



KAI YUAN HOLDINGS LIMITED

開源控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 1215)

Interim Report 2012

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CORPORATE INFORMATION

BOARD OF DIRECTORS (THE “BOARD”)

Executive Directors

Mr. Xue Jian
Mr. Law Wing Chi, Stephen

Non-executive Director

Mr. Hu Yishi (Chairman)

Independent non-executive Directors

Mr. Tam Sun Wing
Mr. Ng Ge Bun
Mr. He Yi

AUDIT COMMITTEE

Mr. Tam Sun Wing (Chairman)
Mr. Ng Ge Bun
Mr. He Yi

REMUNERATION COMMITTEE

Mr. Tam Sun Wing (Chairman)
Mr. Law Wing Chi, Stephen
Mr. He Yi
Mr. Ng Ge Bun

NOMINATION COMMITTEE

Mr. Ng Ge Bun (Chairman)
Mr. Law Wing Chi, Stephen
Mr. He Yi
Mr. Tam Sun Wing

COMPANY SECRETARY

Mr. Fong Kwok Kin

STOCK CODE

1215

WEBSITE

www.kaiyuanholdings.com

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SHARE REGISTRAR

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REGISTERED OFFICE

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Bermuda

PRINCIPAL OFFICE IN HONG KONG

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AUDITORS

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue, Central
Hong Kong

SOLICITORS

K&L 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 accompanying interim condensed consolidated financial statements set out on pages 4 to 27 which comprise the interim condensed 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 2012 and the related interim condensed consolidated statements of 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 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 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(ii) 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*

22nd Floor, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

24 August 2012

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2012

	Notes	For the six months ended 30 June	
		2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
CONTINUING OPERATIONS			
REVENUE	3	547,719	99,419
Cost of sales		(515,757)	(98,582)
Gross profit		31,962	837
Other income and gains		3,264	4,349
Other expenses		(2,499)	–
Administrative expenses		(38,369)	(40,886)
Finance costs		(16,099)	(16,176)
Share of profits and (losses) of:			
A jointly-controlled entity		223	294
Associates		(115,700)	99,324
(LOSS)/PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	4	(137,218)	47,742
Income tax credit/(expense)	5	5,221	(1,452)
(LOSS)/PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS		(131,997)	46,290
DISCONTINUED OPERATIONS			
Loss for the period from discontinued operations		–	(23,589)
(LOSS)/PROFIT FOR THE PERIOD		(131,997)	22,701
Attributable to:			
Owners of the Company		(134,314)	29,085
Non-controlling interests		2,317	(6,384)
		(131,997)	22,701
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	7		
Basic			
– For (loss)/profit for the period		HK\$(1.2) cent	HK\$0.3 cent
– For (loss)/profit from continuing operations		HK\$(1.2) cent	HK\$0.5 cent
Diluted			
– For (loss)/profit for the period		HK\$(1.2) cent	HK\$0.3 cent
– For (loss)/profit from continuing operations		HK\$(1.2) cent	HK\$0.5 cent

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2012

	For the six months ended 30 June	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
(LOSS)/PROFIT FOR THE PERIOD	(131,997)	22,701
Exchange differences on translation of foreign operations	(16,819)	86,868
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD, NET OF TAX	(16,819)	86,868
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD	(148,816)	109,569
Attributable to:		
Owners of the Company	(151,133)	115,953
Non-controlling interests	2,317	(6,384)
	(148,816)	109,569

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2012

	Notes	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	8	748,751	750,708
Prepaid land lease payments		46,810	44,137
Intangible assets	9	100,356	104,517
Investment in a jointly-controlled entity		94,082	94,379
Investments in associates	10	2,839,084	2,968,591
Available-for-sale investments		5,704	5,736
Total non-current assets		3,834,787	3,968,068
CURRENT ASSETS			
Inventories		2,637	8,405
Trade receivables	11	4	70,884
Other receivables and prepayments		12,888	17,216
Prepaid land lease payments		3,261	3,197
Amount due from a jointly-controlled entity	21	–	10,485
Amounts due from related companies	21	112,723	133,271
Dividend receivable from a jointly-controlled entity		79,536	79,978
Cash and cash equivalents		551,431	459,831
Total current assets		762,480	783,267
Total assets		4,597,267	4,751,335
CURRENT LIABILITIES			
Trade and bills payables	12	36,434	28,927
Other payables and accruals	13	135,987	100,611
Receipt in advance		49,256	93,705
Amount due to an associate	21	39,431	51,208
Amounts due to related companies	21	46,099	56,932
Interest-bearing bank and other borrowings	14	37,402	19,081
Loan from a related company	21	114,613	113,676
Income tax payable		39,816	39,874
Total current liabilities		499,038	504,014
NET CURRENT ASSETS		263,442	279,253
TOTAL ASSETS LESS CURRENT LIABILITIES		4,098,229	4,247,321

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Continued)

AS AT 30 JUNE 2012

	Notes	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		4,098,229	4,247,321
NON-CURRENT LIABILITIES			
Convertible bonds – non-current portion	15	249,445	241,085
Interest-bearing bank and other borrowings	14	–	2,603
Deferred tax liabilities	16	143,894	149,927
Total non-current liabilities		393,339	393,615
Net assets		3,704,890	3,853,706
EQUITY			
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Issued capital	17	1,091,221	1,091,221
Equity component of convertible bonds	15	38,915	38,915
Reserves		2,297,006	2,448,139
		3,427,142	3,578,275
Non-controlling interests		277,748	275,431
Total equity		3,704,890	3,853,706

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2012

		Attributable to owners of the Company									
		Equity component of	Share	Share	Translation	Retained	Other	Total	Non-	Total	
		Issued capital	convertible bonds	premium*	options reserve*	reserve*	profits*	reserve*	controlling interests	equity	
Notes		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
	At 1 January 2012 (Audited)	1,091,221	38,915	894,724	25,747	357,494	1,157,124	13,050	3,578,275	275,431	3,853,706
	Total comprehensive loss for the period	-	-	-	-	(16,819)	(134,314)	-	(151,133)	2,317	(148,816)
	Transfer upon the forfeiture of share options	18	-	-	(25,747)	-	25,747	-	-	-	-
	At 30 June 2012 (Unaudited)	<u>1,091,221</u>	<u>38,915</u>	<u>894,724</u>	<u>-</u>	<u>340,675</u>	<u>1,048,557</u>	<u>13,050</u>	<u>3,427,142</u>	<u>277,748</u>	<u>3,704,890</u>
		Attributable to owners of the Company									
		Equity component of	Share	Share	Translation	Retained	Other	Total	Non-	Total	
		Issued capital	convertible bonds	premium*	options reserve*	reserve*	profits*	reserve*	controlling interests	equity	
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 for the period	-	-	-	-	86,868	29,085	-	115,953	(6,384)	109,569
	Conversion of convertible bonds	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>

* These reserve accounts comprise the consolidated reserves of HK\$2,297,006,000 (30 June 2011: HK\$2,774,014,000) in the interim condensed consolidated statement of financial position.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2012

	For the six months ended 30 June	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss)/profit before tax	(137,218)	23,113
From continuing operations	(137,218)	47,742
From discontinued operations	–	(24,629)
Adjustments for:		
Finance costs	16,099	16,874
Share of profits of a jointly-controlled entity	(223)	(294)
Share of losses/(profits) of associates	115,700	(99,324)
Loss on disposal of items of property, plant and equipment	1,024	–
Loss on disposal of subsidiaries	–	9,795
Depreciation of property, plant and equipment	21,921	22,131
Changes in fair value of investment properties	–	12,649
Recognition of prepaid land lease payments	1,636	1,585
Amortisation of intangible assets	3,596	3,483
Interest income	(790)	(567)
	21,745	(10,555)
Decrease in inventories	5,768	2,951
Decrease in trade receivables	70,880	132
(Increase)/decrease in other receivables and prepayments	(396)	1,469
Increase/(decrease) in trade and bills payables	7,687	(15,447)
Increase in other payables and accruals	31,051	17,941
Decrease in receipt in advance	(44,054)	(45,726)
	92,681	(49,235)
Cash generated from/(used in) operations	92,681	(49,235)
Net cash flows generated from/(used in) operating activities	92,681	(49,235)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2012

	For the six months ended 30 June	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Net cash flows generated from/(used in) operating activities	92,681	(49,235)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(25,563)	(34,399)
Disposal of property, plant and equipments	900	–
Disposal of subsidiaries	–	78,903
Decrease in pledged bank deposits	–	17,647
Return of investment from a jointly-controlled entity	10,427	–
Interest received	790	567
Decrease in amount due from an associate	–	2,000
Decrease in amounts due from related companies	22,402	9,313
Net cash flows generated from investing activities	8,956	74,031
CASH FLOWS FROM FINANCING ACTIVITIES		
(Decrease)/increase in amount due to an associate	(11,527)	25,181
(Decrease)/increase in amounts due to related companies	(10,549)	17,973
Proceeds from bank borrowings	30,667	12,025
Repayment of bank loans	(14,870)	(27,175)
Repayment of a loan from a related company	(613)	–
Interest paid	(1,945)	(5,562)
Net cash flows (used in)/generated from financing activities	(8,837)	22,442
NET INCREASE IN CASH AND CASH EQUIVALENTS	92,800	47,238
Cash and cash equivalents at beginning of the period	459,831	208,183
Effect of foreign exchange rate changes, net	(1,200)	2,645
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	551,431	258,066

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2012

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 significant investments in associates engaged in steel and steel products manufacturing and trading in the People's Republic of China ("PRC"), as detailed in note 10. Its subsidiaries were principally engaged in the supply of heat, property investment and trading of iron ore and steel products during the six months ended 30 June 2012 (the "Period").

2. BASIC OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Presentation

The unaudited interim condensed consolidated financial statements, which comprise the interim condensed consolidated statement of financial position of the Group as at 30 June 2012 and the related interim condensed consolidated statements of comprehensive income, changes in equity and cash flows for the Period, have been prepared in accordance with HKAS 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants 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 unaudited interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2011.

2.2 New Standards, Interpretations and Amendments Thereof, Adopted by the Group

The accounting policies and basis of preparation adopted in the preparation of the interim condensed consolidated financial statements are the same as those used in the annual financial statements for the year ended 31 December 2011, except for the adoption of revised Hong Kong Financial Reporting Standards ("HKFRS", which also include HKASs and Interpretations) as of 1 January 2012 noted below:

HKFRS 1 Amendments	Amendment to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Transfers of Financial Assets</i>
HKFRS 12 Amendments	Amendments to HKFRS 12 <i>Income Taxes – Deferred Tax: Recovery of Underlying Assets</i>

The adoption of these new and revised HKFRSs has had no significant financial effect on the Group's interim condensed consolidated financial statements.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

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 holds interests in a jointly-controlled entity, located in Shanghai, engaging in underground shopping plazas and;
- (c) the steel manufacturing and trading segment is engaged in iron and steel products trading and holds significant interests in three associates, located in Shandong Province, engaging 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/(loss), which is a measure of adjusted profit/(loss) before tax from continuing operations. The adjusted profit/(loss) before tax from continuing operations is measured consistently with the Group's profit/(loss) before tax from continuing operations except that interest income, finance costs as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude cash and cash equivalents 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 2012 (Unaudited)	Heat energy supply HK\$'000	Property investment HK\$'000	Steel manufacturing and trading HK\$'000	Total HK\$'000
Segment revenue				
Sales to external customers	134,061	–	413,658	<u>547,719</u>
Revenue from continuing operations				<u>547,719</u>
Segment results	(380)	(652)	(107,763)	(108,795)
<i>Reconciliation:</i>				
Interest income				790
Finance costs				(16,099)
Corporate and other unallocated expenses				<u>(13,114)</u>
Loss before tax from continuing operations				<u>(137,218)</u>
Segment assets	969,071	173,618	2,838,806	3,981,495
<i>Reconciliation:</i>				
Corporate and other unallocated assets				<u>615,772</u>
As at 30 June 2012				<u>4,597,267</u>
Segment assets	1,001,099	184,842	3,039,189	4,225,130
<i>Reconciliation:</i>				
Corporate and other unallocated assets				<u>526,205</u>
As at 31 December 2011				<u>4,751,335</u>

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 HK\$'000	Total HK\$'000
Segment revenue				
Sales to external customers	99,005	414	–	<u>99,419</u>
Revenue from continuing operations				<u>99,419</u>
Segment results	(12,785)	(2,056)	99,322	84,481
<i>Reconciliation:</i>				
Interest income				567
Finance costs				(16,176)
Corporate and other unallocated expenses				<u>(21,130)</u>
Profit before tax from continuing operations				<u>47,742</u>

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

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

	For the six months ended 30 June	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Cost of heat energy supply	111,429	98,582
Cost of goods sold	404,328	–
Depreciation of property, plant and equipment	21,921	22,131
Amortisation of intangible assets	3,596	3,483
Amortisation of land lease payments	1,636	1,585
Minimum lease payments under operating leases: Land and buildings	670	2,072
Loss on disposal of items of property, plant and equipment	1,024	–
Financial costs	16,099	16,176
Interest income	(790)	(567)
Employee benefit expense (including directors' remuneration)	<u>16,793</u>	<u>19,852</u>

5. INCOME TAX (CREDIT)/EXPENSE

The major components of income tax (credit)/expense for the six months ended 30 June 2012 and 2011 are as follows:

	For the six months ended 30 June	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Current income tax		
Hong Kong	–	–
Mainland China	–	–
	<hr/>	<hr/>
	–	–
Deferred income tax	(5,221)	1,452
	<hr/>	<hr/>
Income tax (credit)/expense for the period	(5,221)	1,452
	<hr/>	<hr/>

Hong Kong profits tax should be provided at the rate of 16.5% (for the six months ended 30 June 2011: 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 Mainland China current income tax should be based on the statutory rate of 25% (for the six months ended 30 June 2011: 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 Mainland China current income 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. 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 2011: 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 10,912,213,000 (for the six months ended 30 June 2011: 9,625,952,000) 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. 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 (loss)/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.

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

The calculations of basic and diluted (loss)/earnings per share amounts are based on:

	For the six months ended 30 June	
	2012 (Unaudited)	2011 (Unaudited)
(Loss)/earnings (HK\$'000)		
(Loss)/profit attributable to ordinary equity holders of the Company		
From continuing operations	(134,314)	52,674
From discontinued operations	–	(23,589)
	(134,314)	29,085
Interest on convertible bonds	14,154	12,062
(Loss)/profit attributable to ordinary equity holders of the Company before interest on convertible bonds	(120,160)*	41,147*
Attributable to:		
Continuing operations	(120,160)*	64,736*
Discontinued operations	–	(23,589)
	(120,160)*	41,147*
Number of shares ('000)		
Weighted average number of ordinary shares in issue during the period used in the basic (loss)/earnings per share calculation	10,912,213	9,625,952
Effect of dilution – weighted average number of ordinary shares:		
– Share options	–	10,526
– Convertible bonds	1,866,667*	–*
Weighted average number of ordinary shares in issue during the period used in the diluted (loss)/earnings per share calculation	12,778,880*	9,636,478*

* The effect of convertible bonds is ignored in the calculation of diluted loss per share, and the diluted loss per share is the same as the basic loss per share for the six months ended 30 June 2012 since the deemed conversion of convertible bonds would result in decrease in loss per share with an anti-dilutive effect. Therefore, the diluted loss per share amounts for the six months ended 30 June 2012 are based on the loss for the period of HK\$134,314,000, and the weighted average number of ordinary shares of 10,912,213,000 in issue during the six months ended 30 June 2012.

The effect of convertible bonds is ignored in the calculation of diluted earnings per share for the six months ended 30 June 2011 since the deemed conversion of convertible bonds would result in increase in earnings per share with an anti-dilutive effect. Therefore, the diluted earnings per share amounts for the six months ended 30 June 2011 are based on the earnings for the period and the earnings attributable to continuing operations of HK\$29,085,000 and HK\$52,674,000, respectively, and the weighted average number of ordinary shares of 9,625,952,000 in issue during the six months ended 30 June 2011.

8. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2012, the Group acquired items of property, plant and equipment with a cost of HK\$25,563,000 (for the six months ended 30 June 2011: HK\$34,399,000). Depreciation for items of property, plant and equipment was HK\$21,921,000 during the period (for the six months ended 30 June 2011: HK\$22,131,000).

For the six months ended 30 June 2012, property, plant and equipment with a net book value of HK\$4,410,000 were disposed of by the Group resulting in a net loss on disposal of HK\$1,024,000. No property, plant and equipment was disposed of for the six months ended 30 June 2011.

9. INTANGIBLE ASSETS

During the six months ended 30 June 2012, the Group did not acquire intangible assets (for the six months ended 30 June 2011: Nil). Amortisation for intangible assets was HK\$3,596,000 during the period (for the six months ended 30 June 2011: HK\$3,483,000).

No intangible asset was disposed of for the six months ended 30 June 2011 and 2012.

10. INVESTMENTS IN ASSOCIATES

	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
Share of net assets	<u>2,839,084</u>	<u>2,968,591</u>

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 (i)	Limited enterprise	Tianjin, the PRC	RMB2,000,000	–	21%	Sale of heating materials
日照鋼鐵有限公司 Rizhao Steel Co., Limited (ii)	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 (ii)	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 (ii)	Limited enterprise	Shandong, the PRC	RMB80,000,000	–	25%	Manufacturing and trading of steel products

10. INVESTMENTS IN ASSOCIATES (Continued)

(ii) (Continued)

On 30 August 2010, the Rizhao Steel Group entered into an agreement with the 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 the 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.

According to the announcement made by the Group on 1 December 2010, completion of such transaction was postponed to be no later than the end of February 2011. However, up till the date of the interim condensed consolidated financial statements, the negotiation of the above restructuring is still in progress and not completed yet.

11. TRADE RECEIVABLES

	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
Trade receivables	<u>4</u>	<u>70,884</u>

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.

The Group's trading terms with its customers for trading of iron and steel products are mainly on credit. The credit period is 100 days. The Group seeks to maintain strict control over its outstanding receivables and does not hold any collateral or other credit enhancement over its trade receivable balances.

An aged analysis of trade receivables, based on the invoice date, is stated as follows:

	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
1 to 3 months	<u>4</u>	<u>70,884</u>

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 considered fully recoverable.

12. TRADE AND BILLS PAYABLES

	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
Trade payables	21,468	28,927
Bills payable	14,966	–
	<u>36,434</u>	<u>28,927</u>

The trade payables are non-interest-bearing and are normally settled on 90-day terms.

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 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
Within 1 month	6,522	1,203
1 to 3 months	9,505	1,173
Over 3 months	20,407	26,551
	<u>36,434</u>	<u>28,927</u>

The trade payables have no significant balances with ageing over one year. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

13. OTHER PAYABLES AND ACCRUALS

	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
Other payables	128,864	97,346
Accruals	7,123	3,265
	<u>135,987</u>	<u>100,611</u>

Other payables have no significant balances with ageing over one year.

14. INTEREST-BEARING BANK AND OTHER BORROWINGS

On 17 March 2012, the Group repaid the bank borrowing from the Bank of Tianjin Co., Ltd. with the principal amount of HK\$12,267,000 on due.

On 22 February 2012, The Group borrowed HK\$24,534,000 from China Bohai Bank which is repayable in full on 20 February 2013. The loan is guaranteed by a related company, Tianjin Jinre Logistics Company Limited and pledged by the assets of another related company, Tianjin Jinbin Heat Supply Company Limited. The loan bears interest at fixed rate of 7.872% per annual.

On 28 March 2012, The Group borrowed HK\$6,133,000 from Industrial Bank Co., Ltd. which is repayable in full on 27 March 2013. The loan is guaranteed by a related company, Tianjin Jinre Co., Ltd. The loan bears interest at a floated rate, which is 1.15 times of the benchmark interest rate from the People's Bank of China.

15. CONVERTIBLE BONDS

On 19 December 2011, the Company entered into a convertible bonds subscription agreement with Ga Leung Investment Company Limited, a third party, to issue to the latter HK\$280,000,000 of convertible bonds, which can be convertible at the option of the bondholder into 1,866,666,666 ordinary shares of the Company (i.e., the conversion price is HK\$0.15 per share) within the period ending on the second anniversary of the date of issuance of the convertible bonds (the "Maturity Date"). The bonds carry interest at a rate of 3.5% per annum on the outstanding principal amount and is payable yearly. On 30 December 2011, the convertible bonds were issued to Ga Leung Investment Company Limited.

The convertible bonds are considered a compound financial instrument and the fair value of its liability component was estimated at the issuance date using a prevailing 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 fair value of the liability component) is assigned as an equity component and is included in shareholders' equity.

The convertible bonds issued on 30 December 2011 were split upon issue as to the liability and equity components, as follows:

	2012 (Unaudited) HK\$'000
Equity component at 30 June	<u>38,915</u>
Liability component at 1 January	241,085
Interest charge	14,154
Interest expense due in one year reclassified to other payables and accruals	(4,873)
Exchange differences on translation	<u>(921)</u>
Liability component at 30 June	<u>249,445</u>

16. DEFERRED TAX

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

	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
<i>Deferred tax liabilities:</i>		
Fair value adjustments from acquisition of subsidiaries	36,257	38,083
Deferred revenue	111,266	111,939
Withholding tax	28,186	34,141
	<u>175,709</u>	<u>184,163</u>

	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
<i>Deferred tax assets:</i>		
Impairment of items of property, plant and equipment	9,140	9,480
Fair value adjustments from acquisition of subsidiaries	22,675	24,756
	<u>31,815</u>	<u>34,236</u>

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

	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
Net deferred tax liabilities recognised in the interim condensed consolidated statement of financial position	<u>143,894</u>	<u>149,927</u>

17. ISSUED CAPITAL

	Number of shares		Share capital	
	2012 '000	2011 '000	2012 HK\$'000	2011 HK\$'000
Ordinary shares of HK\$0.10 each				
Authorised				
At 1 January and 30 June	20,000,000	20,000,000	2,000,000	2,000,000
Issued and fully paid				
At 1 January	10,912,213	9,568,493	1,091,221	956,849
Conversion of convertible bonds	–	1,300,000	–	130,000
At 30 June	10,912,213	10,868,493	1,091,221	1,086,849

18. SHARE OPTION SCHEME

Pursuant to a resolution passed on 17 April 2002, the Company adopted a share option scheme (the “2002 Option Scheme”) which is primarily for the purpose of providing incentives to directors and eligible employees, and will expire on 16 April 2012. Under the 2002 Option 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 2002 Option 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 2002 Option 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 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. Share options do not confer rights on the holders to dividends or to vote at shareholders’ meetings.

All of the 284,780,000 share options granted and outstanding under 2002 Option Scheme as of 31 December 2011 had been expired during the period. The Group did not recognise share option expenses in relation to 2002 Option Scheme for the period as all expenses related to share options granted previously had been fully recognized by the end of 2010 (for six months ended 30 June 2011: Nil) and there was no share option granted during the period.

Pursuant to a resolution passed on 17 May 2012, the Company adopted a new share option scheme (the “2012 Option Scheme”), which is also for the purpose of providing incentives to directors and eligible employees. Under the 2012 Option 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.

18. SHARE OPTION SCHEME (Continued)

Pursuant to the 2012 Option Scheme, the maximum number of shares which may be issued upon exercise of all outstanding option granted and not yet exercised under the 2012 Option Scheme and any other share option schemes of the Company shall not exceed 30% of the share in issue from time to time. The subscription price for shares in respect of any options granted under the 2012 Option Scheme will be a price determined by the board of the directors of the Company, in its absolute discretion, but in any case will not be lower than the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the date of offer, which must be a trading day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of grant; and (iii) the nominal value of a share on the date of grant, provided that for the purpose of calculating the subscription price, where the shares have been listed on the Stock Exchange for less than five trading days, the new issue price shall be used as the closing price for any trading day falling within the period before such listing.

To the date of this interim condensed consolidated financial statements, the Company has not granted any share option under the 2012 Option Scheme.

19. CAPITAL COMMITMENTS

At 30 June 2012, the Group had the following capital commitments:

	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
Contracted, but not provided for: Property, plant and equipment	28,303	54,578

20. CONTINGENT LIABILITIES

The Group provided a guarantee, with no charge, to a bank for a loan with the amount of HK\$61,335,000 (as at 31 December 2011: HK\$61,675,000) granted to Tianjin Jinre Logistics Company Limited, in which the Group holds a 16% equity interest. No contingent liabilities were provided for the interim condensed consolidated financial statements as the directors 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:

	For the six months ended 30 June	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Purchase of coal from Tianjin Jinre Logistics Company Limited ("Tianjin Jinre") (i)	20,189	11,536
Purchase of raw materials from Tianjin Jinbin Heat Supply Company Limited ("Tianjin Jinbin") (i)	15,068	21,653
Heat energy supply service conducted by Tianjin Jinbin on behalf of the Group (ii)		
– Revenue	40,266	–
– Cost of sales	24,113	–
Interest expense to a non-controlling shareholder of a subsidiary of the Group (iv)	2,185	2,046
Management fee to a non-controlling shareholder of a subsidiary of the Group (iii)	4,061	3,934
	4,061	3,934

- (i) The purchases from Tianjin Jinre and Tianjin Jinbin were made according to the published prices and conditions offered by them to their major customers.
- (ii) According to an agreement entered into between Tianjin Jinbin and Tianjin Meijiang Heating Company Ltd. ("Meijiang Heating", subsidiary of Tianjin Heating Development Company Limited, a non-wholly-owned subsidiary of the Group) on 1 September 2011, Tianjin Jinbin would conduct part of the heat supply service on behalf of Meijiang Heating, being responsible to collect related service income and pay the cost and operating expenses on behalf of Meijiang Heating, and Meijiang Heating would settle such revenue, cost and expenses by the end of the next May when the heat energy supply period ends. Meijiang Heating is acting as a principal in such an arrangement and recognises the revenue, cost and expenses incurred in the six months ended 30 June 2012 in the interim condensed consolidated financial statements.
- (iii) The management fee was based on certain percentage of heat energy supply income stipulated a management fee agreement entered into between the Group and Tianjin Jinre Co., Ltd..
- (iv) The interest expense is derived from a loan from Tianjin Jinre Co., Ltd., a non-controlling shareholder of a subsidiary of the Group, at 8% per annum.

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	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Short term employee benefits	4,445	6,500
Post-employment benefits	13	104
Total compensation paid to key management personnel	<u>4,458</u>	<u>6,604</u>

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 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
Amounts due from related companies		
Tianjin Jinbin (ii)	140,423	140,423
Tianjin Jinre Co., Ltd. (i)	107,520	112,189
Tianjin Heating Supply Co., Ltd. (ii)	2,891	11,197
Tianjin Jinre (ii)	594	8,157
Other related companies (ii)	1,718	1,728
	<u>253,146</u>	<u>273,694</u>
Less: Impairment provision (iii)	(140,423)	(140,423)
	<u>112,723</u>	<u>133,271</u>
Amount due from a jointly-controlled entity		
Shanghai Underground Centre Co. Ltd.	–	10,485
	<u>–</u>	<u>10,485</u>
Amounts due to related companies		
Tianjin Jinre Construction and Development Co., Ltd. (ii)	39,844	40,381
Tianjin Jinre (ii)	2,656	195
Tianjin Jinbin (ii)	3,599	16,356
	<u>46,099</u>	<u>56,932</u>
Amount due to an associate		
Tianjin Meijiang Heat Supply Operating Management Company Limited	39,431	51,208
	<u>39,431</u>	<u>51,208</u>
Loan from a related company		
Tianjin Jinre Co., Ltd. (i)	114,613	113,676
	<u>114,613</u>	<u>113,676</u>

21. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(c) Related party balances (Continued)

- (i) Tianjin Jinre Co., Ltd. is a non-controlling shareholder of a subsidiary of the Group.
- (ii) These related companies are under significant influence of a non-controlling shareholder of a subsidiary of the Group.
- (iii) In 2010, the Group assessed the recoverability of HK\$140,423,000 due from Tianjin Jinbin Heat Supply Company Limited and concluded that the chance of recovering the balance was low. Accordingly, full provision for impairment was made.

Except for the loan from a related company bears interest at 8% 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 full receivable.

22. EVENTS AFTER THE REPORTING PERIOD

No events occurring after the end of the reporting period that need to be disclosed were noted.

23. 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 24 August 2012.

INTERIM DIVIDENDS

The Board does not recommend the payment of interim dividend in respect of the period (for the six months ended 30 June 2011: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the six months ended 30 June 2012 (the “Interim Period”), turnover of the Group increased by 451% to approximately HK\$547.7 million from approximately HK\$99.4 million for the six months ended 30 June 2011 (the “Comparable Period”). The increase in revenue was mainly attributable to commencement of trading in iron ore, and increase in revenue contributed by the heat energy supply segment during the Interim Period. The Group recorded a loss of HK\$132.0 million for the Interim Period, as compared with the profit of HK\$22.7 million for the Comparable Period. The turnaround to loss was mainly attributable to sharing of loss from the Group’s associates engaged in steel manufacturing and trading in the PRC, as the result of decrease in prices and gross profit margin of steel products during the first six months of 2012. Loss attributable to owners of the Company amounted to HK\$134.3 million for the Interim Period, as compared with the profit of HK\$29.1 million attributable to owners of the Company for the Comparable Period. The basic and diluted loss per share for the Interim Period was HK\$1.2 cent, as compared with the basic and diluted earnings per share of HK\$0.3 cent for the Comparable Period.

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

Steel Manufacturing and Trading

During the Interim Period, the Group’s steel manufacturing and trading associates, namely Rizhao Steel Co., Limited, Rizhao Medium Section Mill Co., Limited, Rizhao Steel Wire Co., Limited continued to operate at optimal capacity. In the first six months of 2012, PRC steel markets were affected by a series of macroeconomic factors such as prices of raw materials of steel manufacturing such as iron ore were remained at high level as compared to prices of steel products, and sluggish demand for steel products at downstream customers. The segmental loss of HK\$107.8 million was recorded from the associates engaged in steel manufacturing and trading for the Interim Period, as compared with a profit of approximately HK\$99.3 million for the Comparable Period.

During the Interim Period, turnover of HK\$413.7 million was recorded from trading of iron ore, the Group continued to explore business opportunities in trading of iron ore to enhance revenue base.

As disclosed in the Group’s annual report of 2011, procedures relevant to the proposed asset acquisition pursuant to the second restructuring agreement entered into between the steel manufacturing and trading 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 as required by the Rules Governing the Listing of the Securities on the Stock Exchange (the “Listing Rules”) when there are any new developments.

Heat Energy Supply

The Group has three heat energy supply subsidiaries operating heat energy supply projects in the Tianjin city. The projects are the Meijiang Project, the Jinxia Xindu Project and the Xiqing Nanhe Project. The heat energy supply operations had contributed to the Group a turnover of HK\$134.1 million during the Interim Period, as compared with HK\$99.0 million of the Comparable Period. The increase in revenue was largely contributable to increase in heat energy supply fee and connection fee in the area covered by the heat energy supply operations. The loss from the heat energy supply segment was approximately HK\$0.4 million for the Interim Period, as compared with a segmental loss of approximately HK\$12.8 million for the Comparable Period.

Property Investment

In Shanghai, the occupancy rate of Shanghai Underground Centre Company Limited (“SUCCL”) had approached near capacity, SUCCL had continued to contribute a stable profit stream to the Group. During the Interim Period, SUCCL recorded a turnover of approximately HK\$30 million, an increase of 2.0% from the Comparable Period. SUCCL had contributed to the Group a profit of approximately HK\$0.2 million for the Interim Period, as compared with a profit of approximately HK\$0.3 million for the Comparable Period.

Prospects*Steel Manufacturing and Trading*

The prices of steel product in China have demonstrated a downward trend since the beginning of 2012. Although a slight rebound in steel product prices were noticed in May, steel product prices resumed to soften in June. It is expected that steel product prices in China shall remain to be influenced by uncertain economic conditions, and weak demand of steel products from downstream customers.

Heat Energy Supply

The Group’s heat energy supply projects constitute an essential utility service to the development of the Tianjin city. With the prime locations occupied, the Group’s heat energy supply projects at the Meijiang district, Jinxia Xindu District, and Xiqing Nanhe district shall continue to contribute stable and recurring revenue to the Group.

Property Investment

Uncertainties in China’s economy shall continue to influence domestic retail industry and consumer sentiment, SUCCL shall explore opportunities to secure revenue stream through enhancing shopping experience, and to optimize people flow.

It is expected that the Chinese government shall adhere to stringent economic measures to suppress property prices, the Group shall adopt a prudent approach towards all potential investment opportunities.

Looking ahead

The Group’s performance in the second half of 2012 shall be affected by uncertain economy outlook, weak demand on steel products, high production and operating costs in steel manufacturing in China. Despite such challenges, the Group remains confident in China’s economic rebound in the long run. The Group shall continue to be cautious when expanding our business portfolio.

Liquidity and Financial Resources

As at 30 June 2012, total assets and net assets of the Group were approximately HK\$4,597.3 million and HK\$3,704.90 million respectively, as compared with HK\$4,751.3 million and HK\$3,853.7 million as at 31 December 2011. Cash and bank balance of the Group as at 30 June 2012 was approximately HK\$551.4 million (31 December 2011: HK\$459.8 million), representing an increase of 19.9%. Total current assets decreased by 2.7% to approximately HK\$762.5 million during the Interim Period (31 December 2011: HK\$783.3 million). As at 30 June 2012, the Group’s outstanding bank and other borrowings amounted to approximately HK\$37.4 million (31 December 2011: HK\$21.7 million), all of which were due within one year. Net current assets as at 30 June 2012 was approximately HK\$263.4 million (31 December 2011: HK\$279.3 million). The Group’s gearing ratio (total borrowings/total assets) continued to remain at a low level of 3.3% (31 December 2011: 2.9%) as at 30 June 2012.

Acquisitions and Disposals

The Group had not any material acquisition or disposal of any subsidiaries or associates companies during the Interim Period.

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 shall 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 Interim Period are set out in note 20 to the interim condensed consolidated financial statements.

Pledge on the Group's Assets

As at 30 June 2012, no assets were pledged by the Group.

Employees and Remuneration

The Group had 179 employees as at 30 June 2012 (31 December 2011: 161). Apart from basic remuneration, the Group also provides other employee benefits including medical scheme and provident fund schemes. In addition, the Group has adopted 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' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 30 June 2012, the interests of the Directors and their associates in the shares and underlying shares of the Company as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

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

Name of Director	Capacity	Number of shares held as corporate Interests	Percentage of the issued share capital of the Company
Mr. Hu Yishi	Personal	1,300,000,000	11.91%

Save as disclosed above, as at 30 June 2012, none of the Directors or chief executive had registered an interest or short position in the shares, underlying shares 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' AND OTHER PERSONS' INTEREST IN SHARES AND UNDERLYING SHARES AND CONVERTIBLE BONDS

At as 30 June 2012, the following interests of 5% or more of the issued share capital and share options, convertible bonds of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

(a) 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	6.49%
Happy Sino International Limited ¹	Beneficial interest	708,000,000	6.49%
Mr. Zhang He Yi	Beneficial interest	1,400,000,000	12.83%
Mr. Qi Shi An	Beneficial interest	600,000,000	5.50%
Ms. Lu Xiao Mei	Interest of controlled corporation	753,190,000	6.90%
Sincere Profit Group Limited ²	Beneficial interest	753,190,000	6.90%
Mr. Sun Yong Feng	Beneficial interest	133,000,000	1.22%
Ms. Meng Ya ³	Interest of spouse	133,000,000	1.22%

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

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

³ Ms. Meng Ya is the spouse of Mr. Sun Yong Feng. Ms. Meng Ya is deemed to be interested in the 133,000,000 shares in which Mr. Sun Yong Feng is interested.

(b) Long positions – convertible bonds

Name	Capacity	Amount of convertible bonds	Number of underlying shares
Ga Leung Investment Company Limited ^{1,2}	Beneficial interest	280,000,000	1,866,666,666
Mr. Sun Yong Feng	Interest of controlled corporation	280,000,000	1,866,666,666
Ms. Meng Ya ³	Interest of spouse	280,000,000	1,866,666,666

¹ Mr. Sun Yong Feng beneficially owns 100% interest in the issued capital of Ga Leung Investment Company Limited.

² The Company and Ga Leung Investment Company Limited entered into a subscription agreement in relation to the convertible bonds on 19 December 2011. On 30 December 2011, the Company issued convertible bonds in the amount of HK\$280,000,000 to Ga Leung Investment Company Limited, according to the convertible bonds subscription agreement dated 19 December 2011. The convertible bonds carry interest at 3.5% per annum. The holder has the option to convert the convertible bonds into ordinary shares of HK\$0.10 per share of the Company at a conversion price of HK\$0.15 per share.

³ Ms. Meng Ya is the spouse of Mr. Sun Yong Feng. Ms. Meng Ya is deemed to be interested in the 1,866,666,666 underlying shares in which Mr. Sun Yong Feng is interested.

Save as disclosed above, as at 30 June 2012, no person, other than the Directors and chief executive of the Company, whose interests are set out in the section “Directors’ and chief executive’s interests and short positions in shares and underlying shares” 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 18 to the interim condensed consolidated financial statements.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the interim period, neither the Company, nor any of its subsidiaries purchased, redeemed or sold 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 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 Listing Rules.

The Company had complied with the CG Code throughout the six months ended 30 June 2012 with the following deviations:

- A4.1 Non-executive Directors are not appointed for a specific term. They are, however, subject to retirement by rotation and reelection 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 both should not be subject to retirement by rotation or hold office for a limited term at the present time.

The Board will keep these matters under review.

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

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 interim condensed consolidated financial statements for the six months ended 30 June 2012.

REMUNERATION COMMITTEE

The remuneration committee of the Company was established, with specific terms of reference in compliance with the CG 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 three independent non-executive Directors. The present members are Mr. Tam Sun Wing, Mr. Law Wing Chi, Stephen, Mr. He Yi and Mr. Ng Ge Bun.

NOMINATION COMMITTEE

The nomination committee currently consists of one executive Director and three independent non-executive Directors. The present members are Mr. Ng Ge Bun, Mr. Law Wing Chi, Stephen, Mr. He Yi and Mr. Tam Sun Wing. 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 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 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 to 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 INTERIM RESULTS AND INTERIM REPORT

This results announcement is published on the websites of the Stock Exchange and the Company (www.kaiyuanholdings.com). The interim report of the Company for the six months ended 30 June 2012 containing all information required by Appendix 16 to the Listing Rules will be despatched to the shareholders of the Company in due course.

BOARD OF DIRECTORS

As at the date of this report, the Board of Directors consists of Mr. Xue Jian, Mr. Law Wing Chi, Stephen (all being executive Directors), Mr. Hu Yishi (being non-executive Director) 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
Law Wing Chi, Stephen
Executive Director

Hong Kong, 24 August 2012