KAI YUAN HOLDINGS LIMITED
開源控股有限公司

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

INTERIM REPORT 2013

CONTENTS

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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Bermuda

SHARE REGISTRAR

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REGISTERED OFFICE

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Bermuda

PRINCIPAL OFFICE IN HONG KONG

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AUDITORS

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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
China Merchants Bank Company Limited

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 accompanying interim condensed consolidated financial statements set out on pages 4 to 35 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 2013 and the related interim condensed consolidated income statement, the 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 11(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

26 August 2013

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2013

	Notes	For the six months ended 30 June 2013 (Unaudited) HK$'000	2012 (Unaudited) HK$'000
CONTINUING OPERATIONS			
REVENUE	3	**442,137**	547,719
Cost of sales		**(443,740)**	(515,757)
Gross (loss)/profit		**(1,603)**	31,962
Other income and gains		**5,740**	3,264
Other expenses		**(4,023)**	(2,499)
Administrative expenses		**(30,141)**	(38,115)
Finance costs		**(16,332)**	(16,099)
Share of losses of associates		**(101,375)**	(115,700)
LOSS BEFORE TAX FROM CONTINUING OPERATIONS	4	**(147,734)**	(137,187)
Income tax credit	5	**161**	5,221
LOSS FOR THE PERIOD FROM CONTINUING OPERATIONS		**(147,573)**	(131,966)
DISCONTINUED OPERATIONS			
Profit/(loss) for the period from discontinued operations	6	**14,424**	(31)
LOSS FOR THE PERIOD		**(133,149)**	(131,997)
Attributable to:			
Owners of the Company		**(116,487)**	(134,314)
Non-controlling interests		**(16,662)**	2,317
		(133,149)	(131,997)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	8		
Basic			
– For loss for the period		**HK$(1.1) cent**	HK$(1.2) cent
– For loss from continuing operations		**HK$(1.2) cent**	HK$(1.2) cent
Diluted			
– For loss for the period		**HK$(1.1) cent**	HK$(1.2) cent
– For loss from continuing operations		**HK$(1.2) cent**	HK$(1.2) cent

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2013

	For the six months ended 30 June	
	2013 (Unaudited) HK$'000	2012 (Unaudited) HK$'000
LOSS FOR THE PERIOD	**(133,149)**	(131,997)
Exchange differences on translation of foreign operations	**43,567**	(16,819)
Reclassification of translation reserve from other comprehensive income to profit or loss upon disposal of subsidiaries	**(18,270)**	–
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	**25,297**	(16,819)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	**(107,852)**	(148,816)
Attributable to:		
Owners of the Company	**(91,190)**	(151,133)
Non-controlling interests	**(16,662)**	2,317
	(107,852)	(148,816)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2013

	Notes	30 June 2013 (Unaudited) HK$'000	31 December 2012 (Audited) HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	9	**749,535**	727,727
Prepaid land lease payments		**40,631**	41,225
Goodwill		**–**	–
Intangible assets	10	**95,369**	97,297
Investments in associates	11	**1,925,957**	1,990,147
Available-for-sale investments		**5,837**	5,735
Other long-term assets		**4,223**	4,544
Total non-current assets		**2,821,552**	2,866,675
CURRENT ASSETS			
Inventories		**1,771**	5,731
Trade receivables and bills receivable	12	**109,537**	–
Other receivables and prepayments		**12,736**	17,665
Prepaid land lease payments		**3,052**	3,053
Other long-term assets – current portion		**804**	789
Amounts due from related companies	24	**127,653**	125,417
Pledged deposits	13	**151,008**	–
Cash and cash equivalents		**386,617**	530,446
		793,178	683,101
Assets of a disposal group classified as held for sale		**–**	130,029
Total current assets		**793,178**	813,130
Total assets		**3,614,730**	3,679,805
CURRENT LIABILITIES			
Trade payables	14	**27,276**	26,499
Other payables and accruals	15	**170,366**	127,116
Receipt in advance		**96,798**	121,369
Amount due to an associate	24	**2,511**	18,872
Amounts due to related companies	24	**93,843**	54,790
Interest-bearing bank and other borrowings	16	**6,277**	33,958
Loan from a related company	24	**117,632**	113,521
Income tax payable		**40,570**	38,689
Convertible bonds – current portion	17	**286,639**	266,171
Total current liabilities		**841,912**	800,985
NET CURRENT (LIABILITIES)/ASSETS		**(48,734)**	12,145
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,772,818**	2,878,820

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

AT 30 JUNE 2013

	Notes	30 June 2013 (Unaudited) HK$'000	31 December 2012 (Audited) HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,772,818**	2,878,820
NON-CURRENT LIABILITIES			
Deferred tax liabilities	18	**114,634**	112,784
Total non-current liabilities		**114,634**	112,784
Net assets		**2,658,184**	2,766,036
EQUITY			
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Issued capital	19	**1,091,221**	1,091,221
Equity component of convertible bonds	17	**38,915**	38,915
Reserves		**1,282,372**	1,373,562
		2,412,508	2,503,698
Non-controlling interests		**245,676**	262,338
Total equity		**2,658,184**	2,766,036

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2013

	Notes	Attributable to owners of the Company								
		Issued capital HK$'000	Equity component of convertible bonds HK$'000	Share premium* HK$'000	Translation reserve* HK$'000	Retained profits/ (accumulated losses)* HK$'000	Other reserve* HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2013 (Audited)		1,091,221	38,915	894,724	349,709	116,079	13,050	2,503,698	262,338	2,766,036
Total comprehensive income/(loss) for the period		–	–	–	25,297	(116,487)	–	(91,190)	(16,662)	(107,852)
At 30 June 2013 (Unaudited)		1,091,221	38,915	894,724	375,006	(408)	13,050	2,412,508	245,676	2,658,184

	Notes	Attributable to owners of the Company									
		Issued capital HK$'000	Equity component of convertible bonds HK$'000	Share premium* HK$'000	Share options reserve* HK$'000	Translation reserve* HK$'000	Retained profits* HK$'000	Other reserve* HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'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)/income for the period		–	–	–	–	(16,819)	(134,314)	–	(151,133)	2,317	(148,816)
Transfer upon the forfeiture of share options		–	–	–	(25,747)	–	25,747	–	–	–	–
At 30 June 2012 (Unaudited)		1,091,221	38,915	894,724	–	340,675	1,048,557	13,050	3,427,142	277,748	3,704,890

* These reserve accounts comprise the consolidated reserves of HK$1,282,372,000 (30 June 2012: HK$2,297,006,000) in the interim condensed consolidated statement of financial position.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2013

	For the six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before tax	**(133,310)**	(137,218)
From continuing operations	**(147,734)**	(137,187)
From discontinued operations	**14,424**	(31)
Adjustments for:		
Finance costs	**16,332**	16,099
Share of loss/(profits) of a jointly-controlled entity	**766**	(223)
Share of losses of associates	**101,375**	115,700
Loss on disposal of items of property, plant and equipment	**–**	1,024
Loss on disposal of subsidiaries	**2,735**	–
Reclassification of translation reserve from other comprehensive income to profit or loss upon disposal of subsidiaries	**(18,270)**	–
Depreciation of property, plant and equipment	**23,845**	21,921
Recognition of prepaid land lease payments	**1,371**	1,636
Recognition of other long-term assets	**399**	–
Amortization of intangible assets	**3,631**	3,596
Interest income	**(2,001)**	(790)
	(3,127)	21,745
Decrease in inventories	**3,960**	5,768
(Increase)/decrease in trade receivables and bills receivable	**(109,537)**	70,880
Decrease/(increase) in other receivables and prepayments	**3,137**	(396)
Increase in pledged deposits	**(151,008)**	–
Increase in trade payables	**777**	7,687
Increase in other payables and accruals	**43,250**	31,051
Decrease in receipt in advance	**(24,571)**	(44,054)
Cash (used in)/generated from operations	**(237,119)**	92,681
Interest received	**2,001**	790
Net cash flows (used in)/generated from operating activities	**(235,118)**	93,471

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2013

	For the six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Net cash flows (used in)/generated from operating activities	**(235,118)**	93,471
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	**(30,672)**	(25,563)
Disposal of property, plant and equipments	**–**	900
Net proceeds from disposal of subsidiaries (note 21)	**128,655**	–
Return of investment from a jointly-controlled entity	**–**	10,427
(Decrease)/increase in amounts due from related companies	**(2,236)**	22,402
Net cash flows generated from investing activities	**95,747**	8,166
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in amount due to an associate	**(16,361)**	(11,527)
Increase/(decrease) in amounts due to related companies	**38,700**	(10,549)
Proceeds from bank borrowings	**6,277**	30,667
Repayment of bank borrowings	**(33,958)**	(14,870)
Repayment of a loan from a related company	**–**	(613)
Interest paid	**(494)**	(1,945)
Net cash flows used in financing activities	**(5,836)**	(8,837)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**(145,207)**	92,800
Cash and cash equivalents at beginning of the period	**530,446**	459,831
Effect of foreign exchange rate changes, net	**1,378**	(1,200)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	**386,617**	551,431

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2013

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 11. Its subsidiaries were principally engaged in the supply of heat and trading of iron ore and steel products during the six months ended 30 June 2013 (the "Period").

2. BASIS 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 2013 and the related interim condensed consolidated income statement, the 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.

As at 30 June 2013, the Company's current liabilities exceeded its current assets by HK$48,734,000 (as at 31 December 2012: net current assets HK$12,145,000). However, based on the cash flow forecast prepared by the management of the Company, Kai Yuan Holdings Limited, the directors of the Company are of the opinion that the Company will have sufficient cash flows to settle its debts when they fall due (at least 12 months from the date of the financial statements). Accordingly, the financial statements have been prepared on a going concern basis.

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 2012.

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2012, except for the adoption of new standards, interpretations and amendments effective as of 1 January 2013 below:

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time adoption of Hong Kong Financial Reporting Standards – Government Loans*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*
HKFRS 10	*Consolidated Financial Statements*
HKFRS 11	*Joint Arrangements*
HKFRS 12	*Disclosure of Interests in Other Entities*
HKFRS 10, HKFRS 11 And HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 – *Transition Guidance*
HKFRS 13	*Fair Value Measurement*
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*
HKAS 19 (2011)	*Employee Benefits*
HKAS 27 (2011)	*Separate Financial Statements*
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*
Annual Improvements 2009–2011 Cycle	Amendments to a number of HKFRSs issued in June 2012
HKAS 1	*Clarification of the requirement for comparative information* (Amendment)
HKAS 32	*Tax effects of distributions to holders of equity instruments* (Amendment)
HKAS 34	*Interim financial reporting and segment information for total assets and liabilities* (Amendment)

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. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has two (for the six months ended 30 June 2012: 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 steel manufacturing and trading segment is engaged in iron ore, steel products, and other commodities trading and holds significant interests in three associates, located in Shandong Province, engaging in steel and steel product manufacturing and trading.

The property investment segment holding interests in a jointly-controlled entity located in Shanghai, which has been reclassified as discontinued operation as at 31 December 2012 and disposed as at 26 June 2013, details of which are given in note 6 and note 21 to the interim condensed consolidated financial statements.

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. The adjusted profit/(loss) before tax is measured consistently with the Group's profit 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 this 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.

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

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

3. OPERATING SEGMENT INFORMATION (Continued)

For the six months ended 30 June 2013 (Unaudited)	Heat energy supply HK$'000	Steel manufacturing and trading HK$'000	Total HK$'000
Segment revenue			
Sales to external customers	145,957	296,180	442,137
Revenue from continuing operations			442,137
Segment results	(26,162)	(96,821)	(122,983)
Reconciliation:			
Interest income			2,001
Finance costs			(16,332)
Corporate and other unallocated expenses			(10,420)
Loss before tax from continuing operations			(147,734)

3. OPERATING SEGMENT INFORMATION (Continued)

For the six months ended 30 June 2012 (Unaudited)	Heat energy supply HK$'000	Steel manufacturing and trading HK$'000	Total HK$'000
Segment revenue			
Sales to external customers	134,061	413,658	547,719
Revenue from continuing operations			547,719
Segment results	(380)	(107,763)	(108,143)
Reconciliation:			
Interest income			790
Finance costs			(16,099)
Corporate and other unallocated expenses			(13,735)
Loss before tax from continuing operations			(137,187)
Segment assets	979,437	2,035,207	3,014,644
Reconciliation:			
Corporate and other unallocated assets			600,086
As at 30 June 2013			3,614,730
Segment liabilities	507,097	162	507,259
Reconciliation:			
Corporate and other unallocated liabilities			449,287
As at 30 June 2013			956,546
Segment assets	965,209	1,989,858	2,955,067
Reconciliation:			
Corporate and other unallocated assets			594,709
Assets related to a discontinued operation			130,029
As at 31 December 2012			3,679,805
Segment liabilities	455,957	2,258	458,215
Reconciliation:			
Corporate and other unallocated liabilities			455,554
As at 31 December 2012			913,769

4. LOSS BEFORE TAX FROM CONTINUING OPERATIONS

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

	For the six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Cost of heat energy supply	**156,578**	111,429
Cost of goods sold	**287,162**	404,328
Depreciation of property, plant and equipment	**23,845**	21,921
Amortisation of intangible assets	**3,631**	3,596
Amortisation of land lease payments	**1,371**	1,636
Amortisation of other long-term assets	**399**	–
Minimum lease payments under operating leases: Land and buildings	**482**	670
Loss on disposal of items of property, plant and equipment	**–**	1,024
Financial costs	**16,332**	16,099
Interest income	**(2,001)**	(790)
Employee benefit expense (including directors' remuneration)	**16,154**	16,793

5. INCOME TAX CREDIT

The major components of income tax credit for the six months ended 30 June 2013 and 2012 are as follows:

	For the six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Current income tax		
Hong Kong	**–**	–
Mainland China	**–**	–
	–	–
Deferred income tax	**(161)**	(5,221)
Income tax credit for the period	**(161)**	(5,221)

5. INCOME TAX CREDIT (Continued)

Hong Kong profits tax should be provided at the rate of 16.5% (for the six months ended 30 June 2012: 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 2012: 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. DISCONTINUED OPERATIONS

On 17 June 2013, the Company entered into an agreement to dispose of the entire issued share capital of Goalreach Investments Limited ("Goalreach") to a third party. Goalreach holds 100% equity interest in Burlingame (Chinese) Investment Limited ("Burlingame"). Goalreach and Burlingame acted solely as an investment holding company. Burlingame has an investment in a jointly-controlled entity, Shanghai Underground Centre Company Limited ("SUCCL"), which is engaged in operation and management of shopping malls in Mainland China.

The disposal of Goalreach has been completed on 26 June 2013.

The results of Goalreach for the period are presented below:

	For the six months ended	
	26 June 2013 (Unaudited) HK$'000	30 June 2012 (Unaudited) HK$'000
Loss on disposal (note 21)	**(2,735)**	–
Reclassification of translation reserve from other comprehensive income to profit or loss upon disposal of subsidiaries	**18,270**	–
Administrative expenses	**(345)**	(254)
Share of (losses) and profits of a jointly-controlled entity	**(766)**	223
Gain/(loss) before tax from the discontinued operations	**14,424**	(31)
Income tax expense	**–**	–
Gain/(loss) from the discontinued operations	**14,424**	(31)

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 2012: Nil).

8. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic loss per share amount is based on the loss 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 2012: 10,912,213,000) in issue during the period.

The calculation of the diluted loss per share amount is based on the loss for the period attributable to ordinary equity holders of the Company adjusted to reflect the interest on the convertible bonds, where applicable. 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 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.

No adjustment has been made to the basic loss per share amounts presented for the period ended 30 June 2013 in respect of a dilution as the impact of the convertible bonds outstanding had an anti-dilutive effect on the basic loss per share amounts presented.

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

	For the six months ended 30 June	
	2013 (Unaudited)	2012 (Unaudited)
Loss (HK$'000)		
Loss attributable to ordinary equity holders of the Company		
From continuing operations	**(130,911)**	(134,283)
From discontinued operations	**14,424**	(31)
	(116,487)	(134,314)
Interest on convertible bonds	**15,074**	14,154
Loss attributable to ordinary equity holders of the Company before interest on convertible bonds	**(101,413)***	(120,160)*
Attributable to:		
Continuing operations	**(115,837)***	(120,129)*
Discontinued operations	**14,424***	(31)*
	(101,413)*	(120,160)*
Number of shares ('000)		
Weighted average number of ordinary shares in issue during the period used in the basic loss per share calculation	**10,912,213**	10,912,213
Effect of dilution – weighted average number of ordinary shares:		
– Convertible bonds	**1,866,667***	1,866,667*
Weighted average number of ordinary shares in issue during the period used in the diluted loss per share calculation	**12,778,880***	12,778,880*

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

* 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 2013 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 2013 are based on the loss for the period and loss attributable to continuing operations of HK$116,487,000 and HK$130,911,000, respectively, and the weighted average number of ordinary shares of 10,912,213,000 in issue during the six months ended 30 June 2013.

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 and loss attributable to continuing operations of HK$134,314,000 and HK$134,283,000, respectively, and the weighted average number of ordinary shares of 10,912,213,000 in issue during the six months ended 30 June 2012.

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended on 30 June 2013, the Group acquired items of property, plant and equipment with a cost of HK$30,672,000 (for the six months ended 30 June 2012: HK$25,563,000). Depreciation for items of property, plant and equipment was HK$23,845,000 during the period (for the six months ended 30 June 2012: HK$21,921,000).

No property, plant and equipment was disposed of for the six months ended 30 June 2013. 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.

10. INTANGIBLE ASSETS

During the six months ended on 30 June 2013, The Group did not acquire intangible assets (for the six months ended 30 June 2012: Nil). Amortisation for intangible assets were HK$3,631,000 during the period (for the six months ended 30 June 2012: HK$3,596,000).

No intangible asset was disposed of for the six months ended on 30 June 2012 and 2013.

11. INVESTMENTS IN ASSOCIATES

	30 June 2013 (Unaudited) HK$'000	31 December 2012 (Audited) HK$'000
Share of net assets	**2,254,775**	2,313,206
Provision for impairment (iii)	**(328,818)**	(323,059)
	1,925,957	1,990,147

11. INVESTMENTS IN ASSOCIATES (Continued)

Particulars of the associates are as follows:

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

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 2013 (Unaudited) HK$'000	2012 (Unaudited) HK$'000
Revenue	**49,553,483**	54,804,212
Loss for the period	**(380,464)**	(431,959)

	30 June 2013 (Unaudited) HK$'000	31 December 2012 (Audited) HK$'000
Total assets	**47,439,119**	45,299,002
Total liabilities	**39,165,781**	36,792,711

11. INVESTMENTS IN ASSOCIATES (Continued)

(i) Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

(ii) Certain matters in relation to the three associates of the Group located in Rizhao, Shandong Province are disclosed as follows:

(a) Restructuring agreement

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 known 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 between both parties.

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 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.

Up till the date of this report, the relevant negotiation of the above acquisition was suspended and no further agreement has been entered into by the contract parties mentioned above.

11. INVESTMENTS IN ASSOCIATES (Continued)

(ii) (Continued)

(b) Proposed production capacity adjustment programme

Pursuant to the announcement dated 28 December 2012, the Group received a notice from Rizhao Steel Holding Group Company Limited (the parent company of the three associates) informing the Group that it may undergo a production adjustment programme to adjust the annual steel production capacity (the "Programme") (which is largely undertaken by the three associates). The Programme will be carried out in phases following the full and satisfactory settlement of matters arising from the Programme during the course of its implementation (including production equipment allocation, redundancy arrangement, subsidies and compensation policies, safety, stability issues, etc.) with the assistance of the Shandong Provincial Government. If the Programme is implemented, the annual steel production capacity of Rizhao Steel Holding Group Company Limited may be adjusted from approximately 12 million tonnes to 5 million tonnes by 2015. The settlement method of the aforementioned matters and the implementation, procedures and timing of the Programme are yet to be determined and are subject to further negotiations and liaisons between Rizhao Steel Holding Group Company Limited and the relevant government authorities. In this regard, the impairment assessment on the investment in the three associates mentioned in (iii) below did not take into consideration the effects of the Programme as the implementation of aforementioned Programme has not been committed.

(iii) Provision for impairment

Investment in Rizhao Steel Co., Ltd., Rizhao Medium Section Mill Co., Ltd., and Rizhao Steel Wire Co., Ltd. were acquired through acquisition of 100% interest in Fame Risen Development Limited in May 2009, which belongs to the steel manufacturing and trading segment.

As at 31 December 2012, due to recession in the steel industry and operation losses from these investments in associates, management of the Group is of the opinion that there is an impairment indicator for long term assets of each associate and the Group's investment in the associates.

For impairment testing of long term assets of each associate, long term assets within each associate is considered an individual cash-generating unit ("CGU"). The recoverable amount of each cash-generating unit has been determined based on a value in use calculation using cash flow projections based on its individual financial budgets covering a five-year period approved by senior management of the associates. The discount rate applied to the cash flow projections is 14.2%. According to the impairment test result used by management of the Group, the recoverable amount of the individual CGU is lower than their respective carrying amount on consolidation level (taking into consideration of the effect for the fair value adjustments on long term assets of the associates at the acquisition date), and impairment loss was provided for long term assets of the associates, which has been recorded in losses of the associates of HK$554,710,000 for the year ended 31 December 2012.

For impairment testing of investments in the associates, each investment in the three associates is considered an individual CGU. The recoverable amount of the CGU has been determined based on fair value less costs to sell by using the income approach (discounted cash flow method in particular). As a result, according to the impairment test result used by the Group, the recoverable amount of the individual CGU is lower than their respective carrying amount, and HK$323,059,000 provision for impairment was recorded as at 31 December 2012.

As of 30 June 2013, management of the Group is of the opinion that no additional impairment is required for long term assets of each associate and the Group's investment in the associates.

12. TRADE RECEIVABLES AND BILLS RECEIVABLE

	30 June 2013 (Unaudited) HK$'000	31 December 2012 (Audited) HK$'000
Bills receivable	73,117	–
Trade receivables	36,420	–
	109,537	–

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 ore, steel products and other commodities are mainly on credit. The credit period is generally within 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 2013 (Unaudited) HK$'000	31 December 2012 (Audited) HK$'000
Within 1 month	36,420	–

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.

Bills receivable represent irrevocable letter of credits amounted to HK$73,117,000 with a maturity of 90 days. As at 30 June 2013, the bills receivable were neither past due nor impaired.

13. PLEDGED DEPOSITS

	30 June 2013 (Unaudited) HK$'000	31 December 2012 (Audited) HK$'000
Pledged deposits	**151,008**	–

As at 30 June 2013, the pledged deposits represent the time deposits amounting to HK$151,008,000 which were secured to issue letters of credit (31 December 2012: Nil).

14. TRADE PAYABLES

	30 June 2013 (Unaudited) HK$'000	31 December 2012 (Audited) HK$'000
Trade payables	**27,276**	26,499

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

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 2013 (Unaudited) HK$'000	31 December 2012 (Audited) HK$'000
Within 1 month	**1**	260
1 to 3 months	**1,092**	1,049
Over 3 months	**26,183**	25,190
	27,276	26,499

15. OTHER PAYABLES AND ACCRUALS

	30 June 2013 (Unaudited) HK$'000	31 December 2012 (Audited) HK$'000
Other payables	**165,136**	122,674
Accruals	**5,230**	4,442
	170,366	127,116

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

16. INTEREST-BEARING BANK AND OTHER BORROWINGS

On 27 March 2013, the Group repaid the bank borrowing from the Bank of Xingye Co., Ltd. with the principal amount of HK$6,167,000 on due.

On 20 February 2013, the Group repaid the bank borrowing from China Bohai Bank, with the principal amount of HK$24,667,000 on due.

On 31 March 2013, the Group repaid the current portion of other long term loan from Tianjin Jinre Construction and Development Co., Ltd. with the principal amount of HK$3,124,000 on due.

On 28 March 2013, The Group borrowed HK$6,277,000 from China Bohai Bank which is repayable in full on 27 March 2014. The loan is guaranteed by related companies, Tianjin Jinre Logistics Company Limited and Tianjin Jinbin Heat Supply Company Limited. The loan bears interest at fixed rate of 6.60% per annual.

17. 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, and the movements of the liability component are as follows:

	2013 (Unaudited) HK$'000
Liability component at 1 January	266,171
Interest charge	15,074
Exchange differences on translation	5,394
Liability component at 30 June	286,639

18. DEFERRED TAX

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

	30 June 2013 (Unaudited) HK$'000	31 December 2012 (Audited) HK$'000
Deferred tax liabilities:		
Fair value adjustments from acquisition of subsidiaries	**16,144**	16,424
Depreciation differences	**24,039**	21,765
Deferred revenue	**104,151**	102,985
Withholding tax	**–**	1,305
	144,334	142,479

	30 June 2013 (Unaudited) HK$'000	31 December 2012 (Audited) HK$'000
Deferred tax assets:		
Impairment of items of property, plant and equipment	**8,793**	8,919
Fair value adjustments from acquisition of subsidiaries	**20,907**	20,776
	29,700	29,695

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

	30 June 2013 (Unaudited) HK$'000	31 December 2012 (Audited) HK$'000
Net deferred tax liabilities recognised in the interim condensed consolidated statement of financial position	**114,634**	112,784

19. ISSUED CAPITAL

	Number of shares		Share capital	
	2013	2012	**2013**	2012
	'000	'000	**HK$'000**	HK$'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 and 30 June	**10,912,213**	10,912,213	**1,091,221**	1,091,221

20. SHARE OPTION SCHEME

Pursuant to a resolution passed on 17 May 2012 (the "Effective Date"), the Company adopted a new share option scheme (the "2012 Option Scheme"), which is for the purpose of providing incentives or rewards to eligible participants for their contributions to the Group and/or to enable the Group to recruit and retain high calibre employees and attract human resources that are valuable to the Group and any entity in which the Group holds and equity interest. 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.

Pursuant to the 2012 Option Scheme, the maximum number of shares which may be issued upon exercise of all outstanding options 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 higher 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. Upon acceptance of the option, the grantee shall pay HK$1.00 to the Company by way of consideration for the grant.

No eligible participant shall be granted an option if the total number of shares of the Company issued and to be issued upon exercise of the options granted and to be granted (including both exercised and outstanding options) in any 12-month period up to the date of the proposed grant to such eligible participant would exceed 1% of the shares of the Company for the time being in issue unless the proposed grant has been approved by the shareholders of the Company in general meeting with the proposed eligible participant and his associates abstaining from voting.

20. SHARE OPTION SCHEME (Continued)

An option may be exercised in accordance with the terms of the 2012 Option Scheme at any time during a period as the Board may in its absolute discretion determine which shall not be more than ten years from the date of grant of the option and subject to the provisions of early termination thereof and the Board may provide restrictions on the exercise of an option.

Up the date of this report, the Company has not granted any share options under the 2012 Option Scheme.

21. DISPOSAL OF SUBSIDIARIES

As detailed in note 6, the Group disposed of subsidiaries to a third party during the Period.

	26 June 2013 HK$'000
Investment in a jointly-controlled entity	95,208
Dividend receivables from a jointly-controlled entity	81,415
Cash and cash equivalents	28
Write off of provision for assets of a disposal group classified as held for sale	(45,233)
Subtotal	131,418
Consideration	130,000
Less: Disposal related expenses	(1,317)
Net proceeds received	128,683
Loss on disposal	(2,735)

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

	26 June 2013 HK$'000
Cash consideration	130,000
Disposal related expenses	(1,317)
Cash and cash equivalents disposed of	(28)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	128,655

The translation reserve amounted to HK$18,270,000 relating to disposal of subsidiaries is reclassified from other comprehensive income to income statement for the Period.

22. CAPITAL COMMITMENTS

At 30 June 2013, the Group had the following capital commitments:

	30 June 2013 (Unaudited) HK$'000	31 December 2012 (Audited) HK$'000
Contracted, but not provided for:		
Property, plant and equipment	**26,341**	18,055

23. CONTINGENT LIABILITIES

The Group provided a guarantee, with no charge, to a bank for a loan with the amount of HK$50,213,000 (as at 31 December 2012: HK$49,333,000) 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.

As at 30 June 2013, the Group had no other contingent liabilities.

24. 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	
	2013 (Unaudited) HK$'000	2012 (Unaudited) HK$'000
Purchase of coal from Tianjin Jinre Logistics Company Limited ("Tianjin Jinre logistics") (i)	**50,227**	20,189
Purchase of raw materials from Tianjin Jinbin Heat Supply Company Limited ("Tianjin Jinbin") (i)	**17,929**	15,068
Heat energy supply service conducted by Tianjin Jinbin on behalf of the Group (ii)		
– Revenue	**48,487**	40,266
– Cost of sales	**44,166**	24,113
Heat energy supplied to Tianjin Jinbin (iii)	**10,287**	–
Interest expense to a non-controlling shareholder of a subsidiary of the Group (iv)	**2,071**	2,185
Management fee to a non-controlling shareholder of a subsidiary of the Group (v)	**5,074**	4,061

24. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(a) Related party transactions (Continued)

(i) These related companies are under significant influence of a non-controlling shareholder of a subsidiary of the Group. The purchases from Tianjin Jinre logistics 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") on 1 September 2012 and 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 the net result incurred by Tianjin Jinbin under this arrangement by the end of the next May when the heat energy supply period ends. According to the requirements of HKAS 18, Meijiang Heating is acting as a principal in this arrangement and recognises the revenue, cost and expenses incurred in the six months ended 30 June 2013 in the interim condensed consolidated financial statements.

(iii) According to an agreement entered into between Tianjin Jinbin and Tianjin Heating Development Company Limited ("Tianjin Heating") on 3 May 2013, Tianjin Heating would provide hot water to Tianjin Jinbin as heat supply energy.

(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.

(v) According to management fee agreement entered into between the Group and the related party, the management fee is calculated based on heating supply area.

(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	
	2013	2012
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Short term employee benefits	**4,455**	4,445
Post-employment benefits	**19**	13
Total compensation paid to key management personnel	**4,474**	4,458

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.

24. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(c) Related party balances

	30 June 2013 (Unaudited) HK$'000	31 December 2012 (Audited) HK$'000
Amounts due from related companies		
Tianjin Jinbin (ii)	**142,908**	140,405
Tianjin Jinre Co., Ltd. (i)	**122,937**	120,784
Tianjin Heating Supply Co., Ltd. (ii)	**2,958**	2,906
Other related companies (ii)	**1,758**	1,727
	270,561	265,822
Less: Impairment provision (iii)	**(142,908)**	(140,405)
	127,653	125,417
Amounts due to related companies		
Tianjin Jinre Construction and Development Co., Ltd. (ii)	**40,453**	39,740
Tianjin Jinre logistics (ii)	**31,952**	8,045
Tianjin Jinbin (ii)	**21,438**	7,005
	93,843	54,790
Amount due to an associate		
Tianjin Meijiang Heat Supply Operating Management Company Limited	**2,511**	18,872
Loan from a related company		
Tianjin Jinre Co., Ltd. (i)	**117,632**	113,521

(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.

24. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(c) **Related party balances** (Continued)

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.

25. FINANCIAL INSTRUMENTS BY CATEGORY

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

30 June 2013

Financial assets	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
Available-for-sale investments	–	5,837	5,837
Trade receivables and bills receivable	109,537	–	109,537
Financial assets included in prepayments, deposits and other receivables	9,380	–	9,380
Amounts due from related companies	127,653	–	127,653
Pledged deposits	151,008	–	151,008
Cash and cash equivalents	386,617	–	386,617
	784,195	5,837	790,032

Financial liabilities	Financial liabilities at amortised cost HK$'000
Trade payables	27,276
Financial liabilities included in other payables and accruals	164,835
Amounts due to related companies	93,843
Amount due to an associate	2,511
Interest-bearing bank and other borrowings	6,277
Loan from a related company	117,632
Convertible bonds	286,639
	699,013

26. FAIR VALUE AND FAIR VALUE HIERARCHY

The carrying amounts and fair values of the Group's and the Company's financial instruments as at the end of the reporting period are as follows:

	Carrying amounts 30 June 2013 HK$'000	Fair values 30 June 2013 HK$'000
Financial assets		
Available-for-sale investments	5,837	5,837
Trade receivables and bills receivable	109,537	109,537
Financial assets included in prepayments, deposits and other receivables	9,380	9,380
Amounts due from related companies	127,653	127,653
Pledged deposits	151,008	151,008
Cash and cash equivalents	386,617	386,617
	790,032	790,032
Financial liabilities		
Trade payables	27,276	27,276
Financial liabilities included in other payables and accruals	164,835	164,835
Amounts due to related companies	93,843	93,843
Amount due to an associate	2,511	2,511
Interest-bearing bank and other borrowings	6,277	6,277
Loan from a related company	117,632	117,632
Convertible bonds	286,639	286,639
	699,013	699,013

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

Cash and cash equivalents, pledged deposits, available-for-sale investments, trade receivables and bills receivable, trade payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, amounts due from/to related companies, amounts due from/to associates, Interest-bearing bank and other borrowings, a loan from a related company and convertible bonds approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments on similar terms, credit risk and remaining maturities. The fair value of the liability portion of the convertible bonds is estimated using a prevailing market interest rate for a similar bond without a conversion option.

26. FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

Fair value hierarchy

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

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

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

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

The Group did not have any financial assets measured at fair value as at 30 June 2013.

27. EVENTS AFTER THE REPORTING PERIOD

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

28. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements were approved and authorised for issue by the Board on 26 August 2013.

INTERIM DIVIDENDS

The Board do not recommend the payment of interim dividend in respect of the Period (for the six months ended 30 June 2012: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the six months ended 30 June 2013 (the "Interim Period"), revenue of the Group amounted to HK$442.1 million, representing a decrease of 19.3% from approximately HK$547.7 million for the six months ended 30 June 2012 (the "Comparable Period"). The decrease in revenue was mainly attributable to decrease in revenue contributed from trading in iron ore during the Interim Period. The Group recorded a loss for the Interim Period of HK$133.1 million, as compared with the loss of HK$132.0 million for the Comparable Period. The loss for the Interim Period was principally attributable to (i) share of operating loss from the Group's associates engaged in steel manufacturing and trading in the PRC, which mainly resulted from weakened demand as well as shrinkage in gross profit margin of steel products; and (ii) operating loss of the Group's heat energy supply segment as a result of increase in production as well as operating costs, and heat energy supply facilities had yet to be utilized at economy of scale. Loss attributable to owners of the Company amounted to HK$116.5 million for the Interim Period, as compared with the loss of HK$134.3 million for the Comparable Period. The basic and diluted loss per share for the Interim Period was HK$1.1 cent as compared with the basic and diluted loss per share of HK$1.2 cent for the Comparable Period.

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

Steel Manufacturing and Trading

The unstable steel market in the PRC had caused the Group's associates engaged in steel manufacturing and trading namely Rizhao Steel Co., Limited, Rizhao Medium Section Mill Co., Limited, and Rizhao Steel Wire Co., Limited (the "Associates") continued to struggle in first half of 2013. As the result of shrinkage in gross profit margin recorded by the Associates, the Group shared an operating loss of HK$101.4 million from the Associates during the Interim Period.

In respect of the proposed restructuring, among others, between the Associates and 山東鋼鐵集團有限公司 (Shandong Iron and Steel Group Co., Limited*), as set out in the announcements of the Company dated 20 August 2009, 7 September 2009, 1 September 2010, and 1 March 2011, the Company has not been informed of any development as at the date of this report. In respect of the proposed production capacity adjustment programme as set out in the announcement of the Company dated 28 December 2012, the Company has not been informed of any development as at the date of this report. The Company will make further disclosure on new development from time to time as and when required under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

During the Interim Period, uncertainties of iron ore prices had caused the Group being conservative in iron ore trading. The Group recorded revenue of HK$296.2 million from trading of iron ore and materials related to steel manufacturing, representing a decrease of 28.4% as compared with HK$413.7 million recorded for the Comparable Period.

Heat Energy Supply

The Group's heat energy supply subsidiaries operating in the Meijiang district, Jinxia Xindu district and Xiqing Nanhe district (the "Three Districts") continued to contribute steady heat energy supply income to the Group. Benefited from new development projects launched and increase in heat energy supply areas within the Three Districts, revenue from heat energy supply had increased. During the Interim Period, the Group recorded revenue of HK$146.0 million from the heat energy supply segment, representing an increase of 8.9% as compared with HK$134.1 million for the Comparable Period. Despite the increased revenue, provision of heat energy continued to be challenged by inflating operating costs. As a result, the Group recorded a loss of HK$26.2 million from the heat energy supply segment during the Interim Period, as compared with the loss of HK$0.4 million for the Comparable Period.

* *For identification purposes only*

Property Investment

On 17 June 2013, the Group entered into an agreement with a third party to dispose all shares of Goalreach Investments Limited ("Goalreach") for HK$130.0 million (the "Disposal"). Goalreach held entire issued share capital of Burlingame (Chinese) Investment Limited ("Burlingame"). Burlingame was a foreign shareholder of Shanghai Underground Centre Co., Ltd ("SUCCL"), a co-operative joint venture company established in the PRC principally engaged in the operation of the Shanghai Underground Shopping Mall. The Disposal was completed on 26 June 2013, the Group recorded a loss of approximately HK$2.7 million from the Disposal, details of the Disposal are disclosed in note 21 to interim condensed consolidated financial statements for the Period set out in this Report. After the Disposal, translation reserve of HK$18.3 million was reclassified from other comprehensive income to income statement for the Period. Net profit for the Interim Period from the discontinued operations was HK$14.4 million.

Prospects

Steel Manufacturing and Trading

Steel product prices have shown signs of recovery from the bottom since the beginning of third quarter of 2013. The Group expects that the operations of the Associates shall continues to be influenced by macroeconomic measures decisions in China, and global price trend of constituent materials, such as iron ore in steel manufacturing.

In respect of trading of iron ore and materials related to steel manufacturing, the Group shall closely monitor global market conditions and remain vigilant before we execute the transaction. The Group shall constantly review and adjust our business strategies should business environment has become less favorable or adverse, and seek to expand trading activities into other areas.

Heat Energy Supply

Tianjin city had achieved remarkable GDP growth in 2012. It is expected that the Group's heat energy supply operations of the Three Districts shall be benefited as and when new property development projects are launched in these areas.

Property Investment

The strategy of the United States Federal Reserve on timing and volume of bond buying programme in late 2013 poses concerns to property investors amongst Asia Pacific. The Group shall continue to explore property investment opportunities to strengthen asset quality.

Looking ahead

It is anticipated that China and World economy shall continue to be filled with uncertainties in the second half of 2013, the Group shall remain dedicated to reinforce existing business segments and to explore new business opportunities with a view to enhance returns to our stakeholders. In the meantime, the Group is constantly seeking to expand the business portfolios in order to expand the revenue stream.

Liquidity and Financial Resources

As at 30 June 2013, total assets and net assets of the Group were approximately HK$3,614.7 million and HK$2,658.2 million respectively, as compared with HK$3,679.8 million and HK$2,766.0 million as at 31 December 2012. Cash and bank balance and pledged deposit of the Group as at 30 June 2013 were approximately HK$537.6 million (31 December 2012: HK$530.4 million), representing an increase of 1.4% from 31 December 2012. Total current assets decreased by 2.5% to approximately HK$793.2 million during the Interim Period (31 December 2012: HK$813.1 million). As at 30 June 2013, the Group's outstanding bank and other borrowings amounted to approximately HK$6.3 million (31 December 2012: HK$34.0 million), all of which were due within one year. The net current liabilities as at 30 June 2013 were approximately HK$48.7 million (31 December 2012: net current assets HK$12.1 million). As at 30 June 2013, the Group's gearing ratio (total borrowings/total assets) continued to remain at a low level of 3.4% (31 December 2012: 4.0%).

Acquisitions and Disposals

During the Interim Period, the Company had disposed of its entire interests in Goalreach to a third party at a consideration of HK$130.0 million. Goalreach held the entire issued share capital of Burlingame, which was a foreign shareholder in SUCCL. Details on the disposal of Goalreach are disclosed in note 21 to the interim condensed consolidated financial statements for the Period set out in this report.

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 23 to the interim condensed consolidated financial statements.

Pledge on the Group's Assets

As at 30 June 2013, time deposit amounting to HK$151.0 million were pledged to a bank to secure the issue of letters of credit (31 December 2012: Nil).

Employees and Remuneration

The Group had 158 employees as at 30 June 2013 (31 December 2012: 187). Remuneration policies are reviewed regularly to ensure that compensation and benefit packages are in line with the market level. In addition to basic remuneration, the Group also provides other employee benefits including bonuses, mandatory provident fund scheme and medical scheme. At the discretion of the Board, the Group may grant share options to eligible employees and participants.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2013, the interests and short positions of the Directors and their associates in the shares, underlying shares and debentures of the Company as recorded in the register required to be report by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

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

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

Save as disclosed above, as at 30 June 2013, none of the Directors or chief executive had any interest or short position in the shares, underlying shares and debentures 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.

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

As at 30 June 2013, the following persons (other than the Directors or chief executive of the Company) had interests or short positions in the shares, underlying shares and debentures of the Company as recorded in the register 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% interests respectively in the issued share capital of Happy Sino International Limited. Mr. Du Shuang Hua is deemed to be interested in the 708,000,000 shares held by Happy Sino International Limited under the provisions of the SFO.

2 Ms. Lu Xiao Mei beneficially owns 100% interest in the issued share capital of Sincere Profit Group Limited. Ms. Lu Xiao Mei is deemed to be interested in the 753,190,000 shares held by Sincere Profit Group Limited under the provisions of the SFO.

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 notes	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 2013, no person, other than the Directors and chief executive of the Company, whose interests or short positions are set out in the section titled “Directors’ and chief executive’s interests and short positions in shares, underlying shares and debentures” above, had registered any 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 OPTION SCHEME

The Company operates a share option scheme (the “Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Further details of the Scheme are disclosed in note 20 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 Listing Rules on corporate governance practices based on the principles and code provisions set out in the Code of 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 2013, except for with the following deviations:

- A.4.1 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.

- A.4.2 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.

- E.1.2 The Chairman of the Board did not attend the annual general meeting held on 15 May 2013 due to the fact that he had other business commitments. The Chairman had appointed another executive Director, Mr. Law Wing Chi, Stephen to chair the annual general meeting on his behalf.

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 the chief executive officer, further announcement will be made by the Company upon fulfillment of this requirement under the Listing Rules.

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") comprises of three independent non-executive Directors namely Mr. Tam Sun Wing (Chairman), Mr. Ng Ge Bun and Mr. He Yi. The Audit Committee has reviewed with the management the accounting policies and practices adopted by the Group. The Audit Committee is satisfied with the Group's internal control procedures and financial reporting disclosures. The interim results and the unaudited interim condensed consolidated financial statements for the six months ended 30 June 2013 have been reviewed by the Audit Committee.

REMUNERATION COMMITTEE

The remuneration committee of the Company (the "Remuneration Committee") has been set up with written terms of reference in accordance with the requirements of the Listing Rules, amongst other things, to make recommendations to the Board on the Company's remuneration policy and structure for all directors and senior management. The Remuneration Committee comprises one executive Director namely Mr. Law Wing Chi, Stephen, and three independent non-executive Directors namely Mr. Tam Sun Wing (Chairman), Mr. He Yi and Mr. Ng Ge Bun.

NOMINATION COMMITTEE

The nomination committee of the Company (the "Nomination Committee") has been set up with written terms of reference in accordance with the requirements of the Listing Rules, amongst other things, to review the structure, size and composition of the Board. The Nomination Committee currently consists of one executive Director namely Mr. Law Wing Chi, Stephen and three independent non-executive Directors namely Mr. Ng Ge Bun (Chairman), Mr. He Yi and Mr. Tam Sun Wing.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding 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. Having made specific enquiries with all Directors, 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 (http://www.hkex.com.hk) and the Company (www.kaiyuanholdings.com). The interim report of the Company for the six months ended 30 June 2013 containing all information required by Appendix 16 to the Listing Rules will be despatched to the shareholders of the Company and made available for review on the same websites in due course.

BOARD OF DIRECTORS

As at the date of this report, the Board of Directors consists of Mr. Xue Jian and Mr. Law Wing Chi, Stephen (both 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, 26 August 2013