KAI YUAN HOLDINGS LIMITED
開源控股有限公司

(incorporated in Bermuda with limited liability)

(Stock Code: 1215)

ANNOUNCEMENT OF FINAL RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2008

RESULTS

The board of directors (the "**Directors**") of Kai Yuan Holdings Limited (the "**Company**") (the "**Board**") hereby announces the audited consolidated results of the Company and its subsidiaries (collectively the "**Group**") for the six months ended 31 December 2008 together with comparative figures for the year ended 30 June 2008 as follows:

CONSOLIDATED INCOME STATEMENT

FOR THE PERIOD FROM 1 JULY 2008 TO 31 DECEMBER 2008

	NOTES	**For the 6 months from 1.7.2008 to 31.12.2008** ***HK$'000***	For the 12 months from 1.7.2007 to 30.6.2008 *HK$'000*
Revenue	*4 & 5*	**83,300**	4,157
Direct costs		**(44,241)**	(121)
Gross profit		**39,059**	4,036
Other income	*7*	**25,008**	1,200
Gain on disposal of investment properties		**–**	675
Fair value loss on investment properties		**(6,527)**	(1,693)
Administrative expenses		**(34,027)**	(46,051)
Share of result of a jointly controlled entity		**(2,935)**	(35,531)
Share of result of associates		**67**	–
Finance costs	*8*	**(2,822)**	(1,968)
Profit (loss) before taxation		**17,823**	(79,332)
Income tax expense	*9*	**(11,769)**	(14)
Profit (loss) for the period/year	*10*	**6,054**	(79,346)
Attributable to:			
Equity holders of the Company		**(15,755)**	(79,346)
Minority interests		**21,809**	–
		6,054	(79,346)
Loss per share – basic	*12*	**HK(0.22) cents**	HK(1.39) cents

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2008

	NOTES	31.12.2008 HK$'000	30.6.2008 HK$'000
Non-current assets			
Property, plant and equipment		**579,180**	486,756
Prepaid lease payments		**49,621**	39,785
Investment properties		**101,573**	108,100
Goodwill		**29,435**	29,435
Other intangible assets		**375,470**	387,465
Investments in associates		**1,047**	980
Interest in a jointly controlled entity		**138,265**	141,200
Available-for-sale financial assets		**4,461**	4,461
		1,279,052	1,198,182
Current assets			
Inventories		**9,079**	398
Trade and other receivables and prepayments	*13*	**96,046**	77,090
Prepaid lease payments		**2,919**	2,392
Amounts due from associates		**174,983**	115,471
Amounts due from related companies		**396,571**	402,826
Dividend receivable from a jointly controlled entity		**50,935**	50,935
Pledged bank deposits		**6,500**	678
Bank balances and cash		**32,088**	51,368
		769,121	701,158
Current liabilities			
Trade and other payables and accruals	*14*	**85,509**	63,449
Receipts in advance		**48,066**	71,784
Amounts due to associates		**30,026**	15,325
Amounts due to related companies		**55,301**	29,421
Loan from a director		**20,230**	15,730
Deferred income – within one year		**5,911**	5,245
Obligations under finance leases		**45**	45
Borrowings – due within one year		**81,218**	20,581
Loan from a related company – due within one year		**205,664**	126,194
Tax payable		**36,659**	21,894
		568,629	369,668
Net current assets		**200,492**	331,490
Total assets less current liabilities		**1,479,544**	1,529,672

	NOTES	**31.12.2008**	30.6.2008
		HK$'000	*HK$'000*
Non-current liabilities			
Obligations under finance leases		**92**	110
Borrowings – due after one year		**31,681**	33,409
Loan from a related company – due after one year		**155,151**	218,092
Deferred income – due after one year		**36,321**	27,172
Deferred tax liabilities		**70,320**	73,343
		293,565	352,126
		1,185,979	1,177,546
Capital and reserves			
Share capital		**711,761**	711,761
Reserves		**(106,097)**	(92,721)
Equity attributable to equity holders of the Company		**605,664**	619,040
Minority interests		**580,315**	558,506
Total equity		**1,185,979**	1,177,546

Notes:

1. GENERAL

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 is Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda and the principal place of business of the Company is Unit 4705, 47th Floor, Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong.

The consolidated financial statements for the current period cover the six months period from 1 July 2008 to 31 December 2008. The corresponding comparative amounts shown for the consolidated income statement, consolidated statement of changes in equity, consolidated cash flow statement and related notes to the consolidated financial statements cover a twelve months period from 1 July 2007 to 30 June 2008 and therefore may not be comparable with amount shown for the current period. The period covered by the current period consolidated financial statements is less than twelve months because the Company determined to align the balance sheet date with the Group's operation in the People's Republic of China (the "PRC") whereby the Group's subsidiaries have their financial year end falling on 31 December.

The functional currency of the Company is Renminbi. The consolidated financial statements are presented in Hong Kong dollars for the convenience of the readers as the Company is a listed company in Hong Kong.

The principal activity of the Company is investment holdings. Its subsidiaries are principally engaged in heat energy supply and property investments.

2. BASIS OF PREPARATION

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which is a collective term that includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs"), and Interpretations ("Ints") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance and applicable disclosure provisions of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The measurement basis used in the preparation of the financial statement is historical cost except for certain financial assets and financial liabilities basis, and investment properties which are carried at fair value.

The preparation of financial statements requires management to exercise its judgement in the process of applying the Company's accounting policies.

3. APPLICATION OF NEW OR REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current period, the Group has applied the following amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are or have become effective.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 13	Customer Loyalty Programmes
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new or revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKAS 39 (Amendment)	Eligible Hedged Items[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 7 (Amendments)	Improving Disclosures about Financial Instruments[2]
HKFRS 8	Operating Segments[2]
HK(IFRIC)-Int 9 & HKAS 39 (Amendments)	Embedded Derivatives[4]
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate[2]
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation[5]
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners[3]
HK(IFRIC)-Int 18	Transfers of Assets from Customers[6]

[1] Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009
[2] Effective for annual periods beginning on or after 1 January 2009
[3] Effective for annual periods beginning on or after 1 July 2009
[4] Effective for annual periods ending on or after 30 June 2009
[5] Effective for annual periods beginning on or after 1 October 2008
[6] Effective for transfers on or after 1 July 2009

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary.

The directors of the Company anticipate that the application of the other new or revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

4. REVENUE

Revenue represents heat energy supply income, heat energy supply facilities connection fee, other fee and rental income for the period. An analysis of the Group's revenue for the period is as follows:

	1.7.2008 to 31.12.2008	1.7.2007 to 30.6.2008
	HK$'000	*HK$'000*
Heat energy supply income	**34,566**	–
Heat energy supply facilities connection fee income	**1,571**	–
Other fee income *(note)*	**44,933**	–
Property rental income	**2,230**	4,157
	83,300	4,157

Note: According to an agreement dated on 28 September 2007 signed between a subsidiary and 天津城西供熱有限公司 ("Chengxi Heating"), Chengxi Heating agreed to pay the subsidiary a fee annually. In return, Chengxi Heating would provide services including but not limited to construct connecting pipelines for its customers to the main pipelines of the subsidiary. The subsidiary will supply heat energy to the relevant customers.

Such fees are recognised as income in the consolidated income statement when the relevant customers are connected to the main pipelines of the subsidiary for heat energy supply service. The amount of fees would be negotiated and agreed by Chengxi Heating and the subsidiary annually.

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

(a) Business segments

For management purposes, the Group is currently organised into two main operating divisions – property investment and heat energy supply. These divisions are the basis on which the Group reports its primary segment information. Revenue from property investment segment comprises rental income from investment properties.

(a) **Business segments – continued**

Segmental information about these businesses is presented below:

1 July 2008 to 31 December 2008

	Property investment *HK$'000*	Heat energy supply *HK$'000*	Consolidated *HK$'000*
Segment revenue			
External sales	**2,230**	**81,070**	**83,300**
Result			
Segment result	**(6,258)**	**32,542**	**26,284**
Interest income			**11,807**
Unallocated expenses			**(14,578)**
Share of result of a jointly controlled entity			**(2,935)**
Share of result of associates			**67**
Finance costs			**(2,822)**
Profit before taxation			**17,823**
Income tax expense			**(11,769)**
Profit for the period			**6,054**

31 December 2008
Consolidated balance sheet

	Property investment *HK$'000*	Heat energy supply *HK$'000*	Consolidated *HK$'000*
Assets			
Segment assets	**103,609**	**1,302,475**	**1,406,084**
Investments in associates			**1,047**
Interest in a jointly controlled entity			**189,200**
Unallocated corporate assets			**451,842**
Consolidated total assets			**2,048,173**
Liabilities			
Segment liabilities	**2,479**	**200,671**	**203,150**
Unallocated corporate liabilities			**659,044**
Consolidated total liabilities			**862,194**

(a) Business segments – continued

1 July 2008 to 31 December 2008
Other information

	Property investment *HK$'000*	**Heat energy supply** *HK$'000*	**Unallocated** *HK$'000*	**Consolidated** *HK$'000*
Capital additions	**–**	**100,845**	**10**	**100,855**
Depreciation of property, plant and equipment	**210**	**7,873**	**348**	**8,431**
Amortisation of other intangible assets	**–**	**11,995**	**–**	**11,995**
Net decrease in fair value of investment properties	**(6,527)**	**–**	**–**	**(6,527)**

1 July 2007 to 30 June 2008

	Property investment *HK$'000*	Heat energy supply *HK$'000*	Consolidated *HK$'000*
Segment revenue			
External sales	4,157	–	4,157
Result			
Segment result	(3,629)	–	(3,629)
Other income			35
Unallocated expenses			(39,404)
Share of result of a jointly controlled entity			(35,531)
Interest income			1,165
Finance costs			(1,968)
Loss before taxation			(79,332)
Income tax expense			(14)
Loss for the year			(79,346)

(a) Business segments – continued

30 June 2008
Consolidated balance sheet

	Property investment *HK$'000*	Heat energy supply *HK$'000*	Consolidated *HK$'000*
Assets			
Segment assets	112,570	1,134,323	1,246,893
Investments in associates			980
Interest in a jointly controlled entity			141,200
Unallocated corporate assets			510,267
Consolidated total assets			1,899,340
Liabilities			
Segment liabilities	15,563	212,563	228,126
Unallocated corporate liabilities			493,668
Consolidated total liabilities			721,794

1 July 2007 to 30 June 2008
Other information

	Property investment *HK$'000*	Heat energy supply *HK$'000*	Unallocated *HK$'000*	Consolidated *HK$'000*
Capital additions				
Acquisition of subsidiaries	–	483,358	–	483,358
Other additions	2,405	–	489	2,894
Depreciation of property, plant and equipment	717	–	323	1,040
Net decrease in fair value of investment properties	(1,693)	–	–	(1,693)
Loss on disposal of property, plant and equipment	99	–	–	99

(b) Geographical segments

The following table provides an analysis of the Group's revenue by geographical market and analysis of total assets and capital expenditures by the geographical area in which the assets are located.

	The PRC other than Hong Kong and Macau		**Others**		**Consolidated**	
	31.12.2008	30.6.2008	**31.12.2008**	30.6.2008	**31.12.2008**	30.6.2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue	**83,133**	3,662	**167**	495	**83,300**	4,157
Segment assets	**1,405,126**	1,213,322	**958**	33,571	**1,406,084**	1,246,893
Capital expenditures	**100,855**	485,261	**–**	991	**100,855**	486,252

6. DIRECT COSTS

Direct costs include costs of generating heat energy supply in Tianjin, the PRC which comprises the cost of fuel and depreciation on heat energy supply facilities.

7. OTHER INCOME

	1.7.2008 to 31.12.2008	1.7.2007 to 30.6.2008
	HK$'000	*HK$'000*
Interest income on bank deposits	**122**	808
Interest income on amount due from a related company	**11,685**	–
Other interest income	**–**	357
Total interest income	**11,807**	1,165
Government subsidy-value added tax refund	**3,810**	–
Government subsidy on heating business	**1,793**	–
Others including mainly sales of hot and cold water	**7,598**	35
	25,008	1,200

8. FINANCE COSTS

	1.7.2008 to 31.12.2008	1.7.2007 to 30.6.2008
	HK$'000	*HK$'000*
Interest on bank borrowings		
– wholly repayable within five years	**2,214**	627
– not wholly repayable within five years	**264**	665
Imputed interest on convertible notes	**–**	676
Effective interest on other borrowings	**344**	–
Interest on loan from a related company	**13,139**	–
	15,961	1,968
Less: amounts capitalised in construction in progress	**(13,139)**	–
	2,822	1,968

9. INCOME TAX EXPENSE

	1.7.2008 to 31.12.2008 *HK$'000*	1.7.2007 to 30.6.2008 *HK$'000*
The income tax expense comprises:		
Current tax		
Hong Kong	**–**	–
Other jurisdictions	**14,792**	65
	14,792	65
Deferred taxation	**(3,023)**	(51)
	11,769	14

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore, Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) of the estimated assessable profit for the period. No provision for Hong Kong Profits Tax has been made in the financial statements as the Group does not have any assessable profit arising in Hong Kong.

Taxation arising in other jurisdictions are calculated at the rate prevailing in the relevant jurisdiction.

On 16 March 2007, the People's Republic of China promulgated the Law of the People's Republic of China of Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the People's Republic of China. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations, the Enterprise Income Tax rate of the Group's subsidiaries in the PRC was reduced from 33% to 25% from 1 January 2008 onward. The relevant tax rates for the Group's subsidiaries in the PRC are 25%.

10. PROFIT (LOSS) FOR THE PERIOD/YEAR

	1.7.2008 to 31.12.2008 *HK$'000*	1.7.2007 to 30.6.2008 *HK$'000*
Profit (loss) for the period/year has been arrived at after charging:		
Auditors' remuneration	**1,138**	1,898
Depreciation of property, plant and equipment	**8,431**	1,040
Amortisation of other intangible assets	**11,995**	–
Loss on disposal of property, plant and equipment	**–**	99
Staff costs (including directors' emoluments)	**11,250**	25,595
Foreign exchange loss	**–**	3,727
Share of tax of a jointly controlled entity (included in share of results of a jointly controlled entity)	**734**	1,760
and after crediting:		
Gross rental income	**2,230**	4,157
Less: outgoings	**(109)**	(121)
Net rental income	**2,121**	4,036

11. DIVIDEND

No dividend was paid or proposed during the period from 1 July 2008 to 31 December 2008, nor has any dividend been proposed after the balance sheet date (1.7.2007 to 30.6.2008: nil).

12. LOSS PER SHARE

The calculation of the basic loss per share attributable to the ordinary equity holders of the Company is based on the following data:

	1.7.2008 to 31.12.2008	1.7.2007 to 30.6.2008
	HK$'000	*HK$'000*
Loss attributable to equity holders of the Company for the purpose of basic loss per share	**(15,755)**	(79,346)

	Number of shares	
	31.12.2008	30.6.2008
	'000	'000
Weighted average number of ordinary shares for the purpose of basic loss per share	**7,117,613**	5,723,235

No diluted loss per share has been presented because the exercise of the option would result in a decrease in losses per share.

13. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	31.12.2008	30.6.2008
	HK$'000	*HK$'000*
Trade receivables	**67,407**	63,835
Other receivables	**10,675**	11,829
Temporary payments	**15,000**	–
Prepayments	**1,994**	459
Deposits	**970**	967
	96,046	77,090

For heat energy supply income and heat energy supply facilities connection income, the Group generally receives the relevant fees in advance. Payment term of other fee income is pre-determined between the Group and the counterparty. The aged analysis of trade receivables net of allowance for doubtful debts is stated as follows:

	31.12.2008	30.6.2008
	HK$'000	*HK$'000*
0 – 30 days	**67,407**	35,470
31 – 90 days	**–**	24
Over 90 days	**–**	28,341
	67,407	63,835

Included in trade receivables at 30 June 2008 were debtors with carrying amounts of approximately HK$28,341,000 which are past due at the balance sheet dates for which the Group had not provided for impairment loss as there has not been a significant change in credit quality and the amounts were fully recovered during the current period. The Group does not hold any collateral over these balances. There are no trade receivable that are past due at 31 December 2008.

Trade receivables at the balance sheet dates mainly comprise receivables other fee income.

Included in other receivables are advance to independent third parties with carrying amounts of HK$4,506,000 (30.6.2008: HK$10,393,000). Amounts are unsecured, non-interest bearing and repayable on demand. The management believe that no impairment allowance is necessary in respect of the other receivables as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

14. TRADE AND OTHER PAYABLES AND ACCRUALS

	31.12.2008	30.6.2008
	HK$'000	*HK$'000*
Trade payables	**44,337**	44,773
Other payables	**15,857**	16,991
Accrued charges	**25,315**	1,685
	85,509	63,449

The following is an aged analysis by invoice date of trade payables at the balance sheet date:

	31.12.2008	30.6.2008
	HK$'000	*HK$'000*
0 – 30 days	**28,645**	324
31 – 90 days	**853**	3,090
91 – 180 days	**1,249**	27,712
Over 180 days	**13,590**	13,647
	44,337	44,773

The average credit period on purchase is 90 days. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

15. POST BALANCE SHEET EVENTS

On 5 January 2009, the Company entered into agreement with independent third parties to acquire the entire issued share capital of Fame Risen Development Limited at a consideration through allotment and issue of 2,000,000,000 shares of the Company, subject to various conditions. Details of the acquisition are included in the announcement of the Company dated 15 January 2009. The transaction has not yet been completed up to the date of this report.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The turnover of the Company together with its subsidiaries (the "Group") for the six months ended 31 December 2008 (the "Six-month Period") amounted to approximately HK$83.3 million, representing a substantial increase over the turnover of the preceding 12 months. The increase in turnover largely reflects the contribution from Tianjin Heating Development Company Limited ("Tianjin Heating") subsequent to the completion of its acquisition on 30 June 2008 and continued stable rental income contribution from the Group's investment properties. Profit of approximately HK$6.0 million was recorded for the Six-month Period and loss attributable to shareholders amounted to approximately HK$15.8 million after deducting minority interests, compared with the relevant losses (approximately HK$79.3 million) for the preceding 12 months. The turnaround to profit during the Six-month Period was recorded after accounting mainly for i) the substantial turnover and gross profits contributed by Tianjin Heating since 1 July 2008; and ii) significant other income including interest income and government subsidies. The deduction of minority interests of Tianjin Heating of approximately HK$21.8 million has led to the loss attributable to shareholders despite the profit for the Six-month Period.

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

Heat Energy Supply

The Group completed its acquisition of an indirect interest of 49% and entrustment of a further 5% interest in Tianjin Heating Development Co., Ltd. ("Tianjin Heating"), a market leader in the heat energy supply industry of Tianjin, on 30 June 2008. As a result, Tianjin Heating started its contribution to the Group's results during the six months ended 31 December 2008. Tianjin Heating is engaged in the production and heat energy supply, installment, engineering and maintenance of heating systems and management of heating pipes, covering a vast area of heat energy supply within the municipality of Tianjin. The three heat energy supply projects operating under Tianjin Heating, namely the Meijiang Project, the Jinxia Xindu Project and the Xiqing Nanhe Project, are designated to supply heat for the three adjacent regions of Meijiang residential District, Jinxia Xindu District and Xiqing Nanhe District at the southern fringe of Tianjin city, covering an aggregate area of over 21 million sq.m.

During the six months ended 31 December 2008, the heat energy supply operations contributed turnover of approximately HK$81.1 million and segmental profit of approximately HK$32.5 million. Despite the global economic downturn, the Meijiang Project, the Jinxia Xindu Project and the Xiqing Nanhe Project all recorded increases in the floor area to which heat energy is supplied, and aggregate floor area increased to 4.6 million sq.m. from 4.1 million sq.m. as disclosed in the previous annual report. The increases reflect the commencement of operation of the newly constructed facilities at the Xiqing Nanhe Project as well as continued development towards the southwestern fringe of Tianjin as Tianjin city core becomes more and more saturated.

Property Investment

Turnover of the Group's commercial properties remained stable at approximately HK$2.2 million during the Six-month Period, as compared with approximately HK$4.2 million for the preceding 12 months. Despite the relatively stable rental income recorded by the Group's commercial properties, the downturn of the economic environment has led to fair value losses. As a result, segmental loss of approximately HK$6.3 million was recorded for the Six-month Period, as compared with segmental loss of approximately HK$3.6 million for the preceding 12 months.

In Beijing, The Group's 35 A-grade commercial offices and 2-levels underground parking area situated at 33 Deng Shi Kou Main Street, Wangfujing, Dong Cheng District generated rental income of approximately HK$2.1 million during the Six-month Period (12 months ended 30 June 2008: approximately HK$3.7 million) and occupancy rate remained strong at 94% (12 months ended 30 June 2008: 97%).

In Shanghai, Shanghai Underground Centre Company Limited ("SUCCL") yielded healthy revenues of approximately HK$21.3 million for the Six-month Period (12 months ended 30 June 2008: approximately HK$42.7 million). Subsequent to the significant renovations of the direct access to People's Square subway station, the 10,000sq.m well-outfitted underground shopping plaza became ever more conveniently accessible. As a result, tourists and shoppers alike can be easily brought to one of the more attractive shopping venues of Shanghai.

Prospects

Heat Energy Supply

Despite the weak global economic climate, the Group believes that China has the qualities of a growth engine of the world economy and will continue to prosper as the economic turmoil settles. Moreover, as a provider of a people's necessity, Tianjin Heating and its three heat energy supply projects shall continue to bloom from a stable customer base. The significant recent decreases in raw material costs and increases in residential and non-residential heating fees from RMB20 and RMB26 to RMB 25 and RMB36 per square metre per heating period respectively in late 2008 further improve Tianjin Heating's operating conditions in the coming year. Through synergizing with the PRC capital of Beijing, Tianjin is set to become a new economic core of northern China. As the economy rebounds, continued real estate development radiating from the saturated Tianjin city core towards the outer edge of the municipality where Tianjin Heating operates can be expected, leading to healthy growth in long term heating fee revenues and connection fees and contribution of recurring cash flow and returns for the Group.

Property Investment

Outlook for the property investments of the Group in Beijing and Shanghai remains optimistic, as these prime-located quality properties continue to demonstrate their ability to maintain healthy occupancy rates and rental levels despite the non-optimal economic environment. The Group is confident that, as the economy recovers, the continual growth of the PRC economy shall bring improving yields and values for the Group's prime properties.

Steel

On 15 January 2009, the Group announced its entering into an agreement for the acquisition (the "Acquisition") of Fame Risen Development Limited, which in turn holds 25%–30% interests in three steel-making enterprises which are non-wholly owned subsidiaries of Rizhao Steel Holding Group Company Limited, one of the leading steel manufacturers in the PRC market (the "Enterprises"). The Enterprises include: 1) Rizhao Medium Section Mill Co., Ltd. (30% interest), which is principally engaged in the manufacturing and selling of wire rod, section steel and related products; 2) Rizhao Steel Co., Ltd. (30% interest), which is principally engaged in the manufacturing and selling of common carbon steel, low alloy steel and other steel billet; and 3) Rizhao Steel Wire Co., Limited (25% interest), which is principally engaged in the manufacturing and selling of high-end metal and wire rod for construction, strips and related products. The consideration for the Acquisition is HK$5,200,000,000, which shall be settled by the issuance of 2,000,000,000 shares of the Company at HK$2.60 per share. The Acquisition constitutes a very substantial acquisition for the Company pursuant to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and will be subject to shareholders' approval at a Special General Meeting, details of which will be announced in due course.

Steel is a necessity for the development of a country. As the PRC continues to grow, demand for steel will grow correspondingly. Based on the strong historical results of the Enterprises, which contributed attributable profits of HK$1.56 billion to Fame Risen Development Limited in 2007 (according to management accounts, subject to audit which will be detailed in the circular to be issued), the Acquisition can greatly strengthen the operations and asset base of the Group without the Group having to incur material cash outflow. Moreover, it was recently reported that in order to ease the impact of the global financial crisis on the PRC economy, the PRC government will introduce and implement stimulus programs for ten major industries, and the steel industry was one of them. The Company is optimistic on the prospect of the steel industry in light of the support given by the PRC government.

Looking ahead

Over the long term, it is often the industries of basic needs that can best weather the cycles of economy. The Company will actively explore other business opportunities in industrial businesses which share such traits of necessity and immense need, with focus on high-growth regions in the People's Republic of China, in order to enhance stakeholders' value and return.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2008, total assets of the Group was approximately HK$2,048.2 million (30 June 2008: HK$1,899.3 million), representing an increase of 7.8%. The increase was mainly due to increases in properties, plants and equipment of Tianjin Heating. Net assets of the Group increased by 0.7% to approximately HK$1,186 million compared with the figure of six months ago (30 June 2008: HK$1,177.5 million). During the six months ended 31 December 2008, no fund raising activities were undertaken by the Group.

As at 31 December 2008, the Group had bank balances and cash and pledged bank deposits totaling approximately HK$38.6 million (30 June 2008: HK$52.0 million)), representing an decrease of 25.8%. Current assets increased by 9.7% to approximately HK$769.1 million during the Six-month Period. As at 31 December 2008, the Group's outstanding bank borrowings amounted to approximately HK$112.9 million (30 June 2008: HK$54.0 million), approximately HK$81.2 million of which was due within one year. The increase in borrowing was made in response to the project development requirements of Tianjin Heating. As a result of increased short term borrowings and other current liabilities, the Group's net current assets as at 31 December 2008 was approximately HK$200.5 million (30 June 2008: HK$331.5 million), representing a decrease of 39.5%. However, the Group's leverage level remains healthy and its gearing ratio (total borrowings/total assets) as at 31 December is 24.1% (30 June 2008: 21.7%).

Acquisitions and Disposals

There was no material acquisition or Disposals during the six months ended 31 December 2008.

Foreign Exchange Exposure

The investment projects of the Group are located in the PRC. Loans and borrowings taken in relation to such investment projects 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. 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 six months ended 31 December 2008. The Group will from time to time review and monitor the exchange risks, and consider employing foreign exchange hedging arrangements when appropriate and necessary.

Contingent Liabilities

As at 31 December 2008, the Group did not have any material contingent liabilities.

Pledge on the Group's Assets

As at 31 December 2008, the bank borrowings and bank facilities granted to the Group were secured by deposits totaling approximately HK$6.5 million and its investment properties with a carrying value of HK$73,483,000.

Employees and Remuneration

The Group had approximately 246 employees as at 31 December 2008 (30 June 2008: 215). Apart from basic remuneration, the Group also provides other employee benefits including medical scheme and provident fund schemes. In addition, the Group has a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

CORPORATE GOVERNANCE REPORT

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 the best practices.

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

The Company had complied with the CG Code throughout the six months ended 31 December 2008 with the following deviation:

- A4.1 Non-executive Directors are not appointed for a specific term. They are, however, subject to retirement by rotation and re-election at the annual general meetings of the Company pursuant to the Company's Bye-laws. As such, the Company considers that such provisions are sufficient to meet the underlying objectives of the relevant provisions of the CG Code.

- A4.2 The Chairman and the Group Managing Director are 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 seem to be, continuity of leadership in these roles and, in consequence, the Board is of the view that both should not be subject to retirement by rotation or hold office for a limited term at the present time.

The Board will keep this matter under review.

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

AUDIT COMMITTEE

The Audit Committee comprises of three independent non-executive Directors of Mr. Tam Sun Wing, Mr. Ko Ming Tung, Edward and Mr. Ng Ge Bun. The Audit Committee has reviewed the accounting policies and practices adopted and the audited results of the Group for the year. The audited results for the six months ended 31 December 2008 have been reviewed by the Audit Committee and external auditors. The Audit Committee is satisfied with the Group's internal control procedures and financial reporting disclosures. The Audit Committee has held regular meetings since its formation, at a frequency of at least twice a year.

REMUNERATION COMMITTEE

The Remuneration Committee has been set up with written term of reference in accordance with the requirements of the Listing Rules. The Remuneration Committee comprises one executive Director, Mr. Hu Yishi and two independent non-executive Directors of Mr. Tam Sun Wing and Mr. Ko Ming Tung, Edward.

NOMINATION COMMITTEE

The Nomination Committee was established on 13 April 2007. It currently consists of one executive Director Mr. Yip Kar Hang, Raymond and two independent non-executive Directors of Mr. Ko Ming Tung, Edward and Mr. Ng Ge Bun.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 of the Listing Rules. The Company has confirmed with the Directors that they have complied with the required standard set out in the Model Code and its code of conduct regarding Directors' securities transactions.

PUBLICATION OF DETAILED RESULTS ANNOUNCEMENT ON THE STOCK EXCHANGES WEBSITE

All the information on the Company's annual results required by paragraphs 45(1) to 45(3) of Appendix 16 to the Listing Rules will be published on the Stock Exchange's website in due course.

BOARD OF DIRECTORS

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

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

Hong Kong, 3 April 2009