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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 YEAR ENDED 31 DECEMBER 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 consolidated results of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2009 together with comparative figures for the six-months period from 1 July 2008 to 31 December 2008 as follows:

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2009

(Prepared in accordance with HKFRSs)

	Notes	For the twelve months ended 31 December 2009 HK$'000	For the six months ended 31 December 2008 HK$'000
REVENUE	4	**200,793**	83,300
Cost of sales		**(126,264)**	(44,241)
Gross profit		**74,529**	39,059
Excess over cost of acquisition	12	**1,626,284**	–
Other income and gains	5	**7,640**	25,008
Other expenses	6	**(408,736)**	–
Fair value loss on investment properties		**(10,100)**	(6,527)
Administrative expenses		**(115,660)**	(34,027)
Finance costs	7	**(18,540)**	(2,822)
Share of profits and losses of:			
A jointly-controlled entity		**(2,640)**	(2,935)
Associates		**567,055**	67
PROFIT BEFORE TAX	8	**1,719,832**	17,823
Income tax credit/(expense)	9	**24,411**	(11,769)
PROFIT FOR THE YEAR/PERIOD		**1,744,243**	6,054
Attributable to:			
Owners of the Company		**1,857,758**	(15,755)
Minority interests		**(113,515)**	21,809
		1,744,243	6,054
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	10		
Basic			
– For profit/(loss) for the year/period		**HK$22 cents**	HK$(0.22) cents
Diluted			
– For profit/(loss) for the year/period		**HK$21 cents**	HK$(0.22) cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2009
(Prepared in accordance with HKFRSs)

	Note	**For the twelve months ended 31 December 2009** *HK$'000*	For the six months ended 31 December 2008 *HK$'000*
PROFIT FOR THE YEAR/PERIOD		**1,744,243**	6,054
Share of other comprehensive income of associates		**12,239**	–
Exchange differences on translation of foreign operations		**3,714**	(46)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR/PERIOD, NET OF TAX		**15,953**	(46)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD		**1,760,196**	6,008
Attributable to:			
Owners of the Company		**1,873,711**	(15,801)
Minority interests		**(113,515)**	21,809
		1,760,196	6,008

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2009
(Prepared in accordance with HKFRSs)

	Notes	**2009** ***HK$'000***	2008 *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**577,062**	579,180
Investment properties		**91,473**	101,573
Prepaid land lease payments		**46,371**	49,621
Goodwill		**10,757**	49,105
Intangible assets		**109,717**	375,470
Interest in a jointly-controlled entity		**120,414**	138,265
Interests in associates	*11*	**2,753,197**	1,047
Available-for-sale investments		**5,225**	4,461
Total non-current assets		**3,714,216**	1,298,722
CURRENT ASSETS			
Inventories		**4,390**	9,079
Trade receivables	*13*	**9,644**	67,407
Other receivables and prepayments		**18,788**	28,639
Prepaid land lease payment		**2,951**	2,919
Amounts due from associates		**450,955**	174,983
Amounts due from related companies		**283,865**	396,571
Dividend receivable from a jointly-controlled entity		**56,035**	50,935
Pledged bank deposits		**711**	6,500
Cash and cash equivalents		**305,219**	32,088
Total current assets		**1,132,558**	769,121
Total assets		**4,846,774**	2,067,843
CURRENT LIABILITIES			
Trade payables	*14*	**35,212**	44,337
Other payables and accurals		**58,449**	41,172
Dividend payable to former shareholders of a subsidiary		**416,955**	–
Receipt in advance		**61,605**	48,066
Amounts due to associates		**–**	30,026
Amounts due to related companies		**53,403**	55,301
Loan from a director		**–**	20,230
Deferred revenue		**–**	667
Obligations under finance leases		**45**	45
Interest-bearing bank and other borrowings		**64,465**	81,218
Loan from a related company		**101,566**	205,664
Income tax payable		**36,874**	36,659
Total current liabilities		**828,574**	563,385
NET CURRENT ASSETS		**303,984**	205,736
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,018,200**	1,504,458

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
AS AT 31 DECEMBER 2009
(Prepared in accordance with HKFRSs)

	Notes	**2009** **HK$'000**	2008 *HK$'000*
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,018,200**	1,504,458
NON-CURRENT LIABILITIES			
Convertible notes		**206,630**	–
Obligations under finance leases		**56**	92
Deferred revenue		**–**	9,147
Interest-bearing bank and other borrowings		**25,578**	31,681
Loan from a related company		**–**	155,151
Deferred tax liabilities		**178,937**	177,963
Total non-current liabilities		**411,201**	374,034
Net assets		**3,606,999**	1,130,424
EQUITY			
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Issued capital		**942,733**	711,761
Equity component of convertible notes		**109,072**	–
Reserves		**2,143,949**	(106,097)
		3,195,754	605,664
Minority interests		**411,245**	524,760
Total equity		**3,606,999**	1,130,424

NOTES

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 HM12, Bermuda, and the principal place of business is 28th floor, Chinachem Century Tower, 178 Glousester Road, Wanchai, Hong Kong.

The principal activity of the Company is investment holding, including material investments in associates engaged in the steel and the steel products manufacturing and trading, as detailed on note 11. Its subsidiaries are principally engaged in supply of heat and property investment.

2.1 BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) 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. The consolidated financial statements have been prepared under the historical cost convention, except for investment properties and derivative financial instruments, which have been measured at fair value, as explained in the accounting policies set out below.

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 its financial year end 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 date on 31 December. The consolidated financial statements for the current year cover the twelve months ended 31 December 2009. The corresponding comparative amounts shown for the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows and related notes to the consolidated financial statements cover the six months' period ended 31 December 2008 and therefore may not be comparable with the amounts shown for the current year. The consolidated financial statements do not correspond to the period covered by the comparatives.

The functional currency of the Company is Renminbi ("RMB"). The consolidated financial statements are presented in Hong Kong dollars for the convenience of users of the financial statements as the Company is a listed company in Hong Kong and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2009. The results of subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 *First-time Adoption of HKFRSs* and HKAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments*
HKFRS 8	*Operating Segments*
HKAS 1 (Revised)	*Presentation of Financial Statements*
HKAS 18 Amendment*	Amendment to Appendix to HKAS 18 *Revenue – Determining whether an entity is acting as a principal or as an agent*
HKAS 23 (Revised)	*Borrowing Costs*
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation* and HKAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*
HK(IFRIC)-lnt 9 and HKAS 39 Amendments	Amendments to HK(IFRIC)-lnt 9 *Reassessment of Embedded Derivatives* and HKAS 39 *Financial Instruments: Recognition and Measurement – Embedded Derivatives*
HK(IFRIC)-lnt 15	*Agreements for the Construction of Real Estate*
HK(IFRIC)-lnt 16	*Hedges of a Net Investment in a Foreign Operation*
HK(IFRIC)-Int 18	*Transfers of Assets from Customers* (adopted from 1 July 2009)
Improvements to HKFRSs (October 2008) **	Amendments to a number of HKFRSs

* Included in *Improvements* to HKFRSs 2009 (as issued in May 2009).

** The Group adopted all the improvements to HKFRSs issued in October 2008 except for the amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary*, which are effective for annual periods beginning on or after 1 July 2009.

Other than as further explained below regarding the impact of HKAS 1 (Revised), HKFRS 7 Amendments and HKFRS 8, the adoption of these new and revised HKFRSs has had no significant financial effect on these financial statements.

HKAS 1 (Revised) separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group has elected to present two statements.

The HKFRS 7 Amendments require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by sources of inputs using a three-level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balances is now required for level 3 fair value measurements, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management.

HKFRS 8 replaced HKAS 14 *Segment Reporting* upon its effective date. This standard requires disclosure of information about the Group's operating segments and replaces the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group. The Group concluded that the operating segments determined in HKFRS 8 are the same as the business segments previously identified under HKAS 14. HKFRS 8 disclosures are shown in note 4, including the related revised comparative information.

2.3 ISSUED BUT NOT YET EFFECTIVE HKFRSs

The Group has not applied the following new and revised HKFRSs that have been issued but are not yet effective in these consolidated financial statements.

HKFRS 1 (Revised)	*First-time Adoption of HKFRSs*[1]
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of HKFRSs- Additional Exemptions for First-time Adopters*[2].
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Group Cash-settled Share based Payment Transactions*[2]
HKFRS 3 (Revised)	*Business Combinations*[1]
HKFRS 9	*Financial Instruments*[6]
HKAS 24 (Revised)	*Related Party Disclosures*[5]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*[1]
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*[3]
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*[1]
HK(IFRIC)-lnt 14	Amendments to HK(IFRIC)-Int 14 *Prepayments to a Minimum Funding Requirements*
HK(IFRIC)-lnt 17	*Distribution of Non-cash Assets to Owners*[1]
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*[4]
Amendments to HKFRS 5 included in *Improvements to HKFRSs* issued in October 2008	Amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary*[1]
HK Interpretation 4 (Revised in December 2009)	*Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases*[2]

1 Effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 January 2010
3 Effective for annual periods beginning on or after 1 February 2010
4 Effective for annual periods beginning on or after 1 July 2010
5 Effective for annual periods beginning on or after 1 January 2011
6 Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that except for the adoption of HKFRS 3 (Revised), HKFRS 9, HKAS 24 (Revised) and HKAS 27 (Revised) as further explained below, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

HKFRS 3 (Revised) introduces significant changes in the accounting for business combinations. The changes affect the valuation of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 Financial Instruments: Recognition and Measurement. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

HKAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. The Group expects to adopt HKAS 24 (Revised) from 1 January 2011 and the comparative related party disclosures will be amended accordingly.

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary.

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has three reportable operating segments as follows:

(a) the heat energy supply segment is engaged in the production and heat energy supply, installation, engineering and maintenance of heating systems and management of heating pipes, covering a vast area of heat energy supply within the municipality of Tianjin;

(b) the property investment segment invests in commercial offices, underground parking area and underground shopping plaza located in Beijing and Shanghai for their rental income potential; and

(c) the steel manufacturing and trading investment segment holds significant interests in three associates located in Shandong Province, engaged in steel and steel product manufacturing and trading.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit/(loss) before tax from continuing operations except that interest income, finance costs, dividend income, fair value gains/(losses) from the Group's financial instruments, the Group's share of profits/(losses) of a jointly controlled entity and associates as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude deferred tax assets, tax recoverable, pledged deposits, cash and cash equivalents, derivative financial instruments and other unallocated head office and corporate assets as these assets are managed on a group basis.

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

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

2009	Heat energy supply *HK$'000*	Property investment *HK$'000*	Steel manufacturing and trading investment *HK$'000*	Total *HK$'000*
Segment revenue				
Sales to external customers	**196,181**	**4,612**	**–**	**200,793**
Revenue	**–**	**–**	**–**	**200,793**
Segment results	**(292,512)**	**(6,952)**	**567,055**	**267,591**
Reconciliation:				
Share of losses of a jointly-controlled entity				**(2,640)**
Interest income				**1,755**
Excess over cost of acquisition				**1,626,284**
Corporate and other unallocated expenses				**(154,618)**
Finance costs				**(18,540)**
Profit before tax				**1,719,832**
Segment assets	**1,094,809**	**268,006**	**3,192,840**	**4,555,655**
Reconciliation:				
Corporate and other unallocated assets				**291,119**
Total assets				**4,846,774**
Segment liabilities	**340,749**	**848**	**416,955**	**758,552**
Reconciliation:				
Corporate and other unallocated liabilities				**481,223**
Total liabilities				**1,239,775**

2009	Heat energy supply *HK$'000*	Property investment *HK$'000*	Steel manufacturing and trading investment *HK$'000*	Corporate and unallocated *HK$'000*	Total *HK$'000*
Other segment information					
Share of profits and losses of:					
A jointly-controlled entity	**–**	**(2,640)**	**–**	**–**	**(2,640)**
Associates	**–**	**–**	**567,055**	**–**	**567,055**
Fair value loss on investment properties	**–**	**(10,100)**	**–**	**–**	**(10,100)**
Impairment losses recognised in the income statement	**(318,736)**	**–**	**–**	**–**	**(318,736)**
Depreciation and amortisation	**(43,678)**	**(38)**	**–**	**(1,360)**	**(45,076)**
Interests in associates	**283**	**–**	**2,752,914**	**–**	**2,753,197**
Interests in a jointly-controlled entity	**–**	**120,414**	**–**	**–**	**120,414**
Capital expenditure (i)	**53,550**	**–**	**–**	**5,803**	**59,353**

(i) Capital expenditure consists of additions to property, plant and equipment.

For the six months ended 31 December 2008	Heat energy supply *HK$'000*	Property investment *HK$'000*	Total *HK$'000*
Segment revenue			
Sales to external customers	81,070	2,230	83,300
Revenue			83,300
Segment results	32,542	(6,258)	26,284
Reconciliation:			
Share of losses of a jointly-controlled entity			(2,935)
Share of profit of associates			67
Interest income			11,807
Corporate and other unallocated expenses			(14,578)
Finance costs			(2,822)
Profit before tax			17,823
Segment assets	1,323,192	292,809	1,616,001
Reconciliation:			
Corporate and other unallocated assets			451,842
Total assets			2,067,843
Segment liabilities	275,896	2,479	278,375
Reconciliation:			
Corporate and other unallocated liabilities			659,044
Total liabilities			937,419

2008	Heat energy supply *HK$'000*	Property investment *HK$'000*	Corporate and unallocated *HK$'000*	Total *HK$'000*
Other segment information				
Share of profits and losses of:				
A jointly-controlled entity	–	(2,935)	–	(2,935)
Associates	67	–	–	67
Fair value loss on investment properties	–	(6,527)	–	(6,527)
Depreciation and amortisation	(21,093)	(210)	(348)	(21,651)
Interests in associates	1,047	–	–	1,047
Interests in a jointly-controlled entity	–	–	138,265	138,265
Capital expenditure	100,845	–	10	100,855

Geographical information

(a) Revenue from external customers

	For the twelve months ended 31 December 2009 *HK$'000*	For the six months ended 31 December 2008 *HK$'000*
Hong Kong	**278**	167
Mainland China	**200,515**	83,133
	200,793	83,300

The revenue information above is based on the location of the customers.

(b) Non-current assets

	For the twelve months ended 31 December 2009 *HK$'000*	For the six months ended 31 December 2008 *HK$'000*
Hong Kong	**5,425**	958
Mainland China	**3,708,791**	1,297,764
	3,714,216	1,298,722

The non-current asset information above is based on the location of assets and excludes financial instruments and deferred tax assets.

Information about major customers

Revenue of the heat energy supply segment of approximately HK$52,091,000 (2008: HK$44,933,000) was derived from service fee income from a single customer.

4. REVENUE

Revenue represents the value of heat energy supply income, heat energy supply facilities connection fee, other service fee and rental income from investment property during the year/period. An analysis for the Group's revenue is as follows:

	For the twelve months ended 31 December 2009 *HK$'000*	For the six months ended 31 December 2008 *HK$'000*
Heat energy supply	**105,501**	34,566
Heat energy supply facilities connection fee	**38,589**	1,571
Other service fee (i)	**52,091**	44,933
Property rental	**4,612**	2,230
	200,793	83,300

(i) 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, the subsidiary would grant its operating right related to connecting pipelines for its customers to the main pipelines of the subsidiary. The subsidiary will supply heat energy to the relevant customers thereafter.

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

5. OTHER INCOME AND GAINS

	For the twelve months ended 31 December 2009 *HK$'000*	For the six months ended 31 December 2008 *HK$'000*
Other income		
Interest income on bank deposits	**1,755**	122
Interest income on an amount due from a related company	**–**	11,685
	1,755	11,807
Gains		
Government grants on Value Added Tax ("VAT") refund	**4,402**	3,810
Government grants on heat energy supply	**1,483**	1,793
Foreign exchange gain	**–**	5,789
Others	**–**	1,809
	7,640	25,008

6. OTHER EXPENSES

	For the twelve months ended 31 December 2009 *HK$'000*	For the six months ended 31 December 2008 *HK$'000*
Fair value loss on derivative financial instruments	**90,000**	–
Impairment of property, plant and equipment	**38,614**	–
Impairment of intangible assets	**241,774**	–
Goodwill impairment	**38,348**	–
	408,736	–

7. FINANCIAL COSTS

	For the twelve months ended 31 December 2009 *HK$'000*	For the six months ended 31 December 2008 *HK$'000*
Interest on bank borrowings		
– wholly repayable within five years	**6,765**	2,214
– not wholly repayable within five years	**–**	264
Interest on convertible notes	**11,764**	–
Interest on other borrowings	**385**	344
Interest on a loan from a related company	**27,548**	13,139
	46,462	15,961
Less: amounts capitalised in construction in progress	**(27,922)**	(13,139)
	18,540	2,822

8. PROFIT BEFORE TAX

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

	For the twelve months ended 31 December 2009	For the six months ended 31 December 2008
	HK$'000	*HK$'000*
Cost of service provided	**126,264**	44,241
Changes in fair value of investment properties	**10,100**	6,527
Depreciation of property, plant and equipment	**21,097**	8,431
Amortisation of intangible assets	**23,979**	11,995
Impairment of property, plant and equipment	**38,614**	–
Impairment of intangible assets	**241,774**	–
Impairment of goodwill	**38,348**	–
Foreign exchange gain	**–**	(5,789)
Auditor's remuneration	**2,425**	1,138
Interest income	**(1,755)**	(11,807)
Excess over cost of acquisition	**(1,626,284)**	–
Employee benefits expense (including directors' remuneration)	**43,798**	11,250

9. INCOME TAX (CREDIT)/EXPENSE

The major components of income tax (credit)/expense for the year ended 31 December 2009 and for the six months ended 31 December 2008 are as follows:

	For the twelve months ended 31 December 2009	For the six months ended 31 December 2008
	HK$'000	*HK$'000*
Current income tax		
Hong Kong income tax	**–**	–
PRC income tax	**667**	14,792
	667	14,792
Deferred income tax	**(25,078)**	(3,023)
Income tax (credit)/charge for the year/period	**(24,411)**	11,769

Hong Kong profits tax should be provided at the rate of 16.5% (for the six months period ended 31 December 2008: 16.5%) of the estimated assessable profit arising in Hong Kong during the year/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.

The provision for PRC current income tax is based on the statutory rate of 25% (for the six months ended 31 December 2008: 25%) of the assessable profits of the Group's subsidiaries in Miainland 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.

A reconciliation of the tax expense applicable to profit before tax using the statutory rate for the jurisdiction in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rate for the year ended 31 December 2009 and for the six months ended 31 December 2008, are as follows:

2009	**Mainland China**		**Hong Kong**		**Others**		**Total**	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Profit/(loss) before tax	**(254,416)**		**545,964**		**1,428,284**		**1,719,832**	
Tax at the statutory income tax rate	**(63,604)**	**25.0**	**90,084**	**16.5**	**–**	**–**	**26,480**	**1.5**
Expenses not deductible for tax	**4,567**	**(1.8)**	**936**	**0.2**	**–**	**–**	**5,503**	**0.3**
Income not subject to tax	**(461)**	**0.2**	**(93,563)**	**(17.1)**	**–**	**–**	**(94,024)**	**(5.5)**
Tax losses not recognized	**7,087**	**(2.8)**	**2,543**	**0.5**	**–**	**–**	**9,630**	**0.6**
Effect of withholding tax at 5% on the distributable profits of the Group's PRC associates	**–**	**–**	**28,353**	**5.2**	**–**	**–**	**28,353**	**1.6**
Effect of tax losses utilised from previous periods	**(353)**	**0.1**	**–**	**–**	**–**	**–**	**(353)**	**(0.0)**
Tax (credit)/charge at Group's effective rate	**(52,764)**	**20.7**	**28,353**	**5.2**	**–**	**–**	**(24,411)**	**(1.5)**

For the six months period ended 31 December 2008	**Mainland China**		**Hong Kong**		**Others**		**Total**	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Profit/(loss) before tax	32,264		(5,933)		(8,508)		17,823	
Tax at the statutory income tax rate	8,066	25.0	(979)	16.5	–	–	7,087	39.8
Expenses not deductible for tax	1,805	5.6	446	(7.5)	–	–	2,251	12.6
Income not subject to tax	(467)	(1.4)	(4)	0.1	–	–	(471)	(2.6)
Tax losses not recognised	1,873	5.8	504	(8.5)	–	–	2,377	13.3
Effect of withholding tax at 5% on the distributable profits of the Group's PRC associates	–	–	717	(12.1)	–	–	717	4.0
Effect of tax losses utilised from previous periods	–	–	33	(0.6)	–	–	33	0.2
Others	(225)	(0.7)	–	–	–	–	(225)	(1.3)
Tax (credit)/charge at Group's effective rate	11,052	34.3	717	(12.1)	–	–	11,769	66.0

10. 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 profit/(loss) for the year/period attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 8,420,980,000 (2008: 7,117,613,000) in issue during the year/period.

The calculation of the diluted earnings/(loss) per share amount is based on the profit/(loss) for the year/period attributable to ordinary equity holders of the Company, adjusted to reflect the interest on the convertible notes. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year/period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

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

	For the twelve months ended 31 December 2009	For the six months ended 31 December 2008
Earnings (HK$'000)		
Profit/(loss) attributable to ordinary equity holders of the Company (HK$'000)	**1,857,758**	(15,755)
Interest on convertible notes	**11,764**	–
Profit attributable to ordinary equity holders of the Company before interest on convertible notes	**1,869,522**	(15,755)
Number of shares ('000)		
Weighted average number of ordinary shares in issue during the year/period used in the basic earnings/(loss) per share calculation	**8,420,980**	7,117,613
Effect of dilution – weighted average number of ordinary shares:		
Share options	**59,622**	–
Convertible notes	**541,667**	–
Weight average number of ordinary shares in issue during the year/period used in the diluted earnings/(loss) per share calculation	**9,022,269**	7,117,613
– Basis	**HK$22 cents**	HK$(0.22) cents
– Diluted	**HK$21 cents**	HK$(0.22) cents

The effect of share options is not included in the calculation of diluted loss per share for the six months period ended 31 December 2008 as the effect of the share options is anti-dilutive.

11. INTERESTS IN ASSOCIATES

	2009 *HK$'000*	2008 *HK$'000*
Share of net assets		
– Unlisted investment, at cost	**2,171,003**	980
– Share of post-acquisiton changes in net assets	**582,194**	67
	2,753,197	1,047

Particulars of the associates are as follows:

Name	**Legal form of business**	**Place of incorporation**	**Registered capital**	**Proportion of ownership interest attributable to the Group**		**Principal activities**
				Directly	**Indirectly**	
天津市梅江供熱運行管理有限公司 Tianjin Meijiang Heat Supply Operating Management Company Limited (i)	Limited enterprise	The PRC	RMB2,000,000	–	40%	Sale of heating materials
日照鋼鐵有限公司 Rizhao Steel Co., Limited	Limited enterprise	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	Limited enterprise	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	Limited enterprise	The PRC	RMB80,000,000	–	25%	Manufacturing and trading of steel products

(i) Not audited by Ernst & Young Hong Kong or any other member firms of the Ernst & Young global network

In January 2009, the Group's equity interest in 天津津濱供熱有限公司 (Tianjin Jinbin Heat Supply Company Limited ("Jinbin")), was diluted from 40% to 4% due to the additional capital injection by the other investors of Jinbin. Accordingly, the Group's investment in Jinbin was classified as an available-for-sale investment at 31 December 2009.

The following table illustrates the summarised financial information of the Group's associates extracted from their financial statements with adjustments made to bring their accountings policies in line with those of the Group:

	2009	2008
	HK$'000	*HK$'000*
Revenue	**46,138,779**	85
Profit	**2,424,297**	166
Total assets	**43,638,160**	244,809
Total liabilities	**33,866,005**	242,192

On 11 June 2009, the Ministry of Environmental Protection of the People's Republic of China issued a notice to suspend the review and approval of environmental impact evaluation for steel manufacturing industry in Shandong province, in which the three associates of the Group (i.e. Rizhao Steel Co., Limited, Rizhao Medium Section Mill Co., Limited and Rizhao Steel Wire Co., Limted, collectively as the "Three Associates") are located. As set out in the notice, the construction of some of the property, plant and equipment of the Three Associates were asked to be halted. Since the relevant property, plant and equipment have already been put into use before the issuance of the above mentioned notice, the management of the associates is in communication with the governmental authority in response to its notice. The Three Associates have entered into a restructuring agreement thereafter, details of which are disclosed in the management discussion and analysis.

12. ACQUISITION OF SUBSIDIARIES

Acquisition of Tianjin Heating Development Company Limited

On 30 June 2008, the Group completed the acquisition of 49% interest in Tianjin Heating Development Company Limited (天津市供熱發展有限公司, "Tianjin Heating"), a company established in the PRC, and its subsidiaries (collectively known as the "Tianjin Heating Group") at a total cash consideration of HK$300,000,000 plus incidental expenses of HK$9,177,000. The principal activities of Tianjin Heating Group are heat energy supply and the provision of related services.

On the same date, the Group executed an entrustment agreement with a 5% shareholder of the Tianjin Heating Group. According to the terms of the entrustment agreement, the 5% shareholder will grant the Group the right to exercise all powers as shareholders of such 5% equity interests, including all rights and power of the shareholder under the Tianjin Heating Group's articles of association (save for the right to dividend and other payments) (the "Entrustment Agreement").

Upon the completion of the acquisition and the execution of the Entrustment Agreement, the Group is entitled to appoint up to six out of nine directors to the board of directors of the Tianjin Heating Group. Accordingly, the Group obtained control over the Tianjin Heating Group and the acquisition has been accounted for using the purchase method of accounting.

The Group further evaluated and completed the initial accounting for the business combination of Tianjin Heating Group within 12 months from 30 June 2008, the acquisition date, in 2009. Upon the completion of the initial accounting, adjustments were made to decrease deferred revenue by HK$32,417,000 and increase deferred tax liabilities in relation to the adjustment on the deferred revenue by HK$107,643,000, and as a result, there were a corresponding increase in goodwill by HK$19,670,000, and a decrease in minority interests by HK$55,555,000. The comparative information is restated to reflect the adjustments as if the initial accounting had been completed on the acquisition date.

The financial position previously reported by the Group as at 31 December 2008 has been restated as set out below.

	The Group (as previously reported) *HK$'000*	**Adjustments** *HK$'000*	**The Group (as restated)** *HK$'000*
Financial position:			
Non-current assets	1,279,052	19,670	1,298,722
– Goodwill	29,435	19,670	49,105
Current liabilities	568,629	(5,244)	563,385
– Deferred revenue	5,911	(5,244)	667
Non-current liabilities	293,565	80,469	374,034
– Deferred revenue	36,321	(27,174)	9,147
– Deferred tax liabilities	70,320	107,643	177,963
Equity	1,185,979	(55,555)	1,130,424
– Minority interests	580,315	(55,555)	524,760

Acquisition of Fame Risen Development Limited

On 29 May 2009, the Group completed the acquisition of a 100% interest in Fame Risen Development Limited ("Fame Risen") at a total cost of approximately HK$540,987,000 (inclusive of directly attributable costs of approximately HK$10,987,000), which was settled by the allotment and issue of 2,000,000,000 ordinary shares of the Company (the "Acquisition"). The fair value of the shares issued for the acquisition of Fame Risen amounted to approximately HK$530,000,000, which is determined using the published prices available at the date of the Acquisition of HK$0.265 per share. Upon the completion of the Acquisition, Fame Risen is an investment holding company holding equity interests in three associates

(Note 11), which has been accounted for using the purchase method of accounting for the Acquisition. Details of the assets acquired and liabilities assumed in respect of the Acquisition are summarised below:

	Acquiree's carrying amount before acquisition	**Fair value**
	HK$'000	*HK$'000*
Assets acquired and liabilities assumed:		
Share of the identifiable net assets of the associates	565,401	2,170,720
Receivables for the pre-acquisition dividend from associates	3,082,753	3,082,753
Dividend payable to the former shareholders of a subsidiary	(3,007,259)	(3,007,259)
Deferred tax liabilities	(78,943)	(78,943)
	561,952	2,167,271
Total consideration satisfied by:		
Issuance of shares of the Company		530,000
Directly attributable costs		10,987
		540,987
Excess over cost of acquisition		1,626,284
Net cash outflow arising on acquisition		(10,987)

The Group's share of the fair value of the associates' identifiable assets and liabilities is determined based on valuation carried out by independent valuers. The Group will continue evaluating the initial accounting for the acquisition of Fame Risen within the 12 months from 29 May 2009, the acquisition date. Details of the Acquisition are set out in the circular of the Company dated 27 April 2009.

13. TRADE RECEIVABLES

	2009	2008
	HK$'000	*HK$'000*
Trade receivables	**9,644**	67,407

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally one month, extending up to three months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by the directors of the Company. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

An aged analysis of trade receivable is stated as follows:

	2009 *HK$'000*	2008 *HK$'000*
Within 1 month	**12**	67,407
1 to 3 months	**–**	–
Over 3 months	**9,632**	–
	9,644	67,407

Trade receivables at the end of the reporting period mainly comprise receivables of other fee income.

No impairment allowance is necessary in respect of trade receivable because there were no trade receivable past due at 31 December 2009 and 2008.

14. TRADE PAYABLES

	2009 *HK$'000*	2008 *HK$'000*
Trade payables	**35,212**	44,337

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

The carrying amount of trade payables approximates to their fair value.

An aged analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2009 *HK$'000*	2008 *HK$'000*
Within 1 month	**9,601**	28,645
1 to 3 months	**312**	853
Over 3 months	**25,299**	14,839
	35,212	44,337

15. POST BALANCE SHEET EVENTS

Subsequent to the end of the reporting period, on 29 January 2010, a total of 220,000,000 share options were granted to certain of the directors and employees of the Company in respect of their services to the Group in the forthcoming year. These share options have an exercise price of HK$0.35 per share and an exercise period ranging from 29 January 2010 to 16 April 2012. The price of the Company's shares at the date of grant was HK$0.35 per share.

FINAL DIVIDEND

The Board does not recommend the payment of final dividend for the year ended 31 December 2009 (six months ended 31 December 2008: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the year ended 31 December 2009 (the "Year"), profit of the Group has increased significantly to approximately HK$1,744.2 million, as compared with approximately HK$6.0 million for the six months ended 31 December 2008 (the "2008 Six-Month Period"). The increase is largely attributable to i) share of profits of the Group's associates engaged in steel and steel product manufacturing of approximately HK$567.1 million for the period after the completion of the acquisition of Fame Risen Development Limited ("Fame Risen") on 29 May 2009; and ii) approximately HK$1,626.3 million arising from the excess over cost on acquisition of Fame Risen. 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 owners of the Company for the Year amounted to HK$1,857.8 million after excluding minority interests, as compared with a loss of approximately HK$15.8 million for the 2008 Six-Month Period, translating into basic earnings per share of HK$0.22.

Turnover for the Year amounted to approximately HK$200.8 million (Preceding Six-Month Period: HK$ 83.3 million). The increase in average monthly turnover is largely due to an increase in turnover for the Group's heat energy supply operations.

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

Steel Manufacturing and Trading Investment

The Group completed the acquisition (the "Acquisition") of Fame Risen on 29 May 2009, which in turn holds 25%–30% interests in three steel-making enterprises (the "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 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.

The results and asset base of the Group has been greatly strengthened through the Acquisition. As the Enterprises began contributing to the Group's results after completion of the Acquisition on 29 May 2009, investment income of associates of HK$567.1 million was recorded during the Year. Furthermore, the excess over cost on acquisition of Fame Risen has resulted in a further contribution of approximately HK$1,626.3 million to the Group's profit for the Year.

As of 31 December 2009, Rizhao Steel, Rizhao Medium and Rizhao Wire respectively had designed production capacity of approximately 12.6, 1.5 and 10 million tonnes per year. Demand for the Enterprises' products was strong throughout the year and production output for the Year reached approximately 12.3, 1.3 and 10.5 million tonnes respectively. 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. As steel market and prices have stabilized from the difficult conditions in late 2008 and had started to show trends of recovery throughout the Year, the Enterprises were able to capitalize on their strengths and continued to generate healthy profits during the Year.

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. Procedures leading to the transactions described in the Agreement are being undertaken and completion of the said transactions has yet to take place. Further details of the Agreement may be found in the announcement of the Company dated 7 September 2009.

Heat Energy Supply

The Group's heat energy supply subsidiaries in Tianjin ("Tianjin Heating") 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. The aggregate floor area to which Tianjin Heating supplies heat energy for the 2009/2010 heating season (spanning from mid-November to mid-March) was approximately 5.1 million sq.m, representing an increase of 9.5% from the 2008/2009 heating season (4.6 million sq.m.). The growth have resulted from the continued residential development in south-western Tianjin.

During the Year, the heat energy supply operations of the Group generated turnover of approximately HK$196.2 million and segmental loss of approximately HK$292.5 million, as compared with approximately HK$81.1 million and segmental profit of approximately HK$32.6 million of the 2008 Six-month Period. The increase in revenue is due to the respective increases in residential and non-residential heating fees from RMB20 and RMB26 to RMB 25 and RMB36 per square metre which took effect for the 2008/2009 heating season and the abovementioned increase in floor area to which heat energy is supplied leading to increased heat supply revenue and connection fees recognized. The segmental loss was largely due to the impairment provision for the intangible assets and certain obsolete plant and equipments and goodwill amounting to approximately HK$318.7 million in aggregate. If the impairment provision is excluded, the segment would have recorded a profit approximately HK$26.2 million.

Property Investment

During the Year, the Group's commercial properties generated turnover of approximately HK$4.6 million, as compared with approximately HK$2.2 million for the 2008 Six-month Period. Due to a healthy performance from the Group's parking facilities, the average monthly turnover has remained stable despite a lower occupancy rate for the Group's offices in Beijing. The segment recorded a segmental loss of approximately HK$6.9 million for the year, as compared with segmental loss of approximately HK$6.3 million for the 2008 Six-month Period. The segmental loss for the Year was largely due to fair value loss relating to the properties. 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 31 December 2009 (31.12.2008: 94%). However, certain rental agreements have been renewed and performance of the two levels of underground parking area has improved during the Year, 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$57.0 million for the Year (six months ended 31.12.2008: approximately HK$24.8 million). During the year, largely due to impairment provision for certain receivables, the Group shared a loss of approximately HK$2.6 from SUCCL.

PROSPECTS

Steel Manufacturing and Trading Investment

Steel is a necessity for a country's development, particularly for a rapidly growing economy like the PRC. Through the country's continuous reform of this very important industry, top tier and efficient steel making companies such as the Enterprises are well positioned to directly benefit from the country's relentless growth. Furthermore, through the restructuring with Shandong Steel Group Co., Limited described in the Business Review above, the Group will have the opportunity of participating in the large-scale and advanced 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. As it is being constructed, the existing businesses of the Enterprises will continue to contribute profits to the Group. Given their strong track record of earnings, the Group is confident that the Enterprises will continue to yield strong contributions and further enhance the value and results of the Group in the years to come.

Heat Energy Supply

With over 21 million sq.m. of maximum aggregate heat energy supply coverage and strategic locations in booming areas of Tianjin, Tianjin Heating's projects are set to capture the potential heating fee and connection fee income as Tianjin's urban development radiates from the saturated city core to the adjacent areas where Tianjin Heating's projects are located. As such, it is expected that Tianjin Heating shall continue to generate a stable revenue stream. However, as prices cannot be set by heat energy suppliers while costs of operation may escalate with inflation, operating environment in this utility industry may become challenging in the future.

Property Investment

The PRC property market continued its bullish trend during the recent months. Given the robust real estate market and general economy of the PRC, the Group is confident that its property investments in Beijing and Shanghai will continue to provide stable rental returns for the Group. However, the Group shall review the combination of assets in its non-core property investment portfolio from time to time in order to capture market opportunities and maximise returns.

Looking ahead

Subsequent to the acquisition of Fame Risen, the steel manufacturing and trading investment segment accounts for the largest portion of the Group's assets and results. The Group is confident that the steel industry in China shall continue to prosper as the country continues its relentless development. As such, the Group shall seek opportunities in related businesses with the aim of enhancing synergies amongst its portfolio and maximizing value for all stakeholders.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2009, total assets of the Group was approximately HK$4,846.7 million, representing a substantial increase of 134.4% over that of 31 December 2008 (HK$2,067.8 million). The increase mainly arose from the completion of the acquisition of Fame Risen in May 2009. 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 219.1% to HK$3,607.0 million as compared with approximately HK$1,130.4 million as of 31 December 2008. During the Year, the following fund raising activities were undertaken by the Group: i) Issuance of 2,000,000,000 shares of the Company ("Shares") to the vendors as consideration for the acquisition of Fame Risen; ii) issuance of convertible notes with principal amount of HK$265,500,000 on 2 July 2009 pursuant to a subscription agreement dated 26 May 2008 and approved at a special general meeting on 3 July 2008 (of which convertible notes of HK$35,400,000 in principal amount had been converted into 200,000,000 Shares on 7 August 2009); and iii) issuance of 109,720,000 Shares pursuant to the Group's share option scheme. Cash and bank balance and pledged bank deposits of the Group as at 31 December 2009 totaled approximately HK$305.9 million (31.12.2008: HK$38.6 million), representing an increase of 692.5%. Current assets increased by 47.3% to approximately HK$1,132.6 million during the Year (31.12.2008: HK$769.1 million). As at 31 December 2009, the Group's outstanding bank and other borrowings amounted to approximately HK$90.0 million (31.12.2008: HK$112.9 million), approximately HK$64.5 million of which was due within one year. Net current assets as at 31 December 2009 was approximately HK$304.0 million. (31.12.2008: HK$205.7 million), representing an increase of 47.8%. 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 4.0% as at 31 December 2009, versus 23.9% as at 31 December 2008.

Acquisitions and Disposals

On 29 May 2009, the Company completed the acquisition of Fame Risen Development Limited by way of issuance of 2,000,000,000 Shares to the vendors as consideration. Details of the acquisition has been described in the "Business Review and Prospects" section. Save for the above, there was no material acquisition or disposal during the year.

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, as the Group's head office operating expenses are incurred in Hong Kong dollars. Furthermore, a small portion of the Group's borrowings incurred by one of the subsidiaries of Tianjin Heating was denominated in US dollars and exchange risks may arise as a result of fluctuations in the value of Renminbi against the US dollar. However, as Renminbi is not freely convertible into other foreign currencies and cost effective hedging instruments are not widely available, no further hedging was provided and no financial instrument for hedging was employed by the Group during year ended 31 December 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 31 December 2009, the Group did not have any material contingent liabilities. (31.12.2008: Nil)

Pledge on the Group's Assets

As at 31 December 2009, the bank borrowings granted to the Group were secured by deposits totaling approximately HK$0.7 million (31.12.2008: HK$6.5 million) and its investment properties with fair value of HK$63.2 (31.12.2008: HK$73.5 million).

Employees and Remuneration

The Group had approximately 208 employees as at 31 December 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

During the year ended 31 December 2009, neither the Company nor any of its subsidiaries has 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 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 year ended 31 December 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 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 seen to be, continuity of leadership in these roles and, in consequence, the Board is of the view that both should not be subject to retirement by rotation or hold office for a limited term at the present time.

The Board will keep these matters under review.

Following sustained development and growth of the Company, we will continue to monitor and revise the Company's 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 year ended 31 December 2009 have been reviewed by the Audit Committee and agreed by 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 term 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 COMPANY 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.

SCOPE OF WORK OF ERNST & YOUNG

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2009 have been agreed by the Company's auditors, Ernst & Young, to the amounts set out in the Group's consolidated financial statements for the year. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Ernst & Young on the preliminary announcement.

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, 1 April 2010