KAI YUAN HOLDINGS LIMITED
開源控股有限公司

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

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2009

RESULTS

The board of directors (the "Directors", collectively referred to as the "Board") of Kai Yuan Holdings Limited (the "Company") is pleased to announce the interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2009 (the "Period") together with comparative figures for the six-months period from 1 July 2008 to 31 December 2008 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2009

	NOTES	**1.1.2009 to 30.6.2009 *HK$'000* (Unaudited)**	1.7.2008 to 31.12.2008 *HK$'000* (Audited)
Revenue	3	**106,729**	83,300
Direct costs		**(61,036)**	(36,773)
Other income		**5,623**	25,008
Fair value loss on investment properties		**–**	(6,527)
Depreciation and amortisation		**(22,844)**	(20,426)
Staff costs		**(16,238)**	(11,250)
Other operating and administrative expenses		**(11,363)**	(9,819)
Share of loss of a jointly controlled entity		**(2,298)**	(2,935)
Share of profit of associates		**67,431**	67
Finance costs		**(2,886)**	(2,822)
Discount on acquisition of associates		**936,131**	–
Profit before tax		**999,249**	17,823
Income tax expense	4	**(10,120)**	(11,769)
Profit for the period	5	**989,129**	6,054
Profit (loss) for the period attributable to:			
Owners of the Company		**986,617**	(15,755)
Minority interests		**2,512**	21,809
		989,129	6,054
Earnings (loss) per share			
– basic	7	**HK13.44 cents**	HK(0.22) cents
– diluted	7	**HK13.36 cents**	N/A

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2009

	1.1.2009 to 30.6.2009	1.7.2008 to 31.12.2008
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Profit for the period	**989,129**	6,054
Other comprehensive income		
Exchange differences arising on translation and other comprehensive income for the period	**(961)**	(46)
Total comprehensive income for the period	**988,168**	6,008
Total comprehensive income attributable to:		
Owners of the Company	**985,656**	(15,801)
Minority interests	**2,512**	21,809
	988,168	6,008

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2009

	NOTES	**30.6.2009** *HK$'000* **(Unaudited)**	31.12.2008 *HK$'000* (Audited)
Non-current assets			
Property, plant and equipment	*8*	**555,136**	579,180
Prepaid lease payments		**47,883**	49,621
Investment properties	*8*	**101,573**	101,573
Goodwill		**29,435**	29,435
Other intangible assets		**363,481**	375,470
Interests in associates		**1,548,097**	1,047
Interest in a jointly controlled entity		**135,967**	138,265
Available-for-sale financial assets		**5,145**	4,461
		2,786,717	1,279,052
Current assets			
Inventories		**1,089**	9,079
Trade and other receivables and prepayments	*9*	**90,187**	96,046
Prepaid lease payments		**3,048**	2,919
Amounts due from associates		**3,429**	174,983
Amounts due from related companies		**334,292**	396,571
Dividend receivable from a jointly controlled entity		**50,937**	50,935
Dividend receivable from associates		**74,804**	–
Pledged bank deposits		**704**	6,500
Bank balances and cash		**119,732**	32,088
		678,222	769,121
Current liabilities			
Trade and other payables and accruals	*10*	**78,286**	85,509
Receipts in advance		**34,524**	48,066
Amounts due to associates		**–**	30,026
Amounts due to related companies		**74,819**	55,301
Loan from a director		**20,000**	20,230
Deferred income – within one year		**5,483**	5,911
Obligations under finance leases		**45**	45
Borrowings – due within one year		**36,324**	81,218
Loan from a related company – due within one year		**242,567**	205,664
Tax payable		**44,998**	36,659
		537,046	568,629
Net current assets		**141,176**	200,492
Total assets less current liabilities		**2,927,893**	1,479,544

	30.6.2009 *HK$'000* (Unaudited)	31.12.2008 *HK$'000* (Audited)
Non-current liabilities		
Obligations under finance leases	**74**	92
Borrowings – due after one year	**27,478**	31,681
Loan from a related company – due after one year	**–**	155,151
Deferred income – due after one year	**34,626**	36,321
Deferred tax liabilities	**150,049**	70,320
	212,227	293,565
	2,715,666	1,185,979
Capital and reserves		
Share capital	**913,733**	711,761
Reserves	**1,219,106**	(106,097)
Equity attributable to owners of the Company	**2,132,839**	605,664
Minority interests	**582,827**	580,315
Total equity	**2,715,666**	1,185,979

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2009

	Attributable to owners of the Company							
	Share capital	Share premium	Share options reserve	Translation reserve	(Accumulated losses) retained earnings	Total	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 July 2008 (audited)	711,761	266,208	13,042	46,880	(418,851)	619,040	558,506	1,177,546
Exchange difference arising on translation	–	–	–	(46)	–	(46)	–	(46)
(Loss) profit for the period	–	–	–	–	(15,755)	(15,755)	21,809	6,054
Total comprehensive income for the period	–	–	–	(46)	(15,755)	(15,801)	21,809	6,008
Recognition of equity-settled share based payments	–	–	2,425	–	–	2,425	–	2,425
At 31 December 2008 and 1 January 2009 (audited)	711,761	266,208	15,467	46,834	(434,606)	605,664	580,315	1,185,979
Exchange difference arising on translation	–	–	–	(961)	–	(961)	–	(961)
Profit for the period	–	–	–	–	986,617	986,617	2,512	989,129
Total comprehensive income for the period	–	–	–	(961)	986,617	985,656	2,512	988,168
Share issued at premium	200,000	330,000	–	–	–	530,000	–	530,000
Exercised under equity-settled option scheme	1,972	3,713	(1,641)	–	–	4,044	–	4,044
Recognition of equity-settled share based payments	–	–	7,475	–	-	7,475	–	7,475
At 30 June 2009 (Unaudited)	913,733	599,921	21,301	45,873	552,011	2,132,839	582,827	2,715,666

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2009

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Hong Kong Accounting Standard ("HKAS") 34, *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The condensed consolidated financial statements for the current period cover the six months ended 30 June 2009. The corresponding comparative amounts shown for the condensed consolidated income statement, condensed consolidated statement of comprehensive income and condensed consolidated statement of changes in equity cover the six months ended 31 December 2008 and therefore may not be comparable with amount shown for the current period. The period covered by the current period's condensed consolidated financial statements does not correspond to the period covered by the comparatives because the Company changed its financial reporting year end date to 31 December with effect from the year ended 31 December 2008 in order to align the date with the Group's operations in the People's Republic of China (the "PRC") whereby the Group's subsidiaries have their financial year end falling on 31 December.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost convention, except for certain properties and financial instruments that are measured at fair values, as appropriate.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the period ended 31 December 2008.

In the current interim Period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by HKICPA, which are effective for the Group's financial year beginning on 1 January 2009.

HKAS 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised 2007)	Borrowing Costs
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC)-Int 9 & HKAS 39 (Amendments)	Embedded Derivatives
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

HKAS 1 (Revised 2007) has introduced a number of terminology changes, including revised titles for the condensed consolidated financial statements, and has resulted in a number of changes in presentation and disclosure.

HKFRS 8 is a disclosure standard that requires the identification of operating segments to be performed on the same basis as financial information that is reported internally for the purpose of allocating resources between segments and assessing their performance. The predecessor Standard, HKAS 14 *Segment Reporting*, required the identification of two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group's primary reporting format was business segments. The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14 (see note 3).

The adoption of the new and revised HKFRSs has had no material effect on the reported results and financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

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)	Amendment to HKFRS 5 as part of Improvements to HKFRSs issued in 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009[2]
HKAS 27 (Revised 2008)	Consolidated and Separate Financial Statements[1]
HKAS 39 (Amendment)	Eligible Hedged Items[1]
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[3]
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[3]
HKFRS 3 (Revised 2008)	Business Combinations[1]
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners[1]
HK(IFRIC)-Int 18	Transfers of Assets from Customers[4]

1 Effective for annual periods beginning on or after 1 July 2009.
2 Amendments that are effective for annual periods beginning on or after 1 July 2009 or 1 January 2010, as appropriate.
3 Effective for annual periods beginning on or after 1 January 2010.
4 Effective for transfers on or after 1 July 2009.

The adoption of HKFRS 3 (Revised 2008) may affect the Group's accounting for business combinations for which the acquisition dates are on or after 1 January 2010. HKAS 27 (Revised 2008) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary. The directors of the Company anticipate that the application of other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. SEGMENT INFORMATION

The Group has adopted HKFRS 8 *Operating Segments* with effect from 1 January 2009. HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (the "CODM"), in order to allocate resources to the segment and to assess its performance. In contrast, the predecessor standard (HKAS 14, *Segment Reporting*) required an entity to identify two sets of segments (business and geographical) using a risks and returns approach, with the entities' system of internal financial reporting to key management personnel' serving only as the starting point for the identification of such segments. In the past, the Group's primary reporting format was business segments. The application of HKFRS 8 has not resulted in redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14. The adoption of HKFRS 8 has also changed the basis of measurement of segment revenue and results.

Information regarding these segments is presented below. The Group acquired three associates which engaged in the manufacturing and trading of steel products during the interim Period. For HKFRS 8 purposes, a new reportable segment is identified as Steel Manufacturing and Trading.

The following is an analysis of the Group's revenue and results by operatings segment for the periods under review:

	Revenue		Segment profit	
	Six months ended		Six months ended	
	1.1.2009 to 30.6.2009 (Unaudited)	1.7.2008 to 31.12.2008 (Audited)	**1.1.2009 to 30.6.2009 (Unaudited)**	1.7.2008 to 31.12.2008 (Audited)
Property Investment	**2,274**	2,230	**2,360**	(5,351)
Heat Energy Supply	**104,455**	81,070	**16,793**	41,921
Steel Manufacturing and Trading	**–**	–	**67,431**	–
Total	**106,729**	83,300	**86,584**	36,570
Central administration costs			**(21,168)**	(15,812)
Share of loss of a jointly controlled entity			**(2,298)**	(2,935)
Discount on acquisition of associates			**936,131**	–
Profit before tax			**999,249**	17,823

Segment profit represents the profit earned by each segment without allocation of central administration costs, discount on acquisition of associates and share of loss of a jointly controlled entity. This is the measure reported to the board of directors, the CODM, for the purposes of resource allocation and performance assessment.

The following is an analysis of the Group's assets by operating segment:

	30.6.2009	31.12.2008
	HK$'000	*HK$'000*
Property Investment	**104,655**	103,504
Heat Energy Supply	**1,533,369**	1,716,270
Steel Manufacturing and Trading	**1,622,901**	–
Unallocated assets	**204,014**	228,399
Total assets	**3,464,939**	2,048,173

4. INCOME TAX EXPENSE

	1.1.2009 to 30.6.2009 *HK$'000* **(Unaudited)**	1.7.2008 to 31.12.2008 *HK$'000* (Audited)
Current Tax		
Hong Kong	**–**	–
PRC	**9,334**	14,792
	9,334	14,792
Deferred Tax		
Current Period	**786**	(3,023)
	10,120	11,769

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit, no provision for Hong Kong Profits Tax has been made for both periods.

The relevant tax rates for the Group's subsidiaries in the People's Republic of China are 25%.

Taxation is recognized based on the management's best estimate of the weighted average annual income tax rate expected for the full financial year.

5. PROFIT FOR THE PERIOD

	1.1.2009 to 30.6.2009 *HK$'000*	1.7.2008 to 31.12.2008 *HK$'000*
Profit for the period has been arrived at after charging:		
Depreciation of property, plant and equipment	**10,855**	8,431
Amortisation of other intangible assets	**11,989**	11,995
Total depreciation and amortisation	**22,844**	20,426
Foreign exchange loss (included in other operating and administrative expenses)	**1**	–

6. DIVIDEND

No dividend was paid or proposed during the period from 1 January 2009 to 30 June 2009, nor has any dividend been proposed since the balance sheet date (1.7.2008 to 31.12.2008: nil).

7. EARNINGS (LOSS) PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	1.1.2009 to 30.6.2009 *HK$'000*	1.7.2008 to 31.12.2008 *HK$'000*
Earnings (loss) for the purposes of basic and diluted earnings (loss) per share (Profit (loss) for the period attributable to owners of the Company)	**986,617**	(15,755)
Number of shares	***'000***	*'000*
Weighted average number of ordinary shares for the purposes of basic earnings (loss) per share	**7,341,473**	7,117,613
Effect of dilutive share options	**41,595**	
Weighted average number of ordinary shares for the purposes of diluted earnings (loss) per share	**7,383,068**	N/A

No diluted loss per share has been presented for the period from 1 July 2008 to 31 December 2008 because the exercise of options would result in a decrease in loss per share.

8. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

During the six months ended 30 June 2009, additions to the Group's property, plant and equipment amounted to approximately HK$14,639,000 (2008: HK$100,855,000). In addition, during the current period, the Group disposed of certain of its furniture, fixtures and office equipment with carrying amounts of HK$210,000, and certain of its heat supplying facilities with carrying amounts of HK$1,149,000 for proceeds of approximately HK$125,000.

The Group's investment properties were fair value by the directors of the Company by reference to market evidence of transaction prices of similar properties in the relevant locations. The directors estimated that the fair value of investment properties at 30 June 2009 is HK$101,573,000 and consequently, no gain or loss in fair value change is recognised in current period.

9. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	30.6.2009	31.12.2008
	HK$'000	*HK$'000*
Trade receivables	**79,403**	67,407
Other receivables and prepayments	**10,784**	28,639
	90,187	96,046

The following is an aged analysis of trade receivable at the reporting date:

	30.6.2009	31.12.2008
	HK$'000	*HK$'000*
0-30 days	**52,221**	67,407
31-90 days	**87**	–
Over 90 days	**27,095**	–
	79,403	67,407

10. TRADE AND OTHER PAYABLES AND ACCRUALS

	30.6.2009	31.12.2008
	HK$'000	*HK$'000*
Trade payables	**37,633**	44,337
Other payables and accruals	**40,653**	41,172
	78,286	85,509

The following is an aged analysis by invoice date of trade payable at the reporting date:

	30.6.2009	31.12.2008
	HK$'000	*HK$'000*
0-30 days	**3,066**	28,645
31-90 days	**–**	853
Over 90 days	**34,567**	14,839
	37,633	44,337

11. EVENTS AFTER THE END OF THE INTERIM PERIOD

On 2 July 2009, the Company issued convertible notes of HK$265,500,000 to Mr. Hu Yishi, the director of the Company according to the convertible notes subscription agreement dated 26 May 2008. The convertible notes carried interest at 3.5% per annum. The holder has the option to convert the convertible notes into shares of HK$0.10 per share of the Company at a conversion price of HK$0.177 per share. Subsequently on 7 August 2009, convertible notes with principal amount of HK$35,400,000 were converted into 200,000,000 ordinary shares of the Company.

On 6 September 2009, the three associates of the Group, namely Rizhao Steel Co., Limited, Rizhao Medium Section Mills Co., Limited and Rizhao Steel Wire Co., Limited, together with their parent company and two of their fellow subsidiaries (collectively as the "Party A Companies") entered into an asset restructuring and co-operation agreement with an independent third party, 山東鋼鐵集團有限公司 (Shandong Steel Group Co., Limited ("SSG")). The signing parties shall jointly invest in a new joint venture enterprise with a 33% ownership by the Party A Companies and the remaining 67% by SSG. Details of the agreement are included in the announcement of the Company dated 7 September 2009. The transaction has not yet been completed up to the date of this report.

12. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with current period's presentation. In particular, the condensed consolidated income statement aggregate expenses by nature for the current period, previously the consolidated income statement for the six months ended 31 December 2008 aggregate expenses by function.

INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend for the six months ended 30 June 2009 (Six months ended 31 December 2008: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the six months ended 30 June 2009 (the "Period"), profit of the Company together with its subsidiaries (the "Group") has significantly increased to approximately HK$989.1 million from approximately HK$6.0 million for the six months ended 31 December 2008 (the "Preceding Six-Month Period"). The increase is largely attributable i) one month's contribution in share of profit from the Group's associates engaged in steel and steel product manufacturing of approximately HK$67.4 million subsequent to the completion of the acquisition of Fame Risen Development Limited ("Fame Risen") on 29 May 2009; and ii) approximately HK$936.1 million arising from the discount on acquisition of Fame Risen. Further details of the acquisition of Fame Risen may be found in a circular dated 27 April 2009 and announcements dated 15 January 2009 and 11 June 2009. Profit attributable to shareholders for the Period amounted to HK$986.6 million after deducting minority interests, as compared with a loss of approximately HK$15.8 million for the Preceding Six Month Period, translating into earnings per share of HK$13.44 cents.

Turnover for the Period amounted to approximately HK$106.7 million, representing a 28% increase over the turnover of the Preceding Six Month Period. The increase in turnover is largely due to an increase in turnover for the Group's heat energy supply operations.

As at 30 June 2009, total assets of the Group was approximately HK$3,464.9 million, representing a substantial increase of 69.2% over that of 31 December 2008 (HK$2,048.2 million) . The increase mainly arose from the completion of the acquisition of Fame Risen in May. As the acquisition of Fame Risen was settled by way of issuance of shares of the Company as consideration, net assets of the Group also increased significantly by 129% to HK$2,715.7 million as compared with approximately HK$1,186 million of six months ago. During the Period, no fund raising activities were undertaken by the Group, save for the issuance of 2,000,000,000 shares of the Company to the vendors as consideration for the acquisition of Fame Risen. Bank balances and cash and pledged bank deposits of the Group as at 30 June 2009 totaled approximately HK$120.4 million (31 December 2008: HK$38.6 million), representing an increase of 211.9%. Current assets decreased by 11.8% to approximately HK$678.2 million during the Period. As at 30 June 2009, the Group's outstanding bank borrowings amounted to approximately HK$63.8 million (31 December 2008: HK$112.9 million), approximately HK$36.3 million of which was due within one year. During the Period, the Group's current assets and current liabilities have both decreased and net current assets as at 30 June 2009 was approximately HK$141.2 million. (31 Dec 2008: HK$200.5 million), representing a decrease of 29.6%. Given the Group's substantial increase in assets and significant reduction in borrowing, its gearing ratio (total borrowings/total assets) has seen a significant improvement to 9.4% as at 30 June 2009, versus 24.1% six month ago.

Business Review and Prospects

Steel Manufacturing and Trading

On 29 May 2009, the Group completed the acquisition (the "Acquisition") of Fame Risen, 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 ("RSHG"), one of the leading steel manufacturing enterprises in the PRC market (the "Enterprises"). The Enterprises include: 1) Rizhao Steel Co., Ltd. ("Rizhao Steel") (30% interest), which is principally engaged in the manufacturing and selling of common carbon steel, low alloy steel and other steel billet; 2) Rizhao Medium Section Mill Co., Ltd. ("Rizhao Medium") (30% interest), which is principally engaged in the manufacturing and selling of wire rod, section steel and related products; and 3) Rizhao Steel Wire Co., Limited ("Rizhao Wire") (25% interest), which is principally engaged in the manufacturing and selling of high-end metal and wire rod for construction, strips and related products.

Subsequent to the completion of the Acquisition, Fame Risen began contributing to the Group's results in June 2009. The strong performance of the underlying Enterprises have provided a one-month results contribution of June 2009 amounting to approximately HK$67.4 million. Furthermore, the discount on acquisition of Fame Risen has resulted in a further contribution of approximately HK$936.1 million to the profit of the Group for the Period. The Acquisition has greatly strengthened the results and asset base of the Group without the Group having to incur material cash outflow, as the consideration for the Acquisition was solely settled by 2 billion shares of the Company.

As of 30 June 2009, Rizhao Steel, Rizhao Medium and Rizhao Wire respectively had production capacity of approximately 12.6, 1.5 and 10 million tonnes per year. During the first 6 months of 2009, production output reached approximately 5.9, 0.7 and 4.9 million tonnes respectively. As the steel market of the PRC have recovered in tandem with the economy in general, steel prices have recovered and stabilized from the drop in the latter half of 2009. Given their coastal locations and modern management expertise, the Enterprises are able to exercise inventory control and margin maintenance that are amongst the best in the industry. Leveraging on these advantages, the Enterprises generated healthy aggregate profit despite the challenging operating environment during the first 6 months of 2009.

On 6 September 2009, (i) the Enterprises, together with RSHG and two other companies controlled by RSHG (together, the "Party A Companies") and (ii) 山東鋼鐵集團有限公司 (for English identification, Shandong Steel Group Co., Limited) ("Party B") on the other hand, entered into an asset restructuring and co-operation agreement (the "Agreement"). Party A Companies and Party B shall jointly invest in a new joint venture enterprise (the "New JVE"), being 山東鋼鐵集團日照有限公司 (for English identification, Shandong Steel Group Rizhao Co., Limited), which shall be owned as to 33% by Party A Companies and as to 67% by Party B. The New JVE shall construct and operate 日照鋼鐵精品基地 (for English identification, Rizhao Steel Base), a steel manufacturing base with a planned production capacity of over 20 million tonnes per year located near the coastline of Rizhao, which employs new-generation manufacturing, energy conservation and environmental protection technology and techniques, and of which the facilities currently operated under the Party A Companies shall form part. Party A Companies shall contribute to the registered capital of the New JVE by transferring their entire fixed assets and land and the relevant bank loans, as well as other liabilities which have been legally incurred with a determined monetary value to the New JVE, and Party B shall contribute to the registered capital by way of cash in the same proportion as its shareholding. Further details of the Agreement may be found in the announcement of the Company dated 7 September 2009.

Given the continual growth and development of the PRC, steel has been and continues to be a very important industry for the country that would directly benefit from the country's strong growth. As a result of the restructuring described above, the Group will gain the opportunity of participating in Rizhao Steel Base, which will become one of the biggest and more advanced steel manufacturing facilities in the PRC as it is completed in the coming few years. While the Rizhao Steel Base is being constructed, the Group will continue benefiting from the existing businesses of the Enterprises, which continue to demonstrate a strong track record of earnings. The Group is confident that the Enterprises will continue to provide strong contributions and further enhance the value of the Group in the years to come.

Heat Energy Supply

During the six months ended 30 June 2009, the heat energy supply operations generated turnover of approximately HK$104.5 million and segmental profit of approximately HK$16.8 million, as compared with approximately HK$81.1 million and approximately HK$41.9 million of the Preceding Six Month Period. The decrease in segmental profit reflects the increase in amortization costs as the new facilities of the Xiqing Nanhe Project commenced production in December 2008, and that corresponding heating fee revenue for such project was still at a start-up stage during the Period.

The Group is engaged in heat energy supply in the municipality of Tianjin via its subsidiary, Tianjin Heating Development Co., Ltd. ("Tianjin Heating"), which operates three heat energy supply projects, namely the Meijiang Project, the Jinxia Xindu Project and the Xiqing Nanhe Project, all located at the southwest fringe of Tianjin city. As reported in the 2008 annual report of the Company, the aggregate floor area to which Tianjin Heating supplies heat energy for the 2008/2009 heating season (spanning from mid-November to mid-February) was approximately 4.6 million sq.m. With a maximum heat energy supply coverage of over 21 million sq.m. in aggregate and their strategic locations, Tianjin Heating's projects are set to capture the potential heating fee and connection fee income arising from increased heat energy supply coverage fueled by the continued development of Tianjin radiating from the saturated city core to the adjacent areas where Tianjin Heating's projects are located.

Property Investment

During the Period, the Group's commercial properties generated turnover of approximately HK$2.3 million, representing a 2% increase from approximately HK$2.2 million for the Preceding Six Month Period. The turnover has remained stable despite a lower occupancy rate for the Group's offices in Beijing due to increases in rents and strong performance from the Group's parking facilities. The segment has turned around to a segmental gain of approximately HK$2.4 million, as compared with segmental loss of approximately HK$5.4 million for the Preceding Six Month Period.

Affected by the economic climate, occupancy rate of the Group's 35 A-grade commercial offices situated at 33 Deng Shi Kou Main Street, Wangfujing, Dong Cheng District decreased to 89% as at 30 June 2009 (31 December 2008: 94%). However, rental agreements have been renewed at higher rent levels and performance of the two levels of underground parking area has improved during the Period, thereby maintaining a stable turnover for the Beijing properties.

In Shanghai, as a result of recent renovations of the direct access to People's Square subway station enhancing access and the Group's active involvement in improving the operations of the 10,000 sq.m underground shopping plaza, revenues of Shanghai Underground Centre Company Limited ("SUCCL") have increased, reaching approximately HK$24.8 million for the Period (6 months ended 31 December 2008: approximately HK$21.3 million).

Given the recent signs of recovery of the PRC economy, the Group is optimistic that performance improvements will be achievable at the Group's property investments.

Acquisitions and Disposals

On 29 May 2009, the Company completed the acquisition of Fame Risen Development Limited, which was settled by way of issuance of 2 billion shares of the Company to the vendors as consideration. The Acquisition is further described in the "Business Review and Prospects" section above. Save for the above, there was no material acquisition or disposal during the Period.

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 30 June 2009. 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 30 June 2009, the Group did not have any material contingent liabilities (31 December 2008: Nil).

Pledge on the Group's Assets

As at 30 June 2009, the bank borrowings granted to the Group were secured by deposits totaling approximately HK$0.7 million (31 December 2008: HKD6.5 million) and its investment properties with a carrying value of HK$73.5 million (31 December 2008: HK$73.5 million).

Employees and Remuneration

The Group had approximately 164 employees as at 30 June 2009 (31 December 2008: 246). 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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2009.

CORPORATE GOVERNANCE

The Board and management of the Company are committed to maintaining high standards of corporate governance. Continuous efforts are made to review and enhance the Group's internal control policy and procedures in light of local and international developments to instill best practices.

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

The Company had complied with the CG Code throughout the six months ended 30 June 2009 with the following deviation:

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

– A4.2 The Chairman is not, whilst holding such office, subject to retirement by rotation or taken into account in determining the number of Directors to retire in each year in accordance with the Company's Bye-laws. In the opinion of the Board, it is important for the stability and growth of the Company that there is, and is seen to be, continuity of leadership in these roles and, in consequence, the Board is of the view that it should not be subject to retirement by rotation or hold office for a limited term at the present time.

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

AUDIT COMMITTEE

The audit committee currently comprises Messrs. Tam Sun Wing, Ko Ming Tung, Edward and Ng Ge Bun, all of whom are independent non-executive directors with appropriate professional qualifications and experience in financial matters. The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed the internal control and financial reporting matters including a review of the interim results and the unaudited consolidated financial statements for the six months ended 30 June 2009.

REMUNERATION COMMITTEE

The remuneration committee of the Company was established, with specific terms of reference in compliance with the Code as set out in Appendix 14 to the Listing Rules. The remuneration committee is responsible for making recommendations to the Board on the Company's policy and packages of employment for the Directors and senior management. It comprises one executive Director and two independent non-executive Directors of the Company. The present members are Messrs. Hu Yishi, Tam Sun Wing and Ko Ming Tung, Edward.

NOMINATION COMMITTEE

The nomination committee currently consists of one executive Director and two independent non-executive Directors. The present members are Messrs. Yip Kar Hang, Raymond, Ko Ming Tung, Edward and Ng Ge Bun. The nomination committee's terms of reference includes those specific duties as set out in the code provision A.4.5 of the Code in September 2005. Pursuant to its terms of reference, the nomination committee is required, amongst other things, to review the structure, size and composition of the Board and make recommendations for changes as necessary, to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of, individuals nominated for directorships, to assess the independence of independent non-executive Directors, and to make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors in particular the chairman and the chief executive officer.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its code of conduct regarding securities transactions by the Directors. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2009.

PUBLICATION OF DETAILED RESULTS ANNOUNCEMENT ON COMPANY WEBSITE

All information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules will be published on our website at http://www.kaiyuanholdings.com in due course.

BOARD OF DIRECTORS

On 7 January 2009, Mr. Xue Jian, aged 43, was appointed as a non-executive Director of the Company.

As at the date of this announcement, the Board comprises 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), 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, 16 September 2009