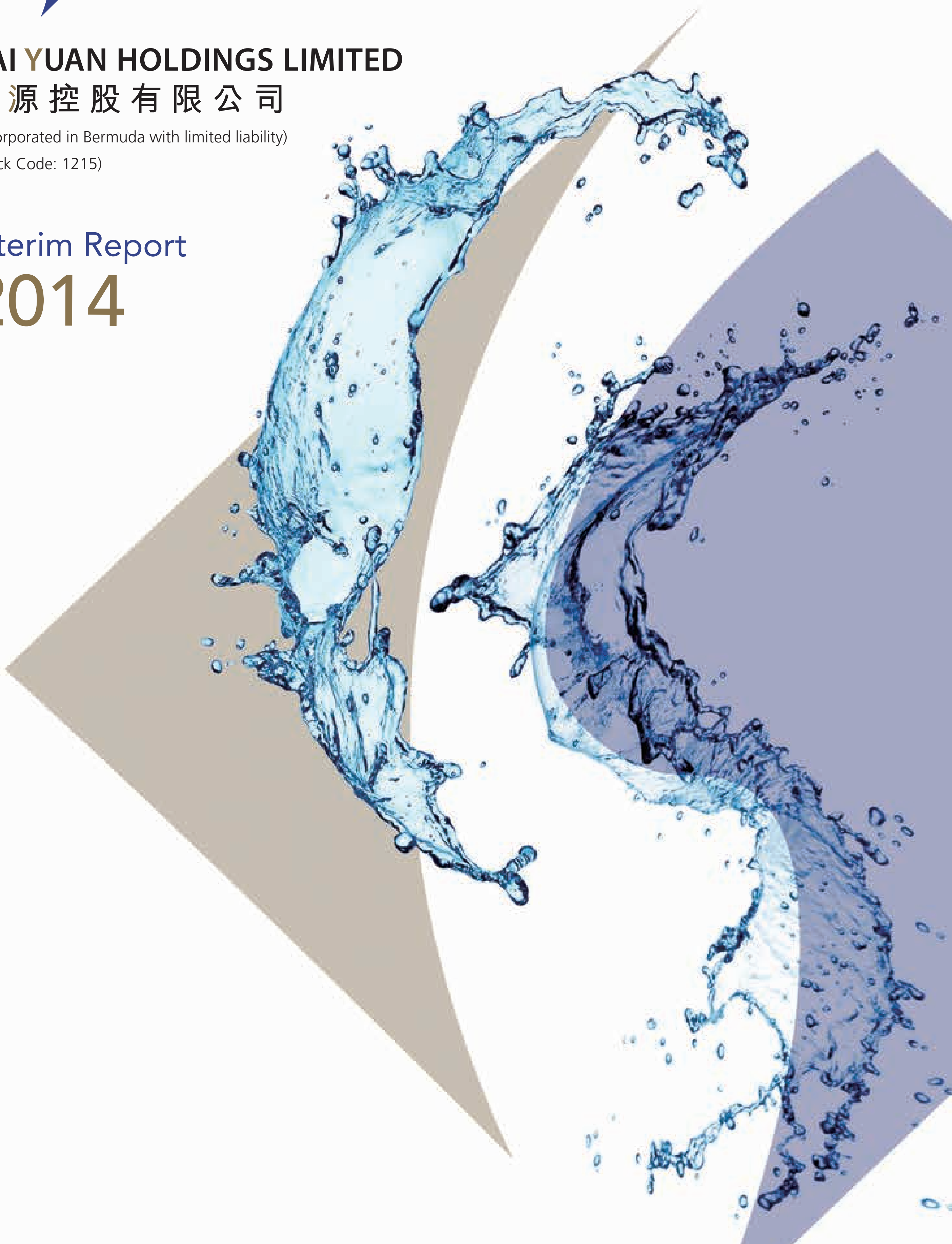
KAI YUAN HOLDINGS LIMITED
開源控股有限公司

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

Interim Report 2014



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. Law Wing Chi, Stephen

STOCK CODE

1215

WEBSITE

www.kaiyuanholdings.com

PRINCIPAL REGISTRAR

MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM08, Bermuda

SHARE REGISTRAR

Tricor Tengis Limited
22nd Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

PRINCIPAL OFFICE IN HONG KONG

28th Floor, Chinachem Century Tower
178 Gloucester Road, Wanchai
Hong Kong

AUDITORS

Ernst & Young
Certified Public Accountants
22nd Floor, 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
China Merchants Bank Company Limited

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

EY 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 33 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 2014 and the related interim condensed consolidated statement of profit or loss, 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.

Ernst & Young
Certified Public Accountants

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

29 August 2014

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2014

	Notes	For the six months ended 30 June 2014 (Unaudited) HK$'000	2013 (Unaudited) HK$'000
CONTINUING OPERATIONS			
REVENUE	3	**187,676**	442,137
Cost of sales		**(182,126)**	(443,740)
Gross profit/(loss)		**5,550**	(1,603)
Other income and gains		**4,846**	5,740
Other expenses		**(102)**	(4,023)
Administrative expenses		**(52,028)**	(30,141)
Finance costs		**(1,205)**	(16,332)
Share of profits/(losses) of associates		**62,324**	(101,375)
PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	4	**19,385**	(147,734)
Income tax (expenses)/credit	5	**(4,850)**	161
PROFIT/(LOSS) FOR THE PERIOD FROM CONTINUING OPERATIONS		**14,535**	(147,573)
DISCONTINUED OPERATIONS			
Profit for the period from discontinued operations	6	**–**	14,424
PROFIT/(LOSS) FOR THE PERIOD		**14,535**	(133,149)
Attributable to:			
Owners of the Company		**21,767**	(116,487)
Non-controlling interests		**(7,232)**	(16,662)
		14,535	(133,149)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	8		
Basic			
– For profit/(loss) for the period		**HK$0.2 cent**	HK$(1.1) cents
– For profit/(loss) from continuing operations		**HK$0.2 cent**	HK$(1.2) cents
Diluted			
– For profit/(loss) for the period		**HK$0.2 cent**	HK$(1.1) cents
– For profit/(loss) from continuing operations		**HK$0.2 cent**	HK$(1.2) cents

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2014

	For the six months ended 30 June	
	2014	2013
		(Restated)
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
PROFIT/(LOSS) FOR THE PERIOD	**14,535**	(133,149)
OTHER COMPREHENSIVE INCOME		
Other comprehensive income/(loss) to be reclassified to statement of profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(20,745)**	43,567
Reclassification of translation reserve from other comprehensive income to statement of profit or loss upon disposal of a subsidiary	**–**	(18,270)
Net other comprehensive (loss)/income to be reclassified to statement of profit or loss in subsequent periods	**(20,745)**	25,297
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD, NET OF TAX	**(20,745)**	25,297
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	**(6,210)**	(107,852)
Attributable to:		
Owners of the Company	**3,928**	(96,215)
Non-controlling interests	**(10,138)**	(11,637)
	(6,210)	(107,852)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2014

	Notes	**30 June 2014 (Unaudited) HK$'000**	31 December 2013 (Audited) HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	9	**1,281,011**	1,292,607
Prepaid land lease payments		**37,141**	39,478
Goodwill		**–**	–
Intangible assets	10	**88,349**	92,914
Investments in associates	11	**2,035,787**	1,989,598
Available-for-sale investments		**5,858**	5,915
Other long-term assets		**3,431**	3,871
Total non-current assets		**3,451,577**	3,424,383
CURRENT ASSETS			
Inventories		**2,805**	5,762
Trade receivables	12	**3,440**	1,798
Other receivables and prepayments		**54,115**	19,235
Prepaid land lease payments		**3,349**	3,092
Other long-term assets – current portion		**807**	815
Amounts due from related companies	22	**132,437**	144,376
Pledged deposits	13	**26,709**	10,366
Cash and cash equivalents		**258,346**	196,774
Total current assets		**482,008**	382,218
Total assets		**3,933,585**	3,806,601
CURRENT LIABILITIES			
Trade and bills payables	14	**91,495**	59,499
Other payables and accruals	15	**187,831**	195,606
Receipt in advance		**79,781**	129,509
Amounts due to related companies	22	**40,598**	44,285
Interest-bearing bank borrowings	16	**12,000**	6,360
Loan from a related company	22	**119,318**	120,463
Income tax payable		**40,717**	41,349
Total current liabilities		**571,740**	597,071
NET CURRENT LIABILITIES		**(89,732)**	(214,853)
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,361,845**	3,209,530

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

AT 30 JUNE 2014

	Notes	30 June 2014 (Unaudited) HK$'000	31 December 2013 (Audited) HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,361,845**	3,209,530
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	16	**155,000**	–
Deferred tax liabilities	17	**195,952**	192,427
Total non-current liabilities		**350,952**	192,427
Net assets		**3,010,893**	3,017,103
EQUITY			
Equity attributable to owners of the Company			
Issued capital	18	**1,277,888**	1,277,888
Reserves		**1,436,175**	1,432,247
		2,714,063	2,710,135
Non-controlling interests		**296,830**	306,968
Total equity		**3,010,893**	3,017,103

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2014

	Attributable to owners of the Company							
	Issued capital HK$'000	Share premium* HK$'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 2014 (Audited)	**1,277,888**	**1,027,637**	**380,341**	**11,219**	**13,050**	**2,710,135**	**306,968**	**3,017,103**
Profit for the period	**–**	**–**	**–**	**21,767**	**–**	**21,767**	**(7,232)**	**14,535**
Other comprehensive loss	**–**	**–**	**(17,839)**	**–**	**–**	**(17,839)**	**(2,906)**	**(20,745)**
Total comprehensive loss	**–**	**–**	**(17,839)**	**21,767**	**–**	**3,928**	**(10,138)**	**(6,210)**
At 30 June 2014 (Unaudited)	**1,277,888**	**1,027,637**	**362,502**	**32,986**	**13,050**	**2,714,063**	**296,830**	**3,010,893**

	Attributable to owners of the Company								
	Issued capital HK$'000	Equity component of convertible bonds HK$'000	Share premium* HK$'000	Translation reserve* (Restated) HK$'000	Retained profits/ (accumulated losses)* HK$'000	Other reserve* HK$'000	Total HK$'000	Non-controlling interests (Restated) HK$'000	Total equity HK$'000
At 1 January 2013 (Audited) as previously reported	1,091,221	38,915	894,724	349,709	116,079	13,050	2,503,698	262,338	2,766,036
Prior year adjustment	–	–	–	(27,557)	–	–	(27,557)	27,557	–
At 1 January 2013 as restated	1,091,221	38,915	894,724	322,152	116,079	13,050	2,476,141	289,895	2,766,036
Loss for the period	–	–	–	–	(116,487)	–	(116,487)	(16,662)	(133,149)
Other comprehensive income as previously reported	–	–	–	43,567	–	–	43,567	–	43,567
Prior year adjustment	–	–	–	(5,025)	–	–	(5,025)	5,025	–
Other comprehensive income as restated	–	–	–	38,542	–	–	38,542	5,025	43,567
Disposal of a subsidiary	–	–	–	(18,270)	–	–	(18,270)	–	(18,270)
Total comprehensive income	–	–	–	20,272	(116,487)	–	(96,215)	(11,637)	(107,852)
At 30 June 2013 (Unaudited)	1,091,221	38,915	894,724	342,424	(408)	13,050	2,379,926	278,258	2,658,184

* These reserve accounts comprise the consolidated reserves of HK$1,436,175,000 (30 June 2013: HK$1,249,790,000) in the interim condensed consolidated statement of financial position.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2014

	For the six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit/(loss) before tax	**19,385**	(133,310)
From continuing operations	**19,385**	(147,734)
From discontinued operations	**–**	14,424
Adjustments for:		
Finance costs	**1,205**	16,332
Share of profits of a joint venture	**–**	766
Share of (profit)/losses of associates	**(62,324)**	101,375
Loss on disposal of items of property, plant and equipment	**3**	–
Gain on disposal of subsidiaries	**–**	(15,535)
Depreciation of property, plant and equipment	**31,288**	23,845
Recognition of prepaid land lease payments	**1,678**	1,371
Recognition of other long-term assets	**404**	399
Amortization of intangible assets	**3,689**	3,631
Interest income	**(1,007)**	(2,001)
	(5,679)	(3,127)
Decrease in inventories	**2,957**	3,960
Increase in trade receivables and bills receivable	**(1,642)**	(109,537)
Decrease in other receivables and prepayments	**1,589**	3,137
Increase in pledged deposits	**(16,343)**	(151,008)
Increase in trade and bills payables	**31,996**	777
Increase in other payables and accruals	**1,082**	43,250
Decrease in receipt in advance	**(49,728)**	(24,571)
Cash used in operations	**(35,768)**	(237,119)
Hong Kong profits tax paid	**(241)**	–
Interest received	**1,007**	2,001
Net cash flows used in operating activities	**(35,002)**	(235,118)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2014

	For the six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Net cash flows used in operating activities	**(35,002)**	(235,118)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	**(33,590)**	(30,672)
Net proceeds from disposal of subsidiaries	**–**	128,655
Deposits for proposed acquisition	**(36,469)**	–
Decrease/(increase) in amounts due from related companies	**11,939**	(2,236)
Net cash flows (used in)/generated from investing activities	**(58,120)**	95,747
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in amount due to an associate	**–**	(16,361)
(Decrease)/increase in amounts due to related companies	**(3,687)**	38,700
Proceeds from bank borrowings	**170,000**	6,277
Repayment of bank borrowings	**(9,360)**	(33,958)
Interest paid	**(1,205)**	(494)
Net cash flows generated from/(used in) financing activities	**155,748**	(5,836)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**62,626**	(145,207)
Cash and cash equivalents at beginning of the period	**196,774**	530,446
Effect of foreign exchange rate changes, net	**(1,054)**	1,378
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	**258,346**	386,617

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2014

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 hotel operation during the six months ended 30 June 2014 (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 2014 and the related interim condensed consolidated statement of profit or loss, 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 2014, the Group's current liabilities exceeded its current assets by HK$89,732,000 (as at 31 December 2013: net current liabilities HK$214,853,000). Taking into consideration that the receipt in advance of HK$79,781,000 in the current liabilities will not result in cash outflow and based on the cash flow forecast prepared by the management of the Company, the directors are of the opinion that the Group will have sufficient cash flows for its future operation (at least 12 months from the date of the interim condensed consolidated financial statements), and concluded that a going concern basis of preparation was appropriate when preparing the interim condensed consolidated financial statements.

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 2013.

Restatement

Retrospective adjustment on certain translation differences recorded in exchange fluctuation reserve that should be reclassified to non-controlling interests had been made to the comparative figures and which have been restated in the interim condensed consolidated statement of changes in equity for the period ended 30 June 2013. This retrospective adjustment did not have impact on the consolidated net loss for the six months ended 30 June 2013.

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

2.2 Changes in Accounting Policy and Disclosures

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 2013, except for the adoption of new standards, interpretations and amendments effective as of 1 January 2014 below:

HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – *Investment Entities*
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*
HKAS 39 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*
HK(IFRIC) – Int 21	*Levies*

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 three (for the six months ended 30 June 2013: two) 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 holds significant interests in three associates, located in Shandong Province, engaged in steel and steel product manufacturing and trading; and

(c) the hotel operation segment is engaged in operation of hotel business in Hong Kong.

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

3. OPERATING SEGMENT INFORMATION (Continued)

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 borrowings, 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 prevailing market prices.

For the six months ended 30 June 2014 (Unaudited)	**Heat energy supply HK$'000**	**Steel manufacturing and trading HK$'000**	**Hotel operation HK$'000**	**Total HK$'000**
Segment revenue				
Sales to external customers	**171,931**	**–**	**15,745**	**187,676**
Revenue from continuing operations				**187,676**
Segment results	**(12,023)**	**62,037**	**(17,934)**	**32,080**
Reconciliation:				
Interest income				**1,007**
Finance costs				**(1,205)**
Corporate and other unallocated expenses				**(12,497)**
Profit before tax from continuing operations				**19,385**

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	Hotel operation 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)
Segment assets	**977,391**	**2,035,677**	**577,226**	**3,590,294**
Reconciliation:				
Corporate and other unallocated assets				**343,291**
As at 30 June 2014 (Unaudited)				**3,933,585**
Segment liabilities	**500,442**	**–**	**4,595**	**505,037**
Reconciliation:				
Corporate and other unallocated liabilities				**417,655**
As at 30 June 2014 (Unaudited)				**922,692**
Segment assets	1,002,793	1,989,487	545,649	3,537,929
Reconciliation:				
Corporate and other unallocated assets				268,672
As at 31 December 2013				3,806,601
Segment liabilities	533,963	2,000	11,510	547,473
Reconciliation:				
Corporate and other unallocated liabilities				242,025
As at 31 December 2013				789,498

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

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

	For the six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Cost of heat energy supply	**170,318**	156,578
Cost of goods sold	**–**	287,162
Cost of hotel service	**11,808**	–
Depreciation of property, plant and equipment	**31,288**	23,845
Amortisation of intangible assets	**3,689**	3,631
Amortisation of land lease payments	**1,678**	1,371
Amortisation of other long-term assets	**404**	399
Minimum lease payments under operating leases: Land and buildings	**696**	482
Loss on disposal of items of property, plant and equipment	**3**	–
Foreign exchange loss, net	**74**	–
Bank interest income	**(1,007)**	(2,001)
Employee benefit expense (including directors' remuneration)	**17,288**	16,154

5. INCOME TAX EXPENSE/(CREDIT)

The major components of income tax expense/(credit) for the six months ended 30 June 2014 and 2013 are as follows:

	For the six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Current income tax		
Hong Kong	**–**	–
Mainland China	**–**	–
	–	–
Deferred income tax	**4,850**	(161)
Income tax expense/(credit) for the period	**4,850**	(161)

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

Hong Kong profits tax should be provided at the rate of 16.5% (for the six months ended 30 June 2013: 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 2013: 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 entire issued capital of Goalreach Investment Limited ("**Goalreach**") to a third party. Goalreach holds 100% equity interest in Burlingame (Chinese) Investment Limited ("**BCIL**"). Goalreach and BCIL acted solely as an investment holding company. BCIL has an investment in a joint venture, 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	
	30 June 2014	30 June 2013
	HK$'000	HK$'000
Loss on disposal	**–**	(2,735)
Reclassification of translation reserve from other comprehensive income to statement of profit or loss upon disposal of a subsidiary	**–**	18,270
Administrative expenses	**–**	(345)
Share of profits and losses of a joint venture	**–**	(766)
Profit before tax from the discontinued operations	**–**	14,424
Income tax expense	**–**	–
Profit from the discontinued operations	**–**	14,424

6. DISCONTINUED OPERATIONS (Continued)

The net cash flows incurred by Goalreach are as follows:

	For the six months ended	
	30 June 2014	30 June 2013
	HK$'000	HK$'000
Operating activities	–	(345)
Net cash outflow	–	(345)

Earnings/(loss) per share for the abovementioned discontinued operation are stated below:

	For the six months ended	
	30 June 2014	30 June 2013
Basic, from the discontinued operation	–	HK$0.13 cent
Diluted, from the discontinued operation	–	HK$0.11 cent

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 2013: Nil).

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

The calculation of the basic earnings/(loss) per share amount is based on the earnings/(loss) for the period attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 12,778,880,000 (for the six months ended 30 June 2013: 10,912,213,000) in issue during the period.

The calculation of the diluted earnings/(loss) per share amount is based on the earnings/(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 profit/(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 profit 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. For the six months ended 30 June 2014, there were no outstanding anti-dilutive instruments.

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

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

	For the six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
Profit/(loss) (HK$'000)		
Profit/(loss) attributable to ordinary equity holders of the Company		
From continuing operations	**21,767**	(130,911)
From discontinued operations	**–**	14,424
	21,767	(116,487)
Interest on convertible bonds	**–**	15,074
Profit/(loss) attributable to ordinary equity holders of the Company before interest on convertible bonds	**21,767**	(101,413)*
Attributable to:		
Continuing operations	**21,767**	(115,837)*
Discontinued operations	**–**	14,424*
	21,767	(101,413)*
Number of shares ('000)		
Weighted average number of ordinary shares in issue during the period used in the basic profit/(loss) per share calculation	**12,778,880**	10,912,213
Effect of dilution – weighted average number of ordinary shares:		
– Convertible bonds	**–**	1,866,667*
Weight average number of ordinary shares in issue during the period used in the diluted profit/(loss) per share calculation	**12,778,880**	12,778,880*

* 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.

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended on 30 June 2014, the Group acquired items of property, plant and equipment with a cost of HK$27,360,000 (for the six months ended 30 June 2013: HK$30,672,000). Depreciation for items of property, plant and equipment was HK$31,288,000 during the period (for the six months ended 30 June 2013: HK$23,845,000).

No significant property, plant and equipment were disposed of for the six months ended 30 June 2013 and 2014.

10. INTANGIBLE ASSETS

During the six months ended 30 June 2014, the Group did not acquire intangible assets (for the six months ended 30 June 2013: Nil). Amortisation for intangible assets were HK$3,689,000 during the period (for the six months ended 30 June 2013: HK$3,631,000).

No intangible asset was disposed of for the six months ended on 30 June 2013 and 2014.

11. INVESTMENTS IN ASSOCIATES

	30 June 2014 (Unaudited) HK$'000	31 December 2013 (Audited) HK$'000
Share of net assets	**2,425,231**	2,385,708
Provision for impairment (iii)	**(389,444)**	(396,110)
	2,035,787	1,989,598

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 ("**Rizhao Steel**") (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 ("**Rizhao Mill**") (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 ("**Rizhao Wire**") (ii)	Limited enterprise	Shandong, the PRC	RMB80,000,000	–	25%	Manufacturing and trading of steel products

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

(ii) A 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.

11. INVESTMENTS IN ASSOCIATES (Continued)

(iii) Provision for impairment

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

Due to the continuous recession in the steel industry and operation losses from these investments in associates, management of the Group is of the opinion that there was an impairment indicator for long-term assets of each associate and the Group's investments in the associates.

For impairment testing of long-term assets of each associate, long-term assets within each associate are 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. According to the impairment test result, the recoverable amount of each individual CGU is lower than its respective carrying amount on consolidation level (taking into consideration the effect for the fair value adjustments on long-term assets of the associates at the acquisition date), and an impairment loss was provided for long-term assets of the associates, which has been recorded in share of losses of the associates of HK$45,392,000 for the year ended 31 December 2013 (for the year ended 31 December 2012: HK$554,710,000).

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 each individual CGU is lower than its respective carrying amount, and provision for impairment of HK$59,845,000 was recorded in statement of profit or loss for the year ended 31 December 2013 (31 December 2012: HK$323,059,000). As at 31 December 2013, the provision for impairment of investment in associates was HK$396,110,000.

As of 30 June 2014, 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

	30 June 2014 (Unaudited) HK$'000	31 December 2013 (Audited) HK$'000
Trade receivables	**3,440**	1,798

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.

12. TRADE RECEIVABLES (Continued)

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

	30 June 2014 (Unaudited) HK$'000	31 December 2013 (Audited) HK$'000
Within 1 month	**1,669**	796
1 to 3 months	**362**	87
Over 3 months	**1,409**	915
	3,440	1,798

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.

13. PLEDGED DEPOSITS

	30 June 2014 (Unaudited) HK$'000	31 December 2013 (Audited) HK$'000
Pledged deposits	**26,709**	10,366

As at 30 June 2014 and 31 December 2013, the pledged deposits represent the time deposits pledged to guarantee the issuance of bank accepted bills payable.

14. TRADE AND BILLS PAYABLES

	30 June 2014 (Unaudited) HK$'000	31 December 2013 (Audited) HK$'000
Trade payables	**38,078**	38,766
Bills payable	**53,417**	20,733
	91,495	59,499

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 2014 (Unaudited) HK$'000	31 December 2013 (Audited) HK$'000
Within 1 month	**1,102**	998
1 to 3 months	**496**	2,823
Over 3 months	**36,480**	34,945
	38,078	38,766

15. OTHER PAYABLES AND ACCRUALS

	30 June 2014 (Unaudited) HK$'000	31 December 2013 (Audited) HK$'000
Other payables	**171,757**	188,789
Accruals	**16,074**	6,817
	187,831	195,606

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

16. INTEREST-BEARING BANK BORROWINGS

On 25 March 2014, the Group repaid the bank borrowing from China Bohai Bank with the principal amount of HK$6,360,000 on due.

On 27 March 2014, the Group borrowed HK$170,000,000 from The Hong Kong and Shanghai Banking Corporation Limited which will be repayable by 71 equal monthly instalments of HK$1,000,000, commencing one month after drawdown plus a final instalment of HK$99,000,000. The bank borrowings are secured by mortgages over the Group's building situated in Hong Kong, which had an aggregate carrying value of HK$523,831,000 as at 30 June 2014. The Group had repaid HK$3,000,000 as of 30 June 2014.

17. DEFERRED TAX

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

	30 June 2014 (Unaudited) HK$'000	31 December 2013 (Audited) HK$'000
Deferred tax liabilities:		
Fair value adjustments from acquisition of subsidiaries	**103,330**	100,103
Deferred revenue	**114,862**	118,516
Withholding tax	**4,296**	1,198
	222,488	219,817
Deferred tax assets:		
Impairment of items of property, plant and equipment	**8,253**	8,621
Fair value adjustments from acquisition of subsidiaries	**18,283**	18,769
	26,536	27,390

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

	30 June 2014 (Unaudited) HK$'000	31 December 2013 (Audited) HK$'000
Net deferred tax liabilities recognised in the interim condensed consolidated statement of financial position	**195,952**	192,427

18. ISSUED CAPITAL

	Number of shares		Share capital	
	2014	2013	**2014**	2013
	'000	'000	**'000**	'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	**12,778,880**	10,912,213	**1,277,888**	1,091,221

19. 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 an 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.

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.

20. CAPITAL COMMITMENTS

At 30 June 2014, the Group had the following capital commitments:

	30 June 2014 (Unaudited) HK$'000	31 December 2013 (Audited) HK$'000
Contracted, but not provided for:		
Property, plant and equipment	**31,641**	28,222

21. CONTINGENT LIABILITIES

As of 31 December 2013, the Group provided a guarantee, with no charge, to a bank for a loan with the amount of HK$50,877,000 granted to Tianjin Jinre Logistics Company Limited, in which the Group holds a 16% equity interest. No contingent liabilities were provided for in the financial statements as the directors believe it is not probable that an outflow will be required to settle the obligation.

As of 30 June 2014, the bank loan had already matured and the guarantee was released correspondingly. Therefore, there were no contingent liabilities as at 30 June 2014.

22. 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	
	2014 (Unaudited) HK$'000	2013 (Unaudited) HK$'000
Purchase of coal from Tianjin Jinre Logistics Company Limited ("**Tianjin Jinre logistics**") (i)	**50,225**	50,227
Purchase of raw materials from Tianjin Jinbin Heat Supply Company Limited ("**Tianjin Jinbin**") (i)	**17,303**	17,929
Heat energy supply service conducted by Tianjin Jinbin on behalf of the Group (ii)		
– Revenue	**41,516**	48,487
– Cost of sales	**36,111**	44,166
Management fee to a non-controlling shareholder of a subsidiary of the Group (v)	**4,624**	5,074
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

22. 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) The related company is under significant influence of a non-controlling shareholder of a subsidiary of the Group. According to an agreement entered into between Tianjin Jinbin and Tianjin Meijiang Heating Company Ltd. ("**Meijiang Heating**") on 1 September 2013 and 2012, 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 2014 in the interim condensed consolidated financial statements.

(iii) The related company is under significant influence of a non-controlling shareholder of a subsidiary of the Group. 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	
	2014	2013
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Short term employee benefits	**4,640**	4,455
Post-employment benefits	**23**	19
Total compensation paid to key management personnel	**4,663**	4,474

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.

22. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(c) Related party balances

	30 June 2014 (Unaudited) HK$'000	31 December 2013 (Audited) HK$'000
Amounts due from related companies		
Tianjin Jinbin (ii), (iii)	**148,587**	144,798
Tianjin Jinre Co., Ltd. (i)	**121,130**	121,358
Tianjin Heating Supply Co., Ltd. (ii)	**2,943**	2,972
Tianjin Jinre Logistics (ii)	**1,435**	18,266
Other related companies (ii)	**1,763**	1,780
	275,858	289,174
Less: Impairment provision (iii)	**(143,421)**	(144,798)
	132,437	144,376
Amounts due to related companies		
Tianjin Jinre Construction and Development Co., Ltd. (ii)	**40,598**	40,988
Tianjin Jinbin (ii)	**–**	3,297
	40,598	44,285
Loan from a related company		
Tianjin Jinre Co., Ltd. (i)	**119,318**	120,463

(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 RMB113,840,000 (equivalent to HK$143,421,000) due from Tianjin Jinbin and concluded that the chance of recovering the balance was low. Accordingly, full provision for impairment was made.

22. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(c) Related party balances (Continued)

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.

23. 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 2014

Financial assets

	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
Available-for-sale investments	–	5,858	5,858
Trade receivables and bills receivable	3,440	–	3,440
Financial assets included in prepayments, deposits and other receivables	14,753	–	14,753
Amounts due from related companies	132,437	–	132,437
Pledged deposits	26,709	–	26,709
Cash and cash equivalents	258,346	–	258,346
	435,685	5,858	441,543

23. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Trade and bills payables	**91,495**
Financial liabilities included in other payables and accruals	**171,757**
Amounts due to related companies	**40,598**
Interest-bearing bank borrowings	**167,000**
Loan from a related company	**119,318**
	590,168

31 December 2013

Financial assets

	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
Available-for-sale investments	–	5,915	5,915
Trade receivables	1,798	–	1,798
Financial assets included in other receivables and prepayments	16,183	–	16,183
Amounts due from related companies	144,376	–	144,376
Pledged deposits	10,366	–	10,366
Cash and cash equivalents	196,774	–	196,774
	369,497	5,915	375,412

23. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Trade and bills payables	59,499
Financial liabilities included in other payables and accruals	188,789
Amounts due to related companies	44,285
Interest-bearing bank borrowings	6,360
Loan from a related company	120,463
	419,396

24. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's and the Company's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

Group

	Carrying amounts		Fair values	
	30 June 2014 HK$'000	31 December 2013 HK$'000	**30 June 2014 HK$'000**	31 December 2013 HK$'000
Financial assets				
Available-for-sale investments	**5,858**	5,915	**5,858**	5,915

Management has assessed that the fair values of cash and cash equivalents, pledged time deposits, trade receivables, trade and bills payables, financial assets included in other receivables and prepayments, financial liabilities included in other payables and accruals, amounts due from/to subsidiaries, amounts due from/to related companies, amounts due from/to an associate, interest-bearing bank and other borrowings and loans from a related company approximate to their carrying amounts largely due to the short term maturities of these instruments.

24. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

The fair values of the non-current portion of interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The fair values have been assessed approximate to their carrying amounts.

The Group's corporate finance team headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The corporate finance team reports directly to the chief financial officer and the audit committee. At each reporting date, the corporate finance team analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer.

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:

For the fair value of the unlisted available-for-sale equity investments, management has estimated the potential effect of using reasonably possible alternatives as inputs to the valuation model.

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Group

As at 30 June 2014

	Fair value measurement using			
	Quoted prices in active markets (Level 1) HK$'000	**Significant observable inputs (Level 2) HK$'000**	**Significant unobservable inputs (Level 3) HK$'000**	**Total HK$'000**
Available-for-sale investments	**–**	**–**	**5,858**	**5,858**

As at 31 December 2013

	Fair value measurement using			
	Quoted prices in active markets (Level 1) HK$'000	Significant observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Available-for-sale investments	–	–	5,915	5,915

The Group did not have any financial assets measured at fair value as at 30 June 2014 and 31 December 2013.

25. OTHER MATTERS

On 16 June 2014, the Board of the Group announced that on 3 June 2014, the Group had agreed to acquire Paris Marriott Hotel Champs-Elysées (comprising the entire issued share capital of MCE OpCo HoldCo and its subsidiary, and property being used in Paris) at the provisional consideration of €344,512,199 (equivalent to approximately HK$3,638,048,821). A deposit in the amount of €3,410,000 (equivalent to approximately HK$36,469,000) has been paid as of 30 June 2014 for the acquisitions. The acquisitions together constitute a very substantial acquisition for the Company pursuant to Rule 14.06(5) of the Rules Governing the Listing of Securities on the Stock Exchange. The agreements and the transactions contemplated thereunder are therefore subject to the approval by the shareholders of the Company at the special general meeting of the Company by poll. On 29 August 2014, the Board of the Company published the circular for this very substantial acquisition and the special general meeting will be held on 19 September 2014.

26. COMPARATIVE FIGURES

The comparative figures for the interim condensed consolidated statement of changes in equity have been restated for reclassifying certain translation differences recorded in exchange fluctuation reserve to non-controlling interests. Such reclassification adjustment did not have impact on the consolidated net loss for the six months ended 30 June 2013.

27. 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 29 August 2014.

INTERIM DIVIDENDS

The Board does not recommend the payment of interim dividend in respect of the Period (for the six months ended 30 June 2013: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the six months ended 30 June 2014, revenue of the Group amounted to HK$187.7 million, representing a decrease of 57.5% from approximately HK$442.1 million for the six months ended 30 June 2013 (the "**Comparable Period**"). The decrease in revenue was mainly attributable to no revenue was contributed from trading in iron ore and other materials related to steel manufacturing (the "**Iron Ore and Other Materials**") during the Period, after the Group had ceased the trading in Iron Ore and Other Materials since the fourth quarter of 2013. Net profit attributable to shareholders of the Group amounted to HK$21.8 million, as compared with the loss of HK$116.5 million for the Comparable Period. The turnaround to profit for the Period was principally attributable to the share of profit from the Group's associates engaged in steel manufacturing and trading. The basic and diluted earnings per share of the Group for the Period was HK$0.2 cent as compared with the basic and diluted loss per share of HK$1.1 cents for the Comparable Period.

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

Steel Manufacturing and Trading

The Group's associates namely Rizhao Steel Co., Limited, Rizhao Medium Section Mill Co., Limited, and Rizhao Steel Wire Co., Limited (the "**Associates**") engaged in steel manufacturing and trading segment were continue to suffer from oversupply in steel industry in China. But benefited from gradual decline in prices of constituent cost components such as iron ore during the Period, the Group's Associates' reported an improved gross profit margin as compared with the Comparable Period. The Group shared the profit of HK$62.3 million from the Associates during the Period as compared with the share of loss of HK$101.4 million in the Comparable Period.

Heat Energy Supply

The Group's heat energy supply subsidiaries in Tianjin, PRC operated heat energy supply projects located in the Meijiang district, Jinxia Xindu district and Xiqing Nanhe district (the "**Three Districts**"), which continued to contribute steady heat energy supply revenue to the Group from organic growth.

Benefited from increase in heat supply fee resulting from increased heat energy usage from new development projects launched in the Three Districts, the Group recorded revenue of HK$171.9 million from heat energy supply segment, representing an increase of 17.7% as compared with HK$146.0 million for the Comparable Period. Despite the increased revenue, the Group's heat energy supply facilities had yet to be utilized at efficient levels to achieve economies of scale. During the Period, the Group recorded the segmental loss of approximately HK$12.0 million from the heat energy supply segment as compared to the loss of approximately HK$26.2 million in the Comparable Period.

Hotel Operation

The Group has been constantly seeking to expand its business portfolios with a view to expanding revenue source. With the strong performance of Hong Kong as well as global tourism industry, the Group considered hotel operation shall broaden income stream of the Group. In the fourth quarter of 2013, the Group completed the acquisition of a 90-room boutique hotel Butterfly on Waterfront (formerly known as Hotel de EDGE) (the "**Butterfly on Waterfront**"), situated at Sheung Wan, Hong Kong.

During the Period, the Butterfly on Waterfront contributed revenue of HK$15.7 million to the Group, achieved an average daily rate of approximately HK$892 and an remarkable occupancy rate of around 96.7%. During the Period, the Group shared the loss of HK$17.9 million from the hotel operation segment (the Comparable Period: Nil).

PROSPECTS

Steel Manufacturing and Trading

In general, China's steel industry remains clouded with macroeconomic regulation and control measures, in the second half of 2014. On the positive side, major constituent costs in steel manufacturing such as iron ore and coal continue to hover at low levels, coupled with continuation of China's new urbanization strategy, may enhance demand of steel.

Heat Energy Supply

The performance of the Group's heat energy supply segment is highly correlated to heat energy usage and new development projects launched in the area. Since Tianjin city had achieved remarkable double-digit GDP growth in 2013, it is expected that the revenue from the Group's heat energy supply operations of the Three Districts will be benefited from continuous development of the Tianjin City.

Hotel Operation

The Group is confident on optimistic outlook of hotel industries of Hong Kong and worldwide. On 16 June 2014, the Group announced acquisition of the Paris Marriott Hotel Champs-Elysées (the "**Paris Marriott**") (comprising the hotel property and the operations of the hotel) (the "**Transaction**"), at the provisional consideration of €344,512,199 (equivalent to approximately HK$3,638,048,821). Located at the affluent Champs-Elysées avenue of Paris, the Paris Marriott is the only 5-star hotel on avenue de Champs-Elysées. The Group considered the acquisition of Paris Marriott an excellent opportunity to expand our hotel operation segment. Leveraged with professional hotel management services of the Marriott group, the Paris Marriott shall broaden revenue stream of the segment.

Looking Ahead

The Group remains positive of global economy in the second half of 2014. The Group shall constantly evaluate and review its business portfolio, assets mix and performance of individual asset. In the meantime, the Group remains attentive to existing and new business development. From time to time, the Group shall restructure its existing business segments and assets mix with a view to enhancing and optimizing return to shareholders.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2014, total assets and net assets of the Group were approximately HK$3,933.6 million and HK$3,010.9 million respectively, as compared to approximately HK$3,806.6 million and HK$3,017.1 million as at 31 December 2013. The cash and bank balance of the Group as at 30 June 2014 were approximately HK$258.3 million (31 December 2013: HK$196.8 million), representing an increase of 31.3% from 31 December 2013. The total current assets increased by 26.1% to approximately HK$482.0 million during the Period (31 December 2013: HK$382.2 million). As at 30 June 2014, the Group's outstanding bank borrowings amounted to approximately HK$167.0 million (31 December 2013: HK$6.4 million). As at 30 June 2014, the net current liabilities of the Group were approximately HK$89.7 million (31 December 2013: HK$214.9 million). As at 30 June 2014, the Group's gearing ratio (total borrowings/total assets) continued to remain at a low level of 7.3% (31 December 2013: 3.3%).

Acquisitions and Disposals

With reference to the announcement made by the Company dated 16 June 2014, the Group has agreed to acquire Paris Marriott at the provisional consideration of €344,512,199 (equivalent to approximately HK$3,638,048,821), the Transaction constituted a very substantial acquisition of the Company. The Company had published the circular of the Transaction on 29 August 2014, a special general meeting for the Transaction is scheduled on 19 September 2014.

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. 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 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 Period are set out in note 21 of notes to the interim condensed consolidated financial statements.

Pledge on the Group's Assets

As at 30 June 2014, time deposits amounting to HK$26.7 million were pledged to banks to secure certain bills payables (31 December 2013: HK$10.4 million).

Employees and Remuneration

The Group had 199 employees as at 30 June 2014 (31 December 2013: 209). 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 2014, 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 kept 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 (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 the issued share capital
Mr. Hu Yishi	Personal	1,300,000,000	10.17%

Save as disclosed above, as at 30 June 2014, 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 2014, 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	5.54%
Happy Sino International Limited [1]	Beneficial interest	708,000,000	5.54%
Mr. Zhang He Yi	Beneficial interest	1,400,000,000	10.96%
Ms. Lu Xiao Mei	Interest of controlled corporation	753,190,000	5.89%
Sincere Profit Group Limited [2]	Beneficial interest	753,190,000	5.89%
Ga Leung Investment Company Limited [3]	Beneficial interest	1,866,666,666	14.61%
Mr. Sun Yong Feng	Beneficial interest and interest of controlled corporation	1,999,666,666	15.65%
Ms. Meng Ya [4]	Interest of spouse	1,999,666,666	15.65%

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

4 Ms. Meng Ya is the spouse of Mr. Sun Yong Feng. Ms. Meng Ya is deemed to be interested in the 1,999,666,666 shares in which Mr. Sun Yong Feng is interested.

Save as disclosed above, as at 30 June 2014, no person, other than the Directors and chief executive of the Company, whose interests or short positions are set out in the section "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 19 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 Rules Governing the Listing of Securities on the Stock Exchange (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 2014, 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 2014 due to the fact that he had other business commitments. Another executive Director, Mr. Law Wing Chi, Stephen was elected to chair the annual general meeting in accordance with the Company's Bye-Laws.

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 such appointment.

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 2014 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 of 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 result announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.kaiyuanholdings.com). The interim report of the Company for the six months ended 30 June 2014 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 comprises 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, 29 August 2014