



**KAI YUAN HOLDINGS LIMITED**

**開源控股有限公司**

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

Interim Report **2011**

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## CORPORATE INFORMATION

### BOARD OF DIRECTORS (THE “BOARD”)

#### Executive Directors

Mr. Xue Jian  
Ms. Kwong Wai Man, Karina  
Mr. Law Wing Chi, Stephen (appointed on 18 May 2011)  
Mr. Yip Kar Hang, Raymond (resigned on 6 Jan 2011)

#### Non-executive Directors

Mr. Hu Yishi (Chairman)  
Mr. Hu Jin Xing

#### Independent non-executive Directors

Mr. Tam Sun Wing  
Mr. Ng Ge Bun  
Mr. He Yi (appointed on 18 May 2011)  
Mr. Ko Ming Tung, Edward (resigned on 31 May 2011)

### AUDIT COMMITTEE

Mr. Tam Sun Wing (Chairman)  
Mr. Ng Ge Bun  
Mr. He Yi (appointed on 18 May 2011)  
Mr. Ko Ming Tung, Edward (resigned on 31 May 2011)

### REMUNERATION COMMITTEE

Mr. Tam Sun Wing (Chairman)  
Ms. Kwong Wai Man, Karina  
Mr. Law Wing Chi, Stephen (appointed on 18 May 2011)  
Mr. He Yi (appointed on 18 May 2011)  
Mr. Ng Ge Bun (appointed on 31 May 2011)  
Mr. Ko Ming Tung, Edward (resigned on 31 May 2011)

### NOMINATION COMMITTEE

Mr. Ng Ge Bun (Chairman)  
Ms. Kwong Wai Man, Karina (appointed on 06 Jan 2011)  
Mr. Law Wing Chi, Stephen (appointed on 18 May 2011)  
Mr. He Yi (appointed on 18 May 2011)  
Mr. Tam Sun Wing (appointed on 31 May 2011)  
Mr. Ko Ming Tung, Edward (resigned on 31 May 2011)

### COMPANY SECRETARY

Mr. Fong Kwok Kin

### STOCK CODE

1215

### WEBSITE

[www.kaiyuanholdings.com](http://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*  
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**

**ERNST & YOUNG**

**安永**

**TO THE BOARD OF DIRECTORS OF KAI YUAN HOLDINGS LIMITED**

*(Incorporated in Bermuda with limited liability)*

**Introduction**

We have reviewed the interim condensed consolidated financial statements of Kai Yuan Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 4 to 30, which comprise the interim condensed consolidated statement of financial position as at 30 June 2011, and the interim condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory information. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim condensed consolidated financial statements to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants.

The directors of the Company are responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with HKAS 34. 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 condensed consolidated financial statements 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 10 (a) to the interim condensed consolidated financial statements, which discloses details of a restructuring agreement entered into by the Group’s three associates.

**Ernst & Young**

*Certified Public Accountants*

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

26 August 2011

**INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT**

FOR THE SIX MONTHS ENDED 30 JUNE 2011

	Notes	For the six months ended 30 June	
		2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
<b>CONTINUING OPERATIONS</b>			
REVENUE	3	99,419	59,629
Cost of sales		<u>(98,582)</u>	<u>(81,575)</u>
Gross profit/(loss)		837	(21,946)
Other income and gains		4,349	203
Administrative expenses		(40,886)	(76,367)
Finance costs		(16,176)	(13,978)
Share of profits and (losses) of:			
A jointly-controlled entity		294	310
Associates		<u>99,324</u>	<u>(35,010)</u>
PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	4	47,742	(146,788)
Income tax (expense)/credit	5	<u>(1,452)</u>	<u>2,142</u>
PROFIT/(LOSS) FOR THE PERIOD FROM CONTINUING OPERATIONS		46,290	(144,646)
<b>DISCONTINUED OPERATIONS</b>			
(Loss)/profit for the period from discontinued operations	6	<u>(23,589)</u>	<u>589</u>
PROFIT/(LOSS) FOR THE PERIOD		<u>22,701</u>	<u>(144,057)</u>
Attributable to:			
Owners of the Company		29,085	(122,544)
Non-controlling interests		<u>(6,384)</u>	<u>(21,513)</u>
		<u>22,701</u>	<u>(144,057)</u>
<b>EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY</b>			
	8		
Basic			
– For profit/(loss) for the period		<u>HK\$0.3 cent</u>	<u>HK\$(1.0) cent</u>
– For profit/(loss) from continuing operations		<u>HK\$0.5 cent</u>	<u>HK\$(1.0) cent</u>
Diluted			
– For profit/(loss) for the period		<u>HK\$0.3 cent</u>	<u>HK\$(1.0) cent</u>
– For profit/(loss) from continuing operations		<u>HK\$0.5 cent</u>	<u>HK\$(1.0) cent</u>

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2011

	Notes	For the six months ended 30 June	
		2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
PROFIT/(LOSS) FOR THE PERIOD		<b>22,701</b>	(144,057)
Exchange differences on translation of foreign operations		<b>86,868</b>	42,657
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		<b>86,868</b>	42,657
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD		<b>109,569</b>	(101,400)
Attributable to:			
Owners of the Company		<b>115,953</b>	(79,887)
Non-controlling interests		<b>(6,384)</b>	(21,513)
		<b>109,569</b>	(101,400)



# KAI YUAN HOLDINGS LIMITED

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2011

	Notes	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	9	729,441	712,251
Investment properties		–	98,885
Prepaid land lease payments		44,546	44,904
Intangible assets		105,404	107,060
Investments in a jointly-controlled entity		100,923	116,119
Investments in associates	10	3,323,484	3,150,183
Available-for-sale investments		5,592	5,471
Other long term assets		–	205
<b>Total non-current assets</b>		<b>4,309,390</b>	<b>4,235,078</b>
<b>CURRENT ASSETS</b>			
Inventories		1,032	3,983
Trade receivables	11	51	183
Other receivables and prepayments		11,222	12,691
Prepaid land lease payments		3,197	3,370
Amount due from an associate	21	–	2,000
Amounts due from related companies	21	123,773	133,086
Dividend receivable from a jointly-controlled entity		77,968	58,671
Financial assets at fair value through profit or loss		–	24
Pledged bank deposits		–	17,647
Cash and cash equivalents		258,066	208,183
<b>Total current assets</b>		<b>475,309</b>	<b>439,838</b>
<b>Total assets</b>		<b>4,784,699</b>	<b>4,674,916</b>
<b>CURRENT LIABILITIES</b>			
Trade and bills payable	12	32,018	47,465
Other payables and accruals		101,066	83,646
Receipt in advance		43,206	88,932
Amount due to an associate	21	25,181	–
Amounts due to related companies	21	58,347	40,374
Obligations under finance leases		–	37
Interest-bearing bank and other borrowings	13	60,867	71,469
Loan from a related company	21	108,645	104,273
Income tax payable		38,914	39,470
Convertible notes – current portion	14	–	232,357
<b>Total current liabilities</b>		<b>468,244</b>	<b>708,023</b>
<b>NET CURRENT ASSETS/(LIABILITIES)</b>		<b>7,065</b>	<b>(268,185)</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>4,316,455</b>	<b>3,966,893</b>

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Continued)

AT 30 JUNE 2011

	Notes	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		<b>4,316,455</b>	3,966,893
NON-CURRENT LIABILITIES			
Obligations under finance leases		–	144
Interest-bearing bank and other borrowings	13	5,408	8,533
Deferred tax liabilities	15	169,600	166,939
Total non-current liabilities		<b>175,008</b>	175,616
Net assets		<b>4,141,447</b>	3,791,277
EQUITY			
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY</b>			
Issued capital	16	1,086,849	956,849
Equity component of convertible notes		–	109,072
Reserves		2,774,014	2,438,388
		<b>3,860,863</b>	3,504,309
Non-controlling interests		<b>280,584</b>	286,968
Total equity		<b>4,141,447</b>	3,791,277



**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

FOR THE SIX MONTHS ENDED 30 JUNE 2011

		Attributable to owners of the Company									
		Equity component of							Non-controlling interests	Total equity	
		Issued capital	convertible notes	Share premium*	Share options reserve*	Translation reserve*	Retained profits*	Other reserve*			Total
Notes		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
	At 1 January 2011 (Audited)	956,849	109,072	666,823	51,053	183,062	1,524,400	13,050	3,504,309	286,968	3,791,277
	Total comprehensive income/ (loss) for the period	-	-	-	-	86,868	29,085	-	115,953	(6,384)	109,569
	Conversion of convertible notes	130,000	(109,072)	219,673	-	-	-	-	240,601	-	240,601
	At 30 June 2011 (Unaudited)	<u>1,086,849</u>	<u>-</u>	<u>886,496</u>	<u>51,053</u>	<u>269,930</u>	<u>1,553,485</u>	<u>13,050</u>	<u>3,860,863</u>	<u>280,584</u>	<u>4,141,447</u>

		Attributable to owners of the Company									
		Equity component of							Non-controlling interests	Total equity	
		Issued capital	convertible notes	Share premium*	Share options reserve*	Translation reserve*	Retained profits*	Other reserve*			Total
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
	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>

\* These reserve accounts comprise the consolidated reserves of HK2,774,014,000 (30 June 2010: HK\$2,108,698,000) in the interim condensed consolidated statement of financial position.

## INTERIM CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2011

	Notes	For the six months ended 30 June	
		2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit/(loss) before tax		<b>23,113</b>	(146,165)
From continuing operations		<b>47,742</b>	(146,788)
From discontinued operations		<b>(24,629)</b>	623
Adjustments for:			
Finance costs		<b>16,874</b>	14,809
Share of profits of a jointly-controlled entity		<b>(294)</b>	(310)
Share of (profits)/losses of associates		<b>(99,324)</b>	35,010
Equity-settled share option expenses		<b>–</b>	44,636
Loss on disposal of property, plant and equipment		<b>–</b>	31
Loss on disposal of subsidiaries	18	<b>9,795</b>	–
Depreciation of property, plant and equipment		<b>22,131</b>	12,648
Change in fair value of investment properties		<b>12,649</b>	–
Recognition of prepaid land lease payments		<b>1,585</b>	1,627
Amortisation of intangible assets		<b>3,483</b>	4,716
Interest income		<b>(567)</b>	(203)
		<b>(10,555)</b>	(33,201)
Decrease in inventories		<b>2,951</b>	3,564
Decrease in trade receivables		<b>132</b>	7,198
Decrease in other receivables and prepayments		<b>1,469</b>	10,055
(Decrease)/increase in trade and bills payable		<b>(15,447)</b>	267
Increase in other payables and accruals		<b>17,941</b>	13,290
(Decrease)/increase in receipt in advance		<b>(45,726)</b>	2,098
Cash (used in)/generated from operations		<b>(49,235)</b>	3,271
Income tax paid		<b>–</b>	–
Net cash flows (used in)/from operating activities		<b>(49,235)</b>	3,271

**INTERIM CONDENSED CONSOLIDATED CASH FLOW STATEMENT** (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2011

	Notes	For the six months ended 30 June	
		2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Net cash flows (used in)/generated from operating activities		<b>(49,235)</b>	3,271
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of property, plant and equipment		<b>(34,399)</b>	(93,591)
Disposal of property, plant and equipment		–	69
Disposal of subsidiaries	18	<b>78,903</b>	–
Decrease in pledged bank deposits		<b>17,647</b>	711
Return of investment from a jointly-controlled entity		–	10,113
Interest received		<b>567</b>	203
Decrease/(increase) in amount due from an associate		<b>2,000</b>	(5,337)
Decrease in amounts due from related companies		<b>9,313</b>	12,224
Net cash flows generated from/(used in) investing activities		<b>74,031</b>	(75,608)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Increase in amount due to an associate		<b>25,181</b>	–
Increase in amounts due to related companies		<b>17,973</b>	1,647
Loan from a director		–	11,441
Proceeds from bank borrowings		<b>12,025</b>	11,236
Repayment of obligations under finance leases		–	(101)
Repayment of bank loans		<b>(27,175)</b>	(25,641)
Repayment of a loan from a related company		–	(3,755)
Interest paid		<b>(5,562)</b>	(7,091)
Net cash flows generated from/(used in) financing activities		<b>22,442</b>	(12,264)
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents at beginning of period		<b>208,183</b>	305,219
Effect of foreign exchange rate changes, net		<b>2,645</b>	8,245
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>		<b>258,066</b>	228,863

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2011

### 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 the principal place of business is 28th floor, Chinachem Century Tower, 178 Gloucester Road, Wanchai, Hong Kong.

The principal activity of the Company is investment holding, including material investments in associates engaged in steel and steel products manufacturing and trading, as detailed in note 10. Its subsidiaries are principally engaged in the supply of heat and property investment during the period.

### 2.1 BASIS OF PREPARATION

The interim condensed consolidated financial statements for the six months ended 30 June 2011 have been prepared in accordance with Hong Kong Accounting Standards 34 “*Interim Financial Reporting*” and the 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 for the year ended 31 December 2010.

### 2.2 SIGNIFICANT ACCOUNT POLICIES

#### 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 the preparation of the Group’s annual financial statements for the year ended 31 December 2010, except for the adoption of new and revised HKFRSs effective for the period beginning on 1 January 2011, as set out below:

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>
HKAS 24 (Revised)	<i>Related Party Disclosures</i>
HKAS 32 Amendment	Amendment to HKAS 32 <i>Financial Instruments: Presentation – Classification of Rights Issues</i>
HK(IFRIC) – Int 14 Amendments	Amendments to HK(IFRIC) – Int 14 <i>Prepayments of a Minimum Funding Requirements</i>
HK(IFRIC) – Int 19	<i>Extinguishing Financial Liabilities with Equity Instruments</i>

Apart from above, the Group has adopted *Improvements to HKFRSs 2010* which sets out amendments to a number of HKFRSs.

The adoption of the above new and revised HKFRSs does not have a significant impact on the Group’s interim condensed consolidated financial statements.

### 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 supply of heat energy, 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 plazas located in Beijing for their rental income potential, and holds interests in a jointly-controlled entity located in Shanghai; 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/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's profit/(loss) before tax except that interest income, finance costs, fair value gains/(losses) from the Group's financial instruments as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude deferred tax assets, pledged deposits and other unallocated head office and corporate assets as these assets are managed on a group basis.

## 3. REVENUE AND OPERATING SEGMENT INFORMATION (Continued)

For the six months ended 30 June 2011 (Unaudited)	Heat energy supply HK\$'000	Property investment HK\$'000	Steel manufacturing and trading investment HK\$'000	Total HK\$'000
<b>Segment revenue</b>				
Sales to external customers	99,005	414	–	99,419
Revenue from continuing operations				99,419
<b>Segment results</b>	(12,785)	(2,056)	99,322	84,481
<i>Reconciliation:</i>				
Interest income				567
Finance costs				(16,176)
Corporate and other unallocated expenses				(21,130)
Profit before tax from continuing operations				47,742
<b>Segment assets</b>	992,322	242,644	3,323,211	4,558,177
<i>Reconciliation:</i>				
Corporate and other unallocated assets				226,522
As at 30 June 2011				4,784,699
<b>Segment assets</b>	1,052,451	270,073	3,149,919	4,472,443
<i>Reconciliation:</i>				
Corporate and other unallocated assets				202,473
As at 31 December 2010				4,674,916

**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
<b>Segment revenue</b>				
Sales to external customers	59,485	144	–	<u>59,629</u>
Revenue from continuing operations				<u>59,629</u>
<b>Segment results</b>	(38,249)	225	(35,021)	(73,045)
<i>Reconciliation:</i>				
Interest income				193
Finance costs				(13,973)
Corporate and other unallocated expenses				<u>(59,963)</u>
Loss before tax from continuing operations				<u>(146,788)</u>

**4. PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS**

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

	For the six months ended 30 June	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Cost of service provided	80,428	70,023
Depreciation of property, plant and equipment	22,131	12,648
Amortisation of intangible assets	3,483	4,716
Recognition of prepaid land lease payments	1,585	1,627
Foreign exchange loss	2,715	477
Finance costs	16,176	13,978
Interest income	(567)	(203)
Employee benefit expense (including directors' remuneration)	19,852	14,323
Equity-settled share options expenses	–	44,636
	<u>          </u>	<u>          </u>



## 5. INCOME TAX EXPENSE/(CREDIT)

The major components of income tax expense/(credit) for the six months ended 30 June 2011 and 2010 are as follows:

	For the six months ended 30 June	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Current income tax		
PRC income tax	–	–
Hong Kong income tax	–	–
	<hr/>	<hr/>
	–	–
Deferred income tax	1,452	(2,142)
	<hr/>	<hr/>
Income tax expense/(credit) for the period	<b>1,452</b>	<b>(2,142)</b>

Hong Kong profits tax should be provided at the rate of 16.5% (for the six months ended 30 June 2010: 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 interim condensed consolidated financial statements, as the Group does not have any assessable profit arising in Hong Kong.

The provision for PRC current income tax should be based on the statutory rate of 25% (for the six months ended 30 June 2010: 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. No provision for PRC profits tax has been made in the interim condensed consolidated financial statements, as the Group does not have any assessable profit arising in Mainland China.

## 6. DISCONTINUED OPERATION

On 17 January 2011, the Company announced the decision of its board of directors to dispose of Kai Yuan Securities Limited ("Kai Yuan Securities") to Sheng Yuan Financial Services Group Limited ("SYFSG"). SYFSG is a wholly-owned subsidiary of Sheng Yuan Holdings Limited ("SYHL"), a company listed on the Stock Exchange, in which a director of the Company holds a 62.39% equity interest. Kai Yuan Securities was incorporated on 7 July 2010 and its sole business is securities brokerage and financial services. Kai Yuan Securities has no substantial operations during the period. The disposal of Kai Yuan Securities has been completed on 28 April 2011 at a consideration of HK\$17,700,000, all of which had been collected as at 30 June 2011. Gain on the disposal amounted to HK\$2,322,040.

On 14 March 2011, the Company entered into an agreement to disposed of External Fame Limited ("External Fame") to a third party. External Fame's sole business is holding of Beijing Boya Property Management Company Limited and Omnigold Resource Limited, both of which are engaged in property investment in Beijing, the PRC. The disposal of External Fame has been completed on 8 May 2011.

**6. DISCONTINUED OPERATION** (Continued)

The results of Kai Yuan Securities and External Fame for the six months ended 30 June 2011 and 2010 are presented below:

	Notes	For the six months ended 30 June	
		2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Revenue		1,682	1,955
Expenses		(3,169)	(501)
Change in fair value of investment properties		(12,649)	–
Finance costs		(698)	(831)
(Loss)/profit of the discontinued operations		(14,834)	623
Loss on disposal of subsidiaries	18	(9,795)	–
(Loss)/profit before tax from the discontinued operations		(24,629)	623
Income tax credit/(expense):			
Related to pre-tax (loss)/profit		1,040	(34)
(Loss)/profit for the period from the discontinued operations		(23,589)	589

The net cash flows incurred by External Fame and Kai Yuan Securities are as follows:

	For the six months ended 30 June	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Operating activities	(1,430)	3,609
Investing activities	7	(235)
Financing activities	(10,321)	(597)
Net cash (outflow)/inflow	(11,744)	2,777

**6. DISCONTINUED OPERATION** (Continued)

	For the six months ended 30 June	
	2011 (Unaudited)	2010 (Unaudited)
(Loss)/earnings per share:		
Basic, from discontinued operation	HK\$(0.2) cent	HK\$0.01 cent
Diluted, from discontinued operation	HK\$(0.2) cent	HK\$0.01 cent

The calculations of basic and diluted earnings per share from the discontinued operation are based on:

	For the six months ended 30 June	
	2011 (Unaudited)	2010 (Unaudited)
<b>(Loss)/earnings (HK\$'000)</b>		
(Loss)/earnings attributable to ordinary equity holders of the Company from the discontinued operation	(23,589)	589
<b>Number of Shares ('000)</b>		
Weighted average number of ordinary shares in issue during the period used in the basic (loss)/earnings per share calculation (note 8)	9,625,952	9,427,333
Weight average number of ordinary shares in issue during the period used in the diluted (loss)/earnings per share calculation (note 8)	9,636,478	9,427,333

**7. DIVIDENDS**

The directors of the Company do not recommend the payment of any dividend in respect of the period (for the six months ended 30 June 2010: Nil).

**8. 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 period attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 9,625,952,000 (for the six months ended 30 June 2010: 9,427,333,140) in issue during the period.

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

The calculation of the diluted earnings/(loss) per share amount is based on the profit/(loss) for the period attributable to ordinary equity holders of the Company. 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/(loss) 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/(loss) per share amounts are based on:

	For the six months ended 30 June	
	2011 (Unaudited)	2010 (Unaudited)
<b>Earnings/(loss) (HK\$'000)</b>		
Profit/(loss) attributable to ordinary equity holders of the Company		
From continuing operations	52,674	(123,133)
From discontinued operations	(23,589)	589
	<u>29,085</u>	<u>(122,544)</u>
Interest on convertible notes	12,062	11,712
	<u>41,147*</u>	<u>(110,832)*</u>
Attributable to:		
Continuing operations	64,736*	(111,421)*
Discontinued operations	(23,589)	589
	<u>41,147</u>	<u>(110,832)</u>
<b>Number of shares ('000)</b>		
Weighted average number of ordinary shares in issue during the period used in the basic earnings/(loss) per share calculation	9,625,952	9,427,333
Effect of dilution – weighted average number of ordinary shares:		
– Share options	10,526	–
	<u>9,636,478</u>	<u>9,427,333</u>

\* The effect of convertible notes is not included in the calculation of diluted earnings/(loss) per share, because the effect of conversion of convertible notes would result in an increase in earnings per share or decrease in loss per share with an anti-dilutive effect.

## 9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2011, the Group acquired items of property, plant and equipment with a cost of HK\$34,399,000 (six months ended 30 June 2010: HK\$93,591,000). Depreciation for items of property, plant and equipment was HK\$22,131,000 (for the six months ended 30 June 2010: HK\$12,648,000) during the period.

For the six months ended 30 June 2010, property, plant and equipment with amount of HK\$100,000 were disposed, resulting in a net loss on disposal of HK\$31,000. No property, plant and equipment was disposed for the six months ended 30 June 2011.

## 10. INVESTMENTS IN ASSOCIATES

	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
Share of net assets:	<b>3,323,484</b>	<b>3,150,183</b>

Particulars of the associates are as follows:

Name	Legal form of business	Place of incorporation	Registered capital	Percentage of ownership		Principal activities
				interest attributable to the Group 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	Tianjin, the PRC	RMB2,000,000	–	40%	Sale of heating materials
日照鋼鐵有限公司 Rizhao Steel Co., Limited	Limited enterprise	Shandong, 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	Shandong, 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	Shandong, the PRC	RMB80,000,000	–	25%	Manufacturing and trading of steel products

\* Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

10. INVESTMENTS 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	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Revenue	54,017,205	45,154,983
Profit/(loss)	<u>418,156</u>	<u>(49,849)</u>
	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
Total assets	52,571,204	61,021,689
Total liabilities	<u>40,454,068</u>	<u>49,593,012</u>

As at 30 June 2011, certain matters 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. (the "Shandong Steel Group"), a state-owned company. Pursuant to the Restructuring Agreement, (a) the Rizhao Steel Group and the 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) the 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 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 the Rizhao Steel Group. The 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"), the 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 the Rizhao Steel Group to the New JV shall be determined by negotiation amongst both parties.

## 10. INVESTMENTS IN ASSOCIATES (Continued)

(a) (Continued)

On 30 August 2010, the Rizhao Steel Group entered into an agreement with Shandong Steel Group (the "Second Restructuring Agreement"). Pursuant to the Second Restructuring Agreement, (a) the Rizhao Steel Group and Shandong Steel Group agreed to proceed with the restructuring within the basic framework as described in the Restructuring Agreement; (b) The restructuring shall be completed via a one-time acquisition of assets held by the Rizhao Steel Group; (c) Procedures relevant to such acquisition, including due diligence, asset valuation and audit, are to commence immediately; and (d) the Rizhao Steel Group and Shandong Steel Group shall further negotiate and confirm the definitive scope and consideration of the aforementioned one-time acquisition of assets based upon the results of the procedures (including due diligence, asset valuation and audit) described above, and completion of the acquisition shall take place before 30 November 2010.

Till the date of these interim condensed consolidated financial statements, the relevant negotiation of the above acquisition is still being undertaken and not completed yet.

## 11. TRADE RECEIVABLES

	<b>30 June 2011 (Unaudited) HK\$'000</b>	31 December 2010 (Audited) HK\$'000
Trade receivables	51	183
Less: Provision for impairment of trade receivables	—	—
	<b>51</b>	<b>183</b>

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

	<b>30 June 2011 (Unaudited) HK\$'000</b>	31 December 2010 (Audited) HK\$'000
Over 3 months	<b>51</b>	<b>183</b>

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.



## 12. TRADE AND BILLS PAYABLE

	<b>30 June 2011 (Unaudited) HK\$'000</b>	31 December 2010 (Audited) HK\$'000
Trade payables	<b>32,018</b>	27,465
Bills payable	–	20,000
	<b><u>32,018</u></b>	<b><u>47,465</u></b>

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:

	<b>30 June 2011 (Unaudited) HK\$'000</b>	31 December 2010 (Audited) HK\$'000
Within 1 month	<b>214</b>	1,758
1 to 3 months	<b>4,132</b>	4,013
Over 3 months	<b>27,672</b>	41,694
	<b><u>32,018</u></b>	<b><u>47,465</u></b>

## 13. INTEREST-BEARING BANK AND OTHER BORROWINGS

On 17 March and 18 April 2011, the Group repaid the bank borrowings from the Bank of Tianjin Co., Ltd. with the principal amounts of HK\$12,025,000 and HK\$12,025,000 respectively before they are due.

On 17 March 2011, the Group borrowed HK\$12,025,000 from the Bank of Tianjin Co., Ltd which is repayable in full on 16 March 2012. The loan is secured by a related company, Tianjin Jinre Logistics Co., Ltd and pledged by the assets of another related company, Tianjin Jinre Co., Ltd. The loan bears interest at a fixed rate of 6.666%.

## 14. CONVERTIBLE NOTES

On 26 May 2008, the Company entered into a convertible notes subscription agreement with Mr. Hu Yishi, chairman of the board of directors of the Company, to issue to the latter HK\$265,500,000 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 per 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 a rate of 3.5% per annum on the outstanding principal amount and is payable yearly. On 2 July 2009, the convertible notes were issued to Mr. Hu Yishi.

The convertible notes are considered a compound instrument and the fair value of the 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 an equity component and is included in shareholders' equity.

The convertible notes issued were split upon issuance as to the liability and equity components, as follows:

		<b>2011</b> <b>(Unaudited)</b> <b>HK\$'000</b>	2010 (Unaudited) HK\$'000
Equity component at 30 June	(i)	–	109,072
Liability component at 1 January		<b>232,357</b>	206,630
Interest charge		<b>12,062</b>	11,712
Interest paid		<b>(3,818)</b>	(3,994)
Conversion of convertible notes	(i)	<b>(240,601)</b>	–
Exchange differences on translation		–	2,436
Liability component at 30 June		–	216,784

(i) On 7 August 2009, Mr. Hu Yishi converted convertible notes with a principal amount of HK\$35,400,000 for 200,000,000 shares.

On 22 June 2011, Mr. Hu Yishi converted all remaining convertible notes with a principal amount of HK\$230,100,000 for 1,300,000,000 shares.

## 15. DEFERRED TAX

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

	<b>30 June 2011 (Unaudited) HK\$'000</b>	31 December 2010 (Audited) HK\$'000
Deferred tax liabilities:		
Revaluation of investment properties	–	2,564
Fair value adjustments from acquisition of subsidiaries	<b>125,064</b>	131,330
Deferred revenue	<b>37,268</b>	20,818
Withholding tax	<b>54,686</b>	48,549
	<b><u>217,018</u></b>	<u>203,261</u>

	<b>30 June 2011 (Unaudited) HK\$'000</b>	31 December 2010 (Audited) HK\$'000
Deferred tax assets:		
Impairment of property, plant and equipment	<b>9,513</b>	9,575
Fair value adjustments from acquisition of subsidiaries	<b>37,905</b>	26,747
	<b><u>47,418</u></b>	<u>36,322</u>

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

	<b>30 June 2011 (Unaudited) HK\$'000</b>	31 December 2010 (Audited) HK\$'000
Net deferred tax liabilities recognised in the interim condensed consolidated statement of financial position	<b><u>169,600</u></b>	<u>166,939</u>

## 16. ISSUED CAPITAL

	Number of shares		Share capital	
	2011 '000	2010 '000	2011 HK\$'000	2010 HK\$'000
Ordinary shares of HK\$0.10 each				
Authorised				
At 1 January and 30 June	<b>20,000,000</b>	20,000,000	<b>2,000,000</b>	2,000,000
Issued and fully paid				
At 1 January	<b>9,568,493</b>	9,427,333	<b>956,849</b>	942,733
Conversion of convertible notes	<b>1,300,000</b>	–	<b>130,000</b>	–
At 30 June	<b>10,868,493</b>	9,427,333	<b>1,086,849</b>	942,733

## 17. 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 a signed acceptance letter together with a consideration of HK\$1.00 received by the Company. The exercise period of the share options granted is determinable by the directors of the Company. 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 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.

**17. SHARE OPTION SCHEME** (Continued)

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

No share option is granted, forfeited, exercised or expired under the Scheme during the period.

As at 30 June 2011 and 31 December 2010, the exercise prices and exercise periods of the share options outstanding are as follows:

Grantees	Number of options '000	Exercise price HK\$ per share	Exercise period
Directors of the Company	43,720	0.205	22-08-2010 to 21-08-2011*
	71,000	0.265	16-01-2009 to 16-04-2012
	112,000	0.350	29-01-2010 to 16-04-2012
	111,780	0.330	19-04-2010 to 16-04-2012
	<u>338,500</u>		
Other employees	108,000	0.350	29-01-2010 to 16-04-2012
	94,260	0.330	19-04-2010 to 16-04-2012
	<u>202,260</u>		
	<u>540,760</u>		

\* On 19 August 2011, 43,720,000 share options were exercised at the exercise price of HK\$0.205 by a director of the Company.

The Group did not recognize share-based payment expenses for the period because there was no new share options granted during the period and all expenses related to share options granted previously had been recognized by the end of 2010 (for six months ended 30 June 2010: HK\$44,636,000).

## 18. DISPOSAL OF SUBSIDIARIES

As detailed in note 6, the Group disposed of a subsidiary to a related party and another subsidiary to a third party during the period.

	For the six months ended 30 June 2011 (Unaudited) HK\$'000
Net assets disposed of:	
Property, plant and equipment	4,540
Investment properties	86,235
Intangible assets	500
Other long-term assets	205
Trade and other receivables	1,932
Cash and cash equivalents	10,797
Trade and other payables	(4,714)
	<hr/>
	99,495
	<hr/>
Loss on disposal of subsidiaries (note 6)	(9,795)
	<hr/>
	89,700
	<hr/>
Satisfied by:	
Cash	89,700
	<hr/>

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	For the six months ended 30 June 2011 (Unaudited) HK\$'000
Cash consideration	89,700
Cash and cash equivalents disposed of	(10,797)
	<hr/>
Net inflow of cash and cash equivalents in respect of disposal of subsidiaries	78,903
	<hr/>

## 19. CAPITAL COMMITMENTS

At 30 June 2011, the Group had the following capital commitments:

	<b>30 June 2011 (Unaudited) HK\$'000</b>	31 December 2010 (Audited) HK\$'000
Contracted, but not provided for: Property, plant and equipment	<b>12,850</b>	75,530

## 20. CONTINGENT LIABILITIES

The Group provided guarantee, with no charge, to a bank in connection with a banking facility up to HK\$120,250,120 (as at 31 December 2010: HK\$117,647,000) granted to Tianjin Jinre Logistics Company Limited, in which the Group holds 16% equity interest. As at 30 June 2011, the banking facility was utilised to the extent of approximately HK\$59,601,860 (as at 31 December 2010: HK\$58,823,500). No provisions were provided for the guarantee by the Group in the interim condensed consolidated financial statements as the directors of the Company believe it is not probable that an outflow will be required to settle the obligation.

## 21. RELATED PARTY TRANSACTIONS AND BALANCES

### (a) Related party transactions:

The Group entered into the following transactions with related parties during the period:

	<b>For the six months ended 30 June</b>	
	<b>2011 (Unaudited) HK\$'000</b>	2010 (Unaudited) HK\$'000
Purchase of coal from an associate	943	5,673
Disposal of a subsidiary to a company controlled by a director of the Company (note 6)	17,700	–
Financing received from an associate	25,181	–
Interest expenses on a loan from a non-controlling shareholder of a group entity	2,046	1,795
Management fee to a non-controlling shareholder of a group entity	<b>3,934</b>	3,225



## 21. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

### (b) Compensation of key management personnel of the Group

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

	For the six months ended 30 June	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Short term employee benefits	6,500	4,500
Post-employment benefits	104	96
Share-based payment	–	44,636
	<hr/>	<hr/>
Total compensation paid to key management personnel	<b>6,604</b>	<b>49,232</b>

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

### (c) Related party balances:

	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
<b>Amounts due from related companies</b>		
Tianjin Jinre Co., Ltd. (i)	111,057	112,537
Tianjin Heating Supply Co., Ltd. (ii)	11,033	10,794
Tianjin Jinre Logistics Co., Ltd. (ii)	–	8,109
Others (ii)	1,683	1,646
	<hr/>	<hr/>
	<b>123,773</b>	<b>133,086</b>
<b>Amount due from an associate</b>		
Tianjin Meijiang Heat Operating and Management Co., Ltd.	–	2,000
	<hr/>	<hr/>
<b>Amounts due to related companies</b>		
Tianjin Jinre Construction and Development Co., Ltd. (ii)	39,634	38,828
Tianjin Jinre Logistics Co., Ltd. (ii)	4,860	1,546
Tianjin Jinbin Heat Supply Company Limited (ii)	13,853	–
	<hr/>	<hr/>
	<b>58,347</b>	<b>40,374</b>

## 21. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(c) Related party balances: (Continued)

	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
<b>Amount due to an associate</b>		
Tianjin Meijiang Heat Operating and Management Co., Ltd.	<u>25,181</u>	<u>–</u>
<b>Loan from a related company</b>		
Tianjin Jinre Co., Ltd. (i)	<u>108,645</u>	<u>104,273</u>

(i) Tianjin Jinre Co., Ltd. is a non-controlling shareholder of a subsidiary of the Group.

(ii) These related companies are under significant influence from a non-controlling shareholder of a subsidiary of the Group.

Except for the loan from a related company bears interest at 7.48% per annum, these amounts due to/from related companies and associates are not trading in nature, and are unsecured, interest-free and repayable on demand.

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

## 22. EVENTS AFTER THE REPORTING PERIOD

On 19 August 2011, 43,720,000 share options were exercised at the exercise price of HK\$0.205 by a director of the Company, as disclosed in note 17 to the financial statements. There is no other significant event occurred after the end of reporting period.

## 23. COMPARATIVE FIGURES

Certain comparative figures have been reclassified as a result of presentation for discontinued operation as detailed in note 6.

## 24. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on 26 August 2011.

## INTERIM DIVIDENDS

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

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

For the six months ended 30 June 2011 (the “Interim Period”), turnover from continuing operation of the Group has increased to approximately HK\$99.4 million from approximately HK\$59.6 million for the six months ended 30 June 2010 (the “Comparable Period”). The increase in turnover is essentially due to an increase in turnover for the Group’s heat energy supply operations. During the Interim Period, the Group recorded a profit of approximately HK\$22.7 million, as compared with a loss of the approximately HK\$144.1 million for the Comparable Period, this was mainly due to i) the increase in share of profit arising from the Group’s associates engaged in steel manufacturing and trading; ii) the decrease in loss arising from the Group’s heat energy supply operations, which was due to improvement in revenue in heat energy supply and pipeline connection services; and iii) the decrease in administrative expenses mainly due to decrease in share-based payments resulting from share options. Profit attributable to owners of the Company for the Interim Period amounted to approximately HK\$29.1 million after deducting non-controlling interests, resulting into a basic earning per share of HK\$0.3 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., Rizhao Steel Wire Co., Ltd. continued to operate at near designed capacity. The steel market had been volatile during the first half of 2011, which can be observed from price fluctuations in steel products and iron ores. On the other hand, as disclosed in an announcement of the Company dated 1 March 2011, procedures relevant to Proposed Asset Acquisition pursuant to the Second Restructuring Agreement entered into between these associates and 山東鋼鐵集團有限公司 (for English identification, Shandong Steel Group Co., Limited) on 30 August 2010 are still being undertaken as at the date of this report. The Company shall make further disclosures on any new development regarding the above as and when required under the Listing Rules.

#### *Heat Energy Supply*

During the Interim Period, the heat energy supply operations of the Group contributed turnover of HK\$99.0 million as compared with HK\$59.5 million of the Comparable Period. The increase in revenue was mainly due to increase in heat energy supply fee and connection fee in the area covered by the Group’s heat energy supply operations. Despite the increased revenue, the Group’s heat energy supply facilities has yet to be utilized at efficient levels relative to the inelastic fixed cost structure of heat energy generation. The Group recorded a segmental loss of approximately HK\$12.8 million as compared with loss of approximately HK\$38.2 of the Comparable Period. During the Interim Period, 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 increased in the heat energy supply coverage area from approximately 5.1 million sq.m. for the 2010/11 heating season to 5.3 million sq.m. for the 2011/12 heating season.

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### Business Review (Continued)

#### *Property Investment*

During the Interim Period, turnover from continuing operation of the Group's commercial properties has increased to approximately HK\$0.4 million, as compared with approximately HK\$0.1 million from continuing operation for the Comparable Period. The segmental loss from continuing operation increased to approximately HK\$2.3 million for the Interim Period with approximately HK\$0.1 million for the Comparable Period. On 8 May 2011, the Group completed the disposal of External Fame Limited, a wholly-owned subsidiary of the Company, which holds 32 office units and two levels of underground parking area located in Beijing.

In Shanghai, revenue of Shanghai Underground Centre Company Limited ("SUCCL") has increased to approximately HK\$29.4 million, as compare with HK\$25.6 million for the Comparable Period. SUCCL had contributed a profit approximately HK\$0.3 million for the period, as compared with approximately HK\$0.3 million for the Comparable Period.

### Prospects

#### *Steel Manufacturing and Trading Investment*

Steel industry is expected to be filled with challenges in the second half of 2011, as global market sentiments and material prices have shown great signs of uncertainty. As the Group's associates engaged in steel manufacturing and trading have modern management expertise and are strong in profit margin maintenance, the Group is confident that operating performance of the Group's associates will continue to outperform similar operators in the industry.

The Group will look into the possibility of expanding into the business of trading in iron ores and materials involved in steel manufacturing, if opportunities arise.

#### *Heat Energy Supply*

The Group's heat energy supply is an essential public service to southwestern areas of Tianjin city. Although the performance of the Group's heat energy supply projects remains to be challenged by operations below optimal scale and inflating operating costs, it is expected that a stable revenue stream for the Group can be generated from heat energy supply projects as the property development of Tianjin city gains momentum.

#### *Property Investment*

China's property market is faced with challenges in second half of 2011, 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*

The Group engages in business portfolio to encompass business with prime essences to the development of a country, including heat energy supply and steel manufacturing and trading investment business. The Group shall remain vigilant to all potential business opportunities, and consider expanding its business portfolio with a view to enhancing the return and value for stakeholders.

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### Prospects (Continued)

#### *Liquidity and Financial resources*

As at 30 June 2011, total assets and net assets of the Group were approximately HK\$4,784.7 million and HK\$4,141.4 million respectively, as compared with HK\$4,674.9 million and HK\$3,791.3 million to the Comparable Period. Cash and bank balance of the Group as at 30 June 2011 totalled approximately HK\$258.1 million (31.12.2010: HK\$225.8 million), representing an increase of 14.3%, which was largely due to disposal of office premises made by the Group's wholly-owned subsidiary. Correspondingly, current assets (increased by 8.1%) to approximately HK\$475.3 million during the Interim Period (31.12.2010: HK\$439.8 million). As at 30 June 2011, the Group's outstanding bank and other borrowings amount to approximately HK\$66.3 million (31.12.2010: HK\$80.0 million), approximately HK\$60.9 million of which was due within one year. Net current assets as at 30 June 2011 was approximately HK\$7.1 million (31.12.2010: net liabilities HK\$268.2 million). As at 30 June 2011, the Group's gearing ratio (total borrowings/total assets) continued to remain at a low level of 3.6% (31.12.2010: 4.0%).

#### *Acquisitions and Disposals*

The Group had disposed all of the Group's 32 office units and two levels of underground parking area located in Beijing for an aggregate consideration of approximately HK\$72.0 million.

The Group had disposed of its entire interest in its wholly owned subsidiary, Kai Yuan Security Limited, at a consideration of HK\$17.7 million.

#### *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 exchange 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 20 to the interim condensed consolidated financial statement.

#### *Pledge on the Group's Assets*

The Group had no pledge of assets as at 30 June 2011.

#### *Employees and Remuneration*

The Group had 198 employees as at 30 June 2011 (31.12.2010: 226). 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 2011, the interests and the short positions of the Directors 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	Personal	1,300,000,000	11.96%
Ms. Kwong Wai Man, Karina	Personal	10,000,000	0.09%
Mr. Yip Kar Hang, Raymond (resigned on 6 January 2011)	Personal	22,000,000	0.20%

### Long positions – share options

Name of Directors	Capacity	Number of options held	Number of underlying shares
Mr. Hu Yishi	Beneficial owner	94,260,000	94,260,000
Mr. Xue Jian	Beneficial owner	94,260,000	94,260,000
Ms. Kwong Wai Man, Karina	Beneficial owner	10,000,000	10,000,000
Mr. Hu Jin Xing	Beneficial owner	137,980,000	137,980,000
Mr. Tam Sun Wing	Beneficial owner	1,000,000	1,000,000
Mr. Ng Ge Bun	Beneficial owner	1,000,000	1,000,000
Mr. Yip Kar Hang, Raymond (resigned on 6 January 2011)	Beneficial owner	50,000,000	50,000,000
Mr. Ko Ming Tung, Edward (resigned on 31 May 2011)	Beneficial owner	1,000,000	1,000,000

### Long positions – convertible notes

On 22 June 2011 the all remaining convertible notes with a principal amount of HK\$230,100,000 for 1,300,000,000 ordinary shares of the Company were converted.

Save as disclosed above, as at 30 June 2011, none of the Directors 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.

## SUBSTANTIAL SHAREHOLDERS

At as 30 June 2011, 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	Interest of controlled corporation	708,000,000	6.51%
Happy Sino International Limited <sup>1</sup>	Beneficial interest	708,000,000	6.51%
Mr. Zhang He Yi	Beneficial interest	1,400,000,000	12.88%
Mr. Qi Shi An	Beneficial interest	600,000,000	5.52%
Ms. Lu Xiao Mei	Interest of controlled corporation	753,190,000	6.93%
Sincere Profit Group Limited <sup>2</sup>	Beneficial interest	753,190,000	6.93%

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

<sup>2</sup> Ms. Lu Xiao Mei beneficially owns 100% interest in the issued share capital of Sincere Profit Group Limited.

Save as disclosed above, as at 30 June 2011, no person, other than the Directors of the Company, whose interests are set out in the section "Directors' interests in shares" 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.



## SHARE OPTIONS 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 17 to the interim condensed consolidated financial statements.

## 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 2011 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. The Company is still looking for a suitable candidate to fill the vacancy of chief executive officer and further announcement will be made by the Company upon fulfillment of this requirement under the Listing Rules.

### AUDIT COMMITTEE

The audit committee currently comprises Mr. Tam Sun Wing, Mr. Ng Ge Bun and Mr. He Yi, 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 2011.

### 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 two executive Directors and three independent non-executive Directors of the Company. The present members are Ms. Kwong Wai Man, Karina, Mr. Law Wing Chi, Stephen, Mr. Ng Ge Bun, Mr. Tam Sun Wing and Mr. He Yi.

### NOMINATION COMMITTEE

The nomination committee currently consists of two executive Directors and three independent non-executive Directors. The present members are Ms. Kwong Wai Man, Karina, Mr. Law Wing Chi, Stephen, Mr. Ng Ge Bun, Mr. Tam Sun Wing and Mr. He Yi. 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 reappointment 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 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.

### 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 of Directors consists of Mr. Xue Jian, Ms. Kwong Wai Man, Karina and Mr. Law Wing Chi, Stephen (all being executive Directors), Mr. Hu Yishi and Mr. Hu Jin Xing (both being non-executive Directors) and Mr. Tam Sun Wing, Mr. Ng Ge Bun and Mr. He Yi (all being independent non-executive Directors).

By order of the Board  
**Kai Yuan Holdings Limited**  
**Kwong Wai Man, Karina**  
*Executive Director*

Hong Kong, 26 August 2011