KAI YUAN HOLDINGS LIMITED

開源控股有限公司

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

Annual Report 2009

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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 Fulcrum Group (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road,
Pembroke HM08, Bermuda

SHARE REGISTRAR

Tricor Tengis Limited
26th Floor, Tesbury Centre
28 Quees'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

Ernst & Young
Certified Public Accountants
18th Floor, Two International Finance Centre
8 Finance Street, Central
Hong Kong

SOLICITORS

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

PRINCIPAL BANKERS

The Hong Kong & Shanghai Banking
Corporation Limited
Fubon Bank

Chairman's Statement

I am pleased to present the results of Kai Yuan Holdings Limited (the "Company" or "Kai Yuan") together with its subsidiaries (the "Group") for year ended 31 December 2009.

2009 was a significant year for Kai Yuan. On 29 May 2009, the Company completed its acquisition of interests in three enterprises engaged in steel and steel product manufacturing under the "Rizhao Steel" name. Not only has the acquisition significantly strengthened the asset base and immediately began contributing profits to the Company, it will also give the Group the valuable opportunity of participating in 日照鋼鐵精品基地 (for English identification, Rizhao Steel Base), which will become one of the biggest and more advanced steel manufacturing facilities in the PRC, via a reorganization with 山東鋼鐵集團有限公司 (for English identification, Shandong Steel Group Co., Limited). Meanwhile, the Group's heat energy supply and property investment operations continue to provide a foundation of revenues for the Group.

With the aim to providing the best returns, Kai Yuan will also continue to seek for business opportunities with robust growth potential across the PRC. Focus shall be placed on businesses that present synergies with steel manufacturing and trading investment, now the most significant segment in our business portfolio. As the PRC economy continues its growth, we are certain that the Group's operations, which encompass important and vital areas of the country's growing economy, shall continue to benefit from such growth and provide fine returns for all our stakeholders.

I would also like to take this opportunity to thank all our Board, management and staff members for their continued contributions.

Hu Yishi
Chairman
1 April 2010

BUSINESS REVIEW

For the year ended 31 December 2009 (the "Year"), profit of the Group has increased significantly to approximately HK$1,744.2 million, as compared with approximately HK$6.0 million for the six months ended 31 December 2008 (the "2008 Six-Month Period"). The increase is largely attributable to i) share of profits of the Group's associates engaged in steel and steel product manufacturing of approximately HK$567.1 million for the period after the completion of the acquisition of Fame Risen Development Limited ("Fame Risen") on 29 May 2009; and ii) approximately HK$1,626.3 million arising from the excess over cost on acquisition of Fame Risen. 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 owners of the Company for the Year amounted to HK$1,857.8 million after excluding minority interests, as compared with a loss of approximately HK$15.8 million for the 2008 Six-Month Period, translating into basic earnings per share of HK$0.22.

Turnover for the Year amounted to approximately HK$200.8 million (Preceding Six-Month Period: HK$ 83.3 million). The increase in average monthly turnover is largely due to an increase in turnover for the Group's heat energy supply operations.

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

Steel Manufacturing and Trading Investment

The Group completed the acquisition (the "Acquisition") of Fame Risen on 29 May 2009, which in turn holds 25%–30% interests in three steel-making enterprises (the "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 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.

The results and asset base of the Group has been greatly strengthened through the Acquisition. As the Enterprises began contributing to the Group's results after completion of the Acquisition on 29 May 2009, investment income of associates of HK$567.1 million was recorded during the Year. Furthermore, the excess over cost on acquisition of Fame Risen has resulted in a further contribution of approximately HK$1,626.3 million to the Group's profit for the Year.

As of 31 December 2009, Rizhao Steel, Rizhao Medium and Rizhao Wire respectively had designed production capacity of approximately 12.6, 1.5 and 10 million tonnes per year. Demand for the Enterprises' products was strong throughout the year and production output for the Year reached approximately 12.3, 1.3 and 10.5 million tonnes respectively. 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. As steel market and prices have stabilized from the difficult conditions in late 2008 and had started to show trends of recovery throughout the Year, the Enterprises were able to capitalize on their strengths and continued to generate healthy profits during the Year.

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. Procedures leading to the transactions described in the Agreement are being undertaken and completion of the said transactions has yet to take place. Further details of the Agreement may be found in the announcement of the Company dated 7 September 2009.

Heat Energy Supply

The Group's heat energy supply subsidiaries in Tianjin ("Tianjin Heating") 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. The aggregate floor area to which Tianjin Heating supplies heat energy for the 2009/2010 heating season (spanning from mid-November to mid-March) was approximately 5.1 million sq.m, representing an increase of 9.5% from the 2008/2009 heating season (4.6 million sq.m.). The growth have resulted from the continued residential development in south-western Tianjin.

During the Year, the heat energy supply operations of the Group generated turnover of approximately HK$196.2 million and segmental loss of approximately HK$292.5 million, as compared with approximately HK$81.1 million and segmental profit of approximately HK$32.6 million of the 2008 Six-month Period. The increase in revenue is due to the respective increases in residential and non-residential heating fees from RMB20 and RMB26 to RMB 25 and RMB36 per square metre which took effect for the 2008/2009 heating season and the abovementioned increase in floor area to which heat energy is supplied leading to increased heat supply revenue and connection fees recognized. The segmental loss was largely due to the impairment provision for the intangible assets and certain obsolete plant and equipments and goodwill amounting to approximately HK$318.7 million in aggregate. If the impairment provision is excluded, the segment would have recorded a profit approximately HK$26.2 million.

Property Investment

During the Year, the Group's commercial properties generated turnover of approximately HK$4.6 million, as compared with approximately HK$2.2 million for the 2008 Six-month Period. Due to a healthy performance from the Group's parking facilities, the average monthly turnover has remained stable despite a lower occupancy rate for the Group's offices in Beijing. The segment recorded a segmental loss of approximately HK$6.9 million for the year, as compared with segmental loss of approximately HK$6.3 million for the 2008 Six-month Period. The segmental loss for the Year was largely due to fair value loss relating to the properties. 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 31 December 2009 (31.12.2008: 94%). However, certain rental agreements have been renewed and performance of the two levels of underground parking area has improved during the Year, 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$57.0 million for the Year (six months ended 31.12.2008: approximately HK$24.8 million). During the year, largely due to impairment provision for certain receivables, the Group shared a loss of approximately HK$2.6 million from SUCCL.

PROSPECTS

Steel Manufacturing and Trading Investment

Steel is a necessity for a country's development, particularly for a rapidly growing economy like the PRC. Through the country's continuous reform of this very important industry, top tier and efficient steel making companies such as the Enterprises are well positioned to directly benefit from the country's relentless growth. Furthermore, through the restructuring with Shandong Steel Group Co., Limited described in the Business Review above, the Group will have the opportunity of participating in the large-scale and advanced 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. As it is being constructed, the existing businesses of the Enterprises will continue to contribute profits to the Group. Given their strong track record of earnings, the Group is confident that the Enterprises will continue to yield strong contributions and further enhance the value and results of the Group in the years to come.

Heat Energy Supply

With over 21 million sq.m. of maximum aggregate heat energy supply coverage and strategic locations in booming areas of Tianjin, Tianjin Heating's projects are set to capture the potential heating fee and connection fee income as Tianjin's urban development radiates from the saturated city core to the adjacent areas where Tianjin Heating's projects are located. As such, it is expected that Tianjin Heating shall continue to generate a stable revenue stream. However, as prices cannot be set by heat energy suppliers while costs of operation may escalate with inflation, operating environment in this utility industry may become challenging in the future.

Property Investment

The PRC property market continued its bullish trend during the recent months. Given the robust real estate market and general economy of the PRC, the Group is confident that its property investments in Beijing and Shanghai will continue to provide stable rental returns for the Group. However, the Group shall review the combination of assets in its non-core property investment portfolio from time to time in order to capture market opportunities and maximise returns.

Looking ahead

Subsequent to the acquisition of Fame Risen, the steel manufacturing and trading investment segment accounts for the largest portion of the Group's assets and results. The Group is confident that the steel industry in China shall continue to prosper as the country continues its relentless development. As such, the Group shall seek opportunities in related businesses with the aim of enhancing synergies amongst its portfolio and maximizing value for all stakeholders.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2009, total assets of the Group was approximately HK$4,846.7 million, representing a substantial increase of 134.4% over that of 31 December 2008 (HK$2,067.8 million). The increase mainly arose from the completion of the acquisition of Fame Risen in May 2009. 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 219.1% to HK$3,607.0 million as compared with approximately HK$1,130.4 million as of 31 December 2008. During the Year, the following fund raising activities were undertaken by the Group: i) Issuance of 2,000,000,000 shares of the Company ("Shares") to the vendors as consideration for the acquisition of Fame Risen; ii) issuance of convertible notes with principal amount of HK$265,500,000 on 2 July 2009 pursuant to a subscription agreement dated 26 May 2008 and approved at a special general meeting on 3 July 2008 (of which convertible notes of HK$35,400,000 in principal amount had been converted into 200,000,000 Shares on 7 August 2009); and iii) issuance of 109,720,000 shares pursuant to the Group's share option scheme. Cash and bank balance and pledged bank deposits of the Group as at 31 December 2009 totaled approximately HK$305.9 million (31.12.2008: HK$38.6 million), representing an increase of 692.5%. Current assets increased by 47.3% to approximately HK$1,132.6 million during the Year (31.12.2008: HK$769.1 million). As at 31 December 2009, the Group's outstanding bank and other borrowings amounted to approximately HK$90.0 million (31.12.2008: HK$112.9 million), approximately HK$64.5 million of which was due within one year. Net current assets as at 31 December 2009 was approximately HK$304.0 million. (31.12.2008: HK$205.7 million), representing an increase of 47.8%. 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 4.0% as at 31 December 2009, versus 23.9% as at 31 December 2008.

Acquisitions and Disposals

On 29 May 2009, the Company completed the acquisition of Fame Risen Development Limited by way of issuance of 2,000,000,000 shares to the vendors as consideration. Details of the acquisition has been described in the "Business Review and Prospects" section. Save for the above, there was no material acquisition or disposal during the year.

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, as the Group's head office operating expenses are incurred in Hong Kong dollars. 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 year ended 31 December 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

Details of the Group's contingent liabilities during the year are set out in note 45 to the audited financial statements.

Pledge on the Group's Assets

As at 31 December 2009, the bank borrowings granted to the Group were secured by deposits totaling approximately HK$0.7 million (31.12.2008: HK$6.5 million) and its investment properties with fair value of HK$63.2 million (31.12.2008: HK$73.5 million).

Employees and Remuneration

The Group had approximately 208 employees as at 31 December 2009 (31 December 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' Profile

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

EXECUTIVE DIRECTORS

Mr. Hu Yishi

Mr. Hu Yishi, aged 34, 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. Xu Jin Xing, non-executive Director of the Company.

Mr. Yip Kar Hang, Raymond

Mr. Yip Kar Hang, Raymond, aged 42, 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.

Mr. Yip is the executive director and chief executive officer of Sheng Yuan Holdings Limited, a company incorporated in Bermuda which shares are listed on the main board of the Stock Exchange. Mr. Yip founded and is a director of Radia Capital Strategy Limited. Mr. Yip was an executive director, chief financial officer and company secretary of Imagi International Holdings Limited, a company the issued shares of which are listed on the main board of the Stock Exchange.

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 40, 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 66, was appointed as a non-executive Director of Kai Yuan Holdings Limited on 4 June 2007. Mr. Hu graduated from Shanghai Normal University with a major in Chinese Language and Literature. Mr. Hu is the president of Shanghai Morelove Foundation and was the vice president and general secretary of Shanghai Huajie Affection Foundation. He was the vice principal of Shanghai Hainen Secondary School from February 1994 to July 1997. Subsequently, he was the vice principal of Shanghai Fu Xing High School from October 1997 to February 2005, and then he became the principal for over seven years. Mr. Hu was a member of the Tenth Shanghai Committee of the Chinese People's Political Consultative Conference of Hong Kong 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, an executive Director and the Chairman of the Company.

Directors' Profile

Mr. Xue Jian

Mr. Xue Jian, aged 44, was appointed as a non-executive Director of Kai Yuan Holdings Limited on 7 January 2009. Mr. Xue received his master's degree in business administration from Zhongnan University of Finance, Economics, Politics and Law, and has over twenty years of experience in the steel and iron manufacturing industry and in the commercial sector in the People's Republic of China. He is the legal representative of Rizhao Steel Co., Ltd., and also a director and vice general manager of Rizhao Steel Holding Group Co., Ltd. The Rizhao Steel Group is one of the largest private steel and iron manufacturers in the People's Republic of China. Moreover, Mr. Xue is also a director of Rizhao Bank (formerly known as Rizhao City Commercial Bank) and Laishang Bank. Apart from his engagement in private sector, Mr. Xue has been actively participating public affairs by taking up various positions of the deputy director of Center for Studies on China's Circular Economy and Environment, the senior consultant of China Health & Medical Development Foundation, and the 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 52, 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 49, 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. Mr. Ko 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 the 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 also an independent non-executive Director of Sinofert Holdings Limited, Wai Chun Group Holdings Limited and Interchina Holdings Company Limited, all of which are companies whose shares are listed on the Main Board of the Stock Exchange. Mr. Ko was previously an independent non-executive Director of China Pipe Group Limited, and a non-executive Director of New Smart Energy Group Limited, whose shares are listed on the Main Board of the Stock Exchange.

Mr. Ng Ge Bun

Mr. Ng Ge Bun, aged 52, 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 in Laws. He obtained a postgraduate certificate in 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 year ended 31 December 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 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 this matter 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.

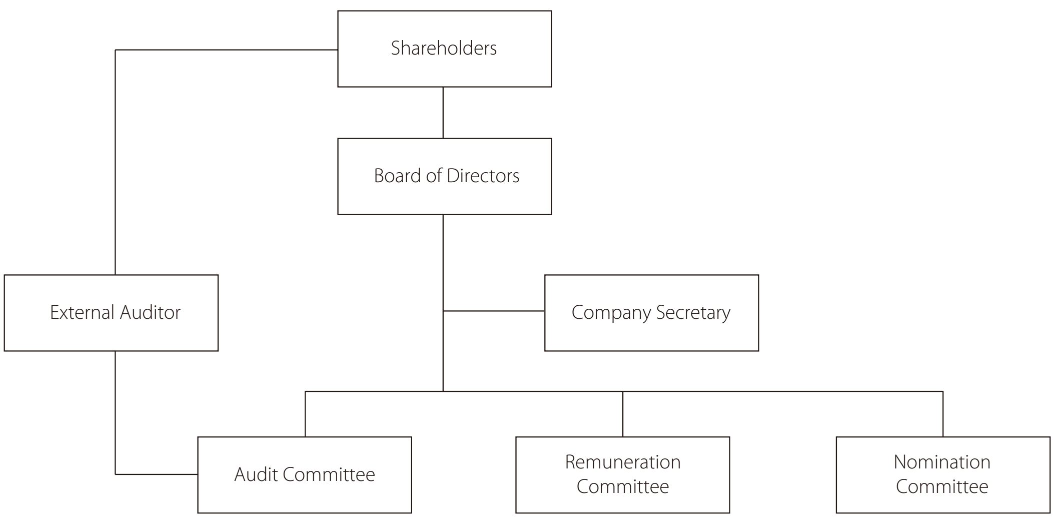
The key corporate governance principles and practices of the Company are summarized as follows:

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.

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 year 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

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

(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 year ended 31 December 2009, the Board:

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

2 discussed the annual results of the Group for the year ended 31 December 2008 and the interim results of the Group for the period ended 30 June 2009 respectively;

3 considered the recommendation of any final dividend for the year ended 31 December 2008 and the book close period, if any;

4 proposed the re-election of retiring Directors;

5 approved the change of auditors from Deloitte Touche Tohmatsu to Ernst & Young, and discussed the Auditors remuneration for the annual audit;

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

7 resolved the appointment of a non-executive Director;

8 approved the change of bank signatories;

9 proposed the general mandates to issue and repurchase shares of the Company;

10 approved the issuance and conversion of convertible note;

11 approved the grant and exercise of share options under share options scheme;

12 approved to enter into a tenancy agreement in respect of Hong Kong registered office;

13 approved the change of principal place of business in Hong Kong;

14 reviewed and approved the very substantial acquisition and discloseable transaction as herein below

Date of announcement	Type of transaction	Description
5 January 2009 & 11 June 2009	very substantial acquisition	very substantial acquisition of entire equity interest of Fame Risen
15 December 2009	disclosable transaction	change of auditor

(C) Meeting Records

There were 16 Board meetings held for the year ended 31 December 2009.

The following was an attendance record of the Board meetings held by the Board during the year:

Board Members	Attendance at meetings held for the year ended 31 December 2009
Mr. Hu Yishi[(i)]	13/16
Mr. Yip Kar Hang, Raymond	16/16
Ms. Kwong Wai Man, Karina	15/16
Mr. Hu Jin Xing[(i)]	9/16
Mr. Xue Jian (appointed on 7 January 2009)	8/16
Mr. Ng Ge Bun	10/16
Mr. Ko Ming Tung, Edward	10/16
Mr. Tam Sun Wing	10/16

Note:

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

(D) Independent Non-Executive Directors

During the year ended 31 December 2009, 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 polices 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 the 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 year ended 31 December 2009:

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 four times during the year, reviewing the interim and annual results, and the internal control of the Group in particular.

The following was an attendance record of the Audit Committee meetings for the year ended 31 December 2009:

Committee member	**Attendance at meetings held for the year ended 31 December 2009**
Mr. Tam Sun Wing	4/4
Mr. Ko Ming Tung, Edward	4/4
Mr. Ng Ge Bun	4/4

During the meeting, the Audit Committee would discuss the following matters:

(1) Financial Reporting

The Audit Committee met with the external auditors to discuss the interim and annual financial statements and system of control of the Group. The auditors, 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 could 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 year ended 31 December 2009:

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 year ended 31 December 2009, there were 5 meetings held. The following was an attendance record of the Remuneration Committee meeting for the year ended 31 December 2009:

Committee member	**Attendance at meetings held for the year ended 31 December 2009**
Mr. Ko Ming Tung, Edward	5/5
Mr. Hu Yishi	5/5
Mr. Tam Sun Wing	5/5

During the meeting, the Remuneration Committee discussed the remuneration packages of Directors and senior management with reference to the prevailing market conditions and discussed the incentive scheme and option scheme for all staff to enhance their motivation.

(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 year ended 31 December 2009:

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

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 year ended 31 December 2009, there were 1 meeting held. The following was an attendance record of the Nomination Committee meeting for the year ended 31 December 2009:

Committee member	**Attendance at meeting held for the year ended 31 December 2009**
Mr. Ng Gen Bun *(Chairman)*	1/1
Mr. Yip Kar Hang, Raymond	1/1
Mr. Ko Ming Tung, Edward	1/1

During the meeting, the Nomination Committee appointed Mr. Xue Jian as a non-executive Director 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 are 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 : 28th Floor, Chinachem Century Tower, 178 Gloucester Road, Wanchai, 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 year ended 31 December 2009, Deloitte Touche Tohmatsu ("Deloitte") and Ernst & Young ("EY"), the external auditors provided following services to the Group:

	Ernst & Young	**Deloitte Touche Tohmatsu**
	HK$'000	*HK$'000*
Audit services	1,825	600
Taxation advisory services	–	12
Other advisory services	300	100

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 year ended 31 December 2009, the following shareholders' meetings were held by the Company:

Date	Venue	Type of Meeting	Particulars	Voting at the Meeting
19 May 2009	Everest Room, Pacific Place Conference Centre, 5/F, One Pacific Place, 88 Queensway, Hong Kong	Special General Meeting	1. To approve the acquisition of Fame Risen Ltd by allotment and issued shares*	By poll
19 May 2009	Everest 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 reports of the Directors and auditors* 2. To re-elect Directors and to authorize the Board 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 poll
22 Jul 2009	Annapurna Room, Pacific Place Conference Centre, 5/F, One Pacific Place, 88 Queensway, Hong Kong.	Special General Meeting	1. To approve capital reorganization**	By poll

* Resolution passed
** Resolution not passed

FINANCIAL CALENDAR FOR 2010

Event	Proposed Date
Announcement of 2009 annual results	1 April 2010
Annual General Meeting	20 May 2010
Announcement of interim results	mid September 2010

The Directors present their report and audited financial statements of the Company and the Group for the year ended 31 December 2009.

PRINCIPLE ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 19 to the audited financial statements. During the year, through acquisition of subsidiary and associates, the Group was involved in the steel manufacture and trading investment business.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2009 and the state of affairs of the Company and the Group at that date are set out in the audited financial statements on page 24 to 98.

The Directors did not recommend the payment of a dividend for the year ended 31 December 2009.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and restated as appropriate, is set out on page 100. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment, and investment properties of the Company and the Group during the year are set out in notes 14 and 15 to the audited financial statements, respectively. Further details of the Group's investment properties are set out on page 99.

SHARE CAPITAL, SHARE OPTIONS, AND CONVERTIBLE BONDS

Details of movements in the Company's share capital, share options, and convertible notes during the year are set out in notes 37, 38 and 35 to the audited financial statements.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 39 to the audited financial statement and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At as 31 December 2009, the Company does not have any distributable reserves.

CHARITABLE CONTRIBUTIONS

During the year, the Group did not make any charitable contributions.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, sales to the Group's five largest customers accounted for 40% of the total sales for the year and sales to the largest customer included therein amounted to 26%. Purchases from the Group's five largest suppliers accounted for 89% of the total purchases for the year and purchases from the largest supplier included therein amounted to 30%.

None of the Directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers.

DIRECTORS

The Directors of the Company during the year were:

Executive Directors:
Mr. Hu Yishi
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

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.

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 SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors of the Company and the senior management of the Group are set out on pages 7 to 8 of the annual report.

DIRECTORS' SERVICE CONTRACTS

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.

DIRECTOR'S REMUNERATION

Subject to shareholders' approval at annual general meetings authorising the Board, remuneration of Directors are determined by the Board with reference to Directors' duties, responsibilities and performance and the results of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

No Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, or any of its subsidiaries or fellow subsidiaries was a party during the year.

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

At 31 December 2009, the interests and short positions of the Directors and chief executive in the shares capital and underlying shares and convertible notes of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Long position in 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	4.74%
Mr. Hu Yishi	Personal	262,540,000	2.78%
Mr. Yip Kar Hang, Raymond	Personal	22,000,000	0.23%

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

Long positions in share options of the Company

Name of Directors	Capacity	Number of options held	Number of underlying shares
Mr. Hu Yishi	Beneficial owner	43,720,000	43,720,000
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 in convertible notes of the Company

Name of Director	Capacity	Amount of convertible notes	Number of underlying shares
Mr. Hu Yishi	Beneficial owner	230,100,000	1,300,000,000

Note: The Company and Mr. Hu Yishi entered into a subscription agreement in relation to the convertible notes on 26 May 2008. On 2 July 2009, the Company issued convertible notes in the amount 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. At 31 December 2009 the remaining balance of convertible notes is HK$230,100,000.

Save as disclosed above, as at 31 December 2009, none of the Directors or chief executive had registered an interest or short position in the shares, underlying shares or convertible notes of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section "Directors' and chief executive's interests and short positions in shares, underlying shares and convertible notes" above and in the section "Share option scheme" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouses or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Further details of the Scheme are disclosed in note 38 to the audited financial statements.

CONTRACT OF SIGNIFICANCE

No contract 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 year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTEREST IN SHARES AND UNDERLYING SHARES

At as 31 December 2009, the following interests of 5% or more of the issued share capital and share options, convertible notes of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

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[1]	Interest of controlled corporation	708,000,000	7.51%
Happy Sino International Limited[1]	Beneficial interest	708,000,000	7.51%
Mr. Zhang He Yi	Beneficial interest	1,400,000,000	14.85%
Mr. Qi Shi An	Beneficial interest	600,000,000	6.36%

1 Mr. Du Shuang Hua and Mr. Zhang He Yi beneficially owns 85% and 15% interest respectively in the issued share capital of Happy Sino International Limited.

Save as disclosed above, as at 31 December 2009, no person, other than the Directors and chief executive of the Company, whose interests are set out in the section "Directors' and chief executive's interests and short positions in shares and underlying shares and convertible notes" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

CORPORATE GOVERNANCE

Particulars of the Company's corporate governance practices are set out in the Corporate Governance Report on page 9 to 17 of this report.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, the Company has maintained a sufficient public float throughout the year ended 31 December 2009.

EVENTS AFTER THE REPORTING PERIOD

Details of the significant events after the reporting period of the Group are set out in note 50 to the audited financial statements.

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 Gen Bun. The Audit Committee has reviewed the accounting policies and practices adopted and the audited results of the Group for the year. The audited results for the year ended 31 December 2009 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 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

Ernst & Young ("EY") were appointed as the auditors of the Company on 25 January 2010 following the resignation of Messrs Deloitte Touche Tohmatsu ("Deloitte") on 14 December 2009. Deloitte were the auditors of the Company in succession to HLB, who resigned from the office with effect from 6 June 2008.

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

On behalf of the Board

Hu Yishi
1 April 2010

Independent Auditor's Report

Ernst & Young
安永

TO THE SHAREHOLDERS OF KAI YUAN HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

We have audited the financial statements of Kai Yuan Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 24 to 98, which comprise the consolidated and Company statements of financial position as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certificated 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 fair presentation of 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.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the 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 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 financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009, and of the Group's profit and cash flows for the year 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.

EMPHASIS OF MATTER

Without qualifying our opinion, we draw attention to note 21(b) to the financial statements, which discloses details of a restructuring agreement entered into by the Group's three associates.

Ernst & Young
Certified Public Accountants
Hong Kong
1 April 2010

Consolidated Income Statement

For the year ended 31 December 2009

(Prepared in accordance with HKFRSs)

	Notes	2009 *HK$'000*	For the six months' period ended 31 December 2008 *HK$'000*
REVENUE	*5*	**200,793**	83,300
Cost of sales		**(126,264)**	(44,241)
Gross profit		**74,529**	39,059
Excess over cost of acquisition	*40*	**1,626,284**	–
Other income and gains	*6*	**7,640**	25,008
Other expenses	*7*	**(408,736)**	–
Fair value loss on investment properties		**(10,100)**	(6,527)
Administrative expenses		**(115,660)**	(34,027)
Finance costs	*8*	**(18,540)**	(2,822)
Share of profits and losses of:			
A jointly-controlled entity		**(2,640)**	(2,935)
Associates		**567,055**	67
PROFIT BEFORE TAX	*9*	**1,719,832**	17,823
Income tax credit/(expense)	*11*	**24,411**	(11,769)
PROFIT FOR THE YEAR/PERIOD		**1,744,243**	6,054
Attributable to:			
Owners of the Company		**1,857,758**	(15,755)
Minority interests		**(113,515)**	21,809
		1,744,243	6,054
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	*13*		
Basic			
– For profit/(loss) for the year/period		**HK$22 cents**	HK$(0.22) cents
Diluted			
– For profit/(loss) for the year/period		**HK$21 cents**	HK$(0.22) cents

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

(Prepared in accordance with HKFRSs)

	Notes	2009 HK$'000	For the six months' period ended 31 December 2008 HK$'000
PROFIT FOR THE YEAR/PERIOD		**1,744,243**	6,054
Share of other comprehensive income of associates		**12,239**	–
Exchange differences on translation of foreign operations		**3,714**	(46)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR/PERIOD, NET OF TAX		**15,953**	(46)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD		**1,760,196**	6,008
Attributable to:			
Owners of the Company		**1,873,711**	(15,801)
Minority interests		**(113,515)**	21,809
		1,760,196	6,008

Consolidated Statement of Financial Position

As at 31 December 2009

(Prepared in accordance with HKFRSs)

	Notes	2009 HK$'000	2008 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**577,062**	579,180
Investment properties	15	**91,473**	101,573
Prepaid land lease payments	16	**46,371**	49,621
Goodwill	17	**10,757**	49,105
Intangible assets	18	**109,717**	375,470
Interest in a jointly-controlled entity	20	**120,414**	138,265
Interests in associates	21	**2,753,197**	1,047
Available-for-sale investments	22	**5,225**	4,461
Total non-current assets		**3,714,216**	1,298,722
CURRENT ASSETS			
Inventories	23	**4,390**	9,079
Trade receivables	24	**9,644**	67,407
Other receivables and prepayments	25	**18,788**	28,639
Prepaid land lease payments	16	**2,951**	2,919
Amounts due from associates	26,28	**450,955**	174,983
Amounts due from related companies	27	**283,865**	396,571
Dividend receivable from a jointly-controlled entity	20	**56,035**	50,935
Pledged bank deposits	29	**711**	6,500
Cash and cash equivalents	29	**305,219**	32,088
Total current assets		**1,132,558**	769,121
Total assets		**4,846,774**	2,067,843
CURRENT LIABILITIES			
Trade payables	30	**35,212**	44,337
Other payables and accruals	31	**58,449**	41,172
Dividend payable to former shareholders of a subsidiary	28	**416,955**	–
Receipt in advance		**61,605**	48,066
Amounts due to associates	26	**–**	30,026
Amounts due to related companies	27	**53,403**	55,301
Loan from a director	32	**–**	20,230
Deferred revenue		**–**	667
Obligations under finance leases		**45**	45
Interest-bearing bank and other borrowings	33	**64,465**	81,218
Loan from a related company	34	**101,566**	205,664
Income tax payable		**36,874**	36,659
Total current liabilities		**828,574**	563,385
NET CURRENT ASSETS		**303,984**	205,736
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,018,200**	1,504,458

Consolidated Statement of Financial Position (continued)

As at 31 December 2009

(Prepared in accordance with HKFRSs)

	Notes	2009 HK$'000	2008 HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,018,200**	1,504,458
NON-CURRENT LIABILITIES			
Convertible notes	35	**206,630**	–
Obligations under finance leases		**56**	92
Deferred revenue		**–**	9,147
Interest-bearing bank and other borrowings	33	**25,578**	31,681
Loan from a related company	34	**–**	155,151
Deferred tax liabilities	36	**178,937**	177,963
Total non-current liabilities		**411,201**	374,034
Net assets		**3,606,999**	1,130,424
EQUITY			
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Issued capital	37	**942,733**	711,761
Equity component of convertible notes	35	**109,072**	–
Reserves	39	**2,143,949**	(106,097)
		3,195,754	605,664
Minority interests		**411,245**	524,760
Total equity		**3,606,999**	1,130,424

Approved on behalf of the Board of Directors:

Mr. Hu Yishi
Director

Mr. Yip Kar Hang, Raymond
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

(Prepared in accordance with HKFRSs)

		Attributable to owners of the Company									
		Issued capital	**Equity component of convertible notes**	**Share premium***	**Share options reserve***	**Translation reserve***	**Retained profits/ (accumulated losses)***	**Other reserve***	**Total**	**Minority interests**	**Total equity**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 July 2008		711,761	–	266,208	13,042	46,880	(418,851)	–	619,040	502,951	1,121,991
Total comprehensive income/(loss) for the period		–	–	–	–	(46)	(15,755)	–	(15,801)	21,809	6,008
Equity-settled share option arrangements		–	–	–	2,425	–	–	–	2,425	–	2,425
At 31 December 2008		711,761	–	266,208	15,467	46,834	(434,606)	–	605,664	524,760	1,130,424
Total comprehensive income/(loss) for the year		–	–	–	–	3,714	1,857,758	12,239	1,873,711	(113,515)	1,760,196
Equity-settled share option arrangements		–	–	–	10,054	–	–	–	10,054	–	10,054
Issue of shares		200,000	–	330,000	–	–	–	–	530,000	–	530,000
Issue of convertible notes	35	–	125,852	–	–	–	–	–	125,852	–	125,852
Conversion of convertible notes	35	20,000	(16,780)	27,400	–	–	–	–	30,620	–	30,620
Exercised equity-settled share option		10,972	–	17,176	(8,295)	–	–	–	19,853	–	19,853
At 31 December 2009		**942,733**	**109,072**	**640,784**	**17,226**	**50,548**	**1,423,152**	**12,239**	**3,195,754**	**411,245**	**3,606,999**

* These reserve accounts comprise the consolidated reserves of HK$2,143,949,000 (2008: HK$(106,097,000)) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

For the year ended 31 December 2009

(Prepared in accordance with HKFRSs)

	Notes	2009 HK$'000	For the six months period ended 31 December 2008 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**1,719,832**	17,823
Adjustments for:			
Finance costs		**18,540**	2,822
Share of losses of a jointly-controlled entity		**2,640**	2,935
Share of profits of associates		**(567,055)**	(67)
Equity-settled share option expenses		**10,054**	2,425
Changes in fair value of derivative financial instruments		**90,000**	–
Changes in fair value of investment properties		**10,100**	6,527
Excess over cost of acquisition		**(1,626,284)**	–
Impairment of property, plant and equipment		**38,614**	–
Impairment of intangible assets		**241,774**	–
Goodwill impairment		**38,348**	–
Depreciation of property, plant and equipment		**21,097**	8,431
Recognition of prepaid land lease payment		**3,218**	–
Amortisation of intangible assets		**23,979**	11,995
Interest income		**(1,755)**	(11,807)
		23,102	41,084
Decrease/(increase) in inventories		**4,689**	(8,681)
Decrease in trade receivables		**57,763**	19,498
Decrease/(increase) in other receivables and prepayments		**9,851**	(26,769)
Decrease in trade payables		**(9,125)**	(436)
Increase in other payables and accruals		**17,277**	22,496
(Decrease)/increase in receipt in advance		**13,539**	(23,718)
(Decrease)/increase in deferred revenue		**(9,814)**	9,815
Cash generated from operations		**107,282**	33,289
Income tax paid		**(835)**	(27)
Net cash flows from operating activities		**106,447**	33,262

Consolidated Statement of Cash Flows (continued)

For the year ended 31 December 2009

(Prepared in accordance with HKFRSs)

	Notes	2009 HK$'000	For the six months' period ended 31 December 2008 HK$'000
Net cash flows from operating activities		**106,447**	33,262
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(60,806)**	(87,716)
Acquisition of subsidiaries	40	**(10,987)**	–
Disposal of property, plant and equipments		**1,760**	–
Decrease/(increase) in pledged bank deposits		**5,789**	(5,822)
Return of investment from a jointly-controlled entity		**10,111**	–
Additions to prepaid land lease payments		**–**	(10,363)
Interest received		**1,755**	122
Dividend received from associates from pre-acquisition retained profits attributable to the former shareholders	28	**2,589,808**	–
Decrease/(increase) in amounts due from associates		**164,080**	(59,512)
Decrease in amounts due from related companies		**112,706**	6,255
Net cash flows from/(used in) investing activities		**2,814,216**	(157,036)
CASH FLOWS FROM FINANCING ACTIVITIES			
(Decrease)/increase in amounts due to related companies		**(1,898)**	25,880
(Decrease)/increase in amounts due to associates		**(30,026)**	14,701
Loan from a director		**–**	4,500
Additional loans from a related company		**–**	3,390
Repayment of obligations under finance leases		**(36)**	(18)
New loans and convertible notes	35	**265,500**	59,790
Repayment of bank loans		**(18,405)**	(737)
Repayment of a loan from a director		**(20,230)**	–
Repayment of a loan from a related company		**(263,699)**	(488)
Interest paid		**(9,099)**	(2,478)
Cash proceeds from exercise of share options	38	**19,853**	–
Dividends paid to former shareholders of a subsidiary	28	**(2,590,304)**	–
Net cash flows from/(used in) financing activities		**(2,648,344)**	104,540
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**272,319**	(19,234)
Cash and cash equivalents at beginning of year/period		**32,088**	51,368
Effect of foreign exchange rate changes, net		**812**	(46)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD		**305,219**	32,088

Statement of Financial Position

As at 31 December 2009

(Prepared in accordance with HKFRSs)

	Notes	2009 HK$'000	2008 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**180**	658
Interests in subsidiaries	19	**540,988**	1
Total non-current assets		**541,168**	659
CURRENT ASSETS			
Amounts due from subsidiaries	19	**698,120**	475,620
Other receivables and prepayments	25	**784**	16,101
Cash and cash equivalents	29	**32,599**	691
Total current assets		**731,503**	492,412
CURRENT LIABILITIES			
Amounts due to subsidiaries	19	**198,377**	201,110
Trade payables		**–**	689
Other payables and accruals	31	**3,843**	2,160
Amounts due to related companies	27	**–**	4,500
Total current liabilities		**202,220**	208,459
NET CURRENT ASSETS		**529,283**	283,953
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,070,451**	284,612
NON-CURRENT LIABILITIES			
Convertible notes	35	**206,630**	–
Total non-current liabilities		**206,630**	–
Net assets		**863,821**	284,612
EQUITY			
Issued capital	37	**942,733**	711,761
Equity component of convertible notes	35	**109,072**	–
Reserves	39	**(187,984)**	(427,149)
Total equity		**863,821**	284,612

Approved on behalf of the Board of Directors:

Mr. Hu Yishi
Director

Mr. Yip Kar Hang, Raymond
Director

Notes to the Financial Statements

For the year ended 31 December 2009

(Prepared in accordance with HKFRSs)

1. CORPORATE INFORMATION

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 address of the registered office of the Company is Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda, and principal place of business is 28th floor, Chinachem Century Tower, 178 Glousester Road, Wanchai, Hong Kong.

The principal activity of the Company is investment holding, including material investments in associates engaged in the steel and the steel products manufacturing and trading, as detailed on note 21. Its subsidiaries are principally engaged in supply of heat and property investment, as detailed in note 19.

2.1 BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The consolidated financial statements have been prepared under the historical cost convention, except for investment properties and derivative financial instruments, which have been measured at fair value, as explained in the accounting policies set out below.

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 its financial year end 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 date on 31 December. The consolidated financial statements for the current year cover the twelve months ended 31 December 2009. The corresponding comparative amounts shown for the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows and related notes to the consolidated financial statements cover the six months' period ended 31 December 2008 and therefore may not be comparable with the amounts shown for the current year. The consolidated financial statements do not correspond to the period covered by the comparatives.

The functional currency of the Company is Renminbi ("RMB"). The consolidated financial statements are presented in Hong Kong dollars for the convenience of users of the financial statements as the Company is a listed company in Hong Kong and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2009. The results of subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 *First-time Adoption of HKFRSs* and HKAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments*
HKFRS 8	*Operating Segments*
HKAS 1 (Revised)	*Presentation of Financial Statements*
HKAS 18 Amendment*	Amendment to Appendix to HKAS 18 *Revenue – Determining whether an entity is acting as a principal or as an agent*
HKAS 23 (Revised)	*Borrowing Costs*
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation* and HKAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*
HK(IFRIC)-Int 9 and HKAS 39 Amendments	Amendments to HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives* and HKAS 39 *Financial Instruments: Recognition and Measurement – 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*
HK(IFRIC)-Int 18	*Transfers of Assets from Customers* (adopted from 1 July 2009)
Improvements to HKFRSs (October 2008) **	Amendments to a number of HKFRSs

* Included in *Improvements* to HKFRSs 2009 (as issued in May 2009).

** The Group adopted all the improvements to HKFRSs issued in October 2008 except for the amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary*, which are effective for annual periods beginning on or after 1 July 2009.

Other than as further explained below regarding the impact of HKAS 1 (Revised), HKFRS 7 Amendments and HKFRS 8, the adoption of these new and revised HKFRSs has had no significant financial effect on these financial statements.

HKAS 1 (Revised) separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group has elected to present two statements.

The HKFRS 7 Amendments require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by sources of inputs using a three-level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balances is now required for level 3 fair value measurements, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management.

HKFRS 8 replaced HKAS 14 Segment Reporting upon its effective date. This standard requires disclosure of information about the Group's operating segments and replaces the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group. The Group concluded that the operating segments determined in HKFRS 8 are the same as the business segments previously identified under HKAS 14. HKFRS 8 disclosures are shown in note 4, including the related revised comparative information.

2.3 ISSUED BUT NOT YET EFFECTIVE HKFRSs

The Group has not applied the following new and revised HKFRSs that have been issued but are not yet effective in these consolidated financial statements.

HKFRS 1 (Revised)	*First-time Adoption of HKFRSs*[1]
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of HKFRSs– Additional Exemptions for First-time Adopters*[2]
HKFRS 1 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopers*[4]
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Group Cash-settled Share based Payment Transactions*[2]
HKFRS 3 (Revised)	*Business Combinations*[1]
HKFRS 9	*Financial Instruments*[6]
HKAS 24 (Revised)	*Related Party Disclosures*[5]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*[1]
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*[3]
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*[1]
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments to a Minimum Funding Requirements*
HK(IFRIC)-Int 17	*Distribution of Non-cash Assets to Owners*[1]
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*[4]
Amendments to HKFRS 5 included in *Improvements to HKFRSs* issued in October 2008	Amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary*[1]
HK Interpretation 4 (Revised in December 2009)	*Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases*[2]

1 Effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 January 2010
3 Effective for annual periods beginning on or after 1 February 2010
4 Effective for annual periods beginning on or after 1 July 2010
5 Effective for annual periods beginning on or after 1 January 2011
6 Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that except for the adoption of HKFRS 3 (Revised), HKFRS 9, HKAS 24 (Revised) and HKAS 27 (Revised) as further explained below, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

HKFRS 3 (Revised) introduces significant changes in the accounting for business combinations. These changes affect the valuation of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 Financial Instruments: Recognition and Measurement. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

2.3 ISSUED BUT NOT YET EFFECTIVE HKFRSs (Continued)

HKAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. The Group expects to adopt HKAS 24 (Revised) from 1 January 2011 and the comparative related party disclosures will be amended accordingly.

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Group controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's interests in jointly-controlled entities are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated income statement and consolidated reserves, respectively. Where the profit sharing ratio is different to the Group's equity interest, the share of post-acquisition results of the jointly-controlled entities is determined based on the agreed profit sharing ratio. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's interests in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of jointly-controlled entities is included as part of the Group's interests in jointly-controlled entities. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's interests in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates, which was not previously eliminated or recognised in the consolidated reserves, is included as part of the Group's interests in associates and is not individually tested for impairment. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated statement of financial position as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses. In the case of associates and jointly-controlled entities, goodwill is included in the carrying amount thereof, rather than as a separately identified asset in the consolidated statement of financial position.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the group of cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the group of cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Excess over the cost of business combinations

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries, associates and jointly-controlled entities (previously referred to as negative goodwill), after reassessment, is recognised immediately in the consolidated income statement.

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets, investment properties and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets other than goodwill (Continued)

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(f) the party is an entity that is controlled, jointly-controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation (Continued)

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment, other than construction in progress, to its residual value over the estimated useful life. The principal annual rates used for this purpose are as follows:

	Useful life	Depreciation rate
Heat Supply facilities	18	5.28%
Buildings	18	5.28%
Leasehold improvements	2 – 5	20 – 50%
Motor Vehicles	5	18 – 20%
Office equipments (including capital leased equipment)	5 – 6	15 – 20%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents property, plant and equipment under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment or investment properties when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

The useful lives of intangible assets are assessed to be either finite or indefinite and are shown as below:

	Useful life
Existing fee contract	18
Existing construction contracts	2
Operating rights	18

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include cash and bank balances, trade and other receivables, loans receivable, quoted and unquoted financial instruments, and derivative financial instruments.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in the income statement. These net fair value changes do not include any dividends on these financial assets.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement. The loss arising from impairment is recognised in the income statement in other expenses.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment valuation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement in other income, or until the investment is determined to be impaired, at which time the cumulative gain or loss is recognised in the income statement and removed from the available-for-sale investment valuation reserve. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement as other income in accordance with the policies set out for "Revenue recognition" below.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Available-for-sale financial investments (Continued)

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

The Group evaluates its available-for-sale financial assets whether the ability and intention to sell them in the near term are still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. The reclassification to the held-to-maturity category is permitted only when the entity has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the income statement.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement. Increases in their fair value after impairment are recognised directly in other comprehensive income.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Available-for-sale financial investments (Continued)

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement. Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance costs. Impairment losses on debt instruments are reversed through the income statement, if the increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, derivative financial instruments and interest-bearing loans and borrowings.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any interest charged on these financial liabilities.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities (Continued)

Convertible bonds

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the fair value of the convertible bonds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of fair value of the convertible bonds to the liability and equity components when the instruments are first recognised.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and other valuation models.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period 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 deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sales of goods are recognised when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from the rendering of services:

- revenue from heat energy supply is recognized when heat is provided;

- revenue from heat energy supply facilities connection fee is recognized on the stage of completion basis, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The stage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction. Where the outcome of a contract cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered; and

- revenue from granting operating rights to others is recognized when the operating rights are exclusively granted, the economic benefits will probably flow to the Group and the amount of the revenue can be measured reliably.

(c) rental income, on a time proportion basis over the lease terms;

(d) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and

(e) dividend income, when the shareholders' right to receive payment has been established.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payment transactions

The Company operates 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. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

In situations where equity instruments are issued and some or all of the goods or services received by the Group as consideration cannot be specifically identified, the unidentifiable goods or services are measured as the difference between the fair value of the share-based payment transaction and the fair value of any identifiable goods or services received at the grant date.

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 38 to the financial statements.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings/(loss) per share.

Other employee benefits

The Group operates a defined contribution Mandatory Provident retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its qualifying employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in the Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute certain percentages of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing 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 capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

The functional currency of the Company is RMB. The consolidated financial statements are presented in Hong Kong dollars for the convenience of the users of the financial statement as the Company is a listed company in Hong Kong. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using the functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currency of certain subsidiaries, associates and a jointly-controlled entity of the Group are currencies other than the Hong Kong dollars. As at the end of the reporting period, the assets and liabilities of these entities are translated at the exchange rates ruling at the end of the reporting period and their income statement are translated at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the translation fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated statement of cash flows, the cash flows of the subsidiaries incorporated in the PRC are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the subsidiaries throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the group of cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the group of cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The impairment of goodwill was approximately HK$38,348,000 (for the six months period ended 31 December 2008: Nil). The carrying amount of goodwill at 31 December 2009 was approximately HK$10,757,000 (2008: approximately HK$49,105,000). More details are given in note 17.

Estimation of fair value of investment properties

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including:

(a) current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences;

(b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

(c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

The principal assumptions for the Group's estimation of the fair value include those related to current market rents for similar properties in the same location and condition, appropriate discount rates, expected future market rents and future maintenance costs. The carrying amount of investment properties at 31 December 2009 was approximately HK$91,473,000 (2008: approximately HK$101,573,000). More details are given in note 15.

Estimation of fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Depreciation

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. Useful lives are determined based on management's past experience with similar assets and estimated changes in technologies. If the estimated useful lives changed significantly adjustment of depreciation will be provided in the future year. The carrying amount of property, plant and equipment at 31 December 2009 was approximately HK$577,062,000 (2008: approximately HK$579,180,000). More details are given in note 14.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. As at 31 December 2009 and 2008, management estimated there were no adequate future taxable profits to utilize the unused tax losses. The unused tax losses are disclosed in note 36.

Impairment of non-current assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Non-financial assets other than intangible assets with indefinite life are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. The impairment of non-current assets (other than deferred tax assets and available-for-sale investments) of the Group was approximately HK$280,388,000 (for the six months period ended 31 December 2008: Nil). More details are given in note 7.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has three reportable operating segments as follows:

(a) the heat energy supply segment is engaged in the production and heat energy supply, installation, engineering and maintenance of heating systems and management of heating pipes, covering a vast area of heat energy supply within the municipality of Tianjin;

(b) the property investment segment invests in commercial offices, underground parking areas and underground shopping plaza located in Beijing and Shanghai for their rental income potential; and

(c) the steel manufacturing and trading investment segment holds significant interests in three associates located in Shandong Province, engaged in steel and steel product manufacturing and trading.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that interest income, finance costs, dividend income, fair value gains/(losses) from the Group's financial instruments, the Group's share of profits/(losses) of a jointly controlled entity and associates as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude deferred tax assets, tax recoverable, pledged deposits, cash and cash equivalents, derivative financial instruments and other unallocated head office and corporate assets as these assets are managed on a group basis.

4. OPERATING SEGMENT INFORMATION (Continued)

Segment liabilities exclude derivative financial instruments, interest-bearing bank and other borrowings, convertible notes, tax payable, deferred tax liabilities, and other unallocated head office and corporate assets as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

2009	Heat energy supply *HK$'000*	Property investment *HK$'000*	Steel manufacturing and trading investment *HK$'000*	Total *HK$'000*
Segment revenue				
Sales to external customers	196,181	4,612	–	200,793
Revenue	–	–	–	200,793
Segment results	(292,512)	(6,952)	567,055	267,591
Reconciliation:				
Share of losses of a jointly-controlled entity				(2,640)
Interest income				1,755
Excess over cost of acquisition				1,626,284
Corporate and other unallocated expenses				(154,618)
Finance costs				(18,540)
Profit before tax				1,719,832
Segment assets	1,094,809	268,006	3,192,840	4,555,655
Reconciliation:				
Corporate and other unallocated assets				291,119
Total assets				4,846,774
Segment liabilities	340,749	848	416,955	758,552
Reconciliation:				
Corporate and other unallocated liabilities				481,223
Total liabilities				1,239,775

2009	Heat energy supply *HK$'000*	Property investment *HK$'000*	Steel manufacturing and trading investment *HK$'000*	Corporate and unallocated *HK$'000*	Total *HK$'000*
Other segment information					
Share of profits and losses of:					
A jointly-controlled entity	–	(2,640)	–	–	(2,640)
Associates	–	–	567,055	–	567,055
Fair value loss on investment properties	–	(10,100)	–	–	(10,100)
Impairment losses recognised in the income statement	(318,736)	–	–	–	(318,736)
Depreciation and amortisation	(43,678)	(38)	–	(1,360)	(45,076)
Interests in associates	283	–	2,752,914	–	2,753,197
Interests in a jointly-controlled entity	–	120,414	–	–	120,414
Capital expenditure (i)	53,550	–	–	5,803	59,353

(i) Capital expenditure consists of additions to property, plant and equipment.

4. OPERATING SEGMENT INFORMATION (Continued)

For the six months' period ended 31 December 2008	Heat energy supply HK$'000	Property investment HK$'000	Total HK$'000
Segment revenue			
Sales to external customers	81,070	2,230	83,300
Revenue			83,300
Segment results	32,542	(6,258)	26,284
Reconciliation:			
Share of losses of a jointly-controlled entity			(2,935)
Share of profit of associates			67
Interest income			11,807
Corporate and other unallocated expenses			(14,578)
Finance costs			(2,822)
Profit before tax			17,823
Segment assets	1,323,192	292,809	1,616,001
Reconciliation:			
Corporate and other unallocated assets			451,842
Total assets			2,067,843
Segment liabilities	275,896	2,479	278,375
Reconciliation:			
Corporate and other unallocated liabilities			659,044
Total liabilities			937,419

For the six months' period ended 31 December 2008	Heat energy supply HK$'000	Property investment HK$'000	Corporate and unallocated HK$'000	Total HK$'000
Other segment information				
Share of profits and losses of:				
A jointly-controlled entity	–	(2,935)	–	(2,935)
Associates	67	–	–	67
Fair value loss on investment properties	–	(6,527)	–	(6,527)
Depreciation and amortisation	(21,093)	(210)	(348)	(21,651)
Interests in associates	1,047	–	–	1,047
Interests in a jointly-controlled entity	–	–	138,265	138,265
Capital expenditure	100,845	–	10	100,855

4. OPERATING SEGMENT INFORMATION (Continued)

Geographical information

(a) Revenue from external customers

	2009 **HK$'000**	For the six months ended 31 December 2008 *HK$'000*
Hong Kong	**278**	167
Mainland China	**200,515**	83,133
	200,793	83,300

The revenue information above is based on the location of the customers.

(b) Non-current assets

	2009 **HK$'000**	For the six months ended 31 December 2008 *HK$'000*
Hong Kong	**5,425**	958
Mainland China	**3,708,791**	1,297,764
	3,714,216	1,298,722

The non-current asset information above is based on the location of assets and excludes financial instruments and deferred tax assets.

Information about major customers

Revenue of approximately HK$52,091,000 (2008: HK$44,933,000) was derived from service fee income (note 5) by the heat energy supply segment to a single customer.

5. REVENUE

Revenue represents the value of heat energy supply income, heat energy supply facilities connection fee, other service fee and rental income from investment property during the year/period. An analysis for the Group's revenue is as follows:

	For the twelve months ended 31 December 2009	For the six months ended 31 December 2008
	HK$'000	*HK$'000*
Heat energy supply	**105,501**	34,566
Heat energy supply facilities connection fee	**38,589**	1,571
Other service fee (i)	**52,091**	44,933
Property rental	**4,612**	2,230
	200,793	83,300

(i) 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, the subsidiary would grant Chengxi Heating operating right related to connecting pipelines for its customers to the main pipelines of the subsidiary. The subsidiary will supply heat energy to the relevant customers thereafter.

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

6. OTHER INCOME AND GAINS

	For the twelve months ended 31 December 2009	For the six months ended 31 December 2008
	HK$'000	*HK$'000*
Other income		
Interest income on bank deposits	**1,755**	122
Interest income on an amount due from a related company	**–**	11,685
	1,755	11,807
Gains		
Government grants on Value Added Tax ("VAT") refund	**4,402**	3,810
Government grants on heat energy supply	**1,483**	1,793
Foreign exchange gain	**–**	5,789
Others	**–**	1,809
	7,640	25,008

7. OTHER EXPENSE

	For the twelve months ended 31 December 2009	For the six months ended 31 December 2008
	HK$'000	*HK$'000*
Fair value loss on derivative financial instruments	**90,000**	–
Impairment of property, plant and equipment *(Note 14)*	**38,614**	–
Impairment of intangible assets *(Note 18)*	**241,774**	–
Goodwill impairment *(Note 17)*	**38,348**	–
	408,736	–

8. FINANCE COSTS

	For the twelve months ended 31 December 2009	For the six months ended 31 December 2008
	HK$'000	*HK$'000*
Interest on bank borrowings		
– wholly repayable within five years	**6,765**	2,214
– not wholly repayable within five years	**–**	264
Interest on convertible notes	**11,764**	–
Interest on other borrowings	**385**	344
Interest on a loan from a related company	**27,548**	13,139
	46,462	15,961
Less: amounts capitalised in construction in progress	**(27,922)**	(13,139)
	18,540	2,822

9. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	For the twelve months ended 31 December 2009 *HK$'000*	For the six months ended 31 December 2008 *HK$'000*
Cost of service provided	**126,264**	44,241
Changes in fair value of investment properties *(Note 15)*	**10,100**	6,527
Depreciation of property, plant and equipment *(Note 14)*	**21,097**	8,431
Amortisation of intangible assets *(Note 18)*	**23,979**	11,995
Impairment of property, plant and equipment *(Note 7)*	**38,614**	–
Impairment of intangible assets *(Note 7)*	**241,774**	–
Impairment of goodwill *(Note 7)*	**38,348**	–
Foreign exchange gain	**–**	(5,789)
Auditor's remuneration	**2,425**	1,138
Interest income *(Note 6)*	**(1,755)**	(11,807)
Excess over cost of acquisition *(Note 40)*	**(1,626,284)**	–
Employee benefits expense (including directors' remuneration) *(Note 10)*	**43,798**	11,250

10. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

Directors' remuneration for the year/period, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	For the twelve months ended 31 December 2009 *HK$'000*	For the six months ended 31 December 2008 *HK$'000*
Fees	**1,997**	1,373
Other remuneration:		
Salaries and other benefits	**21,500**	3,698
Retirement scheme contributions	**182**	87
Share-based payment	**7,628**	1,212
	29,310	4,997
Total remuneration	**31,307**	6,370

10. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (Continued)

The remuneration paid or payable to each of the eight (31 December 2008: eight) directors is as follows:

2009	Fees HK$'000	Salaries and other benefits HK$'000	Retirement scheme contributions HK$'000	Share-based payment HK$'000	Total HK$'000
Executive directors:					
Mr. Hu Yi Shi	200	12,700	12	1,212	14,124
Mr. Yip Kar Hang, Raymond	200	7,020	111	–	7,331
Ms. Kwong Wai Man, Karina	200	1,780	59	–	2,039
	600	21,500	182	1,212	23,494
Non-executive directors:					
Mr. Hu Jin Xing	600	–	–	1,212	1,812
Mr. Xue Jian	197	–	–	5,204	5,401
	797	–	–	6,416	7,213
Independent non-executive directors:					
Mr. Tam Sun Wing	200	–	–	–	200
Mr. Ko Ming Tung, Edward	200	–	–	–	200
Mr. Ng Ge Bun	200	–	–	–	200
	600	–	–	–	600
Total	1,997	21,500	182	7,628	31,307

During the year, a non-executive director was granted share options, in respect of his services to the Group, under the share option scheme of the Company, further details of which are set out in note 38 to the financial statements. The fair value of such options which has been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

10. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (Continued)

For the six months ended 31 December 2008	Fees *HK$'000*	Salaries and other benefits *HK$'000*	Retirement scheme contributions *HK$'000*	Share-based payment *HK$'000*	Total *HK$'000*
Executive directors:					
Mr. Hu Yi Shi	100	1,750	6	606	2,462
Mr. Yip Kar Hang, Raymond	100	1,378	53	–	1,531
Ms. Kwong Wai Man, Karina	98	560	28	–	686
	298	3,688	87	606	4,679
Non-executive directors:					
Mr. Lam Cheung Shing, Richard	475	10	–	–	485
Mr. Hu Jin Xing	300	–	–	606	906
	775	10	–	606	1,391
Independent non-executive directors:					
Mr. Tam Sun Wing	100	–	–	–	100
Mr. Ko Ming Tung, Edward	100	–	–	–	100
Mr. Ng Ge Bun	100	–	–	–	100
	300	–	–	–	300
Total	1,373	3,698	87	1,212	6,370

There was no arrangement under which a director waived or agreed to waive any remuneration during the year/period.

Mr. Lam Cheung Shing retired as a non-excutive director on 25 November 2008 and Mr. Xue Jian was appointed as a non-executive director on 7 January 2009.

The five highest paid employees during the year/period included three (2008: four) directors of the Company whose remuneration are included above. The remuneration of the remaining one (2008: one) individual was as follows:

	For the twelve months ended 31 December 2009 ***HK$'000***	For the six months ended 31 December 2008 *HK$'000*
Salaries and other benefits	**1,381**	477
Retirement benefit scheme contributions	**52**	19
Total	**1,433**	496

10. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (Continued)

The number of non-directors and highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2009	2008
Nil to HK$1,000,000	**–**	1
HK$1,000,001 to HK$1,500,000	**1**	–
Total	**1**	1

11. INCOME TAX (CREDIT)/EXPENSE

The major components of income tax (credit)/expense for the year ended 31 December 2009 and for the six months ended 31 December 2008 are as follows:

	For the twelve months ended 31 December 2009 *HK$'000*	For the six months ended 31 December 2008 *HK$'000*
Current income tax		
Hong Kong income tax	**–**	–
PRC income tax	**667**	14,792
	667	14,792
Deferred income tax *(Note 36)*	**(25,078)**	(3,023)
Income tax (credit)/charge for the year/period	**(24,411)**	11,769

Hong Kong profits tax should be provided at the rate of 16.5% (for the six months ended 31 December 2008: 16.5%) of the estimated assessable profit arising in Hong Kong during the year/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.

The provision for PRC current income tax is based on the statutory rate of 25% (for the six months ended 31 December 2008: 25%) of the assessable profits of the Group's subsidiaries in Mainland China as determined in accordance with the relevant income tax rules and regulations of the PRC Corporate Income Tax Law, which came into effect on 1 January 2008.

11. INCOME TAX (CREDIT)/EXPENSE (Continued)

A reconciliation of the tax expense applicable to profit before tax using the statutory rate for the jurisdiction in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rate for the year ended 31 December 2009 and for the six months ended 31 December 2008, are as follows:

2009	**Mainland China**		**Hong Kong**		**Others[(i)]**		**Total**	
	HK$'000	***%***	***HK$'000***	***%***	***HK$'000***	***%***	***HK$'000***	***%***
Profit/(loss) before tax	**(254,416)**		**545,964**		**1,428,284**		**1,719,832**	
Tax at the statutory income tax rate	**(63,604)**	**25.0**	**90,084**	**16.5**	**–**	**–**	**26,480**	**1.5**
Expenses not deductible for tax	**4,567**	**(1.8)**	**936**	**0.2**	**–**	**–**	**5,503**	**0.3**
Income not subject to tax	**(461)**	**0.2**	**(93,563)**	**(17.1)**	**–**	**–**	**(94,024)**	**(5.5)**
Tax losses not recognized	**7,087**	**(2.8)**	**2,543**	**0.5**	**–**	**–**	**9,630**	**0.6**
Effect of withholding tax at 5% on the distributable profits of the Group's PRC associates	**–**	**–**	**28,353**	**5.2**	**–**	**–**	**28,353**	**1.6**
Effect of tax losses utilised from previous periods	**(353)**	**0.1**	**–**	**–**	**–**	**–**	**(353)**	**(0.0)**
Tax (credit)/charge at Group's effective rate	**(52,764)**	**20.7**	**28,353**	**5.2**	**–**	**–**	**(24,411)**	**(1.5)**

For the six months ended 31 December 2008	Mainland China		Hong Kong		Others[(i)]		Total	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Profit/(loss) before tax	32,264		(5,933)		(8,508)		17,823	
Tax at the statutory income tax rate	8,066	25.0	(979)	16.5	–	–	7,087	39.8
Expenses not deductible for tax	1,805	5.6	446	(7.5)	–	–	2,251	12.6
Income not subject to tax	(467)	(1.4)	(4)	0.1	–	–	(471)	(2.6)
Tax losses not recognised	1,873	5.8	504	(8.5)	–	–	2,377	13.3
Effect of withholding tax at 5% on the distributable profits of the Group's PRC associates	–	–	717	(12.1)	–	–	717	4.0
Effect of tax losses utilised from previous periods	–	–	33	(0.6)	–	–	33	0.2
Others	(225)	(0.7)	–	–	–	–	(225)	(1.3)
Tax (credit)/charge at Group's effective rate	11,052	34.3	717	(12.1)	–	–	11,769	66.0

(i) Others represent the results of the Company and certain subsidiaries which are tax exempted companies incorporated in Bermuda, and British Virgin Islands.

12. DIVIDENDS

The directors do not recommend the payment of any dividend in respect of the year/period.

13. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings/(loss) per share amount is based on the profit/(loss) for the year/period attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 8,420,980,000 (2008: 7,117,613,000) in issue during the year/period.

The calculation of the diluted earnings/(loss) per share amount is based on the profit/(loss) for the year/period attributable to ordinary equity holders of the Company, adjusted to reflect the interest on the convertible notes. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year/period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings per share amounts are based on:

	For the twelve months ended 31 December 2009	For the six months ended 31 December 2008
Earnings (HK$'000)		
Profit/(loss) attributable to ordinary equity holders of the Company	**1,857,758**	(15,755)
Interest on convertible notes	**11,764**	–
Profit attributable to ordinary equity holders of the Company before interest on convertible notes	**1,869,522**	(15,755)
Number of shares ('000)		
Weighted average number of ordinary shares in issue during the year/period used in the basic earnings/(loss) per share calculation	**8,420,980**	7,117,613
Effect of dilution – weighted average number of ordinary shares:		
Share options	**59,622**	–
Convertible notes	**541,667**	–
Weight average number of ordinary shares in issue during the year/period used in the diluted earnings/(loss) per share calculation	**9,022,269**	7,117,613
– Basic	**HK$22 cents**	HK$(0.22) cents
– Diluted	**HK$21 cents**	HK$(0.22) cents

The effect of share options is not included in the calculation of diluted loss per share for the six months period ended 31 December 2008 as the effect of the share options is anti-dilutive.

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Heat supply facilities	Buildings	Leasehold improvements	Motor vehicles	Office equipments	Construction in process	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost							
As at 1 July 2008	198,120	9,267	1,520	5,087	2,701	271,772	488,467
Additions	956	–	–	–	30	99,869	100,855
Transfers	116,548	55,549	–	758	(44)	(172,811)	–
Disposals	–	–	(576)	(17)	–	–	(593)
As at 31 December 2008	315,624	64,816	944	5,828	2,687	198,830	588,729
Additions	312	–	1,417	4,134	793	52,697	59,353
Transfers	128,198	(1,540)	–	521	633	(127,812)	–
Disposals	(1,287)	–	(944)	(420)	(305)	–	(2,956)
As at 31 December 2009	**442,847**	**63,276**	**1,417**	**10,063**	**3,808**	**123,715**	**645,126**
Accumulated depreciation							
As at 1 July 2008	–	–	(1,086)	(315)	(310)	–	(1,711)
Charge for the period	(6,046)	(1,375)	(237)	(537)	(236)	–	(8,431)
Disposals	–	–	576	17	–	–	593
As at 31 December 2008	(6,046)	(1,375)	(747)	(835)	(546)	–	(9,549)
Charge for the year	(15,130)	(3,325)	(546)	(1,490)	(606)	–	(21,097)
Transfer	(22)	102	–	(41)	(39)	–	–
Disposals	11	–	944	148	93	–	1,196
As at 31 December 2009	**(21,187)**	**(4,598)**	**(349)**	**(2,218)**	**(1,098)**	**–**	**(29,450)**
Impairment loss							
As at 1 July 2008 and 31 December 2008	–	–	–	–	–	–	–
Provided for the year	(38,614)	–	–	–	–	–	(38,614)
As at 31 December 2009	(38,614)	–	–	–	–	–	(38,614)
Net carrying amount							
As at 31 December 2009	**383,046**	**58,678**	**1,068**	**7,845**	**2,710**	**123,715**	**577,062**
As at 31 December 2008	309,578	63,441	197	4,993	2,141	198,830	579,180

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

Company

	Leasehold improvements *HK$'000*	Office equipments *HK$'000*	Total *HK$'000*
Cost			
As at 1 July 2008 and 31 December 2008	944	600	1,544
Disposals	(944)	(305)	(1,249)
As at 31 December 2009	**–**	**295**	**295**
Accumulated depreciation			
As at 1 July 2008	(510)	(92)	(602)
Charge for the period	(237)	(47)	(284)
As at 31 December 2008	(747)	(139)	(886)
Charge for the year	(197)	(69)	(266)
Disposals	944	93	1,037
As at 31 December 2009	**–**	**(115)**	**(115)**
Net carrying amount			
As at 31 December 2009	**–**	**180**	**180**
As at 31 December 2008	197	461	658

15. INVESTMENT PROPERTIES

	2009 ***HK$'000***	2008 *HK$'000*
Carrying amount at 1 January/1 July	**101,573**	108,100
Additions during the year/period	**–**	–
Net loss from adjustment in fair value recognised in consolidated income statement	**(10,100)**	(6,527)
Disposal during the year/period	**–**	–
Carrying amount at 31 December	**91,473**	101,573

15. INVESTMENT PROPERTIES (Continued)

The Group's investment properties were revalued on 31 December 2009 by Jones Lang LaSalle Sallmanns Limited ("Sallmanns"), independent qualified professional valuers not connected with the Group. The valuation was arrived at by reference to market evidence of transaction prices for similar properties in same location 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.

As at 31 December 2009, certain of the Group's investment properties with a carrying amount of HK$ 63,218,000 (2008: HK$ 73,483,000) were pledged to a bank to secure bank borrowings of HK$14,547,000 (2008: HK$17,851,000) (Note 33).

16. PREPAID LAND LEASE PAYMENTS

The prepaid land lease payments of the Group represent leasehold interests in state-owned land in the Mainland China with rights to use the land of HK$49,322,000 (2008: HK$52,540,000) under leases of 18 years.

	2009 ***HK$'000***	2008 *HK$'000*
Carrying amount at 1 January/1 July	**52,540**	42,177
Additions during the year/period	**–**	11,588
Recognised during the year/period	**(3,218)**	(1,225)
Carrying amount at 31 December	**49,322**	52,540
Current portion	**(2,951)**	(2,919)
Non-current portion	**46,371**	49,621

17. GOODWILL

	2009 HK$'000	2008 HK$'000
At beginning of year/period		
Cost	49,105	49,105
Accumulated impairment	–	–
Net carrying amount	49,105	49,105
Impairment during the year/period	(38,348)	–
At end of year/period		
Cost	49,105	49,105
Accumulated impairment	(38,348)	–
Net carrying amount	10,757	49,105

Impairment testing of goodwill

Goodwill with cost of HK$49,105,000 was acquired through business combination of Tianjin Heating Group, and thus has been allocated to the following cash-generating units ("CGUs"), which in aggregate constitute the heat energy supply segment, for impairment testing:

- Tianjin Heating Development Company Limited
- Tianjin Baosheng Heating Investment Company Ltd.
- Tianjin Meijiang Heating Company Ltd.

The recoverable amount of the CGUs has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by the management covering the operating periods of the CGUs ranging from 12 to 17 years. The discount rate applied to the cash flow projections is 16.00% as at 31 December 2009 (2008: 20.54%). The cash flow beyond the five-year period are forecasted with a declining trend because the revenue from heat energy supply facility connection fee and heat energy supply generated by the CGUs 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, which is the same as the long term average trend of the heat energy supply industry.

Key assumptions were used in the value in use calculation of the CGUs as at 31 December 2009 and 2008. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the budgeted revenue from heat energy supply, revenue from heat energy supply facility connection fee and relevant variable cost and depreciation which increased in line with the enlarged heating areas. These estimations are based on the unit's past performance and management's expectations for the market development.

Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant units.

The values assigned to key assumptions are consistent with external information sources.

As a result of the impairment test, an impairment provision of approximately HK$38,348,000 is provided arising from Tianjin Heating Development Company Limited, as the carrying amount of the CGU with goodwill allocated to it exceed the recoverable amount.

18. INTANGIBLE ASSETS

	Existing fee contract *HK$'000*	Existing construction contracts *HK$'000*	Operating rights *HK$'000*	Total *HK$'000*
Cost				
As at 1 July 2008	263,754	5,519	118,192	387,465
Additions	–	–	–	–
As at 31 December 2008 and 31 December 2009	263,754	5,519	118,192	387,465
Amortisation				
As at 1 July 2008	–	–	–	–
Provided for the period	(7,332)	(1,380)	(3,283)	(11,995)
As at 31 December 2008	(7,332)	(1,380)	(3,283)	(11,995)
Provided for the year	(14,648)	(2,760)	(6,571)	(23,979)
As at 31 December 2009	**(21,980)**	**(4,140)**	**(9,854)**	**(35,974)**
Impairment				
As at 1 July 2008 and 31 December 2008	–	–	–	–
Provided for the year	(241,774)	–	–	(241,774)
As at 31 December 2009	**(241,774)**	**–**	**–**	**(241,774)**
Net carrying amount				
As at 31 December 2009	**–**	**1,379**	**108,338**	**109,717**
As at 31 December 2008	256,422	4,139	114,909	375,470

The intangible assets were acquired as part of a business combination of Tianjin Heating Group on 30 June 2008. The intangible assets include:

(i) A fee contract arising from the agreement entered into by a subsidiary of the Company with a third party;

(ii) Certain construction contracts for connection to the Group's heat transmission facilities; and

(iii) Operating rights of heat energy supply for certain locations in Tianjin, the PRC held by three subsidiaries of the Company.

The aggregate fair value of the intangible assets as at the acquisition date amounted to approximately HK$ 387,465,000, and all the intangible assets belong to the heat energy supply segment.

In the second half year of 2009, due to a change in certain regulatory requirements, the aforementioned fee contract was terminated as mutually agreed by the counterparties. As a result, the Group performed assessment and considered that the fee contract would no longer bring future economic benefits to the Group and therefore full provision for impairment was made.

19. INTERESTS IN SUBSIDIARIES

	Company 2009 HK$'000	2008 HK$'000
Unlisted shares, at cost	**540,988**	1

The amounts due from and to subsidiaries included in the Company's current assets and current liabilities of HK$698,120,000 (2008: HK$475,620,000) and HK$198,377,000 (2008: HK$201,110,000), respectively, are unsecured, interest-free and are repayable on demand.

Particulars of the subsidiaries at 31 December 2009 are as follows:

Name of subsidiary	Legal form of business	Place of incorporation or registration/ operations	Nominal value of Issued and fully paid up share/ registered capital	Percentage of issued share/ registered capital held by the Company Direct %	Indirect %	Principal activities
Achieve (China) Limited	Incorporated	Hong Kong	HK$1	–	100	Investment holding
Ample Land International Limited	Incorporated	Hong Kong/Macau	HK$1	100	–	Investment holding
Beijing Boya Property Management Company Limited 北京博雅宏遠物业有限公司	Wholly-owned foreign enterprise	The PRC/ Mainland China	RMB20,000,000	–	100	Property investment
Burlingame (Chinese) Investment Limited	Incorporated	Hong Kong/ Mainland China	HK$10,000	–	100	Investment holding
Charter Best Investments Limited	Incorporated	British Virgin Islands	US$1	100	–	Investment holding
Eland Success Limited	Incorporated	British Virgin Islands	US$1	100	–	Investment holding
Ever Profit Management Limited	Incorporated	Hong Kong	HK$1,000	100	–	Service provision
External Fame Limited	Incorporated	British Virgin Islands	US$1	–	100	Investment holding
Fame Risen Development Limited (i)	Incorporated	Hong Kong	HK$20,000,000	100	–	Steel manufacturing and trading
Goalreach Investments Limited	Incorporated	British Virgin Islands	US$1	100	–	Investment holding
Omnigold Resources Limited	Incorporated	British Virgin Islands/ Mainland China	US$1	–	100	Property investment
Shanghai Mianwang Investment Consulting Co., Ltd 上海綿旺投資諮詢有限公司	Wholly-owned foreign enterprise	The PRC/ Mainland China	US$3,000,000	–	100	Investment holdings
Tianjin Baosheng Heating Investment Company Ltd. (iii) 天津市寶勝熱能投資有限公司	Limited enterprise	The PRC/ Mainland China	RMB20,000,000	–	26.95	Heat energy supply in Tianjin, the PRC

19. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the subsidiaries at 31 December 2009 are as follows: (Continued)

Name of subsidiary	Legal form of business	Place of incorporation or registration/ operations	Nominal value of Issued and fully paid up share/ registered capital	Percentage of issued share/ registered capital held by the Company Direct %	Indirect %	Principal activities
Tianjin Heating Development Company Limited (iii) 天津市供熱發展有限公司	Sino-foreign owned enterprise	The PRC/ Mainland China	RMB50,000,000	–	49	Heat energy supply in Tianjin, the PRC
Tianjin Meijiang Heating Company Ltd. (iii) 天津市梅江供熱有限公司	Limited enterprise	The PRC/ Mainland China	RMB66,000,000	–	25.97	Heat energy supply in Tianjin, the PRC

(i) On 29 May 2009, the Company acquired Fame Risen Development Limited. Further details of this acquisition are included in note 40 to the financial statements.

(ii) Tianjin Heating Development Company Limited ("Tianjin Heating") is accounted for as a subsidiary of the Group because the Group has the power to control the board of directors and operation of Tianjin Heating. Through an entrustment agreement dated 30 June 2008 entered into between one wholly-owned subsidiary of the Company and a shareholder of Tianjin Heating holding a 5% equity interest, the Group has the right to exercise all powers as the shareholder of a 5% equity interest, the Group is entitled to an extra right to appoint directors to the board of directors 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 a 49% equity interest, the Group is entitled to appoint up to six directors out of nine directors to the board of directors of Tianjin Heating.

(iii) Tianjin Baosheng Heating Investment Company Ltd. and Tianjin Meijiang Heating Company Ltd. are subsidiaries of Tianjin Heating, a non-wholly-owned subsidiary of the Company, and accordingly are accounted for as subsidiaries by virtue of the Company's control over them.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

20. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	2009 HK$'000	2008 HK$'000
Share of net assets:		
– Unlisted investment, at cost *(i)*	**160,335**	170,446
– Share of post-acquisition changes in net assets *(ii)*	**(73,827)**	(66,087)
	86,508	104,359
Goodwill on acquisition	**33,906**	33,906
	120,414	138,265

(i): In accordance with the relevant PRC law, as the jointly-controlled entity is a Sino-Foreign cooperative joint venture, the Group is entitled to advance recovery of investment. In 2009, as agreed between the Group and its PRC joint venture partner, the Group is entitled to a maximum investment recovery of RMB60,000,000 (approximately HK$67,400,000), starting from 2009 and subject to agreement by the Group and the PRC joint venture partner on annual amount of recovery. As a result, investment of approximately HK$10,111,000 was agreed and received from the jointly-controlled entity in 2009.

(ii): Included in the share of post-acquisition changes in net assets are dividends declared but not received of HK$56,035,000 (2008: HK$50,935,000).

20. INTEREST IN A JOINTLY-CONTROLLED ENTITY (Continued)

Particulars of the jointly-controlled entity are as follows:

Name of jointly-controlled entity	Legal form of business	Place of establishment and operations	Nominal value of registered capital	Proportion of voting power held by the Company Directly	Proportion of voting power held by the Company Indirectly	Principal activities
上海地下商城有限公司 (SUCCL)	Sino-foreign Corporate Joint venture	The PRC/ Mainland China	USD9,000,000	–	50%	Operation and management of shopping mall in the Mainland China

The following table sets out the summarised financial information of the Group's interest in the jointly-controlled entity which is accounted for using the equity method:

	2009 *HK$'000*	2008 *HK$'000*
Share of the jointly-controlled entity's assets and liabilities:		
Current assets	**11,576**	14,542
Non-current assets	**136,312**	152,087
Current liabilities	**(36,603)**	(34,885)
Non-current liabilities	**(24,777)**	(27,385)
Net assets	**86,508**	104,359
Share of the jointly-controlled entity's results:		
Revenue	**28,502**	12,427
Total expense	**(32,240)**	(15,179)
Tax credit/(charge)	**1,098**	(183)
Loss after tax	**(2,640)**	(2,935)

21. INTERESTS IN ASSOCIATES

	2009 *HK$'000*	2008 *HK$'000*
Share of net assets		
– Unlisted investment, at cost	**2,171,003**	980
– Share of post-acquisiton changes in net assets	**582,194**	67
	2,753,197	1,047

21. INTERESTS IN ASSOCIATES (Continued)

The amounts due from associates are disclosed in note 26 to the financial statements.

Particulars of the associates are as follows:

Name	Legal form of business	Place of incorporation	Registered capital	Proportion of ownership interest attributable to the Group Directly	Indirectly	Principal activities
天津市梅江供熱運行管理有限公司 Tianjin Meijiang Heat Supply Operating Management Company Limited (i)	Limited enterprise	The PRC	RMB2,000,000	–	40%	Sale of heating materials
日照鋼鐵有限公司 Rizhao Steel Co., Limited	Limited enterprise	The PRC	RMB100,000,000	–	30%	Manufacturing and trading of steel products
日照型鋼有限公司 Rizhao Medium Section Mill Co., Limited	Limited enterprise	The PRC	RMB100,000,000	–	30%	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	RMB80,000,000	–	25%	Manufacturing and trading of steel products

(i) Not audited by Ernst & Young Hong Kong or any other member firm of the Ernst & Young global network

In January 2009, the Group's equity interest in 天津津濱供熱有限公司 (Tianjin Jinbin Heat Supply Company Limited ("Jinbin")), was diluted from 40% to 4% due to the additional capital injection by the other investors of Jinbin. Accordingly, the Group's investment in Jinbin was classified as an available-for-sale investment at 31 December 2009.

The following table illustrates the summarised financial information of the Group's associates extracted from their financial statements with adjustments made to bring their accountings policies in line with those of the Group:

	2009 HK$'000	2008 HK$'000
Revenue	46,138,779	85
Profit	2,119,922	166
Total assets	43,638,160	244,809
Total liabilities	33,792,516	242,192

Certain matters occurred during the year in relation to the three associates of the Group located in Shandong province are disclosed as follows:

(a) On 11 June 2009, the Ministry of Environmental Protection of the People's Republic of China issued a notice to suspend the review and approval of environmental impact evaluation for steel manufacturing industry in Shandong province, in which the three associates of the Group (i.e. Rizhao Steel Co., Limited, Rizhao Medium Section Mill Co., Limited and Rizhao Steel Wire Co., Limited, collectively as the "Three Associates") 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 relevant property, plant and equipment have already been put into use before the issuance of the abovementioned notice, the management of the associates is in communication with the governmental authority in response to its notice. The Three Associates have entered into a restructuring agreement thereafter, details of which are disclosed below.

21. INTERESTS IN ASSOCIATES (Continued)

(b) On 6 September 2009, the Group's Three Associates together with their parent company, Rizhao Steel Holding Group Company Limited, and their two fellow subsidiaries (collectively as the "Rizhao Steel Group"), entered into an asset restructuring and co-operation agreement (the "Restructuring Agreement") with Shandong Iron and Steel Group Co., Ltd. ("Shandong Steel Group"), a state-owned company. Pursuant to the Restructuring Agreement, (a) Rizhao Steel Group and Shandong Steel Group shall jointly invest in a new joint venture enterprise (the "New JV") and hold 33% and 67% equity shares in the New JV respectively. The New JV will construct and operate a steel manufacturing base in Rizhao, Shandong; (b) Rizhao Steel Group shall transfer to the New JV its entire property, plant and equipment and land use rights (the "Injection Assets") and its relevant bank loans, as well as other liabilities (the "Assumed Liabilities"). The value of the aforesaid Injection Assets and Assumed Liabilities shall be assessed by an independent valuation company and shall take effect upon mutual confirmation by both parties and submission to and confirmation by the State Owned Assets Supervision and Administration Commission of the Shandong Provincial Government. The net amount of the agreed value of the Injection Assets and Assumed Liabilities shall constitute the capital contribution by Rizhao Steel Group. Shandong Steel Group shall contribute cash to the New JV in the same proportion as its shareholding. The capital contributions to the New JV shall be completed within 180 days after the date of the Restructuring Agreement (the "Completion"). The Completion shall be conditional upon the execution of all legal documents relevant to the restructuring; and (c) During the period from the Completion to the commencement of the operation of the phase I project of the New JV (the "Transitional Period"), Rizhao Steel Group can lease back the Injection Assets from the New JV and continue its operation with the Injection Assets at its own discretion. The rental fee payable by Rizhao Steel Group to the New JV shall be determined by negotiation amongst both parties.

22. AVAILABLE-FOR-SALE INVESTMENTS

	2009 ***HK$'000***	2008 *HK$'000*
Unlisted equity investments – at cost		
Balance at 1 January/1 July	**5,111**	5,111
Additions during the year/period	**764**	–
Balance at 31 December	**5,875**	5,111
Impairment loss		
Balance at 1 January/1 July	**(650)**	(650)
Provided for the year/period	**–**	–
Balance at 31 December	**(650)**	(650)
Carrying value		
At 31 December	**5,225**	4,461

As at 31 December 2009 the Group's available for sales investments include a 16% equity interest in 天津市津熱物流有限公司 (Tianjin Jinre Logistics Company Limited) and a 4% equity interest in Jinbin. They are measured at cost less impairment at the end of reporting period because there is no quoted market price in an active market and their fair value cannot be measured reliably.

23. INVENTORIES

	2009 HK$'000	2008 HK$'000
Raw materials	3,736	8,539
Consumables	654	540
	4,390	9,079

24. TRADE RECEIVABLES

	2009 HK$'000	2008 HK$'000
Trade receivables	9,644	67,407

Trade receivables are non-interest-bearing.

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. An aged analysis of trade receivables is stated as follows:

	2009 HK$'000	2008 HK$'000
Within 1 month	12	67,407
1 to 3 months	–	–
Over 3 months	9,632	–
	9,644	67,407

Trade receivables at the end of the reporting period mainly comprise receivables of other fee income.

No impairment allowance is necessary in respect of trade receivables because there has not been a significant change in credit quality and the balances are still considered fully recoverable.

25. OTHER RECEIVABLES AND PREPAYMENTS

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Prepayments	**7,209**	1,994	**–**	–
Temporary payments	**–**	15,000	**–**	15,000
Deposits and other receivables	**11,579**	11,645	**784**	1,101
	18,788	28,639	**784**	16,101

Included in other receivables are advance to independent third parties with a carrying amount of HK$11,662,000 (31 December 2008: HK$10,675,000). The amounts are unsecured, non-interest bearing and repayable on demand. Management believes that no impairment allowance is necessary in respect of these receivables as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

26. AMOUNTS DUE FROM/TO ASSOCIATES

Included in the balance of amounts due from associates is a dividend of HK$416,955,000 receivable from associates arising from pre-acquisition profit distribution, which is detailed in note 28.

The amounts due from/to associates are not trade in nature, and are unsecured, interest-free and repayable on demand.

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

27. AMOUNTS DUE FROM/TO RELATED COMPANIES

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

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 in credit quality and the balances are still considered full receivable.

28. PRE-ACQUISITON DIVIDENDS

In connection with acquisition of Fame Risen Development Limited ("Fame Risen") and its associates (note 40), retained profits of Fame Risen and its associates prior to the acquisition date on 29 May 2009 were to be distributed to the formers shareholders. In this regard, on 28 May and 30 June 2009, the associates declared a cash dividend with a total amount of HK$3,082,753,000 to Fame Risen, and Fame Risen on 27 May and 30 June 2009 declared a cash dividend to its former shareholders with a total amount of HK$3,007,259,000.

Upon the acquisition date, Fame Risen became a wholly-owned subsidiary of the Company. From the acquisition date to 31 December 2009, Fame Risen received such dividend of HK$2,589,810,000, net of withholding tax, from its associates and paid to its former shareholders of HK$2,590,304,000. As at 31 December 2009, the balances of dividend receivable of HK$440,052,000 and other payables to Fame Risen's former shareholders of HK$416,955,000, represent the unsettled dividend in relation to the abovementioned dividend announced.

29. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances	**305,930**	38,588	**32,599**	691
Less: Pledged deposits	**(711)**	(6,500)	**–**	–
Cash and cash equivalents	**305,219**	32,088	**32,599**	691

As at 31 December 2009, bank balances amounting to approximately HK$711,000 (2008: HK$6,500,000) were pledged to banks for securing bank facilities granted to the Group. The pledged deposits carry a floating interest rate at 1.98% (2008: 1.98% to 3.78%) per annum.

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to HK$262,026,000 (2008: HK$37,780,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term bank deposits are made for varying periods of between one day and three months in Hong Kong and the Mainland China depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The carrying amounts of these assets approximate to their fair values.

30. TRADE PAYABLES

	2009	2008
	HK$'000	*HK$'000*
Trade payables	**35,212**	44,337

The trade payables are non-interest-bearing and are normally settled on 90-day terms. Trade payables have no significant balances with aging over one year. 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.

The carrying amount of trade payables approximates to their fair value.

An aged analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2009	2008
	HK$'000	*HK$'000*
Within 1 month	**9,601**	28,645
1 to 3 months	**312**	853
Over 3 months	**25,299**	14,839
	35,212	44,337

31. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Other payable	**52,382**	40,564	**3,843**	2,160
Accruals	**6,067**	608	**–**	–
	58,449	41,172	**3,843**	2,160

Other payables have no significant balance with aging over one year.

The directors of the Company consider that the carrying amount of other payables and accruals approximated to their fair value as at the end of reporting period.

32. LOAN FROM A DIRECTOR

	2009	2008
	HK$'000	*HK$'000*
Mr. Hu Yishi	**–**	20,230
Balance at 31 December	**–**	20,230

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

33. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2009			2008		
	Effective interest rate (%)	**Maturity**	***HK$'000***	Effective interest rate (%)	Maturity	*HK$'000*
Current						
Bank loans – unsecured	**5.84**	**2010**	**33,708**	8.21	2009	33,708
Bank loans – secured *(ii)*	**5.84**	**2010**	**22,472**	8.22-8.31	2009	39,326
Current portion of long term bank loans-secured *(iii)*	**5.94**	**2010**	**1,753**	6.12-7.83	2009	1,652
Current portion of other long term loans *(i)*	**–**	**2010**	**6,532**	–	2009	6,532
			64,465			81,218
Non-current						
Long term bank loans – secured *(iii)*	**5.94**	**2016**	**12,794**	6.12-7.83	2016	16,199
Other long term loans – unsecured *(i)*	**–**	**2013**	**12,784**	–	2013	15,482
			25,578			31,681
			90,043			112,899

33. INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

An aged analysis of the interest-bearing bank and other borrowings as at the end of reporting period is as follows:

	2009 **HK$'000**	2008 HK$'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**57,933**	74,686
In the second year	**2,287**	2,287
In the third to fifth years, inclusive	**6,862**	6,862
Beyond five years	**3,645**	7,050
	70,727	90,885
Analysed into:		
Other borrowings repayable:		
Within one year or on demand	**6,532**	6,532
In the second year	**5,105**	6,321
In the third to fifth years, inclusive	**7,679**	9,161
	19,316	22,014
	90,043	112,899

Notes:

(i) Other long term loan is a loan from the Tianjin Jinre Construction and Development Co., Ltd. It transferred its Denmark government non-interest loan to Tianjin Meijiang Heat Supply Co. Ltd ("Meijiang Heat"). Meijiang Heat paid back the loan on schedule during the year.

(ii) The secured bank loans were pledged by the assets of a related company, Tianjin Jinre Co., Ltd.

(iii) The secured long term bank loan was guaranteed by the investment properties of Beijing Boya Hongyuan Property Co., Ltd., with a carrying amount of HK$ 63,218,000 (31 December 2008: HK$ 73,483,000).

The carrying amounts of the Group's current borrowings approximate to their fair values. The carrying amounts and fair values of the Group's non-current borrowings are as follows:

	Carrying amounts		**Fair values**	
	2009 **HK$'000**	2008 HK$'000	**2009** **HK$'000**	2008 HK$'000
Floating rate bank loans	**12,794**	16,199	**12,661**	15,308
Other loans – unsecured	**12,784**	15,482	**14,634**	19,940
	25,578	31,681	**27,295**	35,248

33. INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

The fair value of the Group's secured bank loans (non-current portion) with a carrying amount of HK$12,794,000 (2008: HK$16,199,000) was HK$12,661,000 (2008: HK$15,308,000) at the end of the reporting period.

The fair value of other borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates.

34. LOAN FROM A RELATED COMPANY

The amount is loan from Tianjin Jinre Co., Ltd, a minority shareholder of a group entity, which is unsecured and bears interest at 8% per annum.

The loan is repayable as follows:

	2009	2008
	HK$'000	*HK$'000*
Within one year	**101,566**	205,664
In the second year	**–**	82,987
In the third to fifth years, inclusive	**–**	72,164
	101,566	360,815
Less: Current portion due within one year	**(101,566)**	(205,664)
	–	155,151

35. CONVERTIBLE NOTES

On 26 May 2008, the Company entered into a convertible notes subscription agreement with Mr. Hu Yishi, Chairman of the board of the Company, to issue to the latter HK$265,000,000 convertible notes, which can be convertible at option of the noteholder into 1,500,000,000 ordinary shares of the Company (i.e., the conversion price is HK$0.177 each share) within the period ending on the second anniversary of the date of issuance of the convertible notes (the "Maturity Date). The notes carry interest at rate of 3.5% per annum on the outstanding principal amount and is payable yearly.

Before the issuance of the convertible notes, according to the subscription agreement, the subscriber and issuer may by notice in writing to each other to call for completion of subscription in respect of the entire or part of the aggregate amount of the convertible notes prior to 8 July 2009. On 8 July 2009, the subscription and issuance shall take place in respect of the entire aggregate principal amount or the remaining aggregate principal amount of the convertible notes. In this regard, before the issuance of the convertible notes, the subscripting agreement is a forward contract within the scope of HKAS39 and is recognised as an asset or a liability on the commitment date and is subsequently measure at its fair value. On 2 July 2009, the convertible notes were issued to Mr. Hu Yi Shi.

The convertible notes is considered a compound instrument and the fair value of its liability component was estimated at the issuance date using an equivalent market interest rate for a similar bond without a conversion option. The residual amount (i.e., the fair value of the compound financial instrument as a whole less the liability component) is assigned as equity component and is included in shareholders' equity.

35. CONVERTIBLE NOTES (Continued)

The convertible notes issued during the year have been split as to the liability and equity component, as follows:

	2009 HK$'000	2008 HK$'000
Fair value of convertible notes at issuance date	355,500	–
Equity component	(125,852)	–
Liability component at issuance date	229,648	–
Interest charge	11,764	–
Interest paid	(4,162)	–
Conversion of convertible notes *(note)*	(30,620)	–
Liability component at 31 December	206,630	–

Note: On 7 August 2009, Mr. Hu Yishi converted part of the convertible notes with a principal amount of HK$35,400,000 for 200,000,000 shares.

36. DEFERRED TAX

The movements in deferred tax liabilities during the year/period are as follows:

Group – 2009

Deferred tax liabilities

	Revaluation of investment properties HK$'000	Fair value adjustment on intangible assets HK$'000	Fair value adjustment on prepaid lease payments HK$'000	Fair value adjustment on long term borrowings HK$'000	Deferred revenue HK$'000	Withholding tax HK$'000	Total HK$'000
As at 1 January 2009	1,619	93,867	945	966	107,643	–	205,040
Deferred tax charged/(credited) to income statement during the year *(note 11)*	41	(66,438)	25	(579)	21,801	28,353	(16,797)
Released upon receipt of dividends from associates	–	–	–	–	–	(52,891)	(52,891)
Withholding tax from the acquisition of a subsidiary *(note 40)*	–	–	–	–	–	78,943	78,943
Gross deferred tax liabilities at 31 December 2009	1,660	27,429	970	387	129,444	54,405	214,295

36. DEFERRED TAX (Continued)

Group – 2009 (Continued)

Deferred tax assets

	Fair value adjustment on property, plant and equipment HK$'000	Impairment of property, plant and equipment HK$'000	Total HK$'000
As at 1 January 2009	27,077	–	27,077
Deferred tax (charged)/ credited to consolidated income statement during the year *(note 11)*	(1,373)	9,654	8,281
Gross deferred tax assets at 31 December 2009	25,704	9,654	35,358

For presentation purpose, certain deferred tax assets and liabilities have been offset in the statement of financial position.

	HK$ '000
Net deferred tax liabilities recognised in the consolidated statement of financial position	178,937

Group – 2008

Deferred tax liabilities

	Revaluation of investment properties HK$'000	Fair value adjustment on intangible assets HK$'000	Fair value adjustment on prepaid lease payments HK$'000	Fair value adjustment on long term borrowings HK$'000	Deferred revenue HK$'000	Withholding tax HK$'000	Total HK$'000
As at 1 July 2008	1,871	96,866	1,238	1,052	107,643	–	208,670
Deferred tax charged/(credited) to consolidated income statement during the period *(note 11)*	(252)	(2,999)	(293)	(86)	–	–	(3,630)
Gross deferred tax liabilities at 31 December 2008	1,619	93,867	945	966	107,643	–	205,040

36. DEFERRED TAX (Continued)

Group – 2008 (Continued)

Deferred tax assets

	Fair value adjustment on property, plant and equipment *HK$'000*
As at 1 July 2008	27,684
Deferred tax credited to consolidated income statement during the year *(note 11)*	(607)
Gross deferred tax assets at 31 December 2008	27,077

For presentation purpose, certain deferred tax assets and liabilities have been offset in the consolidated statement of financial position.

	HK$ '000
Net deferred tax liabilities recognised in the consolidated statement of financial position	177,963

The Group has tax losses arising in Hong Kong of HK$39,603,180 (2008: HK$23,879,150) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group also has tax losses arising in Mainland China of HK$27,024,384 (2008: HK$21,209,543 that will expire in one to five years for offsetting against future taxable profit. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. In this regard, for the Group, the applicable rate is 5% to 10%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries, jointly-controlled entity and associates established in Mainland China in respect of earnings generated from 1 January 2008.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

37. ISSUED CAPITAL

		Number of shares		Share capital	
		2009	2008	**2009**	2008
		'000	*'000*	***HK$'000***	*HK$'000*
Ordinary share of HK$0.10 each					
Authorised					
At beginning of year/period		**20,000,000**	20,000,000	**2,000,000**	2,000,000
Increase of authorised share capital		**–**	–	**–**	–
At end of year/period		**20,000,000**	20,000,000	**2,000,000**	2,000,000
Issued and fully paid					
At beginning of year/period		**7,117,613**	7,117,613	**711,761**	711,761
Issue of shares	*(i)*	**2,000,000**	–	**200,000**	–
Conversion of convertible notes	*(ii)*	**200,000**	–	**20,000**	–
Exercised equity-settled share option	*(iii)*	**109,720**	–	**10,972**	–
At end of year/period		**9,427,333**	7,117,613	**942,733**	711,761

(i) In May 2009, the Group completed the acquisition of 100% interest in Fame Risen (note 40) by the allotment and issue of 2,000,000,000 ordinary shares of the Company.

(ii) On 7 August 2009, the Company issued 200,000,000 shares of HK$0.10 each in respect of the conversion of the convertible notes with a principal amount of HK$ 35,400,000 held by Mr. Hu Yishi (note 35).

(iii) The subscription rights attaching to 43,720,000 and 66,000,000 share options were exercised at subscription price of HK$ 0.205 and HK$0.165 per share respectively (note 38), resulting in the issue of 109,720,000 shares of HK$ 0.10 each at a total cash consideration, before expense, of approximately HK$ 19,853,000.

38. 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 together with consideration of HK$1.00 received by the Company. The exercise 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.

38. SHARE OPTION SCHEME (Continued)

At 31 December 2009, 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 255,880,000 (2008: 294,600,000), representing 3.12% (2008: 4.14%) of the shares of the Company in issue at that date.

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 2008	Appointment (resignation) as director	Outstanding at 31 December 2008 & 1 January 2009	Granted (exercised) during the year	Outstanding at 31 December 2009	Exercisable period	Exercise price per share (subject to anti-dilutive adjustment)	Closing price per share before the 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)	–	–	–	22 February 2008 – 21 August 2011	0.205	0.205
	22 August 2007 *(note b)*	87,440	–	87,440	–	87,440	22 August 2010 – 21 August 2011	0.205	0.205
	22 April 2008 *(note c)*	56,000	10,000	66,000	(56,000)	10,000	22 April 2008 – 16 April 2012	0.165	0.165
	16 Jan 2009 *(note d)*	–	–	–	71,000	71,000	16 January 2009 – 16 April 2012	0.265	0.265
		187,160	(33,720)	153,440	15,000	168,440			
Other employees	22 August 2007 *(note a)*	–	43,720	43,720	(43,720)	–	22 February 2008 – 21 August 2011	0.205	0.205
	22 August 2007 *(note b)*	87,440	–	87,440	–	87,440	22 August 2010 – 21 August 2011	0.205	0.205
	22 April 2008 *(note c)*	20,000	(10,000)	10,000	(10,000)	–	22 April 2008 – 16 April 2012	0.165	0.165
		107,440	33,720	141,160	(53,720)	87,440			
		294,600	–	294,600	(38,720)	255,880			
Exercisable at the end of the period/year				119,720		81,000			
Weighted average exercise price *(HK$)*		0.2	N/A	0.2	N/A	0.235			

38. SHARE OPTION SCHEME (Continued)

Notes:

(a) The interests are by virtue of 43,720,000 share options accepted by a director of the Company on 22 August 2007, which 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 expire on 21 August 2011. The estimated fair values of the options granted amounted to HK$3,637,000 of which the entire amount was charged to the consolidated income statement during the period 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, which entitle the relevant directors and employees 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 August 2010 and expire on 21 August 2011. The estimated fair values of the options granted amounted to HK$14,549,000 of which HK$4,850,000 was charged to the consolidated income statement during the period six months' period ended 31 December 2008 (2008: HK$2,425,000).

(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, which entitle the relevant director and employees to subscribe for shares in 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 expire on 16 April 2012. The estimated fair values of the options granted amounted to 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 was appointed as director of the Company during the period ended 31 December 2008.

(d) The interests are by virtue of 71,000,000 share options accepted by a non-executive director of the Company, which entitle the relevant director to subscribe for shares in the Company at an exercise price of HK$0.265 per share. The share options are vested and exercisable in whole or in part on 16 January 2009 and expire on 16 April 2012. The estimated fair values of the options granted are HK$5,204,000 of which the entire amount was charged to the consolidated income statement during the year.

The fair values of equity-settled share option granted during the year were calculated using the Binomial model. The inputs into the model were as follows:

	22 August 2007	**22 August 2007**	**22 April 2008**	**16 January 2009**
Closing share price at the date of offer	HK$0.205	HK$0.205	HK$0.165	HK$0.265
Exercise price per share	HK$0.205	HK$0.205	HK$0.165	HK$0.265
Expected volatility	45.74%	45.74%	52.98%	96.97%
Risk-free interest rate	4.06%	4.06%	2.06%	0.77%
Expected dividend yield	0%	0%	0%	0%
Forfeiture rate	0%	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$10,054,000 for the year (2008: HK$2,425,000) in relation to share options granted by the Company.

Subsequent to the reporting period, on 29 January 2010, a total of 220,000,000 share options were granted to certain of the directors and employees of the Company in respect of their services to the Group in the forthcoming year. These share options have an exercise price of HK$0.35 per share and an exercise period ranging from 29 January 2010 to 16 April 2012. The price of the Company's shares at the date of grant was HK$0.35 per share.

At the date of approval of these financial statements, the Company had 475,880,000 share options outstanding under the Scheme, which represented approximately 5.05% of the Company's shares in issue as at that date.

39. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current year and prior period are presented in the consolidated statement of changes in equity on pages 28 of the financial statements.

(b) Company

	Share premium	Share options reserve	Translation reserve	Retained profits/ (accumulated losses)	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 July 2008	266,208	13,042	15,758	(716,697)	(421,689)
Total comprehensive income/(loss) for the period	–	–	–	(7,885)	(7,885)
Equity-settled share option arrangements	–	2,425	–	–	2,425
At 31 December 2008	266,208	15,467	15,758	(724,582)	(427,149)
Total comprehensive income/(loss) for the year	–	–	(47)	(137,123)	(137,170)
Equity-settled share option arrangements	–	10,054	–	–	10,054
Issue of shares	330,000	–	–	–	330,000
Conversion of convertible notes	27,400	–	–	–	27,400
Exercised equity-settled share option	17,176	(8,295)	–	–	8,881
At 31 December 2009	**640,784**	**17,226**	**15,711**	**(861,705)**	**(187,984)**

40. ACQUISITION OF SUBSIDIARIES

Acquisition of Fame Risen Development Limited

On 29 May 2009, the Group completed the acquisition of a 100% interest in Fame Risen Development Limited ("Fame Risen") at a total cost 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 per share. Upon the completion of the Acquisition, Fame Risen was an investment holding company holding equity interests in three associates (Note 21), which has been accounted for using the purchase method of accounting for the Acquisition. Details of the assets acquired and liabilities assumed in respect of the Acquisition are summarised below:

	Acquiree's carrying amount before acquisition *HK$'000*	**Fair value** *HK$'000*
Assets acquired and liabilities assumed:		
Share of the identifiable net assets of the associates	565,401	2,170,720
Receivables for the pre-acquisition dividend from associates	3,082,753	3,082,753
Dividend payable to the former shareholders of a subsidiary	(3,007,259)	(3,007,259)
Deferred tax liabilities	(78,943)	(78,943)
	561,952	2,167,271
Total consideration satisfied by:		
Issuance of shares of the Company		530,000
Directly attributable costs		10,987
		540,987
Excess over cost of acquisition		1,626,284
Net cash outflow arising on acquisition		(10,987)

The Group's share of the fair value of the associates' identifiable assets and liabilities is determined based on valuation carried out by independent valuers. The Group will continue evaluating the initial accounting for the acquisition of Fame Risen within the 12 months from 29 May 2009, the acquisition date. Details of the Acquisition are set out in the circular of the Company dated 27 April 2009.

40. ACQUISITION OF SUBSIDIARIES (Continued)

Acquisition of Tianjin Heating Development Company Limited

On 30 June 2008, the Group completed the acquisition of 49% interest in Tianjin Heating Development Company Limited (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 the provision of related services.

On the same date, the Group executed an entrustment agreement (the "Entrustment Agreement") with a shareholder holding a 5% equity interest ("5% shareholder") in 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 interest, including all rights and powers of the shareholder under the Tianjin Heating Group's articles of association (save for the right to dividend and other payments).

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.

The Group further evaluated and completed the initial accounting for the business combination of Tianjin Heating Group within 12 months from 30 June 2008, the acquisition date, in 2009. Upon the completion of the initial accounting, adjustments were made to decrease deferred revenue by HK$32,417,000 and increase deferred tax liabilities in relation to the adjustment on the deferred revenue by HK$107,643,000, and as a result, there were a corresponding increase in goodwill by HK$19,670,000, and a decrease in minority interests by HK$55,555,000. The comparative information is restated to reflect the adjustments as if the initial accounting had been completed on the acquisition date.

The financial position previously reported by the Group as at 31 December 2008 has been restated as set out below.

	The Group (as previously reported) *HK$'000*	**Adjustments** *HK$'000*	**The Group (as restated)** *HK$'000*
Financial position:			
Non-current assets	1,279,052	19,670	1,298,722
– Goodwill	29,435	19,670	49,105
Current liabilities	568,629	(5,244)	563,385
– Deferred revenue	5,911	(5,244)	667
Non-current liabilities	293,565	80,469	374,034
– Deferred revenue	36,321	(27,174)	9,147
– Deferred tax liabilities	70,320	107,643	177,963
Equity	1,185,979	(55,555)	1,130,424
– Minority interests	580,315	(55,555)	524,760

41. PENSION SCHEME AND OTHER RETIREMENT BENEFITS

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiary which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute 20% of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

The total pension cost charged to consolidated income statement is approximately HK$627,000 (2008: Approximately HK$582,000).

42. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Major non-cash transaction

	2009 *HK$'000*	For the six months' period ended 31 December 2008 *HK$'000*
Conversion of convertible notes	**47,400**	–
Acquisition of a subsidiary and its associates by issuing shares	**2,167,271**	–
Acquisition of property, plant and equipment by assuming liabilities	**–**	1,453

43. OPERATING LEASE ARRANGEMENTS

As lessor

The Group leases its investment properties (note 15) under operating lease arrangements, with leases negotiated for terms ranging from one to four years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2009, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2009 ***HK$'000***	2008 *HK$'000*
Within one year	**2,376**	3,045
In the second to fifth years, inclusive	**2,557**	3,946
Balance at 31 December	**4,933**	6,991

As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to three years.

At 31 December 2009, the Group had outstanding commitments under non-cancellable operating leases, which fall due as follows:

	2009 ***HK$'000***	2008 *HK$'000*
Within one year	**1,320**	3,540
In the second to fifth years, inclusive	**675**	1,995
Balance at 31 December	**1,995**	5,535

44. CAPITAL COMMITMENTS

At 31 December 2009, the Group had the following capital commitments:

	2009 ***HK$'000***	2008 *HK$'000*
Contracted, but not provided for:		
Property, plant and equipment	**113,829**	171,390

45. CONTINGENT LIABILITIES

The Group provided guarantee, with no charge, to a bank in connection with a banking facility up to HK$112,360,000 granted to Tianjin Jinre Logistics Company Limited, in which the Group holds 16% equity interest. As at 31 December 2009, the banking facility was utilised to the extent of approximately HK$56,180,000. No contingent liabilities were provided for by the Group in the financial statements as the directors believe it is not probable that an outflow of economic benefits will be required to settle the obligation.

46. RELATED PARTY TRANSACTIONS AND BALANCES

(a) Related party transactions:

The Group entered into the following transaction with related parties:

	2009 *HK$'000*	For the six months' period ended 31 December 2008 *HK$'000*
Purchase of coal from an associate	**32,142**	17,234
Interest income from a minority shareholder of a group entity	**–**	11,685
Interest expense to a minority shareholder of a group entity	**27,933**	13,139
Management fee	**12,135**	–

(b) Compensation of key management personnel of the Group

The remuneration of key management during the year/period was as follows:

	2009 *HK$'000*	For the six months' period ended 31 December 2008 *HK$'000*
Short term employee benefits	**9,000**	3,698
Post-employment benefits	**182**	87
Performance related bonuses	**12,500**	–
Share-based payment	**7,628**	1,212
Total compensation paid to key management personnel	**29,310**	4,997

Further details of directors' remunerations are included in note 10 to the financial statements.

Having due regard to the substance of the relationships, the directors are of the opinion that meaningful information relating to related party disclosures has been adequately disclosed.

(c) Outstanding balances with related parties

Details of the balances with associates and related parties as at the end of reporting period are set out in the statement of financial position and notes 26 and 27 to the financial statements.

47. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of reporting period are as follows:

2009 **Group**

Financial assets

	Financial assets at fair value through profit or loss HK$'000	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
Available-for-sale investments	–	–	5,225	5,225
Trade receivables	–	9,644	–	9,644
Other receivables and prepayments	–	18,788	–	18,788
Amount due from associates	–	450,955	–	450,955
Amount due from related companies	–	283,865	–	283,865
Dividend receivable from a jointly controlled entity	–	56,035	–	56,035
Pledged time deposits	–	711	–	711
Cash and cash equivalents	–	305,219	–	305,219
	–	1,125,217	5,225	1,130,442

Financial liabilities

	Financial liabilities at fair value through profit or loss HK$'000	Financial liabilities at amortised cost HK$'000	Total HK$'000
Trade payables	–	35,212	35,212
Other payables and accruals	–	58,449	58,449
Dividend payable to former shareholders of a subsidiary		416,955	416,955
Amounts due to related companies	–	53,403	53,403
Obligations under finance leases	–	101	101
Interest-bearing bank and other borrowings	–	90,043	90,043
Loan from a related company	–	101,566	101,566
Convertible notes	–	206,630	206,630
	–	962,359	962,359

47. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

2008 Group

Financial assets

	Financial assets at fair value through profit or loss – held for trading *HK$'000*	Loans and receivables *HK$'000*	Available-for-sale financial assets *HK$'000*	Total *HK$'000*
Available-for-sale investments	–	–	4,461	4,461
Trade receivables	–	67,407	–	67,407
Other receivables and prepayments	–	25,675	–	25,675
Amount due from associates	–	174,983	–	174,983
Amount due from related companies	–	396,571	–	396,571
Dividend receivable from a jointly controlled entity	–	50,935	–	50,935
Pledged time deposits	–	6,500	–	6,500
Cash and cash equivalents	–	32,088	–	32,088
	–	754,159	4,461	758,620

Financial liabilities

	Financial liabilities at fair value through profit or loss – held for trading *HK$'000*	Financial liabilities at amortised cost *HK$'000*	Total *HK$'000*
Trade payables	–	44,337	44,337
Other payables and accruals	–	15,857	15,857
Amounts due to associates	–	30,026	30,026
Amounts due to related companies	–	55,301	55,301
Loan from a director	–	20,230	20,230
Obligations under finance leases	–	137	137
Interest-bearing bank and other borrowings	–	112,899	112,899
Loan from a related company	–	360,815	360,815
	–	639,602	639,602

47. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

2009 **Company**

Financial assets

	Loans and receivables HK$'000
Other receivables and prepayments	784
Amount due from subsidiaries	698,120
Cash and cash equivalents	32,599
	731,503

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Other payables and accruals	3,844
Amounts due to subsidiaries	198,377
Convertible notes	206,630
	408,851

47. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

2008

Financial assets

	Company
	Loans and receivables *HK$'000*
Other receivables and prepayments	16,101
Amount due from subsidiaries	475,620
Cash and cash equivalents	691
	492,412

Financial liabilities

	Company
	Financial liabilities at amortised cost *HK$'000*
Trade payables	689
Amounts due to subsidiaries	201,110
Other payables and accruals	2,160
Amounts due to related companies	4,500
	208,459

48. FAIR VALUE HIERARCHY

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

As at 31 December 2009, the Group held the following financial instruments measured at fair value:

Assets measured at fair value as at 31 December 2009:

	Level 1 *HK$'000*	**Level 2** *HK$'000*	**Level 3** *HK$'000*	**Total** *HK$'000*
Investment properties	–	91,473	–	91,473
	–	91,473	–	91,473

48. FAIR VALUE HIERARCHY (Continued)

During the year ended 31 December 2009, there were no transfers into or out of Level 3 fair value measurements.

As at 31 December 2008, the Group held the following financial instruments measured at fair value:

Assets measured at fair value as at 31 December 2008:

	Level 1	Level 2	Level 3	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Investment properties	–	101,573	–	101,573
	–	101,573	–	101,573

During the year ended 31 December 2008, there were no transfers into or out of Level 3 fair value measurements.

49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise loans and borrowings, cash and cash equivalents, convertible notes and deposits from customers. The main purpose of these financial instruments is to finance the Group's operations. The Group has various other financial assets and liabilities such as trade receivables, other receivables, and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk, interest rate risk and foreign currency risk. Management reviews and agrees policies for managing each of these risks which are summarised below. The Group's accounting policies in relation to financial instruments are set out in note 2.4 to the financial statements.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, available-for-sale financial assets, amounts due from associates and jointly-controlled entities, other receivables and certain derivative instruments, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by analysis by customer/counterparty, by geographical region. At the end of the reporting period, the Group had certain concentrations of credit risk as 99.9% (2008: 99.9%) of the Group's trade receivables were due from the Group's largest customer, within the heat energy supply segment.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 24 to the financial statements.

49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk

The Group's treasury department monitors the Group's cash flow positions on a regular basis to ensure the cash flows of the Group are positive and closely controlled. The Group aims to maintain flexibility in funding by keeping committed credit lines available, obtaining debentures from specific financial institutions and borrowing loans from banks.

The table below summarises the maturity profile of the Group's financial liabilities at the end of reporting period based on contractual undiscounted payments.

Group

	31 December 2009					
	On Demand	Less than 3 months	3 to Less than 12 months	1 to 5 years	Longer than 5 year	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables	–	9,913	25,299	–	–	35,212
Other payables	–	–	27,329	–	–	27,329
Dividend payable to former shareholders of a subsidiary	–	–	416,955	–	–	416,955
Amounts due to related companies	53,403	–	–	–	–	53,403
Obligations under finance leases	–	11	34	60	–	105
Interest-bearing bank and other borrowings	–	14,429	50,036	5,559	4,295	74,319
Loan from a related company	–	–	101,566	–	–	101,566
Convertible notes	–	–	–	230,100	–	230,100
	53,403	24,353	621,219	235,719	4,295	938,989

	31 December 2008					
	On Demand	Less than 3 months	3 to Less than 12 months	1 to 5 years	Longer than 5 year	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables	–	29,498	14,839	–	–	44,337
Other payables	–	–	15,857	–	–	15,857
Amounts due to associates	30,026	–	–	–	–	30,026
Amounts due to related companies	55,301	–	–	–	–	55,301
Loan from a director	20,230	–	–	–	–	20,230
Obligations under finance leases	–	11	34	105	–	150
Interest-bearing bank and other borrowings	–	5,237	80,005	40,637	–	125,879
Loan from a related company	–	30,832	111,174	277,938	–	419,944
	105,557	65,578	221,909	318,680	–	711,724

49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

Company

	31 December 2009					
	On Demand	Less than 3 months	3 to Less than 12 months	1 to 5 years	Longer than 5 year	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Other payables	–	–	3,844	–	–	3,844
Amounts due to subsidiaries	198,377	–	–	–	–	198,377
Convertible notes	–	–	–	230,100	–	230,100
	198,377	–	3,844	230,100	–	432,321

	31 December 2008					
	On Demand	Less than 3 months	3 to Less than 12 months	1 to 5 years	Longer than 5 year	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables	–	689	–	–	–	689
Other payables	–	–	2,160	–	–	2,160
Amounts due to related companies	4,500	–	–	–	–	4,500
Amounts due to subsidiaries	201,110	–	–	–	–	201,110
	205,610	689	2,160	–	–	208,459

49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with a floating interest rate. The Group currently has not entered into interest rate swaps to hedge against its exposure of interest rate risk.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings) and the Group's equity.

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax *HK$'000*
2009		
If interest rate increases	**100**	**(420)**
If interest rate decreases	**(100)**	**420**
2008		
If interest rate increases	50	(250)
If interest rate decreases	(50)	250

Foreign currency risk

The Group has foreign currency risk at its long-term borrowings denominated in United States dollar ("US dollar") and monetary assets denominated in Hong Kong dollars.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the US dollar and Hong Kong dollars exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity (due to changes in translation reserve).

2009	**Increase/ (decrease) in basis points**	**Increase/ (decrease) in profit before tax** ***HK$'000***	**Increase/ (decrease) in equity** ***HK$'000***
If US dollar weakens against RMB	**5%**	**736**	**–**
If US dollar strengthens against RMB	**(5%)**	**(736)**	**–**
If Hong Kong dollars weakens against RMB	**5%**	**(1,200)**	**149**
If Hong Kong dollars strengthens against RMB	**(5%)**	**1,200**	**(149)**

49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Foreign currency risk (Continued)

2008	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax *HK$'000*	Increase/ (decrease) in equity *HK$'000*
If US dollar weakens against RMB	5%	1,183	–
If US dollar strengthens against RMB	(5%)	(1,183)	–
If Hong Kong dollars weakens against RMB	5%	(525)	–
If Hong Kong dollars strengthens against RMB	(5%)	525	–

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares or issue new debt. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2009 and the six months' period 31 December 2008.

50. POST BALANCE SHEET EVENTS

(a) On 29 January 2010, 220,000,000 share options were granted to certain of the directors and employees of the Company, as further detailed in note 38 to the financial statements.

(b) On 25 February 2010, the Group entered into a sale and purchase agreement with an independent third party to dispose of certain of its investment properties situated in Beijing for a cash consideration of HK$6,814,254. This transaction is scheduled to be completed on 27 April 2010 and is expected to result in a loss on disposal before tax of approximately HK$160,000.

51. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 1 April 2010.

Particulars of Investment Properties

Location	Use	Tenure	Attributable interest of the Group
Carpark Basement 2 and 3, 33 Deng Shi Kou Main Street, Dong Cheng District, Beijing	Commercial	Medium-term lease	100%
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	Commercial	Medium-term lease	100%

Financial Summary

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated as appropriate, is set out below.

RESULTS

	Year ended 31 December 2009 *HK$'000*	Six months' period ended 31 December 2008 *HK$'000*	Year ended 30 June 2008 *HK$'000*	2007 *HK$'000* (restated)	2006 *HK$'000*
Revenue	**200,793**	83,300	4,157	13,050	16,537
PROFIT/(LOSS) BEFORE TAX	**1,719,832**	17,823	(79,332)	(10,063)	(5,317)
Income tax credit/(expense)	**24,411**	(11,769)	(14)	(1,898)	(42)
PROFIT/(LOSS) FOR THE YEAR/PERIOD	**1,744,243**	6,054	(79,346)	(11,961)	(5,359)

ASSETS, LIABILITIES AND MINORITY INTERESTS

	2009	2008 (six months)	2008	2007	2006
TOTAL ASSETS	**4,846,774**	2,067,843	1,899,340	375,344	581,667
TOTAL LIABILITIES	**(1,239,775)**	(937,419)	(721,794)	(25,090)	(320,721)
MINORITY INTERESTS	**(411,245)**	(524,760)	(558,506)	–	–
	3,195,754	605,664	619,040	350,254	260,946