KAI YUAN HOLDINGS LIMITED
開源控股有限公司
(Incorporated in Bermuda with limited liability)
(Stock Code: 1215)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2017

RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Kai Yuan Holdings Limited (the "**Company**") is pleased to announce the interim results of the Company and its subsidiaries (the "**Group**") for the six months ended 30 June 2017 (the " **Period**") together with comparative figures for the corresponding period in previous year as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2017

		For the six months ended 30 June	
		2017	2016
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
CONTINUING OPERATIONS			
REVENUE	*3*	**129,044**	125,964
Cost of sales		**(100,942)**	(96,558)
Gross profit		**28,102**	29,406
Other income and gains	*4*	**1,244**	1,793
Other expenses		**(123)**	(60)
Administrative expenses		**(20,792)**	(25,402)
Finance costs	*5*	**(24,695)**	(45,420)
LOSS BEFORE TAX FROM CONTINUING OPERATIONS	*6*	**(16,264)**	(39,683)
Income tax credit	*7*	**3,046**	786
LOSS FOR THE PERIOD FROM CONTINUING OPERATIONS		**(13,218)**	(38,897)
DISCONTINUED OPERATIONS			
Profit for the period from discontinued operations	*8*	**–**	168,959
(LOSS)/PROFIT FOR THE PERIOD		**(13,218)**	130,062
Attributable to:			
Owners of the Company		**(13,218)**	130,062
Non-controlling interests		**–**	–
		(13,218)	130,062
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	*10*		
Basic and diluted			
– For (loss)/profit for the period		**HK$(0.10) cents**	HK$1.02 cents
– For loss from continuing operations		**HK$(0.10) cents**	HK$(0.30) cents

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2017

	For the six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
(LOSS)/PROFIT FOR THE PERIOD	**(13,218)**	130,062
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to statement of profit or loss in subsequent periods:		
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments arising during the period	**1,526**	(20,887)
Reclassification adjustments for loss included in the consolidated statement of profit or loss	**6,240**	5,236
Income tax effect	**(2,174)**	5,217
	5,592	(10,434)
Exchange differences on translation of foreign operations	**114,316**	30,082
Reclassification of translation reserve from other comprehensive income to the consolidated statement of profit or loss upon disposal of a subsidiary	**–**	(155,523)
Net other comprehensive income to be reclassified to statement of profit or loss in subsequent periods	**119,908**	(135,875)
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	**119,908**	(135,875)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**106,690**	(5,813)
Attributable to:		
Owners of the Company	**106,690**	(5,813)
Non-controlling interests	**–**	–
	106,690	(5,813)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2017

	Notes	**30 June 2017 (Unaudited)** *HK$'000*	31 December 2016 (Audited) *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**3,469,239**	3,225,433
Other intangible assets		**380**	377
Deferred tax assets		**32,344**	29,948
Total non-current assets		**3,501,963**	3,255,758
CURRENT ASSETS			
Inventories		**1,130**	1,141
Trade receivables	*11*	**23,160**	15,521
Loans receivable		**63,000**	63,000
Other receivables and prepayments		**20,197**	27,648
Pledged deposits		**21,176**	19,314
Cash and cash equivalents		**557,330**	539,721
Total current assets		**685,993**	666,345
Total assets		**4,187,956**	3,922,103
CURRENT LIABILITIES			
Trade payables	*12*	**12,764**	6,229
Other payables and accruals		**41,810**	38,891
Receipt in advance		**58**	38
Derivative financial instruments		**10,782**	9,736
Interest-bearing bank borrowings		**12,000**	12,000
Tax payable		**284**	206
Total current liabilities		**77,698**	67,100
NET CURRENT ASSETS		**608,295**	599,245
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,110,258**	3,855,003

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Continued)

AS AT 30 JUNE 2017

	30 June 2017 (Unaudited)	31 December 2016 (Audited)
	HK$'000	*HK$'000*
TOTAL ASSETS LESS CURRENT LIABILITIES	**4,110,258**	3,855,003
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	**1,644,520**	1,512,426
Deferred tax liabilities	**326,389**	303,584
Derivative financial instruments	**13,903**	20,237
Total non-current liabilities	**1,984,812**	1,836,247
Net assets	**2,125,446**	2,018,756
EQUITY		
Share capital	**1,277,888**	1,277,888
Reserves	**847,558**	740,868
Total equity	**2,125,446**	2,018,756

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2017

1. CORPORATE INFORMATION

The interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on 28 August 2017.

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. Its subsidiaries are principally engaged in hotel operation and money lending during the six months ended 30 June 2017 (the "**Period**").

2. BASIS OF PRESENTATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES

2.1 Basis of presentation

The unaudited interim condensed consolidated financial statements, which comprise the interim condensed consolidated statement of financial position of the Group as at 30 June 2017 and the related interim condensed consolidated statement of profit or loss, the interim condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six months ended 30 June 2017, have been prepared in accordance with HKAS 34 Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2016.

2.2 Changes in accounting policy and disclosures

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2016, except for the adoption of new standards effective as of 1 January 2017 below:

The Group has adopted the following revised Hong Kong Financial Reporting Standards (the "**HKFRSs**") for the first time in these interim condensed consolidated financial statements.

Amendments to HKFRS 7	*Statement of Cash Flows: Disclosure Initiative*
Amendments to HKFRS 12	*Income Taxes: Recognition of Deferred Tax Assets for Unrecorded Losses*
Annual Improvements 2014-2016 Cycle	*Amendments to HKFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in HKFRS 12*

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

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

3. SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has two reportable operating segments (six months ended 30 June 2016: one) as follows:

a) the hotel operation segment engaged in operation of hotel businesses in Hong Kong and France; and

b) the money lending segment engaged in providing mortgage loans in Hong Kong.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax from continuing operations. The adjusted profit/loss before tax from continuing operations is measured consistently with the Group's profit before tax from continuing operations except that interest income and corporate expenses are excluded from such measurement.

The following tables present revenue and profit information for the Group's operating segments for the six months ended 30 June 2017 and 2016, respectively.

Six months ended 30 June 2017	**Hotel operation** *HK$'000*	**Money lending** *HK$'000*	**Total** *HK$'000*
Revenue			
Sales to external customers and revenue from continuing operations	**126,853**	**2,191**	**129,044**
Results			
Segment (loss)/profit	**(10,228)**	**1,946**	**(8,282)**
Reconciliation:			
Bank interest income			**945**
Corporate and other unallocated expenses			**(8,927)**
Loss before tax from continuing operations			**(16,264)**

Six months ended 30 June 2016	**Hotel operation** *HK$'000*
Revenue	
Sales to external customers and revenue from continuing operations	**125,964**
Results	
Segment loss	**(7,789)**
Reconciliation:	
Bank interest income	**387**
Corporate and other unallocated expenses	**(32,281)**
Loss before tax from continuing operations	**(39,683)**

4. REVENUE, OTHER INCOME AND GAINS

	For the six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Revenue		
Rendering of hotel services	**126,853**	125,964
Loan interest income	**2,191**	–
	129,044	125,964
Other income		
Bank interest income	**945**	387
Gains		
Others	**299**	1,406
	1,244	1,793

5. FINANCE COSTS

	For the six months ended 30 June	
	2017	2016
	(Unaudited)	(unaudited)
	HK$'000	*HK$'000*
Interest on bank borrowings	**18,455**	18,834
Fair value losses, net:		
Cashflow hedges (transfer from equity)	**6,240**	5,236
Interest on a loan from a related company	**–**	21,350
	24,695	45,420

6. LOSS BEFORE TAX FROM CONTINUING OPERATIONS

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

	For the six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Cost of hotel service	**81,430**	75,212
Depreciation of property, plant and equipment	**19,512**	21,346
Amortisation of other intangible assets	**32**	35
Minimum lease payments under operating leases:		
Land and buildings	**714**	796
Foreign exchange differences, net	**123**	60
Bank interest income	**(945)**	(387)
Employee benefit expense (excluding directors' remuneration)	**1,840**	1,925

7. INCOME TAX CREDIT

The major components of income tax credit for the six months ended 30 June 2017 and 2016 are as follows:

	For the six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current income tax		
Europe	**71**	42
Deferred income tax	**(3,117)**	(828)
Income tax credit for the period	**(3,046)**	(786)

Hong Kong profits tax should be provided at the rate of 16.5% (six months ended 30 June 2016: 16.5%) of the estimated assessable profits arising in Hong Kong during the Period. No provision for Hong Kong profits tax has been made in the interim condensed consolidated financial statements, as the Group does not have any assessable profit arising in Hong Kong.

The provision for Mainland China current income tax was based on the statutory rate of 25% (six months ended 30 June 2016: 25%) of the assessable profits of the Group's subsidiaries in Mainland China as determined in accordance with the relevant income tax rules and regulations of the PRC Corporate Income Tax Law, which came into effect on 1 January 2008. No provision for Mainland China current income tax has been made in the interim condensed consolidated financial statements, as the Group does not have any assessable profit arising in Mainland China.

The provision of French current income tax was based on the rate of 33.33% (six months ended 30 June 2016: 33.33%) of the estimated assessable profits arising during the Period. The tax rate of 28% will be effective on 1 January 2019 for the subsidiaries in France.

The provision of Luxembourg's current income tax was based on the rate of 29.22% (six months ended 30 June 2016: 29.22%) of the estimated assessable profits arising during the Period.

8. DISCONTINUED OPERATIONS

On 4 January 2016, the board of the Company (the "**Board**") passed a resolution to consider 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**") (collectively referred to as the "**Disposal of Fame Risen**") to Intelligent Wealth Limited ("**Intelligent Wealth**"). Intelligent Wealth is considered a related company to the Company as it is wholly owned by Mr. Du Shuang Hua, a shareholder who is deemed to be interested in approximately 5.54% of the issued share capital of the Company.

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

(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 has been classified as a disposal group held for sale and as discontinued operations.

On 4 January 2016, the Company 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. A special general meeting of the Company was convened on 14 March 2016 and the relevant resolution approving the Disposal of Fame Risen was passed by the shareholders at the meeting.

The disposal of Fame Risen was completed on 15 April 2016. The results of discontinued operations for the period are presented below:

	For the six months ended 30 June 2016 *HK$'000*
Administrative expenses	(2)
Share of losses of associates	(44,456)
Loss before tax from the discontinued operations	(44,458)
Income tax credit	2,135
Loss from the discontinued operations	(42,323)
Gain on disposal *(note 13)*	42,709
Reclassification of translation reserve from other comprehensive income to the consolidated statement of profit or loss upon disposal of a subsidiary	155,523
Reclassification of other reserve to profit or loss upon disposal of a subsidiary	13,050
	211,282
Profit from the discontinued operations	168,959
Attributable to:	
Owners of the Company	168,959

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

	For the six months ended 30 June 2016 *HK$'000*
Net cash outflows from operating activities	(2)

Earnings per share:

Basic from the discontinued operations	HK$1.32 cents

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

	For the six months ended 30 June 2016
Profit (HK$'000)	
Profit attributable to ordinary equity holders of the Company from the discontinued operations	168,959
Number of shares ('000)	
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation *(note 10)*	12,778,880

9. DIVIDENDS

The Directors of the Company do not recommend the payment of any dividend in respect of the Period (six months ended 30 June 2016: Nil).

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

The calculation of the basic (loss)/earnings per share amount is based on the (loss)/profit for the period attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 12,778,880,000 (six months ended 30 June 2016: 12,778,880,000) in issue during the period.

The calculations of basic (loss)/earnings per share amounts are based on:

	For the six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
(Loss)/profit (HK$'000)		
(Loss)/profit attributable to ordinary equity holders of the Company, used in the basic and diluted (loss)/earnings per share calculation		
From continuing operations	**(13,218)**	(38,897)
From discontinued operations	**–**	168,959
	(13,218)	130,062
Number of shares ('000)		
Weighted average number of ordinary shares in issue during the period used in the basic and diluted (loss)/earnings per share calculation	**12,778,880**	12,778,880

The Group had no potentially dilutive ordinary shares in issue during those periods.

11. TRADE RECEIVABLES

	30 June 2017	31 December 2016
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Trade receivables	**23,160**	15,521

Trade receivables are non-interest-bearing.

For travel agents and certain corporate customers, the credit period is generally one month. Hotel operation revenue is normally settled by cash or credit card.

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

	30 June 2017 (Unaudited) *HK$'000*	31 December 2016 (Audited) *HK$'000*
Within 1 month	**21,842**	9,996
1 to 3 months	**1,269**	5,480
Over 3 months	**49**	45
	23,160	15,521

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 still considered fully recoverable.

12. TRADE PAYABLES

The trade payables are non-interest-bearing and are normally settled on 30-day terms. The trade payables have no significant balances with ageing over one year based on the invoice date. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

13. DISPOSAL OF A SUBSIDIARY

As detailed in note 8, the Group disposed of Fame Risen during the Period.

	15 April 2016 *HK$'000*
Net assets disposed of:	
Investment in an associate	2,169,620
Cash and cash equivalents	1,707
Deferred tax liabilities	(16,233)
Amount due to the Group	(27,536)
	2,127,558
Consideration	2,383,148
Less: Disposal related expenses	(8,784)
Less: Mainland China taxation regarding the Disposal of Fame Risen	(176,561)
Disposal of the Shareholder's Loan from Fame Risen	(27,536)
Net proceeds received	2,170,267
Gain on the Disposal of Fame Risen	42,709

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

	For the six months ended 30 June 2016 *HK$'000*
Consideration	2,383,148
Disposal related expenses paid	(8,784)
Income tax paid	(176,561)
Set-off against the outstanding loan of the Group due to a related company	(1,854,308)
Set-off against the outstanding loan interest of the Group due to a related company	(41,619)
Cash and bank balances disposed of	(1,707)
Net inflows of cash and cash equivalents in respect of the disposal of a subsidiary	300,169

INTERIM DIVIDENDS

The Board does not recommend the payment of interim dividend in respect of the Period (for the six months ended 30 June 2016: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Overview

During the Period, revenue from continuing operations of the Group amounted to approximately HK$129.0 million, representing an increase of approximately 2.4% from approximately HK$126.0 million for the six months ended 30 June 2016 (the "**Comparing Period**"). The increase in revenue of the Group during the Period was mainly attributable to revenue generated from the hotel operation segment, as well as the record of loan interest income from the money lending segment. Notwithstanding the increase in revenue generated from continuing operations, the Group recorded a loss of approximately HK$16.3 million from continuing operations for the Period, as compared to the loss of approximately HK$39.7 million for the Comparing Period, after deduction of administrative expenses and finance costs. Administrative expenses were reduced during the Period as compared to the Comparing Period, partially as a result of reduction in employee remuneration. Finance costs were reduced during the Period as compared to the Comparing Period, as the Group had fully repaid the loans from a related company in 2016.

The Group recorded a loss of approximately HK$13.2 million for the Period, as compared to the profit of approximately HK$130.1 million for the Comparing Period, as the result of absence of profit contributed from discontinued operations (Comparing Period: approximately HK$169.0 million). Loss attributable to owners of the Company was approximately HK$13.2 million for the Period, as compared to the profit of approximately HK$130.1 million for the Comparing Period. The basic and diluted loss per share of the Company for the Period was HK$0.10 cents, as compared to the basic and diluted earnings per share of HK$1.02 cents for the Comparing Period.

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

Hotel Operation

The Group recorded revenue of approximately HK$126.9 million from the hotel operation segment during the Period, representing an increase of approximately 0.7% from approximately HK$126.0 million for the Comparing Period. The increase in revenue of this segment during the Period was mainly attributable to increase in revenue contributed by both the Paris Marriott Hotel Champs-Elysées ("**Paris Marriott Hotel**") and the Butterfly on Waterfront Sheung Wan Hotel ("**Butterfly on Waterfront**").

The Group recorded a loss of approximately HK$10.2 million from the hotel operation segment during the Period, as compared to the loss of approximately HK$7.8 million for the Comparing Period. The increase in loss from this segment for the Period was principally attributable to decline in profitability of the Paris Marriott Hotel, as the result of the threat of terrorist attacks lingered in Europe since terrorist attacks occurred in 2015 and by attacks in Europe in 2017.

Paris

In accordance with the France's National Institute of Statistics and Economic Studies, the number of foreign tourists' overnight stays in Paris shown a significant increase by 10.4 percent year-over-year in the second quarter of 2017. Notwithstanding the increase in number of foreign tourists, external factors such as continuation of small scale terrorist attacks occurred in Paris as well as other European countries, had continued to suppress performance of luxury grade hotels in Paris. Besides, fewer mega events were conducted in Paris during the Period as compared to the Comparing Period had clamped down demand of hotels rooms in Paris. Furthermore, France had extended the state of emergency until November 2017 would hinder desire of foreign visitors travelling to Paris. All of these factors had contributed to suppress average room rate, the Paris Marriott Hotel were under pressure to lower average room rate to attract customers in order to maintain occupancy. The decline in average room rate and increase in operational costs of the Paris Marriott Hotel led to decrease in profitability of the hotel during the Period. Below is a summary and comparison of operational performance of the Paris Marriott Hotel during the Period against the Comparing Period:

	2017	2016
Occupancy	**79.5%**	75.3%
Average Room Rate	**€392**	€401
RevPAR*	**€311**	€302

* Revenue per available room

Hong Kong

In accordance with the Hong Kong Tourism Board, Hong Kong regained an upward trend in the number of visitor arrivals during the Period as compared to the Comparing Period. A recovery in overnight arrivals was noted in every class of visitors, including the PRC tourists. This generated compression in demand of hotel rooms and a surge in hotel room rates in Hong Kong during the Period. As a result, the Butterfly on Waterfront achieved an increase in average room rate and revenue per available room, while maintaining a high level of occupancy during the Period as compared to the Comparing Period. Below is a summary and comparison of operational performance of the Butterfly on Waterfront during the Period against the Comparing Period:

	2017	2016
Occupancy	**99.5%**	99.5%
Average Room Rate	**HK$788**	HK$721
RevPAR*	**HK$784**	HK$717

* Revenue per available room

Money Lending

Revenue of this segment represented interest income earned from mortgage loans. During the Period, revenue of the money lending segment amounted to approximately HK$2.2 million (Comparing Period: Nil). As at 30 June 2017, gross mortgage loans receivable amounted to HK$63.0 million (Comparing Period: Nil).

PROSPECTS

HOTEL OPERATION

Paris

Notwithstanding the fact that both occupancy and revenue per available room of the Paris Marriott Hotel have seen improvement during the Period, the hotel is still struggling to recover its average room rate to prior attacks level in 2015. Based on current hotel bookings on hand, the Board does not notice concrete evidence that a full recovery on average room rate would occur by the end of 2017. Moreover, competition among luxury grade hotels in Paris remains intense as the result of re-opening of hotels that were previously closed for renovation. Furthermore, hotels in Paris is facing escalating competition from emerging online hospitality service such as Airbnb, which would put pressure on average room rate of the Paris Marriott Hotel. Meanwhile, the Paris Marriott Hotel is actively facilitating and enhancing hotel rooms booking from the PRC tourists. In order to enhance guest experience, the Group is also considering different improvement proposals on the Paris Marriot Hotel, including but not limited to implementing renovation plan. More details on renovation will be announced as and when a renovation plan is committed.

Hong Kong

PRC visitors constitute the majority origin of visitors of Hong Kong. In the first half of 2017, Hong Kong tourism industry was benefited from the diplomatic tension between the PRC and the South Korea over deployment of missile defense system, which had diverted PRC visitors traveling to Hong Kong. Unfortunately in June 2017, the total number of visitors to Hong Kong resumes to decline by 1.9% year-on-year against 2016. As the China-South Korea diplomatic tension has shown signs to moderate, the desire of PRC visitors and total number of visitors traveling to Hong Kong in the second half of 2017 remains uncertain. Moreover, more new hotels will be completed in Hong Kong from 2017 onwards, this would accelerate competition within the industry. Meanwhile, Hong Kong has an urgent quest for creating new notable tourist attractions to offer to visitors.

MONEY LENDING

In the second half of 2017, the Board considers Hong Kong mortgage loan market is filled with challenges, including when the United States Federal Reserve decides to commence tightening its monetary policy and further increase in benchmark interest rate. These factors might bring forward both challenges and opportunities to the Group's mortgage loan business. The Group will remain vigilant and cautious when conducting mortgage loan business. As of the day of this announcement, gross mortgage loans receivable of the Group has reduced as compared to the level as of 30 June 2017.

LOOKING AHEAD

The Group will continue to explore investment opportunities and remain dedicated to constantly review and reinforce its existing business segments with a view to enhancing returns to our stakeholders.

Liquidity and Financial Resources

As at 30 June 2017, total assets and net assets of the Group were approximately HK$4,188.0 million and HK$2,125.4 million respectively (31 December 2016: approximately HK$3,922.1 million and HK$2,018.8 million respectively). The cash and bank balance of the Group as at 30 June 2017 were approximately HK$557.3 million, and were denominated in Hong Kong dollars, Euro, United States dollars and Renminbi (31 December 2016: approximately HK$539.7 million). The total current assets of the Group as at 30 June 2017 were approximately HK$686.0 million (31 December 2016: approximately HK$666.3 million). As at 30 June 2017, the Group had net current assets of approximately HK$608.3 million (31 December 2016: approximately HK$599.2 million).

The Group adopted a conservative treasury approach and had tight controls over its cash management. As at 30 June 2017, the Group had outstanding bank loans and other borrowings amounted to approximately HK$1,656.5 million[1] (31 December 2016: approximately HK$1,524.4 million), of which approximately HK$12.0 million (31 December 2016: approximately HK$12.0 million) were due within one year. As at 30 June 2017, the Group's gearing ratio (total borrowings/total assets) was at approximately 39.6% (31 December 2016: approximately 38.9%). The Group constantly monitors its cash flows position, maturity profile of borrowings, availability of banking facilities, gearing ratio and interest rate exposure.

Acquisitions and Disposals

There was no material acquisition or disposal of subsidiaries and associated companies of the Group during the Period.

Foreign Exchange Exposure

The Group had operations in the France, Luxembourg, PRC and Hong Kong where transactions and cash flows were denominated in the local currencies, including Euro, Renminbi and Hong Kong dollar. As a result, the Group was exposed to foreign currency exposures with respect to Euro and Renminbi which mainly occurred from conducting daily operations and financing activities by local offices where local currencies were different from the Group. For the six months ended 30 June 2017, 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 30 June 2017, the Group had no significant contingent liabilities.

[1] (i) Approximately HK$1,525.5 million (equivalent to €175,000,000) at the interest rates of 3 months EURIBOR plus 2.2% per annum; and

(ii) Approximately HK$131 million at the interest rate of 1 month HIBOR plus 2.36% per annum.

Pledge on the Group's Assets

As at 30 June 2017, cash deposits amounting to approximately HK$21.2 million (31 December 2016: approximately HK$19.3 million) and certain buildings of the Group with a net carrying amount of approximately HK$3,422.5 million (31 December 2016: approximately HK$3,179.7 million) were pledged to secure general banking facilities granted to the Group.

Employees and Remuneration

The Group had 9 employees as at 30 June 2017 (31 December 2016: 9), the total employee remuneration during the Period were approximately HK$3.8 million (31 December 2016: approximately HK$11.7 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 interim period, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

CORPORATE GOVERNANCE

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

The Board has set up procedures on corporate governance that comply with the requirements of the 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 provision of the CG Code throughout the six months ended 30 June 2017 with the following deviation:

- A.2 The Company does not have any Chairman.

- 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.

- E.1.2 The Company does not have any Chairman. 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 this 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.

No replacement appointment of the Chairman of the Board was made during the Period. The roles and responsibilities of the Chairman on governance matters of the Company were shared between the executive Directors during the Period. The Company will publish an announcement once an appointment has been made in accordance with the Listing Rule.

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 and discussed risk management and internal control systems and matters. The Audit Committee is satisfied with the Group's internal control procedures and financial reporting disclosures. The interim results and the unaudited condensed consolidated financial statements for the Period have been reviewed by the Audit Committee and the auditors of the Group.

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. Having made specific enquiries with all Directors, the Company has confirmed with the Directors that they have complied with the required standard set out in the Model Code and its code of conduct regarding Directors' securities transactions.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This announcement is published on the websites of the Stock Exchange (http://www.hkex.com.hk) and the Company (www.kaiyuanholdings.com). The interim report of the Company for the Period 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
Law Wing Chi, Stephen
Executive Director

Hong Kong, 28 August 2017

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