# 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 2015

## 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 2015 (the "**Year**") together with comparative figures for the year ended 31 December 2014 (the "**Preceding Year**") as follows:

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

*For the year ended 31 December 2015*

| | Notes | 2015 HK$'000 | 2014 HK$'000 (Restated) |
|---|---|---|---|
| **CONTINUING OPERATIONS** | | | |
| REVENUE | 3 | **329,737** | 88,688 |
| Cost of sales | | **(219,337)** | (61,115) |
| Gross profit | | **110,400** | 27,573 |
| Other income and gains | 4 | **6,291** | 3,106 |
| Other expenses | 5 | **–** | (64,998) |
| Administrative expenses | | **(55,697)** | (212,701) |
| Finance costs | 6 | **(120,856)** | (34,642) |
| LOSS BEFORE TAX FROM CONTINUING OPERATIONS | 7 | **(59,862)** | (281,662) |
| Income tax (expense)/credit | 8 | **(12,658)** | 41,785 |
| LOSS FOR THE YEAR FROM CONTINUING OPERATIONS | | **(72,520)** | (239,877) |
| **DISCONTINUED OPERATIONS** | | | |
| Profit for the year from discontinued operations | | **28,461** | 345,458 |
| (LOSS)/PROFIT FOR THE YEAR | | **(44,059)** | 105,581 |
| Attributable to: | | | |
| Owners of the Company | | **(20,343)** | 106,417 |
| Non-controlling interests | | **(23,716)** | (836) |
| | | **(44,059)** | 105,581 |
| (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY | 11 | | |
| Basic and diluted | | | |
| – For (loss)/profit for the year | | **(HK0.16 cents)** | HK0.83 cents |
| – For loss from continuing operations | | **(HK0.57 cents)** | (HK1.88 cents) |

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

*For the year ended 31 December 2015*

| | 2015 | 2014 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| | | (Restated) |
| (LOSS)/PROFIT FOR THE YEAR | **(44,059)** | 105,581 |
| OTHER COMPREHENSIVE INCOME | | |
| Other comprehensive income to be reclassified to profit or loss in subsequent periods: | | |
| Cash flow hedges: | | |
| Effective portion of changes in fair value of hedging instruments arising during the year | **(13,117)** | (25,479) |
| Reclassification adjustments for loss included in the consolidated statement of profit or loss | **7,648** | 1,239 |
| Income tax effect | **1,823** | 8,080 |
| | **(3,646)** | (16,160) |
| Exchange differences on translation of foreign operations | **(350,295)** | (47,883) |
| Reclassification of translation reserve from other comprehensive income to the statement of consolidated profit or loss upon disposal of subsidiaries | **(22,146)** | – |
| Net other comprehensive loss to be reclassified to profit or loss in subsequent periods | **(376,087)** | (64,043) |
| OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX | **(376,087)** | (64,043) |
| TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR | **(420,146)** | 41,538 |
| Attributable to: | | |
| Owners of the Company | **(385,669)** | 43,418 |
| Non-controlling interests | **(34,477)** | (1,880) |
| | **(420,146)** | 41,538 |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
*As at 31 December 2015*

| | Notes | 2015 HK$'000 | 2014 HK$'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | | **3,378,476** | 4,489,893 |
| Prepaid land lease payments | | **–** | 35,686 |
| Goodwill | | **292,060** | 329,917 |
| Other intangible assets | | **327** | 85,603 |
| Investments in associates | *12* | **–** | 2,357,666 |
| Available-for-sale investments | | **–** | 5,895 |
| Deferred tax assets | | **38,708** | 53,292 |
| Other long-term assets | | **–** | 3,046 |
| Total non-current assets | | **3,709,571** | 7,360,998 |
| CURRENT ASSETS | | | |
| Inventories | | **1,297** | 9,402 |
| Trade receivables | *13* | **10,954** | 22,512 |
| Other receivables and prepayments | | **15,447** | 27,147 |
| Prepaid land lease payments | | **–** | 3,370 |
| Other long-term assets-current portion | | **–** | 812 |
| Amounts due from related companies | | **–** | 133,518 |
| Pledged deposits | | **20,080** | 3,169 |
| Cash and cash equivalents | | **329,389** | 400,897 |
| | | **377,167** | 600,827 |
| Assets of a disposal company classified as held for sale | *9* | **2,240,807** | – |
| Total current assets | | **2,617,974** | 600,827 |
| Total assets | | **6,327,545** | 7,961,825 |
| CURRENT LIABILITIES | | | |
| Trade and bills payables | *14* | **14,104** | 46,183 |
| Other payables and accruals | | **32,582** | 221,367 |
| Receipt in advance | | **276** | 138,239 |
| Derivative financial instruments | | **8,312** | 6,224 |
| Interest-bearing bank borrowings | | **12,000** | 12,000 |
| Amounts due to related companies | | **20,537** | 96,478 |
| Loan from a related company | | **1,854,308** | 118,365 |
| Tax payable | | **5,948** | 46,049 |
| | | **1,948,067** | 684,905 |
| Liabilities of a disposal company classified as held for sale | *9* | **45,885** | – |
| Total current liabilities | | **1,993,952** | 684,905 |
| NET CURRENT ASSETS/(LIABILITIES) | | **624,022** | (84,078) |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **4,333,593** | 7,276,920 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

*As at 31 December 2015*

| | 2015 *HK$'000* | 2014 *HK$'000* |
|---|---|---|
| TOTAL ASSETS LESS CURRENT LIABILITIES | **4,333,593** | 7,276,920 |
| NON-CURRENT LIABILITIES | | |
| Interest-bearing bank borrowings | **1,581,201** | 1,779,245 |
| Loans from a related company | **–** | 1,854,308 |
| Deferred tax liabilities | **365,905** | 566,710 |
| Derivative financial instruments | **18,603** | 18,016 |
| Total non-current liabilities | **1,965,709** | 4,218,279 |
| Net assets | **2,367,884** | 3,058,641 |
| EQUITY | | |
| Equity attributable to owners of the Company | | |
| Share capital | **1,277,888** | 1,277,888 |
| Reserves | **1,089,996** | 1,475,665 |
| | **2,367,884** | 2,753,553 |
| Non-controlling interests | **–** | 305,088 |
| Total equity | **2,367,884** | 3,058,641 |

## NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 December 2015*

### 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 hotel operation.

### 2.1 BASIS OF PREPARATION

These 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, accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments which have been measured at fair value. A disposed company held for sale is stated at the lower of its carrying amount and fair value less costs to sell. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

**Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2015. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

## 2.1 BASIS OF PREPARATION (continued)

**Basis of consolidation** (continued)

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

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.

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

| | |
|---|---|
| Amendments to HKAS 19 | *Defined Benefit Plans: Employee Contributions* |
| *Annual Improvements to HKFRSs 2010–2012 Cycle* | |
| *Annual Improvements to HKFRSs 2011–2013 Cycle* | |

The adoption of the revised HKFRSs has had no significant financial effect on these financial statements.

In addition, the Company has adopted the amendments to the Listing Rules issued by the Stock Exchange relating to the disclosure of financial information with reference to the Hong Kong Companies Ordinance (Cap.622) during the current financial year. The main impact to the financial statements is on the presentation and disclosure of certain information in the financial statements.

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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*[2] |
| Amendments to HKFRS 10 and HKAS 28 (2011) | *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[1] |
| Amendments to HKFRS 10 and HKFRS 12 and HKAS 28 (2011) | *Investment Entities: Applying the Consolidation Exception*[1] |
| Amendments to HKFRS 11 | *Accounting for Acquisitions of Interests in Joint Operations*[1] |
| HKFRS 14 | *Regulatory Deferral Accounts*[3] |
| HKFRS 15 | *Revenue from Contracts with Customers*[2] |
| Amendments to HKAS 1 | *Disclosure Initiative*[1] |
| Amendments to HKAS 16 and HKAS 38 | *Clarification of Acceptable Methods of Depreciation and Amortisation*[1] |
| Amendments to HKAS 16 and HKAS 41 | *Agriculture: Bearer Plants*[1] |
| Amendments to HKAS 27 (2011) | *Equity Method in Separate Financial Statements*[1] |
| *Annual Improvements 2012–2014 Cycle* | Amendments to a number of HKFRSs[1] |

1 Effective for annual periods beginning on or after 1 January 2016

2 Effective for annual periods beginning on or after 1 January 2018

3 Effective for an entity that first adopts HKFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt HKFRS 9 from 1 January 2018. The Group is currently assessing the impact of the standard.

HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. In September 2015, the HKICPA issued an amendment to HKFRS 15 regarding a one-year deferral of the mandatory effective date of HKFRS 15 to 1 January 2018. The Group expects to adopt HKFRS 15 on 1 January 2018 and is currently assessing the impact of HKFRS 15 upon adoption.

Amendments to HKAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:

(i) the materiality requirements in HKAS 1;

(ii) that specific line items in the statement of profit or loss and the statement of financial position may be disaggregated;

(iii) that entities have flexibility as to the order in which they present the notes to financial statements; and

(iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss. The Group expects to adopt the amendments from 1 January 2016. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 16 and HKAS 38 clarify the principle in HKAS 16 and HKAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are to be applied prospectively. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016 as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

## 3. REVENUE AND SEGMENT INFORMATION

For management purposes, the Group has only one (2014: three) reportable operating segment: the hotel operation segment is engaged in operation of hotel businesses in Hong Kong and France. Management monitors the operating results of its business units as a whole for the purpose of making decisions about resource allocation and performance assessment.

The heat energy supply segment, engaging 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, has been disposed of on 28 October 2015 and details of which are given in notes 9 and 16 to this announcement.

The steel manufacturing and trading segment holding significant interests in three associates, located in Shandong Province, engaged in steel and steel product manufacturing and trading, has been reclassified as discontinued operation as at 31 December 2015, details of which are given in note 9 to this announcement.

Revenue represents the value of hotel operation income during the year. An analysis for the Group's revenue is as follows:

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | | (Restated) |
| **Segment revenue** | | |
| Sales to external customers | **329,737** | 88,688 |
| Revenue from continuing operations | **329,737** | 88,688 |
| **Segment results** | **(36,913)** | (145,121) |
| *Reconciliation:* | | |
| Interest income | **946** | 959 |
| Corporate and other unallocated expenses | **(23,895)** | (137,388) |
| Finance costs | **–** | (112) |
| Loss before tax from continuing operations | **(59,862)** | (281,662) |

**Geographical information**

*(a) Revenue from external customers*

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | | (Restated) |
| Hong Kong | **26,461** | 31,596 |
| France | **303,276** | 57,092 |
| | **329,737** | 88,688 |

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

3. **REVENUE AND SEGMENT INFORMATION** (continued)

**Geographical information** (continued)

*(b) Non-current assets*

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| France | **3,099,108** | 3,535,633 |
| Hong Kong | **522,218** | 532,836 |
| Mainland China | **49,537** | 3,233,342 |
| | **3,670,863** | 7,301,811 |

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

**Information about major customers**

No revenue from transactions with a single customer amounted to 10% or more of the Group's total revenue for both years.

4. **OTHER INCOME AND GAINS**

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | | (Restated) |
| **Other income** | | |
| Bank interest income | **946** | 959 |
| **Gains** | | |
| Foreign exchange gains | **2,721** | – |
| Others | **2,624** | 2,147 |
| | **6,291** | 3,106 |

5. **OTHER EXPENSES**

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | | (Restated) |
| Foreign exchange loss | **–** | 64,998 |

## 6. FINANCE COSTS

| | 2015 | 2014 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| | | (Restated) |
| Interest on bank borrowings | | |
| – wholly repayable within five years | **38,005** | 13,418 |
| Fair value losses, net: | | |
| Cash flow hedges (transfer from equity) | **7,648** | 1,239 |
| Interest on loans from related companies | **75,203** | 19,985 |
| | **120,856** | 34,642 |

## 7. LOSS BEFORE TAX FROM CONTINUING OPERATIONS

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

| | | 2015 | 2014 |
|---|---|---|---|
| | *Notes* | *HK$'000* | *HK$'000* |
| | | | (Restated) |
| Cost of hotel operation | | **170,522** | 37,022 |
| Depreciation of items of property, plant and equipment | | **48,815** | 24,093 |
| Amortisation of intangible assets | | **72** | 16 |
| Employee benefit expense (excluding directors' and chief executive's remuneration) | | | |
| Wages, salaries and other benefits | | **3,667** | 2,928 |
| Auditors' remuneration | | **5,000** | 5,500 |
| Minimum lease payments under operating leases: | | | |
| Buildings | | **1,575** | 1,603 |
| Fair value losses, net: | | | |
| Cash flow hedges (transfer from equity) | *6* | **7,648** | 1,239 |
| Bank interest income | *4* | **(946)** | (959) |
| Foreign exchange (gain)/loss, net | *4, 5* | **(2,721)** | 64,998 |

## 8. INCOME TAX EXPENSE/(CREDIT)

The major components of income tax expense/(credit) for the years ended 31 December 2015 and 2014 are as follows:

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | | (Restated) |
| Current income tax | | |
| Europe | **6,066** | 31 |
| Deferred income tax | **6,592** | (41,816) |
| Income tax expense/(credit) for the year | **12,658** | (41,785) |

Hong Kong profits tax has been provided at the rate of 16.5% (2014: 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% (2014:25%) 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.

The provision of French's current income tax is based on the rate of 33.33% (2014: 33.33%) of the estimated assessable profits arising during the year.

The provision of Luxembourg's current income tax is based on the rate of 29.22% (2014: 29.22%) of the estimated assessable profits arising during the year.

## 8. INCOME TAX EXPENSE/(CREDIT) (continued)

A reconciliation of the tax expense/(credit) applicable to loss before tax at the statutory rates for the jurisdictions in which the Company and its subsidiaries are domiciled to the tax expense/(credit) at the effective tax rates, and a reconciliation of the applicable rates (i.e. the statutory tax rates) to the effective tax rate for the years ended 31 December 2015 and 2014, are as follows:

| **2015** | **Mainland China** | | **Hong Kong** | | **France** | | **Luxembourg** | | **Others** (i) | | **Total** | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *HK$'000* | *%* | *HK$'000* | *%* | *HK$'000* | *%* | *HK$'000* | *%* | *HK$'000* | *%* | *HK$'000* | *%* |
| (Loss)/profit before tax from continuing operations | **(681)** | | **(185,919)** | | **18,571** | | **108,728** | | **(561)** | | **(59,862)** | |
| Tax at the statutory income tax rate | **(170)** | **25.0** | **(30,677)** | **16.5** | **6,190** | **33.33** | **31,770** | **29.22** | **–** | **–** | **7,113** | **(11.9)** |
| Expenses not deductible for tax | **–** | **–** | **33,643** | **(18.1)** | **7,274** | **39.16** | **–** | **–** | **–** | **–** | **40,917** | **(68.4)** |
| Income not subject to tax | **–** | **–** | **(7,276)** | **3.9** | **–** | **–** | **(31,770)** | **(29.22)** | **–** | **–** | **(39,046)** | **65.2** |
| Tax losses utilised from previous periods | **–** | **–** | **(120)** | **0.06** | **–** | **–** | **–** | **–** | **–** | **–** | **(120)** | **0.2** |
| Tax losses not recognised | **170** | **(25.0)** | **3,513** | **(1.9)** | **–** | **–** | **–** | **–** | **–** | **–** | **3,683** | **(6.2)** |
| Minimum corporate income tax | **–** | **–** | **–** | **–** | **–** | **–** | **111** | **0.1** | **–** | **–** | **111** | **(0.2)** |
| Tax expense at the Group's effective rate | **–** | **–** | **(917)** | **0.46** | **13,464** | **72.49** | **111** | **0.1** | **–** | **–** | **12,658** | **(21.3)** |

| 2014 (Restated) | Mainland China | | Hong Kong | | France | | Luxembourg | | Others (i) | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *HK$'000* | *%* | *HK$'000* | *%* | *HK$'000* | *%* | *HK$'000* | *%* | *HK$'000* | *%* | *HK$'000* | *%* |
| Profit/(loss) before tax from continuing operations | (1,442) | | (185,512) | | (129,247) | | 34,889 | | (350) | | (281,662) | |
| Tax at the statutory income tax rate | (361) | 25.0 | (30,609) | 16.5 | (43,082) | 33.33 | 10,195 | 29.22 | – | – | (63,857) | 22.7 |
| Expenses not deductible for tax | – | – | 17,794 | (9.6) | 4,809 | (3.72) | – | – | – | – | 22,603 | (8.0) |
| Income not subject to tax | – | – | (1,098) | 0.6 | – | – | (10,365) | (29.71) | – | – | (11,463) | 4.0 |
| Deferred tax assets not recognised in prior years | – | – | – | – | (880) | 0.68 | – | – | – | – | (880) | 0.3 |
| Tax losses not recognised | 361 | (25.0) | 11,250 | (6.1) | – | – | 170 | 0.49 | – | – | 11,781 | (4.2) |
| Minimum corporate income tax | – | – | – | – | – | – | 31 | 0.09 | – | – | 31 | 0.0 |
| Tax credit at the Group's effective rate | – | – | (2,663) | 1.4 | (39,153) | 30.29 | 31 | 0.09 | – | – | (41,785) | 14.8 |

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

## 9. DISCONTINUED OPERATIONS

### (a) Disposal of heat energy supply segment

On 27 May 2015, the Company entered into an agreement to dispose of the entire issued capital of Spread International Group Limited (the "Spread International") and its subsidiaries (collectively as the "Disposal Group") and a shareholder's loan owing by the Disposal Group ("Shareholder's Loan") to a third party (the "Disposal of Spread International").

Spread International holds a 100% equity interest in Achieve (China) Limited ("Achieve"). Spread International and Achieve acted solely as an investment holding company. Achieve holds a 49% equity interest in Tianjin Heating Development Company Limited ("Tianjin Heating").

Tianjin Heating and its subsidiaries are 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.

Particulars of the Disposal Group are as follows:

| Name of subsidiary | Legal form of business | Place of incorporation or registration/place of operations | Nominal value of issued and fully paid-up share/ registered capital | Percentage of issued share/ registered capital attributable to the Company | | Principal activities |
|---|---|---|---|---|---|---|
| | | | | Direct % | Indirect % | |
| Spread International Group Limited | Corporation | British Virgin Islands | US$100 | – | 100 | Investment holding |
| Achieve (China) Limited | Corporation | Hong Kong | HK$1 | – | 100 | Investment holding |
| Tianjin Heating Development Company Limited (天津市供熱發展有限公司) [(i)] | Sino-foreign owned enterprise | The PRC/ Mainland China | RMB50,000,000 | – | 49 | Heat energy supply in Tianjin, the PRC |
| Tianjin Baosheng Heating Investment Company Limited (天津市寶勝熱能投資有限公司) [(ii)] | Limited enterprise | The PRC/ Mainland China | RMB20,000,000 | – | 26.95 | Heat energy supply in Tianjin, the PRC |
| Tianjin Meijiang Heating Company Limited (天津市梅江供熱有限公司) [(ii)] | Limited enterprise | The PRC/ Mainland China | RMB66,000,000 | – | 25.98 | Heat energy supply in Tianjin, the PRC |

(i) Tianjin Heating is accounted for as a subsidiary of the Group because the Group has the power to control the board of directors and to govern the financial and operating policies of Tianjin Heating. Through an entrustment agreement dated 30 June 2008 entered into between one wholly-owned subsidiary of the Group and a shareholder of Tianjin Heating who holds a 5% equity interest in Tianjin Heating, the Group has the right to exercise all the power as a shareholder of a 5% equity interest, and the Group is entitled to an extra right to appoint one director to the board of directors of Tianjin Heating. Together with the Group's original right to appoint directors to the board of directors of Tianjin Heating as the shareholder holding a 49% equity interest, the Group is entitled to appoint up to six directors out of nine directors to the board of directors of Tianjin Heating. Tianjin Heating applies the principle of simple majority to pass a board resolution.

## 9. DISCONTINUED OPERATIONS (continued)

### (a) Disposal of heat energy supply segment (continued)

(ii) Tianjin Baosheng Heating Investment Company Ltd and Tianjin Meijiang Heating Company Ltd. ("Meijiang Heating") are subsidiaries of Tianjin Heating, a non-wholly-owned subsidiary of the Group, and accordingly are accounted for as subsidiaries by virtue of the Group's control over them.

The disposal of Disposal Group was completed on 28 October 2015. The results of discontinued operations for period/year are presented below:

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Revenue | **180,498** | 316,311 |
| Cost of sales | **(192,919)** | (281,770) |
| Gross (loss)/profit | **(12,421)** | 34,541 |
| Other income and gains | **8,505** | 7,709 |
| Other expenses | **(538)** | (3,189) |
| Administrative expenses | **(40,515)** | (39,895) |
| Finance costs | **(145)** | (111) |
| Share of (losses)/gain of an associate | **(4)** | 2 |
| Loss before tax from the discontinued operations | **(45,118)** | (943) |
| Income tax credit/(expense) | **5,066** | (4,592) |
| Loss after tax from discontinued operations | **(40,052)** | (5,535) |
| Gain on disposal *(note 16)* | **58,772** | – |
| Reclassification of translation reserve from other comprehensive income to the consolidated statement of profit or loss upon disposal of subsidiaries | **22,146** | – |
| | **80,918** | – |
| Profit/(loss) from the discontinued operations | **40,866** | (5,535) |
| Attributable to: | | |
| Owners of the Company | **64,582** | (4,699) |
| Non-controlling interests | **(23,716)** | (836) |
| | **40,866** | (5,535) |

The translation reserve amounting to HK$22,146,000 relating to the disposal of subsidiaries is reclassified from other comprehensive income to statement of profit or loss for the year.

## 9. DISCONTINUED OPERATIONS (continued)

### (a) Disposal of heat energy supply segment (continued)

The net cash flows incurred by the Disposal Group are as follows:

| | 2015<br>*HK$'000* | 2014<br>*HK$'000* |
|---|---|---|
| Operating activities | **(9,319)** | 99,711 |
| Investing activities | **(64,705)** | (46,493) |
| Financing activities | **(17,348)** | (20,931) |
| Net cash (outflows)/inflows | **(91,372)** | 32,287 |

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

| | 2015<br>*HK$'000* | 2014<br>*HK$'000* |
|---|---|---|
| Basic from the discontinued operations | **HK0.51 cents** | (HK0.04 cents) |

The calculation of basic earnings per share from the discontinued operations is based on:

| | 2015 | 2014 |
|---|---|---|
| **Profit/(loss) (HK$'000)** | | |
| Profit/(loss) attributable to ordinary equity holders of the Company from the discontinued operations | **64,582** | (4,699) |
| **Number of shares ('000)** | | |
| Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation *(note 11)* | **12,778,880** | 12,778,880 |

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2015 and 2014.

9. **DISCONTINUED OPERATIONS** (continued)

**(b) Discontinued operation of steel manufacturing and trading segment**

The Board passed a resolution to dispose of the entire issued share capital of Fame Risen Development Limited ("Fame Risen") and a shareholder's loan owing by Fame Risen to the Company ("Shareholder's Loan from Fame Risen") to a related party (the "Disposal of Fame Risen").

Fame Risen was the foreign joint venture partner of the associated companies holding:

(i) a 30% equity interest in 日照型鋼有限公司 (Rizhao Medium Section Mill Co., Ltd.), which is principally engaged in the manufacturing and sale of wire rod, medium size wide and heavy plate, section steel and related products, including H-beams which are widely used in the construction, infrastructure, aeronautics and ship-building industries;

(ii) a 30% equity interest in 日照鋼鐵有限公司 (Rizhao Steel Co., Ltd.), which is principally engaged in the manufacturing and sale of common carbon steel, low alloy steel and other steel billet; and

(iii) a 25% equity interest in 日照鋼鐵軋鋼有限公司 (Rizhao Steel Wire Co., Limited), which is principally engaged in the manufacturing and sale of high-end metal parts, rod and wire materials for construction, strips and related products, including deformed steel bar, round steel bars and steel rolls.

As at 31 December 2015, the discussion and negotiation for the disposal were in progress and Fame Risen had been classified as a disposal group held for sale and as a discontinued operation. With Fame Risen being classified as a discontinued operation, the steel manufacturing and trading segment is no longer included in the note for operating segment information as at 31 December 2015.

On 4 January 2016, the Company announced that it entered into an agreement regarding the Disposal of Fame Risen. A circular containing information on the Disposal of Fame Risen was despatched to the shareholders on 25 February 2016. The special general meeting of the Company has been convened and held for the shareholders on 14 March 2016 and the relevant resolution approving the Disposal of Fame Risen had been passed at the meeting.

The results of Fame Risen for the year are presented below:

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Other income and gains | **292** | 467 |
| Other expense | **(1,753)** | (382) |
| Administrative expenses | **(2,631)** | (3,589) |
| Share of (losses)/profits of associates | **(8,750)** | 373,154 |
| (Loss)/profit before tax from the discontinued operations | **(12,842)** | 369,650 |
| Income tax credit/(expense) | **437** | (18,657) |
| (Loss)/profit from the discontinued operations | **(12,405)** | 350,993 |

## 9. DISCONTINUED OPERATIONS (continued)

### (b) Discontinued operation of steel manufacturing and trading segment (continued)

The major classes of assets and liabilities of Fame Risen classified as held for sale as at 31 December 2015 are as follows:

| | **2015** |
|---|---|
| | ***HK$'000*** |
| **ASSETS** | |
| Investments in associates *(note 12)* | **2,211,562** |
| Cash and cash equivalents | **1,709** |
| Assets of Fame Risen | **2,213,271** |
| **LIABILITIES** | |
| Deferred tax liabilities | **18,349** |
| Amount due to the Group | **27,536** |
| Liabilities of Fame Risen classified as held for sale on balance sheet | **45,885** |
| Net assets directly associated with Fame Risen | **2,167,386** |

In addition, according to the agreement, the Company will also dispose of the Shareholder's Loan from Fame Risen, being the total amounts due and owing by Fame Risen to the Group as at the date of completion. As at 31 December 2015, the carrying amount of the Shareholder's Loan from Fame Risen was HK$27,536,000.

| | **2015** |
|---|---|
| | ***HK$'000*** |
| Shareholder's Loan from Fame Risen | **27,536** |
| Assets of Fame Risen | **2,213,271** |
| Assets classified as held for sale on balance sheet | **2,240,807** |

## 9. DISCONTINUED OPERATIONS (continued)

### (b) Discontinued operation of steel manufacturing and trading segment (continued)

The net cash flows incurred by Fame Risen are as follows:

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Operating activities | **(4,071)** | (5,353) |
| Financing activities | **(71,674)** | 37,707 |
| Net cash (outflows)/inflows | **(75,745)** | 32,354 |

(Loss)/earnings per share for the abovementioned discontinued operation are stated below:

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Basic from the discontinued operation | **(HK0.10 cents)** | HK2.75 cents |

The calculation of basic (loss)/earnings per share from the discontinued operation is based on:

| | **2015** | 2014 |
|---|---|---|
| **(Loss)/Profit (HK$'000)** | | |
| (Loss)/profit attributable to ordinary equity holders of the Company from the discontinued operation | **(12,405)** | 350,993 |
| **Number of shares ('000)** | | |
| Weighted average number of ordinary shares in issue during the year used in the basic (loss)/earnings per share calculation *(note 11)* | **12,778,880** | 12,778,880 |

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2015 and 2014.

## 10. DIVIDENDS

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

## 11. (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 year attributable to ordinary equity holders of the Company, and the weighted average number of 12,778,880,000 (2014: 12,778,880,000) shares in issue during the year.

The calculation of basic (loss)/earnings per share amounts is based on:

| | **2015** | 2014 (Restated) |
|---|---|---|
| **(Loss)/profit (HK$'000)** | | |
| (Loss)/profit attributable to ordinary equity holders of the Company | | |
| From continuing operations | **(72,520)** | (239,877) |
| From discontinued operations | **52,177** | 346,294 |
| (Loss)/profit attributable to ordinary equity holders of the Company | **(20,343)** | 106,417 |
| **Number of shares ('000)** | | |
| Weighted average number of ordinary shares in issue during the year used in the basic (loss)/earnings per share calculation | **12,778,880** | 12,778,880 |

The Group had no potential dilutive ordinary shares in issue during the years ended 31 December 2015 and 2014.

## 12. INVESTMENTS IN ASSOCIATES

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Share of net assets | **–** | 2,752,432 |
| Provision for impairment (iii) | **–** | (394,766) |
| | **–** | 2,357,666 |

Particulars of all associates are as follows:

| **Name of associate** | **Legal form of business** | **Place of incorporation or registration/ place of operations** | **Nominal value of 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 | 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), (iii) | 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), (iii) | 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), (iii) | Limited enterprise | The PRC/ Mainland China | RMB80,000,000 | – | 25% | Manufacturing and trading of steel products |

12. **INVESTMENTS IN ASSOCIATES** (continued)

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

As at 28 October 2015, investments in the associates have been disposed of along with the Disposal of Spread International. Details are given in note 16 to this announcement.

(ii) 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 2015, investments in associates of Rizhao Steel, Rizhao Mill and Rizhao Wire have been classified as held for sale for discontinued operations. Details are given in note 9 to this announcement.

(iii) Provision for impairment

As of 31 December 2015 and 2014, management of the Group is of the opinion that no additional impairment is required for long term assets of each associate and the Group's investments in the associates.

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** | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Current assets | **18,128,640** | 16,016,885 |
| Non-current assets | **16,112,028** | 16,197,143 |
| Current liabilities | **(27,855,997)** | (24,991,376) |
| Non-current financial liabilities, excluding trade and other payables and provisions | **(1,520,822)** | (1,521,105) |
| Non-current liabilities | **(1,237,828)** | (1,845,246) |
| Net assets | **3,626,021** | 3,856,301 |
| Reconciliation to the Group's interest in the associate: | | |
| Proportion of the Group's ownership | **30%** | 30% |
| Share of net assets of the associate | **1,087,806** | 1,156,890 |
| Revenues | **31,853,004** | 41,373,386 |
| (Loss)/profit for the year | **(5,662)** | 625,950 |
| Total comprehensive (loss)/income for the year | **(230,283)** | 617,747 |

## 12. INVESTMENTS IN ASSOCIATES (continued)

| **Rizhao Mill** | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Current assets | **5,439,269** | 6,487,613 |
| Non-current assets | **407,210** | 446,041 |
| Current liabilities | **(5,099,429)** | (6,000,293) |
| Non-current financial liabilities, excluding trade and other payables and provisions | **–** | (188,738) |
| Non-current liabilities | **(26,138)** | (30,363) |
| Net assets | **720,912** | 714,260 |
| Reconciliation to the Group's interest in the associate: | | |
| Proportion of the Group's ownership | **30%** | 30% |
| Share of net assets of the associate | **216,274** | 214,278 |
| Revenues | **3,316,376** | 4,746,173 |
| Profit for the year | **50,160** | 82,093 |
| Total comprehensive income for the year | **6,654** | 80,309 |

| **Rizhao Wire** | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Current assets | **23,949,511** | 26,270,008 |
| Non-current assets | **3,936,013** | 4,440,320 |
| Current liabilities | **(21,867,256)** | (23,344,785) |
| Non-current financial liabilities, excluding trade and other payables and provisions | **(596,815)** | (1,330,967) |
| Non-current liabilities | **(304,635)** | (510,652) |
| Net assets | **5,116,818** | 5,523,924 |
| Reconciliation to the Group's interest in the associate: | | |
| Proportion of the Group's ownership | **25%** | 25% |
| Share of net assets of the associate | **1,279,204** | 1,380,981 |
| Revenues | **24,417,753** | 39,407,261 |
| (Loss)/profit for the year | **(88,399)** | 642,964 |
| Total comprehensive income for the year | **(407,117)** | 629,226 |

## 12. INVESTMENTS IN ASSOCIATES (continued)

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

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Share of the associates' (loss)/profit for the year | **(4)** | 2 |
| Share of the associates' other comprehensive loss | **(12)** | (1) |
| Share of the associates' total comprehensive (loss)/income | **(16)** | 1 |
| Aggregate carrying amount of the Group's investments in the associates | **–** | 283 |

## 13. TRADE RECEIVABLES

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade receivables | **10,954** | 22,512 |

Hotel operation revenue is normally settled by cash or credit card. For travel agents and certain corporate customers, the credit period is generally one month. Trade receivables are non-interest-bearing.

An aged analysis of trade receivables is as follows:

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 1 month | **6,820** | 16,063 |
| 1 to 3 months | **4,087** | 5,571 |
| Over 3 months | **47** | 878 |
| | **10,954** | 22,512 |

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.

## 14. TRADE AND BILLS PAYABLES

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade payables | **14,104** | 39,845 |
| Bills payables | **–** | 6,338 |
| | **14,104** | 46,183 |

The trade payables are non-interest-bearing and are normally settled on 30-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:

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 1 month | **14,104** | 3,189 |
| 1 to 3 months | **–** | 16,043 |
| Over 3 months | **–** | 20,613 |
| | **14,104** | 39,845 |

As at 31 December 2014, the Group's bills payables were secured by the pledge of certain of the Group's time deposits amounting to HK$3,169,000.

## 15. BUSINESS COMBINATION

### 2014 acquisition

On 13 October 2014, the Group acquired Paris Marriott Champs-Elysees Hotel (comprising the entire issued share capital of MCE OpCo HoldCo and its subsidiary MCE OpCo, and property being used in Paris for the hotel operation) (the "**Paris Target Group**") at the consideration of EUR344,597,934 (equivalent to approximately HK$3,379,112,000). 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 EUR344,597,934 paid at the acquisition date.

## 15. BUSINESS COMBINATION (continued)

### 2014 acquisition (continued)

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

| | Fair value recognised on acquisition *HK$'000* |
|---|---|
| Property, plant and equipment | 3,334,025 |
| Intangible assets | 283 |
| Cash and bank balances | 80,019 |
| Inventories | 1,311 |
| Trade receivables | 24,258 |
| Prepayments and other receivables | 6,903 |
| Trade payables | (18,274) |
| Accruals and other payables | (26,169) |
| Deferred tax liabilities | (365,553) |
| Total identifiable net assets at fair value | 3,036,803 |
| Goodwill on acquisition | 342,309 |
| Satisfied by cash | 3,379,112 |

The fair values of the trade receivables and other receivables as at the date of acquisition amounted to HK$24,258,000 and HK$4,823,000, respectively.

The Group incurred transaction costs of HK$162,925,000 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 | (3,379,112) |
| Cash and bank balances acquired | 80,019 |
| Net outflow of cash and cash equivalents included in cash flows from investing activities | (3,299,093) |
| Transaction costs of the acquisition included in cash flows from operating activities | (162,925) |
| | (3,462,018) |

## 16. DISPOSAL OF SUBSIDIARIES

As detailed in note 9, the Group disposed of subsidiaries to a third party during the year.

| | **28 October 2015** |
|---|---|
| | ***HK$'000*** |
| Net assets disposed of: | |
| Property, plant and equipment | **634,645** |
| Prepaid land lease payments | **34,902** |
| Other intangible assets | **76,085** |
| Investment in an associate | **267** |
| Available-for-sale investments | **5,676** |
| Other long-term assets | **3,063** |
| Inventories | **4,026** |
| Trade receivables | **729** |
| Other receivables and prepayments | **66,981** |
| Amount due from related companies | **125,936** |
| Cash and cash equivalents | **42,125** |
| Trade and bills payables | **(39,968)** |
| Other payables and accruals | **(162,353)** |
| Receipt in advance | **(128,356)** |
| Amount due to related companies | **(43,604)** |
| Amount due to the Group | **(53,610)** |
| Loan from a related company | **(111,529)** |
| Interest-bearing bank borrowings | **(2,441)** |
| Tax payable | **(44,955)** |
| Deferred tax liabilities | **(123,992)** |
| Non-controlling interests | **(270,611)** |
| | **13,016** |
| Shareholder's Loan from the Disposal Group | **53,610** |
| | **66,626** |
| Consideration | **131,000** |
| Less: Disposal related expenses | **(5,602)** |
| Net proceeds received | **125,398** |
| Gain on Disposal of Spread International | **58,772** |

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

| | **2015** |
|---|---|
| | ***HK$'000*** |
| Cash consideration | **131,000** |
| Disposal related expenses paid | **(5,602)** |
| Cash and bank balances disposed of | **(42,125)** |
| Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries | **83,273** |

**17. EVENTS AFTER THE REPORTING PERIOD**

On 4 January 2016, the Company entered into a sale and purchase agreement with Intelligent Wealth Limited (the "Purchaser"), pursuant to which the Company agreed to sell and the Purchaser agreed to purchase the entire issued share capital of Fame Risen Development Limited subject to the terms and conditions of the sale and purchase agreement. The special general meeting of the Company has been convened and held on 14 March 2016 and the relevant resolution approving the Disposal of Fame Risen has been passed by the shareholders at the meeting. Further details are given in note 9.

## FINAL DIVIDEND

The Board does not recommend the payment of final dividend for the year ended 31 December 2015 (2014: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

### Overview

For the year ended 31 December 2015, revenue of the Group from continuing operations amounted to approximately HK$329.7 million, representing an increase of approximately 271.8% from approximately HK$88.7 million for the Preceding Year. The increase in revenue was mainly attributable to recognition of entire year of revenue contributed by the Paris Marriott Champs – Elysees Hotel ("Paris Marriott Hotel") of the hotel operation segment. The Group recorded a loss for the Year from continuing operations of approximately HK$72.5 million, as compared to loss of approximately HK$239.9 million for the Preceding Year. The decrease in loss for the Year from continuing operations was mainly attributable to sharing of an entire year of results of the Paris Marriott Hotel, absent of one-off transaction costs (including stamp duty, professional fees, government fees and taxation etc.) in relation to acquisition of the Paris Marriott Hotel and foreign exchange loss incurred in the Preceding Year, but compensated by recognition of finance costs for the entire year on bank loans and other loan incurred for the acquisition of the Paris Marriott Hotel.

During the Year, the Group had disposed of its entire investment in the heat energy supply segment; the Group had also entered into an agreement on 4 January 2016 to dispose of its entire investment in the steel manufacturing and trading segment. As a result, financial results of both those segments were recorded under discounted operations. After completion of disposal of the heat energy supply segment, the Group recorded a profit, after including disposal gain and reclassification of translation reserve from other comprehensive income to profit and loss, from the heat energy supply segment of approximately HK$40.9 million for the Year, as compared to loss of approximately HK$5.5 million for the Preceding Year. The Group recorded a loss from the steel manufacturing and trading segment of approximately HK$12.4 million for the Year, as compared to profit of approximately HK$351.0 million for the Preceding Year, which mainly resulted from softened demand as well as reduction in gross profit margin of steel products in China.

The Group recorded a loss for the Year of approximately HK$44.1 million, as compared to profit of approximately HK$105.6 million for the Preceding Year. Loss attributable to owners of the Company for the Year was approximately HK$20.3 million, as compared to profit of approximately HK$106.4 million for the Preceding Year. The basic and diluted loss per share of the Group for the Year was HK$0.16 cents, as compared to the basic and diluted earnings per share of HK$0.83 cents for the Preceding Year.

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

**Hotel operation**

During the Year, the Group recorded revenue of approximately HK$329.7 million from the hotel operation segment, as compared to revenue of approximately HK$88.7 million for the Preceding Year. The increase in revenue for the Year was mainly attributable to recognition of an entire year of revenue contributed by the Paris Marriott Hotel. Notwithstanding increase in revenue, the Group recorded loss of approximately HK$36.9 million in this segment for the Year, as compared to the loss of approximately HK$145.1 million for the Preceding Year. The decrease in loss in this segment during the Year was mainly attributable to absent of one-off transaction costs for the acquisition of the Paris Marriott Hotel. The loss for the Year was mainly attributable to finance costs arising from interest on bank loans and loan from a related company drawn for acquisition of the Paris Marriott Hotel, Hence, assuming interests and taxation were excluded, this segment had earnings before interests and taxes (EBIT) of approximately HK$83.9 million for the year, as compared to the loss before interests and taxes of approximately HK$110.5 million for the Preceding Year.

During the Year, revenue from the Paris Marriott Hotel constituted principal source of revenue to the Group. Majority of customers of the Paris Marriott Hotel were originated from the United States and the Middle East. The purposes of traveling to and staying in Paris ranged from taking vacation to attending business meetings. Despite occupying a prime location in the Paris city, the hotel experienced severe impact on revenue, occupancy, average daily room rates and RevPAR* as the result of terrorist attacks occurred in both the first and last quarter of the Year. Below is a summary and comparison of operational performance of the Paris Marriott Hotel during the Year and against the Preceding Year:

| | **2015** | 2014 |
|---|---|---|
| Occupancy | **84.3%** | 90.1% |
| Average Room Rate | **€510** | € 471 |
| RevPAR* | **€429** | € 425 |

* *Revenue per available room*

In accordance with Hong Kong Tourism Board visitor arrivals statistics for 2015, total number of visitor arrivals for the Year dropped by 2.5% as compared to the same period in 2014. The decline in number of overall visitor arrivals was the outcome of a mix of reasons, including but not limited to continued depreciation of regional currencies and negative impact from anti-parallel trading protesters exerted on travellers under the multiple-entry permit. As the result of decline in visitor arrivals, revenue, average daily room rates and RevPAR* of Butterfly on Waterfront for the Year declined. Below is a summary and comparison of operational performance of the Butterfly on Waterfront during the Year and against the Preceding Year:

| | **2015** | 2014 |
|---|---|---|
| Occupancy | **98.2%** | 97.5% |
| Average Room Rate | **HK$810** | HK$936 |
| RevPAR* | **HK$796** | HK$912 |

* *Revenue per available room*

**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**"). For the ten months ended 28 October 2015 (the "**Period**"), the Group recorded revenue of approximately HK$180.5 million from this segment, as compared to revenue of approximately HK$316.3 million for the Preceding Year. The decrease in revenue was mainly attributable to decrease in heat connection fee from new development projects launched in the Three Districts during the Period. Furthermore, the Group's heat energy supply facilities had yet to be utilized at efficient levels to achieve economies of scale. In view of fluctuating and unsatisfactory performance of this segment over the past few years, the Group agreed to dispose of its entire investments in this segment to a third-party at a gross consideration of HK$131.0 million, the disposal was completed in October 2015. After completion of the disposal, the Group recorded profit, after including disposal gain and reclassification of translation reserve from other comprehensive income to profit and loss, from the heat energy supply segment of approximately HK$40.9 million for the Year.

**Steel Manufacturing and Trading**

During the Year, the Group's steel manufacturing and trading business in China continued to be challenged by structural problems, including but not limited to overcapacity and weak demand, resulted mainly from downturn of the PRC's property market and modest economic growth. Weak market sentiments and in lack of recovery in price of steel products in PRC continued to exert significant pressure on gross profit margin of the associated companies (the "**Associated Companies**") of the Group. During the Year, the Group shared a loss of approximately HK$12.4 million from the steel manufacturing and trading segment, as compared to profit of approximately HK$351.0 million for the Preceding Year.

## PROSPECTS

### Hotel Operation

The Board considers the Paris Marriott Hotel in France derives unparalleled value to the Group as the hotel occupies prime location in the heart of the Paris city. Notwithstanding the terrorist attacks in Paris last year, the Group is confident that performance of the Paris Marriott Hotel will soon recover. In order to enhance guest experience during their stay at the hotel, the Group is considering different renovation plans on guest rooms and reception lobby etc. for the Paris Marriott Hotel. As at the date of this announcement, the Group had not committed any renovation plans to the Paris Marriott Hotel.

Based on HVS, one of the World's leading hospitality consulting and valuation firm, transaction volume of European hotels for the Year increased by 65%, as compared to the Preceding Year, as the result of positive year-on-year RevPAR growth by the industry. The Group shares the same views on investment outlook of mid-level to luxury hotels in Europe, partly due to the sustained depreciation of Euro against United States dollars. In addition to Paris, the Group will closely look for hotel investment opportunities in major European cities.

The Butterfly on Waterfront offers hotel guests with a unique beautiful sea view of the Victoria Harbour, and is situated within close reach to a range of public transports. The Board is optimistic about the prospects of the Butterfly on Waterfront and expects the hotel will continue providing the Group with a solid revenue stream as well as capital gain potential. Meanwhile, the Butterfly on Waterfront will deploy electronic marketing tactics with a view to generating bookings, maintaining occupancy and improving average room rates.

### Steel Manufacturing and Trading

In consideration of the steep declines in contribution to the Group's profit by the Associated Companies since acquisition especially in recent years due to continuous recession in the steel industry, the Group entered into an agreement to dispose of its investments in this segment at the gross consideration of approximately HK$2,383.1 million. A special general meeting had been called to consider passing the ordinary resolution of the disposal. The ordinary resolution was passed on 14 March 2016.

**Money Lending Business**

The Group is positive towards incubating money lending business as an alternative revenue source to the hotel operations segment. The Group intends to operate money lending business under the brand name of "Kai Yuan Capital" ("**Kai Yuan Capital**"). It is envisaged for Kai Yuan Capital to provide mainly short-term secured financing and mortgage loans in Hong Kong, whereby personal properties or other securities will be demanded as collaterals. With respect to the source of financing, the Group intends to apply part of the net proceeds from the disposal of the entire steel manufacturing and trading segment as start-up capital. As at the date of this announcement, the Group had not commenced any money lending business.

## LOOKING AHEAD

The Board considers investing in hotels tends to be a relatively low risk investment, whilst offering stable revenue stream and considerable capital gain potential. The Board will continue to look into opportunities to enhance its portfolio of the hotel operation segment in Europe. The Group will also continue to explore investment opportunities and remain dedicated to constantly review, reinforce and, in appropriate circumstances, restructure its existing business segments with a view to enhancing and improving returns to our stakeholders.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2015, total assets and net assets of the Group were approximately HK$6,327.5 million and HK$2,367.9 million respectively (31 December 2014: approximately HK$7,961.8 million and HK$3,058.6 million respectively). The cash and bank balance of the Group as at 31 December 2015 were approximately HK$333.1 million, and were denominated in Hong Kong dollars, Euro, United States dollars and Renminbi (31 December 2014: approximately HK$400.9 million). The total current assets of the Group as at 31 December 2015 were approximately HK$2,618.0 million (31 December 2014: approximately HK$600.8 million). As at 31 December 2015, the Group had net current assets of approximately HK$624.0 million (31 December 2014: net current liabilities approximately HK$84.1 million).

The Group adopted a conservative treasury approach and had tight controls over its cash management. As at 31 December 2015, the Group had outstanding bank loans and other borrowings amounted to approximately HK$3,447.5[1] million (31 December 2014: approximately HK$3,763.9 million), of which approximately HK$1,866.3 million (31 December 2014: approximately HK$130.4 million) were due within one year. As at 31 December 2015, the Group's gearing ratio (total borrowings/total assets) was at approximately 54.5% (31 December 2014: approximately 47.3%). The Group constantly monitors its cash flows position, maturity profile of borrowings, availability of banking facilities, gearing ratio and interest rate exposure.

[1] (i) Approximately HK$1,854.3 million (equivalent to US$239,265,600) at the interest rate of 4% per annum;
(ii) Approximately HK$1,444.2 million (equivalent to €175,000,000) at the interest rates of 3 months EURIBOR plus 2.2% per annum; and
(iii) Approximately HK$149.0 million at the interest rate of 1 month HIBOR plus 2.36% per annum.

## ACQUISITIONS AND DISPOSALS

On 27 May 2015, the Group entered into a sale and purchase agreement with a third party to dispose of the entire share capital of Spread International Group Limited ("**Spread International**"), an indirectly wholly-owned subsidiary of the Company, and shareholder loan (the "**Spread International Disposal**") at the consideration of HK$131.0 million. Spread International was the beneficial owner of 49% equity interests in Tianjin Heating Development Company Limited (天津市供熱發展有限公司), a company established in the PRC, which together with its subsidiaries and associated companies were principally engaged in the supply of heat energy in Tianjin, the PRC. The Spread International Disposal constituted a very substantial disposal of the Company, and a circular of the Spread International Disposal was published on 14 August 2015. The Spread International Disposal was completed in October 2015.

With reference to the announcement of the Company dated 7 January 2016, the Group entered into a sale and purchase agreement to dispose of the entire share capital of Fame Risen Development Limited ("Fame Risen"), an directly wholly-owned subsidiary of the Company, and shareholder loan (the "Fame Risen Disposal") at the consideration of approximately HK$2,383.1 million. Fame Risen is the foreign joint venture partner of three associates companies established in the PRC principally engaging in steel manufacturing and trading business in the PRC. The Fame Risen Disposal constituted a very substantial disposal of the Company, and a circular of the Fame Risen Disposal was published on 25 February 2016. An ordinary resolution was passed at the special general meeting of the Fame Risen Disposal on 14 March 2016.

## FOREIGN EXCHANGE EXPOSURE

The Group had operations in the PRC, France, Luxembourg and Hong Kong where transactions and cash flows were denominated in the local currencies, including Renminbi, Euro and Hong Kong dollars. As a result, the Group was exposed to foreign currency exposures with respect to Euro which mainly occurred from conducting daily operations and financing activities by local offices where local currencies were different from the Group. For the year ended 31 December 2015, the Group had not entered into any forward contracts to hedge the foreign exchange exposure. The Group managed its foreign exchange risks by performing regular review and monitoring of the foreign exchange exposure. The Group would consider employing foreign exchange hedging arrangements when appropriate and necessary.

## CONTINGENT LIABILITIES

As at 31 December 2015, the Group had no significant contingent liabilities.

## PLEDGE ON THE GROUP’S ASSETS

As at 31 December 2015, cash deposits amounting to approximately HK$20.1 million (31 December 2014: approximately HK$3.2 million) and certain buildings of the Group with a net carrying amount of approximately HK$3,325.7 million (31 December 2014: approximately HK$3,727.5 million) were pledged to secure general banking facilities and other loans granted to the Group.

## EMPLOYEES AND REMUNERATION

The Group had 10 employees as at 31 December 2015 (31 December 2014: 173), the total employee remuneration during the Year were approximately HK$21.2 million (31 December 2014: approximately HK$31.6 million). Remuneration policies were reviewed regularly to ensure that compensation and benefit packages were in line with the market level. In addition to basic remuneration, the Group also provided other employee benefits including bonuses, mandatory provident fund scheme and medical insurance scheme and participation to stock option scheme.

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the Year, neither the Company, nor any of its subsidiaries purchased, redeemed or sold 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 Rules Governing the Listing of Securities on the Stock Exchange (“**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 Listing Rules.

The Company had complied with the code provisions of the CG Code throughout the year ended 31 December 2015 with the following deviation:

- 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 this role and, in consequence, the Board is of the view that the Chairman 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 2015 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 matter 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 such appointment.

## AUDIT COMMITTEE

The audit committee of the Company (the "**Audit Committee**") comprises of 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 2015 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 on 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 (the "**Model Code**") as 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 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 2015 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, 29 March 2016

*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).*