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 2013

RESULTS

The board (the "**Board**") of directors (the "**Directors**") 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 2013 (the "**Year**") together with comparative figures for the year ended 31 December 2012 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the year ended 31 December 2013
(Prepared in accordance with HKFRSs)

	Notes	**2013** *HK$'000*	2012 *HK$'000*
CONTINUING OPERATIONS			
REVENUE	*4*	**757,490**	658,998
Cost of sales		**(685,804)**	(660,295)
Gross profit/(loss)		**71,686**	(1,297)
Other income and gains	*5*	**16,788**	14,032
Other expenses	*6*	**(67,908)**	(329,363)
Administrative expenses		**(73,858)**	(69,565)
Finance costs	*7*	**(31,473)**	(31,188)
Share of losses of associates		**(2,933)**	(654,375)
LOSS BEFORE TAX FROM CONTINUING OPERATIONS	*8*	**(87,698)**	(1,071,756)
Income tax (expense)/credit	*9*	**(23,699)**	37,039
LOSS FOR THE YEAR FROM CONTINUING OPERATIONS		**(111,397)**	(1,034,717)
DISCONTINUED OPERATIONS			
Profit/(loss) for the year from a discontinued operation	*10*	**14,424**	(45,168)
LOSS FOR THE YEAR		**(96,973)**	(1,079,885)
Attributable to:			
Owners of the Company		**(104,860)**	(1,066,792)
Non-controlling interests		**7,887**	(13,093)
		(96,973)	(1,079,885)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	*12*		
Basic			
– For loss for the year		**(HK$1 cent)**	(HK$10 cents)
– For loss from continuing operations		**(HK$1 cent)**	(HK$9 cents)
Diluted			
– For loss for the year		**(HK$1 cent)**	(HK$10 cents)
– For loss from continuing operations		**(HK$1 cent)**	(HK$9 cents)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2013
(Prepared in accordance with HKFRSs)

	2013	2012
		(Restated)
	HK$'000	*HK$'000*
LOSS FOR THE YEAR	**(96,973)**	(1,079,885)
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**70,760**	(7,785)
Reclassification of translation reserve from other comprehensive income to statement of profit or loss upon disposal of subsidiary	**(18,270)**	–
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods	**52,490**	(7,785)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX	**52,490**	(7,785)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	**(44,483)**	(1,087,670)
Attributable to:		
Owners of the Company	**(61,556)**	(1,074,494)
Non-controlling interests	**17,073**	(13,176)
	(44,483)	(1,087,670)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2013
(Prepared in accordance with HKFRSs)

	Notes	2013 HK$'000	2012 (Restated) HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**1,292,607**	727,727
Prepaid land lease payments		**39,478**	41,225
Goodwill		**–**	–
Intangible assets		**92,914**	97,297
Investments in associates	*13*	**1,989,598**	1,990,147
Available-for-sale investments		**5,915**	5,735
Other long-term assets		**3,871**	4,544
Total non-current assets		**3,424,383**	2,866,675
CURRENT ASSETS			
Inventories		**5,762**	5,731
Trade receivables	*14*	**1,798**	–
Other receivables and prepayments		**19,235**	17,665
Prepaid land lease payments		**3,092**	3,053
Other long-term assets-current portion		**815**	789
Amounts due from related companies		**144,376**	125,417
Pledged time deposits		**10,366**	–
Cash and cash equivalents		**196,774**	530,446
		382,218	683,101
Assets of a disposal group classified as held for sale		**–**	130,029
Total current assets		**382,218**	813,130
Total assets		**3,806,601**	3,679,805
CURRENT LIABILITIES			
Trade and bills payables	*15*	**59,499**	26,499
Other payables and accruals		**195,606**	127,116
Receipt in advance		**129,509**	121,369
Amount due to an associate		**–**	18,872
Amounts due to related companies		**44,285**	54,790
Interest-bearing bank and other borrowings		**6,360**	33,958
Loan from a related company		**120,463**	113,521
Tax payable		**41,349**	38,689
Convertible bonds-current portion	*16*	**–**	266,171
Total current liabilities		**597,071**	800,985
NET CURRENT (LIABILITIES)/ASSETS		**(214,853)**	12,145
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,209,530**	2,878,820

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
As at 31 December 2013
(Prepared in accordance with HKFRSs)

	Notes	**2013** *HK$'000*	2012 (Restated) *HK$'000*
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,209,530**	2,878,820
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**192,427**	112,784
Total non-current liabilities		**192,427**	112,784
Net assets		**3,017,103**	2,766,036
EQUITY			
Equity attributable to owners of the Company			
Issued capital		**1,277,888**	1,091,221
Equity component of convertible bonds	*16*	**–**	38,915
Reserves		**1,432,247**	1,346,005
		2,710,135	2,476,141
Non-controlling interests		**306,968**	289,895
Total equity		**3,017,103**	2,766,036

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013
(Prepared in accordance with HKFRSs)

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 material investments in associates engaged in steel and steel product manufacturing and trading. Its subsidiaries are principally engaged in the supply of heat, trading of iron ore and steel products and hotel operation.

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 ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. Disposal groups held for sale are stated at the lower of their carrying amounts and fair values less costs to sell.

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.

As of 31 December 2013, the Group's current liabilities exceeded its current assets by HK$214,853,000. Taking into consideration of the receipt in advance of HK$129,509,000 in the current liabilities that will not result in cash outflow and the fact that the Group has unutilized a loan facility of HK$170,000,000, the directors are of the opinion that the Group will have sufficient cash flows for its future operation (at least 12 months from the date of the consolidated financial statements) and concluded that a going concern basis of preparation was appropriate when preparing the Group's consolidated financial statements as of 31 December 2013 and for the year then ended.

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 2013. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries below. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

Restatement

Retrospective adjustment on certain translation differences recorded in exchange fluctuation reserve that should be reclassified to non-controlling interests had been made to the comparative figures and which have been restated in the consolidated financial statements. This retrospective adjustment did not have impact on the consolidated net assets as of 31 December 2012, and the consolidated net loss and other comprehensive income for the year then ended.

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 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*
HKFRS 10	*Consolidated Financial Statements*
HKFRS 11	*Joint Arrangements*
HKFRS 12	*Disclosure of Interests in Other Entities*
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 – *Transition Guidance*
HKFRS 13	*Fair Value Measurement*
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*
HKAS 19 (2011)	*Employee Benefits*
HKAS 27 (2011)	*Separate Financial Statements*
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*
HKAS 36 Amendments	Amendments to HKAS 36 *Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets* (early adopted)
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*
Annual Improvements 2009–2011 Cycle	Amendments to a number of HKFRSs issued in June 2012

Other than as further explained below regarding the impact of HKFRS 12, HKAS 1 Amendments and HKAS 36 Amendments, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

HKFRS 12 sets out the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities previously included in HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 31 *Interests in Joint Ventures* and HKAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities. Details of the disclosure for associates is included in note 13 to this announcement.

The HKAS 1 Amendments change the grouping of items presented in other comprehensive income ("OCI"). Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) are presented separately from items which will never be reclassified (for example, the revaluation of land and buildings). The amendments have affected the presentation only and have had no impact on the financial position or performance of the Group. The consolidated statement of comprehensive income has been restated to reflect the changes. In addition, the Group has chosen to use the new title "statement of profit or loss" as introduced by the amendments in these financial statements.

The HKAS 36 Amendments remove the unintended disclosure requirement made by HKFRS 13 on the recoverable amount of a cash-generating unit which is not impaired. In addition, the amendments require the disclosure of the recoverable amounts for the assets or cash-generating units for which an impairment loss has been recognised or reversed during the reporting period, and expand the disclosure requirements regarding the fair value measurement for these assets or units if their recoverable amounts are based on fair value less costs of disposal. The amendments are effective retrospectively for annual periods beginning on or after 1 January 2014 with earlier application permitted, provided HKFRS 13 is also applied. The Group has early adopted the amendments in these financial statements. The amendments have had no impact on the financial position or performance of the Group. Disclosures about the Group's impaired non-financial assets are included in note 13 to this announcement.

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 financial statements.

HKFRS 9	*Financial Instruments*[3]
HKFRS 9, HKFRS 7 and HKAS 39 Amendments	*Hedge Accounting* and amendments to HKFRS 9, HKFRS 7 and HKAS 39[3]
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – *Investment Entities*[1]
HKAS 19 Amendments	Amendments to HKAS 19 *Employee Benefits – Defined Benefit Plans: Employee Contributions*[2]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[1]
HKAS 39 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*[1]
HK(IFRIC)-Int 21	*Levies*[1]
Annual Improvements 2010-2012 cycle	
Annual Improvements 2011-2013 cycle	
HKFRS 14 *Regulatory Deferred Accounting*	

1 Effective for annual periods beginning on or after 1 January 2014
2 Effective for annual periods beginning on or after 1 July 2014
3 No mandatory effective date yet determined but is available for adoption

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 these new and revised HKFRSs are unlikely to have a significant impact on the Group's result of operation and financial position.

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has three (2012: two) reportable operating segments as follows:

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

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

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

The property investment segment holding interests in a joint venture located in Shanghai, was reclassified as discontinued operation as at 31 December 2012 and disposed of on 26 June 2013, details of which are given in note 10 to this announcement.

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

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

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

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

Year ended 31 December 2013	Heat energy supply HK$'000	Steel manufacturing and trading HK$'000	Hotel operation HK$'000	Total HK$'000
Segment revenue				
Sales to external customers	**323,586**	**432,556**	**1,348**	**757,490**
Revenue from continuing operations				**757,490**
Segment results	**30,355**	**(58,466)**	**(6,960)**	**(35,071)**
Reconciliation:				
Interest income				**5,829**
Corporate and other unallocated expenses				**(26,983)**
Finance costs				**(31,473)**
Loss before tax from continuing operations				**(87,698)**
Segment assets	**1,002,793**	**1,989,487**	**545,649**	**3,537,929**
Reconciliation:				
Corporate and other unallocated assets				**268,672**
Total assets				**3,806,601**
Segment liabilities	**533,963**	**2,000**	**11,510**	**547,473**
Reconciliation:				
Corporate and other unallocated liabilities				**242,025**
Total liabilities				**789,498**

Year ended 31 December 2013	Heat energy supply HK$'000	Steel manufacturing and trading HK$'000	Hotel operation HK$'000	Corporate and unallocated HK$'000	Total HK$'000
Other segment information					
Share of losses of associates	**16**	**2,917**	**–**	**–**	**2,933**
Impairment losses recognised in the statement of profit or loss	**6,185**	**59,845**	**–**	**–**	**66,030**
Depreciation and amortisation	**58,170**	**–**	**324**	**4,028**	**62,522**
Investments in associates	**282**	**1,989,316**	**–**	**–**	**1,989,598**
Capital expenditure (i)	**56,682**	**–**	**544,125**	**20**	**600,827**

(i) Capital expenditure consists of additions to property, plant and equipment including assets from the acquisition of subsidiaries.

Year ended 31 December 2012	Heat energy supply	Steel manufacturing and trading	Total
	HK$'000	*HK$'000*	*HK$'000*
Segment revenue			
Sales to external customers	245,340	413,658	658,998
Revenue from continuing operations			658,998
Segment results	(47,082)	(970,290)	(1,017,372)
Reconciliation:			
Interest income			3,598
Corporate and other unallocated expenses			(26,794)
Finance costs			(31,188)
Loss before tax from continuing operations			(1,017,756)
Segment assets	965,209	1,989,858	2,955,067
Reconciliation:			
Corporate and other unallocated assets			594,709
Assets related to a discontinued operation			130,029
Total assets			3,679,805
Segment liabilities	455,957	2,258	458,215
Reconciliation:			
Corporate and other unallocated liabilities			455,554
Total liabilities			913,769

Year ended 31 December 2012	Heat energy supply	Steel manufacturing and trading	Corporate and unallocated	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Other segment information				
Share of profits/(losses) of associates	3	(654,378)	–	(654,375)
Impairment losses recognised in the statement of profit or loss	1,665	323,059	–	324,724
Depreciation and amortisation	60,262	–	4,109	64,371
Investments in associates	289	1,989,858	–	1,990,147
Capital expenditure (i)	37,757	–	4	37,761

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

Geographical information

(a) *Revenue from external customers*

	2013	2012
	HK$'000	*HK$'000*
Asia other than Mainland China	**433,904**	413,658
Mainland China	**323,586**	245,340
	757,490	658,998

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

(b) *Non-current assets*

	2013	2012
	HK$'000	*HK$'000*
Hong Kong	**544,484**	1,440
Mainland China	**2,873,984**	2,859,500
	3,418,468	2,860,940

The non-current asset information from continuing operations above is based on the location of the assets and excludes available-for-sale investments.

Information about major customers

Revenue from continuing operations of approximately HK$223,062,000 and HK$209,494,000, respectively was derived from sales by the steel manufacturing and trading segment to two customers (2012: HK$413,658,000 to a single customer).

4. REVENUE

Revenue represents the value of sales of goods, heat energy supply income, heat energy supply facilities connection fees, hotel operation and other services fees during the year. An analysis for the Group's revenue is as follows:

	2013	2012
	HK$'000	*HK$'000*
Sales of goods	**432,556**	413,658
Heat energy supply	**225,558**	175,048
Heat energy supply facilities connection fees	**88,741**	61,015
Hotel operation	**1,348**	–
Other services fees	**9,287**	9,277
	757,490	658,998

5. OTHER INCOME AND GAINS

	2013	2012
	HK$'000	*HK$'000*
Other income		
Bank interest income	**5,829**	3,598
Gains		
Government grants on value added tax ("VAT") refund	**6,798**	5,343
Government grants on heat energy supply	**4,161**	3,961
Foreign exchange gains	**–**	1,130
	16,788	14,032

6. OTHER EXPENSES

	2013	2012
	HK$'000	*HK$'000*
Impairment of investments in associates *(note 13)*	**59,845**	323,059
Impairment of property, plant and equipment	**6,185**	–
Foreign exchange loss	**1,499**	–
Loss on disposal of items of property, plant and equipment	**377**	5,091
Impairment of other receivables	**–**	1,200
Others	**2**	13
	67,908	329,363

7. FINANCE COSTS

	2013	2012
	HK$'000	*HK$'000*
Interest on bank borrowings		
– wholly repayable within five years	**922**	2,827
Interest on convertible bonds *(note 16)*	**30,551**	28,361
Interest on a loan from a related company	**3,341**	4,284
	34,814	35,472
Less: amounts capitalised in construction in progress	**(3,341)**	(4,284)
	31,473	31,188

8. LOSS BEFORE TAX FROM CONTINUING OPERATIONS

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

	2013	2012
	HK$'000	*HK$'000*
Cost of goods sold	**419,918**	404,328
Cost of heat energy supply	**265,399**	255,502
Cost of hotel operation	**487**	–
Depreciation of items of property, plant and equipment	**51,354**	53,359
Recognition of prepaid land lease payments	**3,047**	3,041
Amortisation of intangible assets	**7,318**	7,183
Amortisation of other long-term assets	**803**	788
Employee benefit expense (including directors' and chief executives remuneration)		
Wages, salaries and other benefits	**27,081**	27,031
Retirement scheme contributions	**41**	28
Loss on disposal of items of property, plant and equipment	**377**	5,091
Auditors' remuneration	**5,200**	4,700
Minimum lease payments under operating leases:		
Land and buildings	**1,511**	1,368
Impairment of other receivables	**–**	1,200
Write-down of inventories to net realisable value	**–**	465
Bank interest income	**(5,829)**	(3,598)
Foreign exchange loss/(gains), net	**1,499**	(1,130)
Impairment of investments in associates	**59,845**	323,059

9. INCOME TAX EXPENSE/(CREDIT)

The major components of income tax expense/(credit) for the year ended 31 December 2013 and 2012 are as follows:

	2013	2012
	HK$'000	*HK$'000*
Current income tax:		
Hong Kong	**2,183**	330
Mainland China	**–**	–
Deferred income tax	**21,516**	(37,369)
Income tax expense/(credit) for the year	**23,699**	(37,039)

Hong Kong profits tax has been provided at the rate of 16.5% (2012: 16.5%) of the estimated assessable profits arising in Hong Kong during the year.

The provision for PRC current income tax is based on the statutory rate of 25% (2012: 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 PRC profits tax has been made in the financial statements as the Group does not have any assessable profit arising in Mainland China.

A reconciliation of the tax expense/(credit) applicable to profit before tax at the statutory rate for the jurisdiction in which the Company and its subsidiaries are domiciled to the tax expense/(credit) 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 years ended 31 December 2013 and 2012, are as follows:

2013	**Mainland China**		**Hong Kong**		**Others (i)**		**Total**	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Profit/(loss) before tax from continuing operations	**25,929**		**(106,273)**		**(7,354)**		**(87,698)**	
Tax at the statutory income tax rate	**6,482**	**25.0**	**(17,535)**	**16.5**	**–**	**–**	**(11,053)**	**12.6**
Expenses not deductible for tax	**120**	**0.5**	**3,410**	**(3.2)**	**–**	**–**	**3,530**	**(4.0)**
Share of losses from associates not subject to tax	**–**	**–**	**482**	**(0.5)**	**–**	**–**	**482**	**(0.5)**
Tax losses not recognised	**13,729**	**52.9**	**14,974**	**(14.1)**	**–**	**–**	**28,703**	**(32.7)**
Effect of withholding tax at 5% on the distributable profits of the Group's PRC associates	**–**	**–**	**(146)**	**(0.1)**	**–**	**–**	**(146)**	**(0.2)**
Prior year tax adjustment	**–**	**–**	**2,183**	**(2.1)**	**–**	**–**	**2,183**	**(2.5)**
Tax expense at the Group's effective rate	**20,331**	**78.4**	**3,368**	**(3.2)**	**–**	**–**	**23,699**	**(27.0)**

2012	Mainland China		Hong Kong		Others (i)		Total	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Loss before tax from continuing operations	(37,749)		(1,032,886)		(1,121)		(1,071,756)	
Tax at the statutory income tax rate	(9,437)	25.0	(170,426)	16.5	–	–	(179,863)	16.8
Expenses not deductible for tax	301	(0.8)	–	–	–	–	301	0.0
Share of losses of associates	(1)	0.0	107,972	(10.5)	–	–	107,971	(10.1)
Tax losses not recognised	6,435	(17.0)	61,036	(5.9)	–	–	67,471	(6.3)
Effect of withholding tax at 5% on the distributable profits of the Group's PRC associates	–	–	(32,919)	3.2	–	–	(32,919)	3.1
Tax credit at the Group's effective rate	(2,702)	7.2	(34,337)	3.3	–	–	(37,039)	3.5

(i) Others represent the results of certain subsidiaries which are tax exempted companies incorporated in Bermuda and the British Virgin Islands.

10. DISCONTINUED OPERATIONS

In December 2012, the Board of the Company passed a resolution to consider to the disposal of Goalreach Investment Limited ("Goalreach"). Goalreach through its 100% subsidiary, Burlingame (Chinese) Investment Limited ("BCIL"), holds an investment in a joint venture, Shanghai Underground Centre Company Limited ("SUCCL"), which is engaged in the operation and management of shopping malls in Mainland China. Goalreach and BCIL acted solely as an investment holding company.

As at 31 December 2012, the discussion and negotiation for the sale were in progress and Goalreach was classified as a disposal group held for sale.

On 17 June 2013, the Company entered into an agreement to dispose of the entire issued capital of Goalreach to a third party. The disposal of Goalreach has been completed on 26 June 2013.

The results of discontinued operations for the year are presented below:

	2013	2012
	HK$'000	*HK$'000*
Loss on disposal *(note 18)*	**(2,735)**	–
Reclassification of translation reserve from other comprehensive income to statement of profit or loss upon disposal of a subsidiary	**18,270**	–
Other expenses	**–**	(63)
Administrative expenses	**(345)**	(770)
Share of profits/(losses) of a joint venture	**(766)**	94
Gain/(loss) before tax from the discontinued operations	**14,424**	(739)
Loss recognised on the measurement to fair value	**–**	(44,429)
Income tax expense	**–**	–
Gain/(loss) from the discontinued operations	**14,424**	(45,168)

The major classes of assets and liabilities of Goalreach classified as held for sale as at 31 December 2012 are as follows:

	2012
	HK$'000
Carrying amounts of assets before classified as held for sale:	
Investment in a joint venture	94,461
Dividend receivable from a joint venture	79,968
Bank balances and cash	29
	174,458
Loss recognised on the measurement to fair value	(44,429)
Fair value at year end	130,029

The net cash flows incurred by Goalreach are as follows:

	2013	2012
	HK$'000	*HK$'000*
Operating activities	**(345)**	(824)
Investing activities	**–**	10,485
Financing activities	**–**	(10,038)
Net cash outflow	**(345)**	(377)

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

	2013	2012
Basic, from the discontinued operation	**HK$0.13 cents**	(HK$0.41 cents)
Diluted, from the discontinued operation	**HK$0.11 cents**	(HK$0.41 cents)

The calculations of basic and diluted earnings/(loss) per share from the discontinued operation are based on:

	2013	2012
Gain/(loss) ('000)		
Gain/(loss) attributable to ordinary equity holders of the Company from the discontinued operation	**14,424**	(45,168)
Number of shares ('000)		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation *(note 12)*	**10,968,469**	10,912,213
Weighted average number of ordinary shares in issue during the year used in the diluted earnings per share calculation *(note 12)*	**12,778,880**	12,778,880

11. DIVIDENDS

The Directors do not recommend the payment of any dividend in respect of the year.

12. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic loss per share amount is based on the loss for the year attributable to ordinary equity holders of the Company, and the weighted average number of 10,968,469,000(2012: 10,912,213,000) shares in issue during the year.

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

No adjustment has been made to the basic loss per share amounts presented for the year ended 31 December 2012 and 2013 in respect of a dilution as the impact of the convertible bonds outstanding had an anti-dilutive effect on the basic loss per share amounts presented. As at 31 December 2013, there were no outstanding convertible bonds.

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

	2013	2012
Loss (HK$ '000)		
Loss attributable to ordinary equity holders of the Company		
From continuing operations	**(119,284)**	(1,021,624)
From discontinued operation	**14,424**	(45,168)
	(104,860)	(1,066,792)
Interest on convertible bonds *(note 7)*	**30,551**	28,361
Loss attributable to ordinary equity holders of the Company before interest on convertible bonds	**(74,309)***	(1,038,431)*
Attributable to:		
Continuing operations	**(88,733)***	(993,263)*
Discontinued operation	**14,424**	(45,168)
	(74,309)*	(1,038,431)*
Number of shares ('000)		
Weighted average number of ordinary shares in issue during the year used in the basic loss per share calculation	**10,968,469**	10,912,213
Effect of dilution–weighted average number of ordinary shares:		
Convertible bonds	**1,810,411***	1,866,667*
Weighted average number of ordinary shares in issue during the year used in the diluted loss per share calculation	**12,778,880***	12,778,880*

* The effect of convertible bonds is ignored in the calculation of diluted loss per share, and the diluted loss per share is the same as the basic loss per share for the year ended 31 December 2013 since the deemed conversion of convertible bonds would result in a decrease in loss per share with an anti-dilutive effect. Therefore, the diluted loss per share amounts for the year ended 31 December 2013 are based on the loss for the year and the loss attributable to continuing operations of HK$104,860,000 and HK$119,284,000, respectively, and the weighted average number of ordinary shares of 10,968,469,000 in issue during the year ended 31 December 2013.

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 year ended 31 December 2012 since the deemed conversion of convertible bonds would result in a decrease in loss per share with an anti-dilutive effect. Therefore, the diluted loss per share amounts for the year ended 31 December 2012 are based on the loss for the year and the loss attributable to continuing operations of HK$1,066,792,000 and HK$1,021,624,000, respectively, and the weighted average number of ordinary shares of 10,912,213,000 in issue during the year ended 31 December 2012.

13. INVESTMENTS IN ASSOCIATES

	Group 2013 HK$'000	2012 HK$'000
Share of net assets	**2,385,708**	2,313,206
Provision for impairment (iii)	**(396,110)**	(323,059)
	1,989,598	1,990,147

Particulars of all associates are as follows:

Name of associate	Legal form of business	Place of incorporation/ registration and business	Nominal value of registered capital	Percentage of ownership interest attributable to the Group Directly	Indirectly	Principal activities
天津市梅江供熱運行管理有限公司 Tianjin Meijiang Heat Supply Operating Management Company Limited (i)	Limited enterprise	The PRC/ Mainland China	RMB2,000,000	–	21%	Sale of heating materials
日照鋼鐵有限公司 Rizhao Steel Co., Limited ("Rizhao Steel") (ii)	Limited enterprise	The PRC/ Mainland China	RMB100,000,000	–	30%	Manufacturing and trading of steel products
日照型鋼有限公司 Rizhao Medium Section Mill Co., Limited ("Rizhao Mill") (ii)	Limited enterprise	The PRC/ Mainland China	RMB100,000,000	–	30%	Manufacturing and trading of steel products
日照鋼鐵軋鋼有限公司 Rizhao Steel Wire Co., Limited ("Rizhao Wire") (ii)	Limited enterprise	The PRC/ Mainland China	RMB80,000,000	–	25%	Manufacturing and trading of steel products

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

(ii) A proposed production capacity adjustment programme

Pursuant to the announcement dated 28 December 2012, the Group received a notice from Rizhao Steel Holding Group Company Limited (the parent company of the three associates) informing the Group that it may undergo a production adjustment programme to adjust the annual steel production capacity (the "Programme") (which is largely undertaken by the three associates). The Programme will be carried out in phases following the full and satisfactory settlement of matters arising from the Programme during the course of its implementation (including production equipment allocation, redundancy arrangement, subsidies and compensation policies, safety, stability issues, etc.) with the assistance of the Shandong Provincial Government. If the Programme is implemented, the annual steel production capacity of Rizhao Steel Holding Group Company Limited may be adjusted from approximately 12 million tonnes to 5 million tonnes by 2015. The settlement method of the aforementioned matters and the implementation, procedures and timing of the Programme are yet to be determined and are subject to further negotiations and liaisons between Rizhao Steel Holding Group Company Limited and the relevant government authorities. In this regard, the impairment assessment on the investment in the three associates mentioned in (iii) below did not take into consideration the effects of the Programme as the implementation of aforementioned Programme has not been committed.

(iii) Provision for impairment

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

As at 31 December 2013 and 2012, due to the continuous recession in the steel industry and operation losses from these investments in associates, management of the Group is of the opinion that there was an impairment indicator for long-term assets of each associate and the Group's investments in the associates.

For impairment testing of long-term assets of each associate, long-term assets within each associate are considered an individual cash-generating unit ("CGU"). The recoverable amount of each cash-generating unit has been determined based on a value in use calculation using cash flow projections based on its individual financial budgets covering a five-year period approved by senior management of the associates. The discount rate applied to the cash flow projections is 14.35% (2012: 14.2%). According to the impairment test result used by management of the Group, the recoverable amount of each individual CGU is lower than its respective carrying amount on consolidation level (taking into consideration the effect for the fair value adjustments on long-term assets of the associates at the acquisition date), and an impairment loss was provided for long-term assets of the associates, which has been recorded in share of losses of the associates of HK$45,392,000 for the year ended 31 December 2013 (for the year ended 31 December 2012: HK$554,710,000).

For impairment testing of investments in the associates, each investment in the three associates is considered an individual CGU. The recoverable amount of the CGU has been determined based on fair value less costs to sell by using the income approach (discounted cash flow method in particular). As a result, according to the impairment test result used by the Group, the recoverable amount of each individual CGU is lower than its respective carrying amount, and provision for impairment of HK$59,845,000 was recorded in statement of profit or loss for the year ended 31 December 2013 (31 December 2012: HK$323,059,000). As at 31 December 2013, the provision for impairment of investment in associates was HK$396,110,000 (31 December 2012: HK$323,059,000).

(iv) Change of useful lives of property, plant and equipment in associates

Considering the actual useful lives of property, plant and equipment of Rizhao Steel, Rizhao Mill and Rizhao Wire have been effectively prolonged through continuous maintenance and renovation during past years, the board of directors of Rizhao Steel Holding Group Company Limited (the parent company of Rizhao Steel, Rizhao Mill and Rizhao Wire) passed the resolution of changing useful lives of property, plant and equipment. The change of estimate is effective from 1 July 2013 and applied prospectively. As a result, the Group's share of profits of associates increased by approximately HK$126,915,000 for the year ended 31 December 2013.

Rizhao Steel, Rizhao Mill and Rizhao Wire, are considered material associates of the Group, and are accounted for using the equity method.

The following table illustrates the summarised financial information of Rizhao Steel, Rizhao Mill and Rizhao Wire adjusted for any differences in accounting policies, and reconciled to the carrying amount in the consolidated financial statements:

Rizhao Steel	**2013**	2012
	HK$'000	*HK$'000*
Current assets	**12,465,639**	5,214,921
Non-current assets	**13,247,589**	11,963,122
Current liabilities	**(21,277,044)**	(13,374,555)
Non-current financial liabilities, excluding trade and other payables and provisions	**(254,378)**	–
Non-current liabilities	**(943,252)**	(556,038)
Net assets	**3,238,554**	3,247,450
Reconciliation to the Group's interest in the associate:		
Proportion of the Group's ownership	**30%**	30%
Share of net assets of the associate	**971,566**	974,235
Revenues	**46,429,292**	50,093,722
Loss for the year	**(118,967)**	(1,178,200)
Total comprehensive loss for the year	**(30,550)**	(1,177,422)

Rizhao Mill	**2013**	2012
	HK$'000	*HK$'000*
Current assets	**8,183,635**	4,902,054
Non-current assets	**475,880**	565,583
Current liabilities	**(7,803,105)**	(4,901,690)
Non-current financial liabilities, excluding trade and other payables and provisions	**(189,379)**	–
Non-current liabilities	**(33,080)**	(37,304)
Net assets	**633,951**	528,643
Reconciliation to the Group's interest in the associate:		
Proportion of the Group's ownership	**30%**	30%
Share of net assets of the associate	**190,185**	158,593
Revenues	**5,624,157**	5,775,608
Profit/(loss) for the year	**86,893**	(240,323)
Total comprehensive income/(loss) for the year	**100,519**	(241,248)

Rizhao Wire	**2013**	2012
	HK$'000	*HK$'000*
Current assets	**24,224,828**	17,387,758
Non-current assets	**4,818,316**	5,160,528
Current liabilities	**(23,244,707)**	(17,545,799)
Non-current financial liabilities, excluding trade and other payables and provisions	**(203,503)**	–
Non-current liabilities	**(700,235)**	(282,130)
Net assets	**4,894,699**	4,720,357
Reconciliation to the Group's interest in the associate:		
Proportion of the Group's ownership	**25%**	25%
Share of net assets of the associate	**1,223,675**	1,180,089
Revenues	**44,455,624**	47,842,105
Profit/(loss) for the year	**26,820**	(915,284)
Total comprehensive income/(loss) for the year	**153,243**	(919,140)

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2013	2012
	HK$'000	*HK$'000*
Share of the associates' (loss)/profit for the year	**(16)**	3
Share of the associates' other comprehensive income	**9**	–
Share of the associates' total comprehensive (loss)/income	**(7)**	3
Aggregate carrying amount of the Group's investments in the associates	**282**	289

14. TRADE RECEIVABLES

	Group	
	2013	2012
	HK$'000	*HK$'000*
Trade receivables	**1,798**	–

Trade receivables are non-interest-bearing.

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

The Group's trading terms with its customers for sale of goods and certain customers for hotel operations are mainly on credit. The credit period is generally one month, extending up to three months for major customers. The Group seeks to maintain strict control over its outstanding receivables and thus does not hold any collateral or other credit enhancement over its trade receivable balances.

An aged analysis of trade receivables is stated as follows:

	Group	
	2013	2012
	HK$'000	*HK$'000*
Within 1 month	**796**	–
1 to 3 months	**87**	–
Over 3 months	**915**	–
	1,798	–

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

15. TRADE AND BILLS PAYABLES

	Group	
	2013	2012
	HK$'000	*HK$'000*
Trade payables	**38,766**	26,499
Bills payables	**20,733**	–
	59,499	26,499

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

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:

	Group	
	2013	2012
	HK$'000	*HK$'000*
Within 1 month	**998**	260
1 to 3 months	**2,823**	1,049
Over 3 months	**34,945**	25,190
	38,766	26,499

As at 31 December 2013, the Group's bills payables are secured by the pledge of certain of the Group's time deposits amounting to HK$10,366,000 (2012: Nil).

16. CONVERTIBLE BONDS

On 19 December 2011, the Company entered into a convertible bond 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 issuance into the liability and equity components, and the movements of the liability components are as follows:

	Group and Company	
	2013	2012
	HK$'000	*HK$'000*
Liability component as at 1 January	**266,171**	241,085
Interest charge	**30,551**	28,361
Interest paid	**(9,505)**	(9,827)
Exchange differences on translation	**8,333**	6,552
Conversion of convertible bonds	**(295,550)**	–
Liability component at 31 December	**–**	266,171

On 20 December 2013, Ga Leung Investment Company Limited converted all the convertible bonds with a principal amount of HK$280,000,000 for 1,866,666,666 shares.

17. BUSINESS COMBINATION

On 20 December 2013, the Group through its wholly-owned subsidiary, Leading Prospect Limited, acquired a 100% interest in A6 Limited, Hotel de EDGE Limited and Hotel de EDGE Management Limited (the "**Target Group**") from third parties. The Target Group is engaged in hotel operation. The acquisition was made as part of the Group's strategy to expand the business portfolios in order to expand the revenue stream and to explore property investment opportunities to strengthen its asset quality. The purchase consideration for the acquisition was in the form of cash, with HK$488,000,000 paid at the acquisition date.

The fair values of the identifiable assets and liabilities of the Target Group as at the date of acquisition were as follows:

	Fair value recognised on acquisition *HK$'000*
Property, plant and equipment	544,125
Cash and bank balances	1,455
Inventories	344
Trade receivables	717
Prepayments and other receivables	533
Trade payables	(1,200)
Accruals and other payables	(2,651)
Receipt in advance	(805)
Tax Payable	(241)
Deferred tax liabilities	(54,277)
Total identifiable net assets at fair value	488,000
Goodwill on acquisition	–
Satisfied by cash	488,000

The fair values of the trade receivables and other receivables as at the date of acquisition amounted to HK$717,000 and HK$533,000, respectively.

The Group incurred transaction costs of HK$7,242,000 for this acquisition. These transaction costs have been expensed and are included in administrative expenses in the consolidated statement of profit or loss.

An analysis of the cash flows in respect of the acquisition of subsidiaries is as follows:

	HK$'000
Cash consideration	(488,000)
Cash and bank balances acquired	1,455
Net outflow of cash and cash equivalents included in cash flows from investing activities	(486,545)
Transaction costs of the acquisition included in cash flows from operating activities	(7,242)
	(493,787)

Since the acquisition, the Target Group contributed HK$1,348,000 to the Group's turnover and HK$233,000 to the consolidated profit for the year ended 31 December 2013.

Had the combination taken place at the beginning of the year, the revenue from continuing operations of the Group and the loss of the Group for the year would have been HK$789,601,000 and HK$121,879,000, respectively.

18. DISPOSAL OF SUBSIDIARY

As detailed in note 10, the Group disposed of a subsidiary to a third party during the year.

	26 June 2013 *HK$'000*
Investment in a joint venture	**95,208**
Dividend receivables from a joint venture	**81,415**
Cash and cash equivalents	**28**
Write-off of provision for assets of a disposal group classified as held for sale	**(45,233)**
Subtotal	**131,418**
Consideration	**130,000**
Less: Disposal related expenses	**(1,317)**
Net proceeds received	**128,683**
Loss on disposal	**(2,735)**

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiary is as follow:

	26 June 2013
	HK$'000
Cash consideration	**130,000**
Disposal related expenses paid	**(1,317)**
Cash and cash equivalents disposed of	**(28)**
Net inflow of cash and cash equivalents in respect of the disposal of subsidiary	**128,655**

The translation reserve amounted to HK$18,270,000 relating to disposal of a subsidiary is reclassified from other comprehensive income to statement of profit or loss for the year.

19. EVENTS AFTER THE REPORTING PERIOD

On 24 February 2014, the Group announced that it has been seeking to expand the business portfolios in order to expand the revenue stream and to explore property investment opportunities to strengthen its asset quality. The Group has entered into discussions in relation to possible acquisition of reputable hotel property and related operations or business in Europe. As of 24 March 2014, no binding agreement has been entered into by the Group relating to the possible acquisition.

FINAL DIVIDEND

The Board does not recommend the payment of final dividend for the year ended 31 December 2013 (2012: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the year ended 31 December 2013 (the "Year"), revenue of the Group amounted to HK$757.5 million, representing an increase of 14.9% from approximately HK$659.0 million for the year ended 31 December 2012 (the "Previous Year"). The increase in revenue was mainly attributable to increase in revenue contributed from heat energy supply segment, and trading in iron ore and materials related to steel manufacturing (the "Iron Ore and Other Materials"). The Group recorded a loss for the Year of HK$97.0 million, as compared with the loss of HK$1,079.9 million in the Previous Year. The loss for the Year was principally attributable to (i) impairment of investments in associates engaging in steel manufacturing and trading (the "Associates"); and (ii) the share of operating loss from the Associates in view of the unstable steel industry in China. Net loss attributable to owners of the Company for the Year amounted to HK$104.9 million, representing a decrease of 90.2% from HK$1,066.8 million in the Previous Year. The basic and diluted loss per share for the Year was HK$1 cent as compared with the basic and diluted loss per share of HK$10 cents in the Previous Year.

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

Steel Manufacturing and Trading

Overview

With continuing structural problems such as overcapacity in China's steel industry, combined with weak demand of steel products under modest economic growth, the Group's associates engaged in steel manufacturing and trading, namely Rizhao Steel Co., Limited, Rizhao Medium Section Mill Co., Limited, and Rizhao Steel Wire Co., Limited, continued to struggle for performance in 2013. During the Year, the Group shared the loss of HK$2.9 million from the Associates, as compared with the loss of HK$654.4 million in the Previous Year.

Provision for impairment

As at 31 December 2013, the Group's investments in the Associates were tested for impairment as China's steel industry remained unstable. Details of the impairment are disclosed in note 13 to this announcement.

Changes in Accounting Estimates of Certain Fixed Assets

With reference to the announcement made by the Company on 6 December 2013, following a review of the actual conditions, Rizhao Steel Holding had reassessed and revised the estimated useful lives of certain fixed assets of the Associates that had been effective from 1 July 2013 and were accounted for as changes in accounting estimates and applied prospectively. As a result, depreciation expenses of the Associates for the six months ending 31 December 2013 had been reduced.

Trading in Iron Ore and Other Materials

The Group recorded revenue of HK$432.6 million from trading in Iron Ore and Other Materials, representing an increase of 4.6% as compared with HK$413.7 million recorded in the Previous Year. During the Year, the Group remained vigilant and conducted trading in Iron Ore and Other Materials under a cautious approach. As the result of unpredictable global market conditions and unsatisfactory profit margin from trading in Iron Ore and Other Materials, the Group had ceased such trading activities since fourth quarter of the Year, and aimed to reallocate resources on better business opportunities to enhance returns to shareholders. In December 2013, the Group acquired a hotel in Sheung Wan, Hong Kong, details of the acquisition are disclosed in the Hotel Operation segment below.

Heat Energy Supply

The Group's heat energy supply subsidiaries in Tianjin, PRC operated heat energy supply projects located in the Meijiang district, Jinxia Xindu district and Xiqing Nanhe district (the "Three Districts"), which continued to contribute steady heat energy supply revenue to the Group. During the Year, the Group recorded revenue of HK$323.6 million from the heat energy supply segment as compared with HK$245.3 million in the Previous Year. The increase in revenue was mainly attributable to increase in heat connection fee and heat supply fee resulting from increased heat energy usage from new development projects launched in the Three Districts. Despite the increased revenue, the Group's heat energy supply facilities had yet to be utilized at efficient levels to achieve economies of scale. During the Year, the Group recorded segmental profit of approximately HK$30.4 million as compared with the loss of approximately HK$47.1 million in the Previous Year.

Property Investment

The Group had disposed of its entire interests in Goalreach (the "Disposal"), Goalreach holds the entire share capital of BCIL, which is a foreign shareholder in SUCCL. The Disposal was completed on 26 June 2013, the Group recorded the loss of approximately HK$2.7 million. After the Disposal, the translation reserve of HK$18.3 million was reclassified from other comprehensive income to statement of profit or loss for the Year. Net profit for the Year from the discontinued operations was HK$14.4 million.

The Disposal enabled the Group to realise investment in SUCCL and enhanced the working capital position and liquidity, the Disposal was in the interest of the Company and its shareholders as a whole. Further details of the Disposal are disclosed in note 10 of this announcement.

Hotel Operation

The Group has been constantly seeking to expand its business portfolios with a view to expanding revenue source. With the strong performance of Hong Kong's tourism industry, the Group considered that acquisition of a hotel in Hong Kong should broaden income stream of the Group. On 20 December 2013, the Group completed the acquisition of the entire issued share capital of A6 Limited, Hotel de EDGE Management Limited and Hotel de EDGE Limited (the "Hotel Group"). The Hotel Group owns and operates the Hotel de EDGE, a 90-room boutique hotel situated at Sheung Wan, Hong Kong. With the opening of new stations from the Mass Transit Railway island line western extension in 2014, the Group considered that Hotel de EDGE shall benefit from continuous development in the Sheung Wan district. Further details of the acquisition are disclosed in note 17 of this announcement. During the Year, the Group recorded revenue of HK$1.3 million from the hotel operation (31 December 2012: Nil).

Money Lenders Licence

Kai Yuan Capital Limited (formerly known as "Shinning Profit Limited"), an indirect wholly-owned subsidiary of the Company, was granted a money lenders licence to carry out money lending business in Hong Kong with effect from 7 November 2013. The Group considered that diversification into money lending business would provide another stream of income to maximise returns to shareholders of the Company. Subsequent to the application of money lenders licence, money lending market landscape had changed quickly, the Group will remain vigilant when conducting money lending business. As at the date of this announcement, the Group had not commenced money lending business.

PROSPECTS

Steel Manufacturing and Trading

China's steel industry remains highly competitive and participants are relatively fragmented. It is expected that the problem of overcapacity shall continue to suppress overall profit margin of the industry. On the bright side, global iron ore prices have shown a downward trend since December 2013, coupled with continuation of China's new urbanization strategy, may boost up demand of steel in 2014. In the long run, China's steel industry calls for research and development, the Group's Associates are committed to new product development in order to remain competitive in the industry.

Heat Energy Supply

The Group's heat energy supply segment is positively related to new property development projects launched in the area. After Tianjin city had achieved a remarkable GDP growth in 2013, it is expected that revenue from the Group's heat energy supply operations of the Three Districts will be benefited when new property development projects are launched.

Hotel Operation Segment

The Group takes an optimistic view in the prospect of the Hong Kong and global tourism industry, and the new hotel operation segment would form a solid foundation of the Group's further development in revenue base. After the acquisition of Hotel de EDGE, the Group has been looking for further related investment opportunities in areas including but not limited to Asia and Europe. As at the date of this announcement, the Company has entered into discussions in relation to possible acquisition of a reputable hotel property and related operations/business in France, Europe (the "Possible Acquisition"). As at the date of this announcement, no binding agreement has been entered into by the Company relating to the Possible Acquisition. If the Possible Acquisition should consummate, it may constitute a very substantial acquisition of the Company under the Listing Rules. Further announcement will be made by the Company as and when applicable.

Looking ahead

It is expected that the China economy shall continue to be filled with uncertainties and slow down in growth in 2014. The Group shall remain dedicated to constantly review, reinforce and if appropriate restructure its existing business segments with a view to enhancing and optimising return to our stakeholders. In the meantime, the Group will continue seeking for expansion in its business portfolios globally in order to broaden and strengthen its revenue stream.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2013, total assets and net assets of the Group were approximately HK$3,806.6 million and HK$3,017.1 million respectively, as compared with HK$3,679.8 million and HK$2,766.0 million as at 31 December 2012. The cash and bank balance of the Group as at 31 December 2013 were approximately HK$196.8 million (31 December 2012: HK$530.4 million), representing a decrease of 62.9% from the Previous Year. The total current assets decreased by 53.0% to approximately HK$382.2 million during the Year (31 December 2012: HK$813.1 million). As at 31 December 2013, the Group's outstanding bank and other borrowings amounted to approximately HK$6.4 million (31 December 2012: HK$34.0 million), all of which were due within one year. As at 31 December 2013, the net current liabilities of the Group were approximately HK$214.9 million (31 December 2012: Net current assets HK$12.1 million). As at 31 December 2013, the Group's gearing ratio (total borrowings/total assets) continued to remain at a low level of 3.3% (31 December 2012: 4.0%).

With reference to the announcement made by the Company on 18 December 2013, Ga Leung Investment Company Limited (the "Subscriber"), the sole holder of the HK$280.0 million convertible bonds (the "Convertible Bonds"), served a conversion notice to the Company to fully convert the Convertible Bonds into conversion shares at the conversion price of HK$0.15 per conversion share. On 20 December 2013, the Company allotted and issued 1,866,666,666 conversion shares, representing approximately 14.61% of the enlarged issued share capital of the Company, to the Subscriber. Thereafter, the Subscriber became the largest shareholder of the Company.

Acquisitions and Disposals

During the Year, the Company had disposed of its entire interest in Goalreach to a third party at a consideration of HK$130.0 million. Goalreach held the entire issued share capital of BCIL, which was a foreign shareholder in SUCCL. Details on the disposal of Goalreach are disclosed in note 10 to the consolidated financial statements of this announcement.

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 Development

Company Limited 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 Year. 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

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

Pledge on the Group's Assets

As at 31 December 2013, time deposits amounting to HK$10.4 million were pledged to secure certain bills payables (31 December 2012: Nil).

Employees and Remuneration

The Group had 209 employees as at 31 December 2013 (31 December 2012: 187). Remuneration policies are reviewed regularly to ensure that compensation and benefit packages are in line with the market level. In addition to basic remuneration, the Group also provides other employee benefits including bonuses, mandatory provident fund scheme and medical scheme. At the discretion of the Board, the Group may grant share options to eligible employees and participants.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the Year, 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 has set up procedures on corporate governance that comply with the requirements of the Listing Rules on corporate governance practices based on the principles and code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules.

The Company had complied with the code provision of the CG Code throughout the year ended 31 December 2013 with the following deviations:

- A.4.1 Non-executive Directors are not appointed for a specific term. They are, however, subject to retirement by rotation and re-election at the annual general meetings of the Company pursuant to the Company's Bye-laws. As such, the Company considers that such provisions are sufficient to meet the underlying objectives of the relevant provisions of the CG Code.

- A.4.2 The Chairman is not, whilst holding such office, subject to retirement by rotation or taken into account in determining the number of Directors to retire in each year in accordance with the Company's Bye-laws. In the opinion of the Board, it is important for the stability and growth of the Company that there is, and is seen to be, continuity of leadership in these roles and, in consequence, the Board is of the view that both should not be subject to retirement by rotation or hold office for a limited term at the present time.

- E.1.2 The Chairman of the Board did not attend the annual general meeting held on 15 May 2013 due to the fact that he had other business commitments. Another executive Director, Mr. Law Wing Chi, Stephen was elected to chair the annual general meeting in accordance with the Company's Bye-laws.

The Board will keep these matters under review.

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

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

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") comprises three independent non-executive Directors namely Mr. Tam Sun Wing (Chairman), Mr. Ng Ge Bun and Mr. He Yi. The Audit Committee has reviewed with the management the accounting policies and practices adopted by the Group. The Audit Committee is satisfied with the Group's internal control procedures and financial reporting disclosures. The annual results for the year ended 31 December 2013 have been reviewed by the Audit Committee.

REMUNERATION COMMITTEE

The remuneration committee of the Company (the "Remuneration Committee") has been set up with written terms of reference in accordance with the requirements of the Listing Rules, amongst other things, to make recommendations to the Board of the Company's remuneration policy and structure for all directors and senior management. The Remuneration Committee comprises one executive Director namely Mr. Law Wing Chi, Stephen, and three independent non-executive Directors namely Mr. Tam Sun Wing (Chairman), Mr. He Yi and Mr. Ng Ge Bun.

NOMINATION COMMITTEE

The nomination committee of the Company (the "Nomination Committee") has been set up with written terms of reference in accordance with the requirements of the Listing Rules, amongst other things, to review the structure, size and composition of the Board. The Nomination Committee currently consists of one executive Director namely Mr. Law Wing Chi, Stephen and three independent non-executive Directors namely Mr. Ng Ge Bun (Chairman), Mr. He Yi and Mr. Tam Sun Wing.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

PUBLICATION OF FINAL RESULTS AND ANNUAL REPORT

This results announcement is published on the websites of the Stock Exchange (http://www.hkex.com.hk) and the Company (www.kaiyuanholdings.com). The annual report of the Company for the year ended 31 December 2013 containing all information required by Appendix 16 to the Listing Rules will be despatched to the shareholders of the Company and made available for review on the same websites in due course.

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

Hong Kong, 24 March 2014

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