI YUAN HOLDINGS LIMITED

SHARE OPTIONS

The followings are the details of the share options of the Company and their movements during the Period.

Grantees	Date of grant	Outstanding at 31-Dec-08 '000	Granted during the period '000	Exercised during the period '000	Cancelled/ Lapsed during the period '000	Outstanding at 30-Jun-09 '000	Exercisable period	Exercise price per share HK\$	Closing price per share before date on which the options were granted/ exercised (note a) HK\$
Directors of the company									
Hu YiShi	22 August 2007	43,720	-	-	-	43,720	22 August 2010 – 21 August 2011	0.205	
Hu Jin Xing	22 August 2007	43,720	-	-	-	43,720	22 August 2010 – 21 August 2011	0.205	
Yip Kar Hang, Raymond	22 April 2008	56,000	-	-	-	56,000	22 April 2008 – 16 April 2012	0.165	
Kwong Wai Man, Karina	22 April 2008	10,000	-	-	-	10,000	22 April 2008 – 16 April 2012	0.165	
Xue Jian	16 January 2009	-	71,000	-	-	71,000	16 January 2009 – 16 April 2012	0.265	0.265
		<u>153,440</u>	<u>71,000</u>	<u>-</u>	<u>-</u>	<u>224,440</u>			
Other employees of the Group									
	22 August 2007	87,440	-	-	-	87,440	22 August 2010 – 21 August 2011	0.205	
	22 August 2007	43,720	-	(19,720)	-	24,000	22 February 2008 – 21 August 2011	0.205	0.315
	22 April 2008	10,000	-	-	-	10,000	22 April 2008 – 16 April 2012	0.165	
		<u>141,160</u>	<u>-</u>	<u>(19,720)</u>	<u>-</u>	<u>121,440</u>			
		<u>294,600</u>	<u>71,000</u>	<u>(19,720)</u>	<u>-</u>	<u>345,880</u>			
Exercisable at the end of the Period						<u>171,000</u>			

(note a): In respect of options granted or exercised during the Period only.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2009.

CORPORATE GOVERNANCE

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 30 June 2009 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 is 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 it 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.

AUDIT COMMITTEE

The audit committee currently comprises Messrs. Tam Sun Wing, Ko Ming Tung, Edward and Ng Ge Bun, all of whom are independent non-executive directors with appropriate professional qualifications and experience in financial matters. The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed the internal control and financial reporting matters including a review of the interim results and the unaudited consolidated financial statements for the six months ended 30 June 2009.

REMUNERATION COMMITTEE

The remuneration committee of the Company was established, with specific terms of reference in compliance with the Code as set out in Appendix 14 to the Listing Rules. The remuneration committee is responsible for making recommendations to the Board on the Company's policy and packages of employment for the Directors and senior management. It comprises one executive Director and two independent non-executive Directors of the Company. The present members are Messrs. Hu Yishi, Tam Sun Wing and Ko Ming Tung, Edward.

NOMINATION COMMITTEE

The nomination committee currently consists of one executive Director and two independent non-executive Directors. The present members are Messrs. Yip Kar Hang, Raymond, Ko Ming Tung, Edward and Ng Ge Bun. The nomination committee's terms of reference includes those specific duties as set out in the code provision A.4.5 of the 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.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its code of conduct regarding securities transactions by the Directors. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2009.

PUBLICATION OF DETAILED RESULTS ANNOUNCEMENT ON COMPANY WEBSITE

All information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules will be published on our website at <http://www.kaiyuanholdings.com> in due course.

BOARD OF DIRECTORS

On 7 January 2009, Mr. Xue Jian, aged 43, was appointed as a non-executive Director of the Company.

As at the date of this report, the Board comprises Mr. Hu Yishi, Mr. Yip Kar Hang, Raymond and Ms. Kwong Wai Man, Karina (all being executive Directors), Mr. Hu Jin Xing and Mr. Xue Jian (both being non-executive Directors), Mr. Tam Sun Wing, Mr. Ko Ming Tung, Edward, and Mr. Ng Ge Bun (all being independent non-executive Directors).

By order of the Board
Kai Yuan Holdings Limited
Yip Kar Hang, Raymond
Executive Director and Chief Executive Officer

Hong Kong, 16 September 2009