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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)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2012

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 2012 (the “**Period**”) together with comparative figures for the corresponding period in previous year as follows:

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2012

		For the six months ended 30 June	
		2012	2011
	<i>Notes</i>	(Unaudited) HK\$'000	(Unaudited) HK\$'000
CONTINUING OPERATIONS			
REVENUE	3	547,719	99,419
Cost of sales		(515,757)	(98,582)
Gross profit		31,962	837
Other income and gains		3,264	4,349
Other expenses		(2,499)	–
Administrative expenses		(38,369)	(40,886)
Finance costs		(16,099)	(16,176)
Share of profits and (losses) of:			
A jointly-controlled entity		223	294
Associates		(115,700)	99,324
(LOSS)/PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	4	(137,218)	47,742
Income tax credit/(expense)	5	5,221	(1,452)
(LOSS)/PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS		(131,997)	46,290
DISCONTINUED OPERATIONS			
Loss for the period from discontinued operations		–	(23,589)
(LOSS)/PROFIT FOR THE PERIOD		(131,997)	22,701
Attributable to:			
Owners of the Company		(134,314)	29,085
Non-controlling interests		2,317	(6,384)
		(131,997)	22,701
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
	7		
Basic			
– For (loss)/profit for the period		HK\$(1.2) cent	HK\$0.3 cent
– For (loss)/profit from continuing operations		HK\$(1.2) cent	HK\$0.5 cent
Diluted			
– For (loss)/profit for the period		HK\$(1.2) cent	HK\$0.3 cent
– For (loss)/profit from continuing operations		HK\$(1.2) cent	HK\$0.5 cent

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2012

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
(LOSS)/PROFIT FOR THE PERIOD	<u>(131,997)</u>	<u>22,701</u>
Exchange differences on translation of foreign operations	<u>(16,819)</u>	<u>86,868</u>
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD, NET OF TAX	<u>(16,819)</u>	<u>86,868</u>
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD	<u>(148,816)</u>	<u>109,569</u>
Attributable to:		
Owners of the Company	(151,133)	115,953
Non-controlling interests	<u>2,317</u>	<u>(6,384)</u>
	<u>(148,816)</u>	<u>109,569</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2012

		30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment	8	748,751	750,708
Prepaid land lease payments		46,810	44,137
Intangible assets		100,356	104,517
Investment in a jointly-controlled entity		94,082	94,379
Investments in associates	9	2,839,084	2,968,591
Available-for-sale investments		5,704	5,736
Total non-current assets		3,834,787	3,968,068
CURRENT ASSETS			
Inventories		2,637	8,405
Trade receivables	10	4	70,884
Other receivables and prepayments		12,888	17,216
Prepaid land lease payments		3,261	3,197
Amount due from a jointly-controlled entity		–	10,485
Amounts due from related companies		112,723	133,271
Dividend receivable from a jointly-controlled entity		79,536	79,978
Cash and cash equivalents		551,431	459,831
Total current assets		762,480	783,267
Total assets		4,597,267	4,751,335
CURRENT LIABILITIES			
Trade and bills payables	11	36,434	28,927
Other payables and accruals		135,987	100,611
Receipt in advance		49,256	93,705
Amount due to an associate		39,431	51,208
Amounts due to related companies		46,099	56,932
Interest-bearing bank and other borrowings		37,402	19,081
Loan from a related company		114,613	113,676
Income tax payable		39,816	39,874
Total current liabilities		499,038	504,014
NET CURRENT ASSETS		263,442	279,253
TOTAL ASSETS LESS CURRENT LIABILITIES		4,098,229	4,247,321

		30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
	<i>Notes</i>		
TOTAL ASSETS LESS CURRENT LIABILITIES		4,098,229	4,247,321
NON-CURRENT LIABILITIES			
Convertible bonds – non-current portion	12	249,445	241,085
Interest-bearing bank and other borrowings		–	2,603
Deferred tax liabilities		143,894	149,927
Total non-current liabilities		393,339	393,615
Net assets		3,704,890	3,853,706
EQUITY			
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Issued capital	13	1,091,221	1,091,221
Equity component of convertible bonds	12	38,915	38,915
Reserves		2,297,006	2,448,139
		3,427,142	3,578,275
Non-controlling interests		277,748	275,431
Total equity		3,704,890	3,853,706

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2012

Attributable to owners of the Company										
Notes	Equity component of		Share premium*	Share options reserve*	Translation reserve*	Retained profits*	Other reserve*	Total	Non-controlling interests	Total equity
	Issued capital	convertible bonds								
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2012 (Audited)	1,091,221	38,915	894,724	25,747	357,494	1,157,124	13,050	3,578,275	275,431	3,853,706
Total comprehensive loss for the period	-	-	-	-	(16,819)	(134,314)	-	(151,133)	2,317	(148,816)
Transfer upon the forfeiture of share options	14	-	-	(25,747)	-	25,747	-	-	-	-
At 30 June 2012 (Unaudited)	<u>1,091,221</u>	<u>38,915</u>	<u>894,724</u>	<u>-</u>	<u>340,675</u>	<u>1,048,557</u>	<u>13,050</u>	<u>3,427,142</u>	<u>277,748</u>	<u>3,704,890</u>

Attributable to owners of the Company										
Notes	Equity component of		Share premium*	Share options reserve*	Translation reserve*	Retained profits*	Other reserve*	Total	Non-controlling interests	Total equity
	Issued capital	convertible bonds								
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2011 (Audited)	956,849	109,072	666,823	51,053	183,062	1,524,400	13,050	3,504,309	286,968	3,791,277
Total comprehensive income for the period	-	-	-	-	86,868	29,085	-	115,953	(6,384)	109,569
Conversion of convertible bonds	<u>130,000</u>	<u>(109,072)</u>	<u>219,673</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>240,601</u>	<u>-</u>	<u>240,601</u>
At 30 June 2011 (Unaudited)	<u>1,086,849</u>	<u>-</u>	<u>886,496</u>	<u>51,053</u>	<u>269,930</u>	<u>1,553,485</u>	<u>13,050</u>	<u>3,860,863</u>	<u>280,584</u>	<u>4,141,447</u>

* These reserve accounts comprise the consolidated reserves of HK\$2,297,006,000 (30 June 2011: HK\$2,774,014,000) in the interim condensed consolidated statement of financial position.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2012

1. CORPORATE INFORMATION

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The address of the registered office of the Company is Canon’s Court, 22 Victoria Street, Hamilton HM 12, Bermuda, and the principal place of business is 28th Floor, Chinachem Century Tower, 178 Gloucester Road, Wanchai, Hong Kong.

The principal activity of the Company is investment holding, including significant investments in associates engaged in steel and steel products manufacturing and trading in the People’s Republic of China (“PRC”), as detailed in note 9. Its subsidiaries were principally engaged in the supply of heat, property investment and trading of steel products during the six months ended 30 June 2012 (the “Period”).

2.1 BASIS OF PREPARATION

The unaudited interim condensed consolidated financial statements, which comprise the interim condensed consolidated statement of financial position of the Group as at 30 June 2012 and the related interim condensed consolidated statements of comprehensive income, changes in equity and cash flows for the Period, have been prepared in accordance with HKAS 34 “*Interim Financial Reporting*” issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

The unaudited interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2011.

2.2 NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS THEREOF, ADOPTED BY THE GROUP

The accounting policies and basis of preparation adopted in the preparation of the interim condensed consolidated financial statements are the same as those used in the annual financial statements for the year ended 31 December 2011, except for the adoption of revised Hong Kong Financial Reporting Standards (“HKFRS”, which also include HKASs and Interpretations) as of 1 January 2012 noted below:

HKFRS 1 Amendments	Amendment to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Transfers of Financial Assets</i>
HKFRS 12 Amendments	Amendments to HKFRS 12 <i>Income Taxes – Deferred Tax: Recovery of Underlying Assets</i>

The adoption of these new and revised HKFRSs has had no significant financial effect on the Group’s interim condensed consolidated financial statements.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

3. REVENUE AND 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 supply of heat energy, installation, engineering and maintenance of heating systems and management of heating pipes, covering a vast area of heat energy supply within the municipality of Tianjin;
- (b) the property investment segment holds interests in a jointly-controlled entity, located in Shanghai, engaging in underground shopping plazas and;
- (c) the steel manufacturing and trading segment is engaged in iron and steel products trading and holds significant interests in three associates, located in Shandong Province, engaging 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/(loss), which is a measure of adjusted profit/(loss) before tax from continuing operations. The adjusted profit/(loss) before tax from continuing operations is measured consistently with the Group's profit/(loss) before tax from continuing operations except that interest income, finance costs as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude cash and cash equivalents and other unallocated head office and corporate assets as these assets are managed on a group basis.

For the six months ended 30 June 2012 (Unaudited)	Heat energy supply HK\$'000	Property investment HK\$'000	Steel manufacturing and trading HK\$'000	Total HK\$'000
Segment revenue				
Sales to external customers	134,061	–	413,658	547,719
Revenue from continuing operations				<u>547,719</u>
Segment results	(380)	(652)	(107,763)	(108,795)
<i>Reconciliation:</i>				
Interest income				790
Finance costs				(16,099)
Corporate and other unallocated expenses				<u>(13,114)</u>
Loss before tax from continuing operations				<u>(137,218)</u>
Segment assets	969,071	173,618	2,838,806	3,981,495
<i>Reconciliation:</i>				
Corporate and other unallocated assets				<u>615,772</u>
As at 30 June 2012				<u>4,597,267</u>
Segment assets	1,001,099	184,842	3,039,189	4,225,130
<i>Reconciliation:</i>				
Corporate and other unallocated assets				<u>526,205</u>
As at 31 December 2011				<u>4,751,335</u>

For the six months ended 30 June 2011 (Unaudited)	Heat energy supply HK\$'000	Property investment HK\$'000	Steel manufacturing and trading HK\$'000	Total HK\$'000
Segment revenue				
Sales to external customers	99,005	414	–	99,419
Revenue from continuing operations				99,419
Segment results	(12,785)	(2,056)	99,322	84,481
<i>Reconciliation:</i>				
Interest income				567
Finance costs				(16,176)
Corporate and other unallocated expenses				(21,130)
Profit before tax from continuing operations				47,742

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

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

	For the six months ended 30 June	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Cost of heat energy supply	111,429	98,582
Cost of goods sold	404,328	–
Depreciation of property, plant and equipment	21,921	22,131
Amortisation of intangible assets	3,596	3,483
Amortisation of land lease payments	1,636	1,585
Minimum lease payments under operating leases: Land and buildings	670	2,072
Loss on disposal of items of property, plant and equipment	1,024	–
Financial costs	16,099	16,176
Interest income	(790)	(567)
Employee benefit expense (including directors' remuneration)	16,793	19,852

5. INCOME TAX (CREDIT)/EXPENSE

The major components of income tax (credit)/expense for the six months ended 30 June 2012 and 2011 are as follows:

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current income tax		
Hong Kong	–	–
Mainland China	–	–
	–	–
Deferred income tax	(5,221)	1,452
Income tax (credit)/expense for the period	(5,221)	1,452

Hong Kong profits tax should be provided at the rate of 16.5% (for the six months ended 30 June 2011: 16.5%) of the estimated assessable profits arising in Hong Kong during the period. No provision for Hong Kong profits tax has been made in the interim condensed consolidated financial statements, as the Group does not have any assessable profit arising in Hong Kong.

The provision for Mainland China current income tax should be based on the statutory rate of 25% (for the six months ended 30 June 2011: 25%) of the assessable profits of the Group's subsidiaries in Mainland China as determined in accordance with the relevant income tax rules and regulations of the PRC Corporate Income Tax Law, which came into effect on 1 January 2008. No provision for Mainland China current income tax has been made in the interim condensed consolidated financial statements, as the Group does not have any assessable profit arising in Mainland China.

6. DIVIDENDS

The directors of the Company do not recommend the payment of any dividend in respect of the period (for the six months ended 30 June 2011: Nil).

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

The calculation of the basic (loss)/earnings per share amount is based on the (loss)/profit for the period attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 10,912,213,000 (for the six months ended 30 June 2011: 9,625,952,000) in issue during the period.

The calculation of the diluted (loss)/earnings per share amount is based on the (loss)/profit for the period attributable to ordinary equity holders of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic (loss)/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 (loss)/earnings per share amounts are based on:

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
(Loss)/earnings (HK\$'000)		
(Loss)/profit attributable to ordinary equity holders of the Company		
From continuing operations	(134,314)	52,674
From discontinued operations	<u>–</u>	<u>(23,589)</u>
	(134,314)	29,085
Interest on convertible bonds	<u>14,154</u>	<u>12,062</u>
(Loss)/profit attributable to ordinary equity holders of the Company before interest on convertible bonds	<u>(120,160)*</u>	<u>41,147*</u>
Attributable to:		
Continuing operations	(120,160)*	64,736*
Discontinued operations	<u>–</u>	<u>(23,589)</u>
	<u>(120,160)*</u>	<u>41,147*</u>
Number of shares ('000)		
Weighted average number of ordinary shares in issue during the period used in the basic (loss)/earnings per share calculation	10,912,213	9,625,952
Effect of dilution – weighted average number of ordinary shares:		
– Share options	<u>–</u>	<u>10,526</u>
– Convertible bonds	<u>1,866,667*</u>	<u>–*</u>
Weighted average number of ordinary shares in issue during the period used in the diluted (loss)/earnings per share calculation	<u>12,778,880*</u>	<u>9,636,478*</u>

* The effect of convertible bonds is ignored in the calculation of diluted loss per share, and the diluted loss per share is the same as the basic loss per share for the six months ended 30 June 2012 since the deemed conversion of convertible bonds would result in decrease in loss per share with an anti-dilutive effect. Therefore, the diluted loss per share amounts for the six months ended 30 June 2012 are based on the loss for the period of HK\$134,314,000, and the weighted average number of ordinary shares of 10,912,213,000 in issue during the six months ended 30 June 2012.

The effect of convertible bonds is ignored in the calculation of diluted earnings per share for the six months ended 30 June 2011 since the deemed conversion of convertible bonds would result in increase in earnings per share with an anti-dilutive effect. Therefore, the diluted earnings per share amounts for the six months ended 30 June 2011 are based on the earnings for the period and the earnings attributable to continuing operations of HK\$29,085,000 and HK\$52,674,000, respectively, and the weighted average number of ordinary shares of 9,625,952,000 in issue during the six months ended 30 June 2011.

8. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2012, the Group acquired items of property, plant and equipment with a cost of HK\$25,563,000 (for the six months ended 30 June 2011: HK\$34,399,000). Depreciation for items of property, plant and equipment was HK\$21,921,000 during the period (for the six months ended 30 June 2011: HK\$22,131,000).

For the six months ended 30 June 2012, property, plant and equipment with a net book value of HK\$4,410,000 were disposed of by the Group resulting in a net loss on disposal of HK\$1,024,000. No property, plant and equipment was disposed of for the six months ended 30 June 2011.

9. INVESTMENTS IN ASSOCIATES

	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
Share of net assets	<u>2,839,084</u>	<u>2,968,591</u>

Particulars of the associates are as follows:

Name	Legal form of business	Place of incorporation	Registered capital	Percentage of ownership interest attributable to the Group		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	Tianjin, the PRC	RMB2,000,000	–	21%	Sale of heating materials
日照鋼鐵有限公司 Rizhao Steel Co., Limited (ii)	Limited enterprise	Shandong, the PRC	RMB100,000,000	–	30%	Manufacturing and trading of steel products
日照型鋼有限公司 Rizhao Medium Section Mill Co., Limited (ii)	Limited enterprise	Shandong, the PRC	RMB100,000,000	–	30%	Manufacturing and trading of steel products
日照鋼鐵軋鋼有限公司 Rizhao Steel Wire Co., Limited (ii)	Limited enterprise	Shandong, the PRC	RMB80,000,000	–	25%	Manufacturing and trading of steel products

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

	For the six months ended 30 June 2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Revenue	54,804,212	54,017,205
(Loss)/profit for the period	<u>(431,959)</u>	<u>418,156</u>

	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
Total assets	52,592,078	56,186,297
Total liabilities	42,239,952	45,350,674

- (i) Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.
- (ii) Certain matters in relation to the three associates of the Group located in Rizhao, Shandong province are disclosed as follows:

On 6 September 2009, the Group's three associates together with their parent company, Rizhao Steel Holding Group Company Limited, and their two fellow subsidiaries (collectively as the "Rizhao Steel Group"), entered into an asset restructuring and co-operation agreement (the "Restructuring Agreement") with Shandong Iron and Steel Group Co., Ltd. (the "Shandong Steel Group"), a state-owned enterprise. Pursuant to the Restructuring Agreement, (a) the Rizhao Steel Group and the Shandong Steel Group shall jointly invest in a new joint venture enterprise (the "New JV") and hold 33% and 67% equity shares in the New JV, respectively. The New JV will construct and operate a steel manufacturing base in Rizhao, Shandong; (b) the Rizhao Steel Group shall transfer to the New JV its entire property, plant and equipment and land use rights (the "Injected Assets") and its relevant bank loans, as well as other liabilities (the "Assumed Liabilities"). The value of the Injected Assets and Assumed Liabilities shall be assessed by an independent valuation company and shall take effect upon mutual confirmation by both parties and submission to and confirmation by the State Owned Assets Supervision and Administration Commission of the Shandong Provincial Government. The net amount of the agreed value of the Injected Assets and Assumed Liabilities shall constitute the capital contribution by the Rizhao Steel Group. The Shandong Steel Group shall contribute cash to the New JV in the same proportion as its shareholding. The capital contributions to the New JV shall be completed within 180 days after the date of the Restructuring Agreement (the "Completion"). The Completion shall be conditional upon the execution of all legal documents relevant to the restructuring; and (c) During the period from the Completion to the commencement of the operation of the phase I project of the New JV (the "Transitional Period"), the Rizhao Steel Group can lease back the Injected Assets from the New JV and continue its operation with the Injected Assets at its own discretion. The rental fee payable by the Rizhao Steel Group to the New JV shall be determined by negotiation between both parties.

On 30 August 2010, the Rizhao Steel Group entered into an agreement with the Shandong Steel Group (the "Second Restructuring Agreement"). Pursuant to the Second Restructuring Agreement, (a) the Rizhao Steel Group and Shandong Steel Group agreed to proceed with the restructuring within the basic framework as described in the Restructuring Agreement; (b) The restructuring shall be completed via a one-time acquisition of assets held by the Rizhao Steel Group; (c) Procedures relevant to the acquisition, including due diligence, asset valuation and audit, are to commence immediately; and (d) the Rizhao Steel Group and Shandong Steel Group shall further negotiate and confirm the definitive scope and consideration of the aforementioned one-time acquisition of assets based upon the results of the procedures (including due diligence, asset valuation and audit) described above, and completion of the acquisition shall take place before 30 November 2010.

According to the announcement made by the Group on 1 December 2010, completion of such transaction was postponed to be no later than the end of February 2011. However, up till the date of the interim condensed consolidated financial statements, the negotiation of the above restructuring is still in progress and not completed yet.

10. TRADE RECEIVABLES

	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
Trade receivables	4	70,884

Trade receivables are non-interest-bearing.

For heat energy supply income and heat energy supply facilities connection income, the Group generally receives the relevant fees in advance.

The Group's trading terms with its customers for trading of iron and steel products are mainly on credit. The credit period is 100 days. The Group seeks to maintain strict control over its outstanding receivables and does not hold any collateral or other credit enhancement over its trade receivable balances.

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

	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
1 to 3 months	4	70,884

No impairment allowance is necessary in respect of trade receivables because there has not been a significant change in credit quality and the balances are considered fully recoverable.

11. TRADE AND BILLS PAYABLES

	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
Trade payables	21,468	28,927
Bills payable	14,966	–
	36,434	28,927

The trade payables are non-interest-bearing and are normally settled on 90-day terms.

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

	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
Within 1 month	6,522	1,203
1 to 3 months	9,505	1,173
Over 3 months	<u>20,407</u>	<u>26,551</u>
	<u>36,434</u>	<u>28,927</u>

The trade payables have no significant balances with ageing over one year. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

12. CONVERTIBLE BONDS

On 19 December 2011, the Company entered into a convertible bonds subscription agreement with Ga Leung Investment Company Limited, a third party, to issue to the latter HK\$280,000,000 of convertible bonds, which can be convertible at the option of the bondholder into 1,866,666,666 ordinary shares of the Company (i.e., the conversion price is HK\$0.15 per share) within the period ending on the second anniversary of the date of issuance of the convertible bonds (the “Maturity Date”). The bonds carry interest at a rate of 3.5% per annum on the outstanding principal amount and is payable yearly. On 30 December 2011, the convertible bonds were issued to Ga Leung Investment Company Limited.

The convertible bonds are considered a compound financial instrument and the fair value of its liability component was estimated at the issuance date using a prevailing market interest rate for a similar bond without a conversion option. The residual amount (i.e., the fair value of the compound financial instrument as a whole less the fair value of the liability component) is assigned as an equity component and is included in shareholders' equity.

The convertible bonds issued on 30 December 2011 were split upon issue as to the liability and equity components, as follows:

	2012 (Unaudited) HK\$'000
Equity component at 30 June	<u>38,915</u>
Liability component at 1 January	241,085
Interest charge	14,154
Interest expense due in one year reclassified to other payables and accruals	(4,873)
Exchange differences on translation	<u>(921)</u>
Liability component at 30 June	<u>249,445</u>

13. ISSUED CAPITAL

	Number of shares		Share capital	
	2012 '000	2011 '000	2012 HK\$'000	2011 HK\$'000
Ordinary shares of HK\$0.10 each				
Authorised				
At 1 January and 30 June	20,000,000	20,000,000	2,000,000	2,000,000
Issued and fully paid				
At 1 January	10,912,213	9,568,493	1,091,221	956,849
Conversion of convertible bonds	–	1,300,000	–	130,000
At 30 June	10,912,213	10,868,493	1,091,221	1,086,849

14. SHARE OPTION SCHEME

Pursuant to a resolution passed on 17 April 2002, the Company adopted a share option scheme (the “2002 Option Scheme”) which is primarily for the purpose of providing incentives to directors and eligible employees, and will expire on 16 April 2012. Under the 2002 Option Scheme, the board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

Pursuant to the 2002 Option Scheme, the total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the scheme shall not exceed 10% of the issued share capital of the Company from time to time. The maximum number of shares in respect of which options might be granted to a participant, when aggregated with the total number of shares issued and issuable under the 2002 Option Scheme, must not exceed 25% of the aggregate number of shares under the scheme from time to time. The offer of a grant of options may be accepted within 28 days from the date of the offer with a signed acceptance letter together with consideration of HK\$1.00 received by the Company. The exercise period of the share options granted is determinable by the directors. The subscription price for the shares in respect of which options are granted is determinable by the directors of the Company, but in any case must be the highest of (i) the closing price of the Company’s shares as stated in the Stock Exchange’s daily quotation sheet on the date of the grant; (ii) the average closing price of the Company’s shares as stated in the Stock Exchange’s daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company’s shares. Share options do not confer rights on the holders to dividends or to vote at shareholders’ meetings.

All of the 284,780,000 share options granted and outstanding under 2002 Option Scheme as of 31 December 2011 had been expired during the period. The Group did not recognise share option expenses in relation to 2002 Option Scheme for the period as all expenses related to share options granted previously had been fully recognized by the end of 2010 (for six months ended 30 June 2011: Nil) and there was no share option granted during the period.

Pursuant to a resolution passed on 17 May 2012, the Company adopted a new share option scheme (the “2012 Option Scheme”), which is also for the purpose of providing incentives to directors and eligible employees. Under the 2012 Option Scheme, the board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

Pursuant to the 2012 Option Scheme, the maximum number of shares which may be issued upon exercise of all outstanding option granted and not yet exercised under the 2012 Option Scheme and any other share option schemes of the Company shall not exceed 30% of the share in issue from time to time. The subscription price for shares in respect of any options granted under the 2012 Option Scheme will be a price determined by the board of the directors of the Company, in its absolute discretion, but in any case will not be lower than the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the date of offer, which must be a trading day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of grant; and (iii) the nominal value of a share on the date of grant, provided that for the purpose of calculating the subscription price, where the shares have been listed on the Stock Exchange for less than five trading days, the new issue price shall be used as the closing price for any trading day falling within the period before such listing.

To the date of this interim condensed consolidated financial statements, the Company has not granted any share option under the 2012 Option Scheme.

15. CONTINGENT LIABILITIES

The Group provided a guarantee, with no charge, to a bank for a loan with the amount of HK\$61,335,000 (as at 31 December 2011: HK\$61,675,000) granted to Tianjin Jinre Logistics Company Limited, in which the Group holds a 16% equity interest. No contingent liabilities were provided for the interim condensed consolidated financial statements as the directors believe it is not probable that an outflow will be required to settle the obligation.

16. EVENTS AFTER THE REPORTING PERIOD

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

INTERIM DIVIDENDS

The Board does not recommend the payment of interim dividend in respect of the period (for the six months ended 30 June 2011: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the six months ended 30 June 2012 (the "Interim Period"), turnover of the Group increased by 451% to approximately HK\$547.7 million from approximately HK\$99.4 million for the six months ended 30 June 2011 (the "Comparable Period"). The increase in revenue was mainly attributable to commencement of trading in iron ore, and increase in revenue contributed by the heat energy supply segment during the Interim Period. The Group recorded a loss of HK\$132.0 million for the Interim Period, as compared with the profit of HK\$22.7 million for the Comparable Period. The turnaround to loss was mainly attributable to sharing of loss from the Group's associates engaged in steel manufacturing and trading in the PRC, as the result of decrease in prices and gross profit margin of steel products during the first six months of 2012. Loss attributable to owners of the Company amounted to HK\$134.3 million for the Interim Period, as compared with the profit of HK\$29.1 million attributable to owners of the Company for the Comparable Period. The basic and diluted loss per share for the Interim Period was HK\$1.2 cent, as compared with the basic and diluted earnings per share of HK\$0.3 cent for the Comparable Period.

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

Steel Manufacturing and Trading

During the Interim Period, the Group's steel manufacturing and trading associates, namely Rizhao Steel Co., Limited, Rizhao Medium Section Mill Co., Limited, Rizhao Steel Wire Co., Limited continued to operate at optimal capacity. In the first six months of 2012, PRC steel markets were affected by a series of macroeconomic factors such as prices of raw materials of steel manufacturing such as iron ore were remained at high level as compared to prices of steel products, and sluggish demand for steel products at downstream customers. The segmental loss of HK\$107.8 million was recorded from the associates engaged in steel manufacturing and trading for the Interim Period, as compared with a profit of approximately HK\$99.3 million for the Comparable Period.

During the Interim Period, turnover of HK\$413.7 million was recorded from trading of iron ore, the Group continued to explore business opportunities in trading of iron ore to enhance revenue base.

As disclosed in the Group's annual report of 2011, procedures relevant to the proposed asset acquisition pursuant to the second restructuring agreement entered into between the steel manufacturing and trading associates and 山東鋼鐵集團有限公司 (for English identification, Shandong Steel Group Co., Limited) on 30 August 2010 are still being undertaken as at the date of this announcement. The Company shall make further disclosures as required by the Rules Governing the Listing of the Securities on the Stock Exchange (the "Listing Rules") when there are any new developments.

Heat Energy Supply

The Group has three heat energy supply subsidiaries operating heat energy supply projects in the Tianjin city. The projects are the Meijiang Project, the Jinxia Xindu Project and the Xiqing Nanhe Project. The heat energy supply operations had contributed to the Group a turnover of HK\$134.1 million during the Interim Period, as compared with HK\$99.0 million of the Comparable Period. The increase in revenue was largely contributable to increase in heat energy supply fee and connection fee in the area covered by the heat energy supply operations. The loss from the heat energy supply segment was approximately HK\$0.4 million for the Interim Period, as compared with a segmental loss of approximately HK\$12.8 million for the Comparable Period.

Property Investment

In Shanghai, the occupancy rate of Shanghai Underground Centre Company Limited ("SUCCL") had approached near capacity, SUCCL had continued to contribute a stable profit stream to the Group. During the Interim Period, SUCCL recorded a turnover of approximately HK\$30 million, an increase of 2.0% from the Comparable Period. SUCCL had contributed to the Group a profit of approximately HK\$0.2 million for the Interim Period, as compared with a profit of approximately HK\$0.3 million for the Comparable Period.

Prospects

Steel Manufacturing and Trading

The prices of steel product in China have demonstrated a downward trend since the beginning of 2012. Although a slight rebound in steel product prices were noticed in May, steel product prices resumed to soften in June. It is expected that steel product prices in China shall remain to be influenced by uncertain economic conditions, and weak demand of steel products from downstream customers.

Heat Energy Supply

The Group's heat energy supply projects constitute an essential utility service to the development of the Tianjin city. With the prime locations occupied, the Group's heat energy supply projects at the Meijiang district, Jinxia Xindu District, and Xiqing Nanhe district shall continue to contribute stable and recurring revenue to the Group.

Property Investment

Uncertainties in China's economy shall continue to influence domestic retail industry and consumer sentiment, SUCCL shall explore opportunities to secure revenue stream through enhancing shopping experience, and to optimize people flow.

It is expected that the Chinese government shall adhere to stringent economic measures to suppress property prices, the Group shall adopt a prudent approach towards all potential investment opportunities.

Looking ahead

The Group's performance in the second half of 2012 shall be affected by uncertain economy outlook, weak demand on steel products, high production and operating costs in steel manufacturing in China. Despite such challenges, the Group remains confident in China's economic rebound in the long run. The Group shall continue to be cautious when expanding our business portfolio.

Liquidity and Financial Resources

As at 30 June 2012, total assets and net assets of the Group were approximately HK\$4,597.3 million and HK\$3,704.90 million respectively, as compared with HK\$4,751.3 million and HK\$3,853.7 million as at 31 December 2011. Cash and bank balance of the Group as at 30 June 2012 was approximately HK\$551.4 million (31 December 2011: HK\$459.8 million), representing an increase of 19.9%. Total current assets decreased by 2.7% to approximately HK\$762.5 million during the Interim Period (31 December 2011: HK\$783.3 million). As at 30 June 2012, the Group's outstanding bank and other borrowings amounted to approximately HK\$37.4 million (31 December 2011: HK\$21.7 million), all of which were due within one year. Net current assets as at 30 June 2012 was approximately HK\$263.4 million (31 December 2011: HK\$279.3 million). The Group's gearing ratio (total borrowings/total assets) continued to remain at a low level of 3.3% (31 December 2011: 2.9%) as at 30 June 2012.

Acquisitions and Disposals

The Group had not any material acquisition or disposal of any subsidiaries or associates companies during the Interim Period.

Foreign Exchange Exposure

The operations of the Group are located in the PRC. Loans and borrowings taken in relation to such operations are mostly denominated in the local currency to match with their relevant local expenditures, thus mitigating risks arising from foreign exchange fluctuations. However, exchange risks may arise as a result of fluctuations in the value of Renminbi when translations and exchanges are made between Renminbi and Hong Kong dollar, as the Group's head office operating expenses are incurred in Hong Kong dollars. Furthermore, a small portion of the Group's borrowings incurred by one of the subsidiaries of Tianjin Heating was denominated in US dollars and exchange risks may arise as a result of fluctuations in the value of Renminbi against the US dollar. However, as Renminbi is not freely convertible into other foreign currencies and cost effective hedging instruments are not widely available, no further hedging was provided and no financial instrument for hedging was employed by the Group during the Interim Period. The Group shall from time to time review and monitor the exchange risks, and consider employing foreign exchange hedging arrangements when appropriate and necessary.

Contingent Liabilities

Details of the Group's contingent liabilities during the Interim Period are set out in note 15 to the interim condensed consolidated financial statements.

Pledge on the Group's Assets

As at 30 June 2012, no assets were pledged by the Group.

Employees and Remuneration

The Group had 179 employees as at 30 June 2012 (31 December 2011: 161). Apart from basic remuneration, the Group also provides other employee benefits including medical scheme and provident fund schemes. In addition, the Group has adopted 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, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the interim period, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

CORPORATE GOVERNANCE

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

The Board has set up procedures on corporate governance that comply with the requirements of the Code on Corporate Governance Practices (the “CG Code”) contained in Appendix 14 to the Listing Rules.

The Company had complied with the CG Code throughout the six months ended 30 June 2012 with the following deviations:

- A4.1 Non-executive Directors are not appointed for a specific term. They are, however, subject to retirement by rotation and reelection 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 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 corporate governance policies in order to ensure that such policies meet the general rules and standards required by the shareholders of the Company.

The Company is still looking for a suitable candidate to fill the vacancy of chief executive officer and further announcement will be made by the Company upon fulfillment of this requirement under the Listing Rules.

AUDIT COMMITTEE

The audit committee currently comprises Mr. Tam Sun Wing, Mr. Ng Ge Bun and Mr. He Yi, 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 2012.

REMUNERATION COMMITTEE

The remuneration committee of the Company was established, with specific terms of reference in compliance with the CG 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 three independent non-executive Directors. The present members are Mr. Tam Sun Wing, Mr. Law Wing Chi, Stephen, Mr. He Yi and Mr. Ng Ge Bun.

NOMINATION COMMITTEE

The nomination committee currently consists of one executive Director and three independent non-executive Directors. The present members are Mr. Ng Ge Bun, Mr. Law Wing Chi, Stephen, Mr. He Yi and Mr. Tam Sun Wing. 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 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 a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 to 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 INTERIM RESULTS AND INTERIM REPORT

This results announcement is published on the websites of the Stock Exchange and the Company (www.kaiyuanholdings.com). The interim report of the Company for the six months ended 30 June 2012 containing all information required by Appendix 16 to the Listing Rules will be despatched to the shareholders of the Company in due course.

By order of the Board
Kai Yuan Holdings Limited
Mr. Law Wing Chi, Stephen
Executive Director

Hong Kong, 24 August 2012

As at the date of this announcement, the Board comprises Mr. Xue Jian and Mr. Law Wing Chi, Stephen (all being executive Directors), Mr. Hu Yishi (being non-executive Director) and Mr. Tam Sun Wing, Mr. Ng Ge Bun and Mr. He Yi (all being independent non-executive Directors).