

Interim Report 2010



KAI YUAN HOLDINGS LIMITED
開源控股有限公司

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



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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

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

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Rosebank Centre
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SHARE REGISTRAR

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REGISTERED OFFICE

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AUDITORS

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

SOLICITORS

Kirkpatrick & Lockhart Gates
Solicitors
44th Floor, Edinburgh Tower, The Landmark
15 Queen’s Road, Central,
Hong Kong

PRINCIPAL BANKERS

The Hong Kong & Shanghai Banking Corporation Limited
Fubon Bank

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**TO THE BOARD OF DIRECTORS OF KAI YUAN HOLDINGS LIMITED***(Incorporated in Bermuda with limited liability)***Introduction**

We have reviewed the interim financial statements set out on pages 4 to 27 which comprise the interim consolidated statement of financial position of Kai Yuan Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") as at 30 June 2010 and the related interim statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standards 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants.

The directors are responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with Hong Kong Accounting Standards 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Conclusion

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

Emphasis of matter

Without qualifying our conclusion, we draw attention to note 9 (a) to the financial statements, which discloses details of a restructuring agreement entered into by the Company's three associates.

Ernst & Young
Certified Public Accountants

Hong Kong
27 August 2010

INTERIM CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2010

	Notes	For the six months ended 30 June	
		2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
REVENUE	3	61,584	106,729
Cost of sales		(81,575)	(71,043)
Gross (loss)/profit		(19,991)	35,686
Excess over cost of acquisition	16	–	1,626,284
Other income and gains		203	5,623
Administrative expenses		(76,868)	(40,438)
Finance costs		(14,809)	(2,886)
Share of profits and losses of:			
A jointly-controlled entity		310	(2,298)
Associates		(35,010)	72,971
(LOSS)/PROFIT BEFORE TAX	4	(146,165)	1,694,942
Income tax credit/(expense)	5	2,108	(10,120)
(LOSS)/PROFIT FOR THE PERIOD		(144,057)	1,684,822
Attributable to:			
Owners of the Company		(122,544)	1,682,310
Minority interests		(21,513)	2,512
		(144,057)	1,684,822
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	7		
– Basic		HK (1) cent	HK 23 cents
– Diluted		HK (1) cent	HK 23 cents

The accompanying notes form an integral part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2010

	Notes	For the six months ended 30 June	
		2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
(LOSS)/PROFIT FOR THE PERIOD		(144,057)	1,684,822
Exchange differences on translation		42,657	(961)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX		42,657	(961)
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD		(101,400)	1,683,861
Attributable to:			
Owners of the Company		(79,887)	1,681,349
Minority interests		(21,513)	2,512
		(101,400)	1,683,861

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2010

	Notes	30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	8	662,643	577,062
Investment properties		85,458	91,473
Prepaid land lease payments		45,303	46,371
Goodwill		10,879	10,757
Intangible assets		106,248	109,717
Interest in a jointly-controlled entity		111,866	120,414
Interests in associates	9	2,747,792	2,753,197
Available-for-sale investments		5,284	5,225
Total non-current assets		3,775,473	3,714,216
CURRENT ASSETS			
Inventories		826	4,390
Trade receivables	10	2,446	9,644
Other receivables and prepayments		8,733	18,788
Prepaid land lease payments		2,985	2,951
Amounts due from associates		456,292	450,955
Amounts due from related companies		271,641	283,865
Dividend receivable from a jointly-controlled entity		56,671	56,035
Pledged bank deposits		–	711
Cash and cash equivalents		228,863	305,219
Non-current assets classified as held for sales		7,054	–
Total current assets		1,035,511	1,132,558
Total assets		4,810,984	4,846,774
CURRENT LIABILITIES			
Trade payables	11	35,479	35,212
Other payables and accruals		71,739	58,449
Dividend payable to former shareholders of a subsidiary		416,955	416,955
Receipt in advance		63,703	61,605
Amounts due to related companies		55,050	53,403
Loan from a director		11,441	–
Obligations under finance leases		–	45
Interest-bearing bank and other borrowings	12	63,424	64,465
Loan from a related company		99,533	101,566
Income tax payable		37,345	36,874
Total current liabilities		854,669	828,574
NET CURRENT ASSETS		180,842	303,984
TOTAL ASSETS LESS CURRENT LIABILITIES		3,956,315	4,018,200

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

AT 30 JUNE 2010

	Notes	30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		3,956,315	4,018,200
NON-CURRENT LIABILITIES			
Convertible notes		216,784	206,630
Obligations under finance leases		–	56
Interest-bearing bank and other borrowings	12	10,492	25,578
Deferred tax liabilities	13	178,804	178,937
Total non-current liabilities		406,080	411,201
Net assets		3,550,235	3,606,999
EQUITY			
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Issued capital	14	942,733	942,733
Equity component of convertible notes		109,072	109,072
Reserves		2,108,698	2,143,949
		3,160,503	3,195,754
Minority interests		389,732	411,245
Total equity		3,550,235	3,606,999

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2010

		Attributable to owners of the Company									
		Equity component of		Share	Translation	Retained	Other	Total	Minority	Total	
		Issued capital	convertible notes	Share premium*	options reserve*	reserve*	reserve*		interests	equity	
Notes		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
	At 1 January 2010 (Audited)	942,733	109,072	640,784	17,226	50,548	1,423,152	12,239	3,195,754	411,245	3,606,999
	Total comprehensive income/(loss) for the period	-	-	-	-	42,657	(122,544)	-	(79,887)	(21,513)	(101,400)
	Equity-settled share option arrangements	-	-	-	44,636	-	-	-	44,636	-	44,636
15		-	-	-	44,636	-	-	-	44,636	-	44,636
	At 30 June 2010 (Unaudited)	<u>942,733</u>	<u>109,072</u>	<u>640,784</u>	<u>61,862</u>	<u>93,205</u>	<u>1,300,608</u>	<u>12,239</u>	<u>3,160,503</u>	<u>389,732</u>	<u>3,550,235</u>

		Attributable to owners of the Company								
		Issued capital	Share premium*	Share options reserve*	Translation reserve*	Retained profits/(accumulated losses)*	Total	Minority interests	Total equity	
Notes		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
	At 1 January 2009 (Audited)	711,761	266,208	15,467	46,834	(434,606)	605,664	524,760	1,130,424	
	Total comprehensive income/(loss) for the period	-	-	-	(961)	1,682,310	1,681,349	2,512	1,683,861	
	Issue of shares	200,000	330,000	-	-	-	530,000	-	530,000	
	Equity-settled share option arrangements	-	-	7,475	-	-	7,475	-	7,475	
15		-	-	7,475	-	-	7,475	-	7,475	
	Exercised equity-settled share option	1,972	3,713	(1,641)	-	-	4,044	-	4,044	
	At 30 June 2009 (Unaudited)	<u>913,733</u>	<u>599,921</u>	<u>21,301</u>	<u>45,873</u>	<u>1,247,704</u>	<u>2,828,532</u>	<u>527,272</u>	<u>3,355,804</u>	

* These reserve accounts comprise the consolidated reserves of HK\$2,108,698,000 (30 June 2009: HK\$1,914,799,000) in the consolidated statement of financial position.

INTERIM CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2010

	Notes	For the six months ended 30 June	
		2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/Profit before tax		(146,165)	1,694,942
Adjustments for:			
Finance costs		14,809	2,886
Share of (profits)/losses of a jointly-controlled entity		(310)	2,298
Share of losses/(profits) of associates		35,010	(72,971)
Equity-settled share option expenses		44,636	7,475
Excess over cost of acquisition		–	(1,626,284)
Loss on disposal of property, plant and equipment		31	1,234
Depreciation of property, plant and equipment		12,648	9,228
Recognition of prepaid land lease payments		1,627	1,627
Amortization of intangible assets		4,716	11,989
Interest income		(203)	(11)
		(33,201)	32,413
Decrease in inventories		3,564	7,990
Decrease in trade receivables		7,198	1,953
Decrease in other receivables and prepayments		10,055	2,737
Increase/(decrease) in trade payables		267	(1,874)
Increase/(decrease) in other payables and accruals		13,290	(6,643)
Increase/(decrease) in receipt in advance		2,098	(13,542)
Decrease in deferred revenue		–	(2,123)
		3,271	20,911
Cash generated from operations			
Income tax paid		–	(75)
		3,271	20,836
Net cash flows from operating activities			

INTERIM CONSOLIDATED CASH FLOW STATEMENT (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2010

	Notes	For the six months ended 30 June	
		2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Net cash flows from operating activities		3,271	20,836
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment		(93,591)	(14,639)
Acquisition of subsidiaries		–	(10,987)
Disposal of property, plant and equipments		69	125
Decrease in pledged bank deposits		711	5,796
Return of investment from a jointly-controlled entity		10,113	–
Interest received		203	286
(Increase)/decrease in amounts due from associates		(5,337)	171,554
Decrease in amounts due from related companies		12,224	65,154
Net cash flows (used in)/from investing activities		(75,608)	217,289
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in amounts due to related companies		1,647	19,518
Decrease in amounts due to associates		–	(30,026)
Loan from a director		11,441	11,237
Proceeds from bank borrowings		11,236	–
Repayment of obligations under finance leases		(101)	–
Repayment of bank loans		(25,641)	(60,334)
Repayment of a loan from a director		–	(230)
Repayment of a loan from a related company		(3,755)	(91,779)
Interest paid		(7,091)	(2,904)
Cash proceeds from exercise of share options		–	4,044
Net cash flows used in financing activities		(12,264)	(150,474)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(84,601)	87,651
Cash and cash equivalents at beginning of period		305,219	32,088
Effect of foreign exchange rate changes, net		8,245	(7)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		228,863	119,732

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2010

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 HM 12, Bermuda, and principal place of business is 28th floor, Chinachem Century Tower, 178 Gloucester Road, Wanchai, Hong Kong.

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

The principal activity of the Company is investment holding, including material investments in associates engaged in the steel and steel products manufacturing and trading, as detailed in note 9.

2.1 BASIS OF PREPARATION

The interim condensed consolidated financial statements for the six months ended 30 June 2010 have been prepared in accordance with Hong Kong Accounting Standards 34 "Interim Financial Reporting" and applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

The interim condensed financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's annual financial statements as at 31 December 2009.

2.2 SIGNIFICANT ACCOUNTING POLICIES

(a) Impact of New and Revised HKFRSs

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in preparation of the Group's annual financial statements for the year ended 31 December 2009, except for the adoption of new standards and interpretations effective for the period beginning on or after 1 January 2010, as set out below:

HKFRS 1 (Revised)	<i>First-time Adoption of HKFRSs</i>
HKFRS 1 Amendments	<i>Amendments to HKFRS 1 First-time Adoption of HKFRSs – Additional Exemptions for First-time Adopters</i>
HKFRS 2 Amendments	<i>Amendments to HKFRS 2 Share-based Payment – Group Cash-settled Share based Payment Transactions</i>
HKFRS 3 (Revised)	<i>Business Combinations</i>
HKAS 27 (Revised)	<i>Consolidated and Separate Financial Statements</i>
HKAS 39 Amendment	<i>Amendment to HKAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items</i>
HK(IFRIC)-Int 17	<i>Distributions of Non-cash Assets to Owners</i>
Amendments to HKFRS 5 included in <i>Improvements to HKFRSs</i> issued in October 2008	<i>Amendments to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary</i>
HK Interpretation 4 (Revised in December 2009)	<i>Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases</i>

2.2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Impact of New and Revised HKFRSs (Continued)

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. As during the reporting period, there is no transaction fallen under the new standard, the adoption does not have impact on the results and financial position of the Group.

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. As there is no such transaction during the period, the adoption does not have impact on the results and financial position of the Group.

Except as stated above, the adoption of the above new and revised HKFRSs does not have a significant impact on the Group's interim condensed consolidated financial statements.

(b) Impact of Issued but not yet Effective HKFRSs

The Company has not applied the following new and revised HKFRSs that have been issued but are not yet effective, for the six months ended 30 June 2010, in the interim condensed financial statements.

HKAS 32 Amendment	Amendment to HKAS 32 <i>Financial Instruments: Presentation – Classification of Rights Issues</i> ¹
HKFRS 1 Amendment	Amendment to HKFRS 1 <i>First-time adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters</i> ²
HKFRS 9	<i>Financial Instruments</i> ⁴
HKAS 24 (Revised)	<i>Related Party Disclosures</i> ³
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 <i>Prepayments of a Minimum Funding Requirements</i> ³
HK(IFRIC)-Int 19	<i>Extinguishing Financial Liabilities with Equity Instruments</i> ²

¹ Effective for annual periods beginning on or after 1 February 2010

² Effective for annual periods beginning on or after 1 July 2010

³ Effective for annual periods beginning on or after 1 January 2011

⁴ 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 9 and HKAS 24 (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.

2.2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Impact of Issued but not yet Effective HKFRSs (Continued)

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.

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.

3. REVENUE AND 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 and underground parking areas located in Beijing 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 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.

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.

3. REVENUE AND OPERATING SEGMENT INFORMATION (Continued)

For the six months ended 30 June 2010 (Unaudited)	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	59,485	2,099	–	61,584
Revenue				<u>61,584</u>
Segment results	(38,249)	1,369	(35,021)	(71,901)
<i>Reconciliation:</i>				
Share of gains of a jointly-controlled entity				310
Interest income				203
Corporate and other unallocated expenses				(59,968)
Finance costs				<u>(14,809)</u>
Loss before tax				<u>(146,165)</u>
Segment assets at 30 June 2010	1,053,879	261,117	3,191,925	4,506,921
<i>Reconciliation:</i>				
Corporate and other unallocated assets				<u>304,063</u>
Total assets at 30 June 2010				<u>4,810,984</u>

For the six months ended 30 June 2010 (Unaudited)	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:					
Associates	–	–	(35,010)	–	(35,010)
Depreciation and amortisation	(18,110)	(194)	–	(687)	(18,991)

3. REVENUE AND OPERATING SEGMENT INFORMATION (Continued)

For the six months ended 30 June 2009 (Unaudited)	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	104,455	2,274	–	106,729	
Revenue				<u>106,729</u>	
Segment results					
	16,793	2,360	72,971	92,124	
<i>Reconciliation:</i>					
Share of losses of a jointly-controlled entity				(2,298)	
Interest income				11	
Excess over cost of acquisition				1,626,184	
Corporate and other unallocated expenses				(18,193)	
Finance costs				<u>(2,886)</u>	
Profit before tax				<u>1,694,942</u>	
Segment assets at 31 December 2009					
	1,094,809	268,006	3,192,840	4,555,655	
<i>Reconciliation:</i>					
Corporate and other unallocated assets				<u>291,119</u>	
Total assets at 31 December 2009				<u>4,846,774</u>	
			Steel		
			manufacturing	Corporate	
			and trading	and	
			investment	unallocated	Total
			HK\$'000	HK\$'000	HK\$'000
For the six months ended 30 June 2009 (Unaudited)	Heat energy supply HK\$'000	Property investment HK\$'000			
Other segment information					
Share of profits and losses of:					
Associates	–	–	72,971	–	72,971
Depreciation and amortisation	(21,839)	(19)	–	(986)	(22,844)

4. (LOSS)/PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Cost of service provided	81,575	71,043
Depreciation of property, plant and equipment	12,648	9,228
Amortisation of intangible assets	4,716	11,989
Foreign exchange loss	477	1
Interest income	(203)	(11)
Excess over cost of acquisition	-	(1,626,284)
Employee benefit expense (including directors' remuneration)	58,959	24,347

5. INCOME TAX (CREDIT)/EXPENSE

The major components of income tax (credit)/expense for the six months ended 30 June 2010 and 2009 are as follows:

	For the six months ended 30 June	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Current income tax		
PRC income tax	34	9,334
Hong Kong income tax	-	-
	34	9,334
Deferred income tax	(2,142)	786
Income tax (credit)/charge for the period	(2,108)	10,120

Hong Kong profits tax should be provided at the rate of 16.5% (for the six months ended 30 June 2009: 16.5%) of the estimated assessable profits arising in Hong Kong during the period. No provision for Hong Kong profits tax has been made in the financial statements, as the Group does not have any assessable profit arising in Hong Kong.

The provision for PRC current income tax is based on the statutory rate of 25% (for the six months ended 30 June 2009: 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.

6. DIVIDENDS

The directors do not recommend the payment of any dividend in respect of the period (for the six months ended 30 June 2009: Nil).

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

The calculation of the basic (loss)/earnings per share amount is based on the (loss)/profit for the period attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 9,427,333,140 (for the six months ended 30 June 2009: 7,341,473,000) in issue during the period.

The calculation of the diluted (loss)/earnings per share amount is based on the (loss)/profit for the 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 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 (loss)/earnings per share amounts are based on:

	For the six months ended 30 June	
	2010 (Unaudited)	2009 (Unaudited)
<u>(Loss)/Earnings (HK\$'000)</u>		
(Loss)/profit attributable to ordinary equity holders of the Company	(122,544)	1,682,310
Interest on convertible notes	<u>11,712</u>	<u>–</u>
(Loss)/profit attributable to ordinary equity holders of the Company before interest on convertible notes	<u>(110,832)</u>	<u>1,682,310</u>
<u>Number of shares ('000)</u>		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	9,427,333	7,341,473
Effect of dilution – weighted average number of ordinary shares:		
Share options	–	41,595
Convertible notes	<u>–</u>	<u>–</u>
Weighted average number of ordinary shares in issue during the period used in the diluted (loss)/earnings per share calculation	<u>9,427,333</u>	<u>7,383,068</u>
– Basic	<u>HK(1) cent</u>	<u>HK 23 cents</u>
– Diluted	<u>HK(1) cent</u>	<u>HK 23 cents</u>

The effect of share options and convertible notes are not included in the calculation of diluted loss per share, and the diluted loss per share is same as the basic loss per share for the six months ended 30 June 2010, since the effect of the share options or conversion of the convertible notes would result in decrease in loss per share.

8. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2010, the Group acquired items of property, plant and equipment with a cost of HK\$93,591,000 (for the six months ended 30 June 2009: HK\$14,639,000). Depreciation for items of property, plant and equipment is HK\$12,648,000 (for the six months ended 30 June 2009: HK\$9,228,000) during the period.

Property, plant and equipment with a net book value of HK\$100,000 (for the six months ended 30 June 2009: HK\$1,359,000) was disposed of by the Group during the six months ended 30 June 2010, resulting in a net loss on disposal of HK\$31,000 (for the six months ended 30 June 2009: a net loss of HK\$1,234,000).

9. INTERESTS IN ASSOCIATES

	30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
Share of net assets:		
– Unlisted investments, at cost	2,200,049	2,171,003
– Share of post-acquisition changes in net assets	547,743	582,194
	2,747,792	2,753,197

Particulars of the associates are as follows:

Name	Legal form of business	Place of incorporation	Registered capital	Percentage of ownership interest attributable to the Group		Principal activities
				Directly	Indirectly	
天津市梅江供熱運行管理有限公司 Tianjin Meijiang Heat Supply Operating Management Company Limited	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

9. INTERESTS IN ASSOCIATES (Continued)

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

	For the six months ended 30 June	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Revenue	45,154,983	7,863,743
(Loss)/Profit	(49,849)	251,039
	30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
Total assets	59,025,142	45,935,808
Total liabilities	(49,124,216)	(40,338,672)

The following matter occurred in relation to the three associates of the Group located in Shandong province are disclosed as follows:

- (a) 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.

Till the date of these interim condensed consolidated financial statements, the implementation of the above-mentioned Restructuring Agreement is still under negotiations between the two parties.

10. TRADE RECEIVABLES

	30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
Trade receivables	2,446	9,644
Less: Provision for impairment of trade receivables	—	—
	2,446	9,644

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:

	30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
Within 1 month	—	12
1 to 3 months	—	—
Over 3 months	2,446	9,632
	2,446	9,644

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.

11. TRADE PAYABLES

	30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
Trade payables	<u>35,479</u>	<u>35,212</u>

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 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:

	30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
Within 1 month	6,067	9,601
1 to 3 months	413	312
Over 3 months	<u>28,999</u>	<u>25,299</u>
	<u>35,479</u>	<u>35,212</u>

12. INTEREST-BEARING BANK AND OTHER BORROWINGS

On 31 January 2010, the Group has repaid the bank borrowings from the Bank of East Asia, Limited. with the principal of HK\$ 14,405,000 before they are due.

13. DEFERRED TAX

The components of deferred tax assets and liabilities are as follows:

	30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
Deferred tax liabilities:		
Revaluation of investment properties	1,660	1,660
Fair value adjustment on intangible assets	26,263	27,429
Fair value adjustment on prepaid lease payments	917	970
Fair value adjustment on long term borrowings	232	387
Deferred revenue	126,798	129,444
Withholding tax	56,242	54,405
Exchange differences on translation	2,535	–
	214,647	214,295
Deferred tax assets:		
Impairment of assets	9,654	9,654
Fair value adjustment on property, plant and equipment	25,663	25,704
Exchange differences on translation	526	–
	35,843	35,358

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

	30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
Net deferred tax liabilities recognised in the interim consolidated statement of financial position	178,804	178,937

14. ISSUED CAPITAL

	Number of shares		Share capital	
	2010 '000	2009 '000	2010 HK\$'000	2009 HK\$'000
Ordinary shares of HK\$0.10 each				
Authorised:				
At 1 January	20,000,000	20,000,000	2,000,000	2,000,000
Increase of authorised share capital	–	–	–	–
At 30 June	20,000,000	20,000,000	2,000,000	2,000,000
Issued and fully paid:				
At 1 January	9,427,333	7,117,613	942,733	711,761
Issue of shares	–	2,000,000	–	200,000
Exercised equity-settled share option	–	19,720	–	1,972
At 30 June	9,427,333	9,137,333	942,733	913,733

15. 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 options 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 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 quotation 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 quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

15. SHARE OPTION SCHEME (Continued)

Detail of the share options outstanding during the current period are as follows:

	Number of share options
Outstanding at 1 January 2010	255,880,000
Granted during the period	426,040,000
	<hr/>
Outstanding at 30 June 2010	681,920,000
	<hr/>

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

	29 January 2010	19 April 2010
Closing share price per share at the date of offer	HK\$0.35	HK\$0.325
Exercise price per share	HK\$0.35	HK\$0.33
Expected volatility	76.66%	69.89%
Risk-free interest rate	0.6317%	0.5315%
Expected dividend yield	0%	0%
Forfeiture rate	0%	0%

Expected volatility was determined by using the historical volatility of the Company's share prices 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\$44,636,000 for the period (for the six months ended 30 June 2009: HK\$7,475,000) in relation to share options granted by the Company.

16. ACQUISITION OF SUBSIDIARIES

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 price 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, which has been accounted for using the purchase method of accounting for the Acquisition.

In the interim condensed financial statement for six months ended 30 June 2009, the Group accounted for the acquisition based on provisional values of Fame Risen. After 30 June 2009, the Group continued evaluating the initial accounting for the Acquisition, and updated the fair value based on the finalized valuation result. Upon the completion of the initial accounting, adjustment was made to increase excess over cost of acquisition by HK\$690,153,000 and increase share of profits and losses of associates by HK\$5,540,000. The comparative information is restated to reflect the adjustment as if the initial accounting had been completed on the Acquisition date. Details of the adjusted fair value are set out in the Group 2009's annual report.

16. ACQUISITION OF SUBSIDIARIES (Continued)

The comprehensive income previously reported by the Group for the six months ended 30 June 2009 has been restated as set out below.

Consolidated Income Statement	The Group (as previously reported)	Adjustments	The Group (as restated)
	HK\$'000		HK\$'000
Profit before tax	999,249	695,693	1,694,942
– Excess over cost of acquisition	936,131	690,153	1,626,284
– Share of profits and losses of associates	67,431	5,540	72,971
Profit for the period	989,129	695,693	1,684,822
– Excess over cost of acquisition	936,131	690,153	1,626,284
– Share of profits and losses of associates	67,431	5,540	72,971

17. CAPITAL COMMITMENTS

At 30 June 2010, the Group had the following capital commitments:

	30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
Contracted, but not provided for:		
Office decoration	1,914	–
Property, plant and equipment	98,284	113,829
	100,198	113,829

18. 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 30 June 2010, 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 will be required to settle the obligation.

19. RELATED PARTY TRANSACTIONS AND BALANCES

(a) Related party transactions:

The Group entered into the following transactions with related parties:

	For the six months ended 30 June	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Purchase of coal from an associate	5,673	23,280
Interest income from a minority shareholder of a group entity	–	(2,921)
Interest expense to a minority shareholder of a group entity	1,795	6,418
Management fee	3,225	3,034
	<u>3,225</u>	<u>3,034</u>

(b) Compensation of key management personnel of the Group

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

	For the six months ended 30 June	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Short term employee benefits	4,500	3,000
Post-employment benefits	96	81
Share-based payment	44,636	7,475
	<u>49,232</u>	<u>10,556</u>
Total compensation paid to key management personnel	49,232	10,556

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.

20. EVENTS AFTER THE REPORTING PERIOD

In July 2010, the Group established three subsidiaries in Hong Kong to be engaged in financial services and securities business. Till the date of these interim condensed consolidated financial statements, the subsidiaries are still in process of applying for relevant operation licenses and have not commenced operation.

21. COMPARATIVE FIGURES

Comparative figures have been adjusted as a result of the completion of the initial accounting of the acquisition of subsidiaries as detailed in note 16 and certain comparatives have been reclassified to conform with the current period's presentation.

22. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 August 2010.

INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend for the six months ended 30 June 2010 (Six months ended 30 June 2009: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the six months ended 30 June 2010 (the “Interim Period”), turnover of the Group has decreased to approximately HK\$61.6 million from approximately HK\$106.7 million for the six months ended 30 June 2009 (the “Comparable Period”). The decrease was attributable to decreased revenues for the Group’s heat energy supply operations. During the Interim Period, the Group recorded a net loss of approximately HK\$144.1 million, as compared with a profit of approximately HK\$1,684.8 million for the Comparable Period, which was principally attributable to i) the excess over cost on acquisition of a subsidiary with its associates recorded in the Comparable Period was only a one-off transaction, which did not recur during this Interim Period; ii) the loss arising from the Group’s associates engaged in steel manufacturing of approximately HK\$35.0 million for the Interim Period, which was mainly attributable to the significant decrease in market price for steel products and the significant increase in prices of raw materials needed for steel production, such as iron ores, leading to increases in production costs in the second quarter of 2010; iii) the loss arising from the Group’s heat energy supply operations, which was mainly due to the aforementioned decrease in revenue as a result of a lack of sizable new real estate development requiring connection services in the area covered by Group’s heat energy supply operation in the first half year of 2010 and the termination of an agreement relating to the granting of certain operating rights related to pipeline connection services by a subsidiary of the Group to a third party; and iv) increase in administrative expenses to approximately HK\$76.9 million for the Interim Period (Comparable Period: approximately HK\$40.4 million) largely due to an increase in share-based payments resulting from share options issued during the Interim Period. Loss attributable to owners of the Company for the Interim Period amounted to approximately HK\$122.5 million after excluding minority interests, translating into basic loss per share of HK\$1 cent.

Segmental review of the Group’s operations during the Interim Period is as follows:

Steel Manufacturing and Trading Investment

During the Interim Period, The Group’s steel-making associates, namely Rizhao Steel Co., Ltd. Rizhao Medium Section Mill Co., Ltd. and Rizhao Steel Wire Co., Limited, continued to produce near designed capacity, outputting approximately 6,060,000, 545,000 and 5,397,000 tonnes respectively for the Interim Period. However, there had been a significant decrease in market price for steel products and a significant increase in prices of raw materials needed for steel production, particularly iron ores, leading to significant increases in production costs during the second quarter of 2010, hence leading to the associates having contributed a loss of approximately HK\$35.0 million for the Interim Period, as compared with a profit of approximately HK\$73.0 million for the Comparable Period. Meanwhile, negotiations relating to the asset restructuring and co-operation agreement (the “Restructuring Agreement”) between these associates, amongst others, and 山東鋼鐵集團有限公司 (for English identification, Shandong Steel Group Co., Limited) are still being undertaken as at the date of this Report.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Business Review (Continued)

Heat Energy Supply

During the Interim Period, the heat energy supply operations of the Group generated turnover of approximately HK\$59.5 million and segmental loss of approximately HK\$38.2 million, as compared with approximately HK\$104.5 million and segmental profit of approximately HK\$16.8 million of the Comparable Period. The decrease in revenue and resulting loss was largely due to a lack of sizable new real estate development requiring connection services in the area covered by the Group's heat energy supply operations and the termination of an agreement relating to the granting of certain operating rights related to pipeline connection services by a subsidiary of the Group to a third party, which was disclosed in the 2009 annual report of the Company, which led to a gross loss as the utilization rate of the Group's heat energy supply facilities has yet to reach efficient levels relative to the inelastic fixed cost structure of heat energy generation. Pursuant to the agreement, the subsidiary would grant the third party certain operating rights related to connecting pipelines for its customers to the main pipelines of the subsidiary in return for a specified service fee. Subsequent to the termination of this agreement, the subsidiary shall directly deal with the customers and connection fee revenues shall be generated in the same manner as its other pipeline connection business (i.e. connection fee charged based on area covered on an individual project basis) instead receiving the lump sum service fees pursuant to the aforementioned contract. The aforementioned lack of new real estate development has led to the connection fee income for the Interim Period having been adversely affected. Meanwhile, the three heat energy supply projects, namely the Meijiang Project, the Jinxia Xindu Project and the Xiqing Nanhe Project operated by the Group's heat energy supply subsidiaries in Tianjin have continued to increase in heat energy supply area covered from approximately 5.1 million sq.m, for the 2009/2010 heating season to 5.4 million sq.m for the 2010/2011 heating season.

Property Investment

During the Interim Period, turnover from the Group's commercial properties has decreased to approximately HK\$2.1 million, as compared with approximately HK\$2.2 million for the Comparable Period, which reflected the slightly lowered occupancy of the Group's investment properties during the Interim Period. The segmental profit decreased to approximately HK\$1.4 million for the Interim Period from approximately HK\$2.4 million for the Comparable Period mainly due to a gain from waiver of certain liabilities in the Comparable Period of approximately HK\$1 million being a one-off transaction not recurred in the Interim Period. Occupancy rate of the Group's 35 A-grade commercial offices situated at 33 Deng Shi Kou Main Street, Wangfujing, Dong Cheng District averaged approximately 88% during the Interim Period (30.06.2009: 89%). During the Interim Period, the Group had continued to review its property investment portfolio. Given the market opportunities, the Group entered into agreements in February 2010 to dispose of 3 office units with an aggregate area of 439.47 sq.m for an aggregate consideration of approximately HK\$6.9 million. The above disposals are scheduled to be completed in the second half of 2010, which shall be reflected in the Group's final results of this year.

During the Interim Period, revenue of Shanghai Underground Centre Company Limited ("SUCCL") has increased to approximately HK\$25.6 million for the Interim Period (Comparable Period: approximately HK\$24.8 million). Mainly as a result of control cost measures exercised by the management, SUCCL contributed a profit of approximately HK\$0.3 million for the Interim Period, versus a loss of HK\$2.3 million for the Comparable Period.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Prospects

Steel Manufacturing and Trading Investment

Subsequent to the end of the Interim Period, despite the continued rally in prices of materials in the global market, there had been signs of rebound in steel product prices. Given their coastal locations and modern management expertise, the associates are able to exercise inventory control and margin maintenance that are amongst the best in the industry. As such, the Group is optimistic about improving operating performance of the Group's associates engaged in steel manufacturing and trading in the coming months as and when steel product prices and material costs become more in line with one another. Given their strong track record, the Group is confident that these associates will soon recover from the temporary market driven setbacks and prove themselves with strong performance in the coming years.

Heat Energy Supply

The Group's heat energy supply business provides the essential public heat energy supply to the southwestern areas of Tianjin where the heat energy supply projects are located. Although the operating environment in this utility industry continues to be challenging as heat energy suppliers are not free to set prices while costs of operation is subject to inflation, it is expected that the Group's heat energy supply operations shall be benefited as the development of Tianjin gains momentum, and shall generate a stable revenue stream for Group as its over 21 million sq.m. of maximum aggregate heat energy supply coverage is gradually utilized to efficient levels.

Property Investment

Market for commercial and office space in the PRC market, particularly in major cities such as Beijing and Shanghai, has continued to be vibrant. As such, the Group is confident that its portfolio of property investments will continue to provide stable rental income for the Group. At the same time, the Group shall continue to monitor market situation and review its non-core property investment portfolio from time to time in order to capture market opportunities and maximize returns.

Looking ahead

Through the past few years, the Group has gone through an evolution in its business portfolio to encompass businesses that are essential to the development of a country, including utilities business such as heat energy supply and material supply business such as steel manufacturing and trading. Aiming to further broaden its business operation and income stream, the Group continues to actively explore investment and business development opportunities. In view of the global economy gradually returning to a healthy state and the continued robust development of financial markets of Hong Kong and the PRC, the Directors believe that the financial service sector presents a good development opportunity for the Group. As such, the Group has initiated the planning and development of a financial service business, the initial step of which is the setting up of a securities company, for which relevant licenses are currently being applied with the Securities and Futures Commission of Hong Kong. The Group is optimistic that, as business strategically expands, return and value will be further enhanced for all stakeholders.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Liquidity and Financial resources

As at 30 June 2010, total assets and net assets of the Group were approximately HK\$4,811.0 million and HK\$3,550.2 million respectively, as compared with HK\$4,846.8 million and HK\$3,607.0 million as at 31 December 2009. Cash and bank balance and pledged bank deposits of the Group as at 30 June 2010 totaled approximately HK\$228.9 million (31.12.2009: HK\$305.9 million), representing a decrease of 25.2%, which was largely due to acquisition of office premises made by the Group's subsidiary. Correspondingly, current assets decreased by 8.6% to approximately HK\$1,035.5 million during the Interim Period (31.12.2009: HK\$1,132.6 million). As at 30 June 2010, the Group's outstanding bank and other borrowings amounted to approximately HK\$73.9 million (31.12.2009: HK\$90.0 million), approximately HK\$63.4 million of which was due within one year. Net current assets as at 30 June 2010 was approximately HK\$180.8 million. (31.12.2009: HK\$304.0 million), representing a decrease of 40.5%. As at 30 June 2010, the Group's gearing ratio (total borrowings/total assets) continued to remain at a low level of 3.8% (31.12.2009: 4.0%)

Acquisitions and Disposals

The Group entered into agreements in February 2010 to dispose of 3 office units with an aggregate area of 439.47 sq.m for an aggregate consideration of approximately HK\$6.9 million. The above disposals are scheduled to be completed in the second half of 2010, which shall be reflected in the Group's final results of this year.

Foreign Exchange Exposure

The operations of the Group are located in the PRC. Loans and borrowings taken in relation to such operations 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 the Interim Period. 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 period are set out in note 18 to the interim condensed consolidated financial statement.

Pledge on the Group's Assets

The bank borrowings granted to the Group secured by deposits and its investment properties were settled in January 2010, so that as at 30 June 2010 there are no pledged deposits (31.12.2009 HK\$0.7 million) and assets (31.12.2009 HK\$63.2 million).

Employees and Remuneration

The Group had approximately 192 employees as at 30 June 2010 (31.12.2009: 208). Apart from basic remuneration, the Group also provides other employee benefits including medical scheme and provident fund schemes. In addition, the Group has a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

DIRECTORS' INTERESTS IN SHARES

At 30 June 2010, the interests and the short positions of the Directors and chief executives of the company in the shares underlying shares and convertible note of the Company and its associated corporations (within the meaning of Par XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), were as follows:

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

Name of Directors	Capacity	Number of shares held as corporate interests	Percentage of the issued share capital of the Company
Mr. Hu Yishi	Corporate (Note)	446,930,000	4.74%
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 Limited, a company beneficially owned by Mr. Hu Yishi.

Long positions – share options

Name of Directors	Capacity	Number of options held	Number of underlying shares
Mr. Hu Yishi	Beneficial owner	137,980,000	137,980,000
Mr. Yip Kar Hang Raymond	Beneficial owner	50,000,000	50,000,000
Ms. Kwong Wai Man Karina	Beneficial owner	20,000,000	20,000,000
Mr. Hu Jin Xing	Beneficial owner	137,980,000	137,980,000
Mr. Xue Jian	Beneficial owner	94,260,000	94,260,000
Mr. Tam Sun Wing	Beneficial owner	1,000,000	1,000,000
Mr. Ko Ming Tung, Edward	Beneficial owner	1,000,000	1,000,000
Mr. Ng Ge Bun	Beneficial owner	1,000,000	1,000,000

Long positions – convertible notes

Name of Directors	Capacity	Amount of convertible notes (HK\$)	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 30 June 2010 the remaining balance of convertible notes is HK\$230,100,000.

Save as disclosed above, none of the Directors or their associates had any interests or short positions in any shares of the Company or any of its associated corporate as at 30 June 2010.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2010, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that, other than interests disclosed above in respect of the Director, Mr. Hu Yishi, the following persons have notifiable interests or short position in the issued share capital of the Company as at 30 June 2010:

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

Name of shareholder	Capacity	Number of issued ordinary shares held	Percentage of issued shares capital of the company
Mr. Du Shuang Hua	Interest of controlled corporation	708,000,000	7.51%
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 beneficially own 85% interest in the issued share capital of Happy Sino International Limited.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 30 June 2010.

SHARE OPTIONS

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

Grantees	Date of grant	Outstanding at 31-Dec-09 '000	Granted during the period '000	Exercised during the period '000	Cancelled/ Lapsed during the period '000	Outstanding at 30-Jun-10 '000	Exercisable period	Exercise price per share HK\$	Closing price per share before date on which the options were granted/ exercised (note a) HK\$
Directors of the company									
Hu Yishi	22 August 2007	43,720	-	-	-	43,720	22 August 2010 – 21 August 2011	0.205	
Hu Yishi	29 January 2010	-	50,000	-	-	50,000	29 January 2010 – 16 April 2012	0.35	0.34
Hu Yishi	19 April 2010	-	44,260	-	-	44,260	19 April 2010 – 16 April 2012	0.33	0.325
Hu Jin Xing	22 August 2007	43,720	-	-	-	43,720	22 August 2010 – 21 August 2011	0.205	
Hu Jin Xing	29 January 2010	-	50,000	-	-	50,000	29 January 2010 – 16 April 2012	0.35	0.34
Hu Jin Xing	19 April 2010	-	44,260	-	-	44,260	19 April 2010 – 16 April 2012	0.33	0.325
Yip Kar Hang, Raymond	29 January 2010	-	50,000	-	-	50,000	29 January 2010 – 16 April 2012	0.35	0.34
Kwong Wai Man, Karina	22 April 2008	10,000	-	-	-	10,000	22 April 2008 – 16 April 2012	0.165	
Kwong Wai Man, Karina	29 January 2010	-	10,000	-	-	10,000	29 January 2010 – 16 April 2012	0.35	0.34
Xue Jian	16 January 2009	71,000	-	-	-	71,000	16 January 2009 – 16 April 2012	0.265	
Xue Jian	19 April 2010	-	23,260	-	-	23,260	19 April 2010 – 16 April 2012	0.33	0.325
Tam Sun Wing	29 January 2010	-	1,000	-	-	1,000	29 January 2010 – 16 April 2012	0.35	0.34
Ko Ming Tung, Edward	29 January 2010	-	1,000	-	-	1,000	29 January 2010 – 16 April 2012	0.35	0.34
Ng Ge Bun	29 January 2010	-	1,000	-	-	1,000	29 January 2010 – 16 April 2012	0.35	0.34
		<u>168,440</u>	<u>274,780</u>	<u>-</u>	<u>-</u>	<u>443,220</u>			
Other employees of the Group									
	22 August 2007	87,440	-	-	-	87,440	22 August 2010 – 21 August 2011	0.205	
	29 January 2010	-	57,000	-	-	57,000	29 January 2010 – 16 April 2012	0.35	0.34
	19 April 2010	-	94,260	-	-	94,260	19 April 2010 – 16 April 2012	0.33	0.325
		<u>87,440</u>	<u>151,260</u>	<u>-</u>	<u>-</u>	<u>238,700</u>			
		<u>255,880</u>	<u>426,040</u>	<u>-</u>	<u>-</u>	<u>681,920</u>			
Exercisable at the end of the Period						<u>507,040</u>			

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

CORPORATE GOVERNANCE

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

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

The Company had complied with the CG Code throughout the six months ended 30 June 2010 with the following deviation:

- A4.1 Non-executive Directors are not appointed for a specific term. They are, however, subject to retirement by rotation and re-election at the annual general meetings of the Company pursuant to the Company's Bye-laws. As such, the Company considers that such provisions are sufficient to meet the underlying objectives of the relevant provisions of the CG Code.
- A4.2 The Chairman is not, whilst holding such office, subject to retirement by rotation or taken into account in determining the number of Directors to retire in each year in accordance with the Company's Bye-laws. In the opinion of the Board, it is important for the stability and growth of the Company that there is, and is seen to be, continuity of leadership in these roles and, in consequence, the Board is of the view that it should not be subject to retirement by rotation or hold office for a limited term at the present time.

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

AUDIT COMMITTEE

The audit committee currently comprises Messrs. Tam Sun Wing, Ko Ming Tung, Edward and Ng Ge Bun, all of whom are independent non-executive directors with appropriate professional qualifications and experience in financial matters. The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed the internal control and financial reporting matters including a review of the interim results and the unaudited consolidated financial statements for the six months ended 30 June 2010.

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

The nomination committee currently consists of one executive Director and two independent non-executive Directors. The present members are Messrs. Yip Kar Hang, Raymond, Ko Ming Tung, Edward and Ng Ge Bun. The nomination committee's terms of reference includes those specific duties as set out in the code provision A.4.5 of the Code in September 2005. Pursuant to its terms of reference, the nomination committee is required, amongst other things, to review the structure, size and composition of the Board and make recommendations for changes as necessary, to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of, individuals nominated for directorships, to assess the independence of independent non-executive Directors, and to make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors in particular the chairman and the chief executive officer.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its code of conduct regarding securities transactions by the Directors. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2010.

PUBLICATION OF DETAILED RESULTS ANNOUNCEMENT ON COMPANY WEBSITE

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

BOARD OF DIRECTORS

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

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

Hong Kong, 27 August 2010