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 2018

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 2018 (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 2018

	Notes	For the six months ended 30 June 2018 (Unaudited) HK$'000	2017 (Unaudited) (Restated) HK$'000
CONTINUING OPERATIONS			
REVENUE	4	**140,072**	116,061
Cost of sales		**(110,426)**	(94,602)
Gross profit		**29,646**	21,459
Other income and gains	4	**7,929**	1,244
Other expenses		**–**	(123)
Administrative expenses		**(19,845)**	(17,242)
Finance costs	5	**(24,911)**	(22,806)
LOSS BEFORE TAX FROM CONTINUING OPERATIONS	6	**(7,181)**	(17,468)
Income tax credit	7	**1,024**	3,282
LOSS FOR THE PERIOD FROM CONTINUING OPERATIONS		**(6,157)**	(14,186)
DISCONTINUED OPERATION			
Profit for the period from a discontinued operation	8	**338,629**	968
PROFIT/(LOSS) FOR THE PERIOD		**332,472**	(13,218)
Attributable to:			
Owners of the Company		**332,472**	(13,218)
Non-controlling interests		**–**	–
		332,472	(13,218)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	10		
Basic and diluted			
– For profit/(loss) for the period		**HK$2.60 cents**	(HK$0.10 cents)
Basic			
– For loss from continuing operations		**(HK$0.05 cents)**	(HK$0.11 cents)
Diluted			
– For loss from continuing operations		**(HK$0.05 cents)**	(HK$0.11 cents)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited) (Restated)
	HK$'000	*HK$'000*
PROFIT/(LOSS) FOR THE PERIOD	**332,472**	(13,218)
OTHER COMPREHENSIVE (LOSS)/INCOME		
Other comprehensive (loss)/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	**(1,835)**	1,526
Reclassification adjustments for loss included in the consolidated statement of profit or loss	**6,951**	6,240
Income tax effect	**(1,586)**	(2,174)
	3,530	5,592
Exchange differences on translation of foreign operations	**(35,036)**	114,316
Net other comprehensive (loss)/income to be reclassified to statement of profit or loss in subsequent periods	**(31,506)**	119,908
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD, NET OF TAX	**(31,506)**	119,908
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**300,966**	106,690
Attributable to:		
Owners of the Company	**300,966**	106,690
Non-controlling interests	**–**	–
	300,966	106,690

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2018

	Notes	**30 June 2018 (Unaudited)** *HK$'000*	31 December 2017 (Audited) *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**3,000,337**	3,601,397
Intangible assets		**500**	583
Deferred tax assets		**23,370**	29,688
Total non-current assets		**3,024,207**	3,631,668
CURRENT ASSETS			
Inventories		**953**	1,102
Trade receivables	*11*	**30,332**	23,523
Loan receivables		**160,000**	–
Other receivables and prepayments		**24,877**	23,338
Pledged deposits		**23,566**	24,101
Cash and cash equivalents		**1,173,805**	513,396
Total current assets		**1,413,533**	585,460
Total assets		**4,437,740**	4,217,128
CURRENT LIABILITIES			
Trade payables	*12*	**14,989**	10,198
Other payables and accruals		**66,112**	51,964
Receipt in advance		**111**	87
Derivative financial instruments		**10,443**	11,342
Tax payable		**45**	362
Total current liabilities		**91,700**	73,953
NET CURRENT ASSETS		**1,321,833**	511,507
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,346,040**	4,143,175

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Continued)

AS AT 30 JUNE 2018

	30 June 2018 (Unaudited) ***HK$'000***	31 December 2017 (Audited) *HK$'000*
TOTAL ASSETS LESS CURRENT LIABILITIES	**4,346,040**	4,143,175
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	**1,571,843**	1,602,630
Deferred tax liabilities	**246,942**	309,707
Derivative financial instruments	**6,290**	10,839
Total non-current liabilities	**1,825,075**	1,923,176
Net assets	**2,520,965**	2,219,999
EQUITY		
Share capital	**1,277,888**	1,277,888
Reserves	**1,243,077**	942,111
Total equity	**2,520,965**	2,219,999

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

1. CORPORATE INFORMATION

The interim condensed consolidated financial information were approved and authorised for issue by the board of directors on 24 August 2018.

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). The address of the registered office of the Company is Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda, and the principal place of business is 28th Floor, Chinachem Century Tower, 178 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 2018 (the "**Period**").

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

2.1 Basis of preparation

The unaudited interim condensed consolidated financial information, which comprises the interim condensed consolidated statement of financial position of the Group as at 30 June 2018 and the related interim condensed consolidated statement of profit or loss, the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of cash flows for the six months ended 30 June 2018, 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 information 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 2017.

2.2 Changes in accounting policies and disclosures

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2017, except for the adoption of new standards effective as of 1 January 2018 below:

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

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*
Amendments to HKAS 40	*Transfers of Investment Property*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014-2016 Cycle	Amendments to HKFRS 1 and HKAS 28

The Group applies, for the first time, HKFRS 15 *Revenue from Contracts with Customers* and HKFRS 9 *Financial Instruments*. As required by HKAS 34, the nature and effect of these changes are disclosed below.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 supersedes HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a 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 standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group adopted HKFRS 15 using the modified retrospective method of adoption. The effect of adopting HKFRS 15 is, as follows:

- The comparative information for each of the primary financial statements would be presented based on the requirements of HKAS 11, HKAS 18 and related Interpretations;

- As required by HKAS 34, the Group disaggregated revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. The Group also disclosed information about the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment. Refer to note 4 for the disclosure on disaggregated revenue. Disclosures for the comparative period in the notes would also follow the requirements of HKAS 11, HKAS 18 and related Interpretations. As a result, the disclosure of disaggregated revenue in note 4 would not include comparative information.

There is no cumulative catch-up adjustment to the opening balance of retained profits (or other components of equity) as at 1 January 2018 with the modified retrospective method of adoption for the Group. Consequently, the new disclosure requirements on disaggregated revenue and reconciliation from disaggregated revenue to revenue information of each reportable segment for the current period are the only substantial change upon adoption of HKFRS 15.

HKFRS 9 Financial Instruments

HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group has not restated comparative information for 2017 for financial instruments in the scope of HKFRS 9. Therefore, the comparative information for 2017 is reported under HKAS 39 and is not comparable to the information presented for the six months ended 30 June 2018.

Changes to classification and measurement

To determine their classification and measurement category, HKFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

The HKAS 39 measurement categories of financial assets, including financial assets at fair value through profit or loss, loans and receivables, available-for-sale financial investments and held-to-maturity investments have been replaced by:

- Debt instruments at amortised cost;

- Debt instruments at fair value through other comprehensive income, with gains or losses recycled to profit or loss on derecognition;

- Equity instruments at fair value through other comprehensive income, with no recycling of gains or losses to profit or loss on derecognition; and

- Financial assets at fair value through profit or loss.

The accounting for financial liabilities remains largely the same as it was under HKAS 39.

As at 1 January 2018, the category of loans and receivables under HKAS 39, including cash and cash equivalents, pledged deposits, trade receivables and financial assets included in other receivables and prepayments were transferred to debt instruments at amortised cost under HKFRS 9.

Changes to the impairment calculation

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or lifetime basis. The Group applies the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade receivables. Furthermore, the Group applies the general approach to loan receivables and record twelve-month expected credit losses that are estimated based on the possible default events on its loan within next twelve months. Under the general approach, the Group recognizes a loss allowance based on either twelve-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. The impact of adopting expected credit losses model under HKFRS 9 was not significant.

All other amendments and interpretations applied for the first time in 2018, but do not have an impact on the interim condensed consolidated financial information of the Group.

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 2017: two) as follows:

(a) the hotel operation segment engaged in operation of hotel business in France;

(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 and other unallocated expenses are excluded from such measurement.

The hotel operation segment, located in Hong Kong, engaged in operation of hotel business was disposed of on 20 June 2018 and details of which are given in notes 8 and 13.

The following tables present revenue and profit information for the Group's operating segments for the six months ended 30 June 2018 and 2017, respectively.

Six months ended 30 June 2018	**Hotel operation**	**Money lending**	**Total**
	HK$'000	***HK$'000***	***HK$'000***
Revenue			
Sales to external customers and revenue from continuing operations	136,793	3,279	140,072
Results			
Segment (loss)/profit	(2,127)	3,120	993
Reconciliation			
Bank interest income			905
Corporate and other unallocated expenses			(9,079)
Loss before tax from continuing operations			(7,181)

Six months ended 30 June 2017	Hotel operation	Money lending	Total
	HK$'000	*HK$'000*	*HK$'000*
	(Restated)		(Restated)
Revenue			
Sales to external customers and revenue from continuing operations	113,870	2,191	116,061
Results			
Segment (loss)/profit	(11,432)	1,946	(9,486)
Reconciliation			
Bank interest income			945
Corporate and other unallocated expenses			(8,927)
Loss before tax from continuing operations			(17,468)

4. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue, other income and gains is as follows:

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited) (Restated)
	HK$'000	*HK$'000*
Revenue		
Rendering of services	**136,793**	113,870
Interest income	**3,279**	2,191
	140,072	116,061
Other income		
Bank interest income	**905**	945
Gains		
Foreign exchange gains	**5**	–
Business interruption compensation	**5,960**	–
Others	**1,059**	299
	7,024	299
	7,929	1,244

With the adoption of HKFRS 15 from 1 January 2018, the disaggregation of the Group's revenue from contracts with customers, including rendering of services above, for the six months ended 30 June 2018 is as follows:

	For the six months ended 30 June 2018
	HK$'000
Type of services	
Rendering of accommodation services	**109,374**
Rendering of catering services	**25,644**
Rendering of laundry services	**1,167**
Rendering of travel agency services	**608**
Total revenue from contracts with customers	**136,793**
Geographical market	
France and total revenue from contracts with customers	**136,793**
Timing of revenue recognition	
Services transferred over time and total revenue from contracts with customers	**136,793**

Total revenue from contracts with customers can be directly reconciled to the segment revenue of the hotel operation in note 3.

5. FINANCE COSTS

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
		(Restated)
	HK$'000	*HK$'000*
Interest on bank borrowings	**17,960**	16,566
Fair value losses, net:		
Cash flow hedges (transfer from other comprehensive income)	**6,951**	6,240
	24,911	22,806

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	
	2018	2017
	(Unaudited)	(Unaudited)
		(Restated)
	HK$'000	*HK$'000*
Cost of hotel service	**88,644**	76,828
Depreciation of property, plant and equipment	**21,782**	17,774
Amortisation of intangible assets	**72**	32
Minimum lease payments under operating leases:		
Land and buildings	**856**	714
Foreign exchange differences, net	**(5)**	123
Bank interest income	**(905)**	(945)
Employee benefit expenses (excluding directors' remuneration)	**1,286**	1,340

7. INCOME TAX CREDIT

The major components of income tax credit for the six months ended 30 June 2018 and 2017 are as follows:

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current income tax		
Europe	**60**	71
Deferred income tax	**(1,084)**	(3,353)
Income tax credit for the Period	**(1,024)**	(3,282)

Hong Kong profits tax should be provided at the rate of 16.5% (six months ended 30 June 2017: 16.5%) of the estimated assessable profits arising in Hong Kong during the Period. No provision for Hong Kong profits tax has been made, as the Group does not have any assessable profit from continuing operations arising in Hong Kong.

The provision for Mainland China current income tax should be based on the statutory rate of 25% (six months ended 30 June 2017: 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 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 28% for the estimated assessable profits within EUR500,000 (inclusive) and 33.33% for that above EUR500,000 (six months ended 30 June 2017: 33.33%)of the estimated assessable profits arising during the Period. The following tax rates are effective from 1 January 2018 in France:

For year 2018	28% for the estimated assessable profits within EUR500,000 (inclusive) and 33.33% for that above EUR500,000
For year 2019	28% for the estimated assessable profits within EUR500,000 (inclusive) and 31% for that above EUR500,000
For year 2020	28%
For year 2021	26.5%
For year 2022 and afterwards	25%

The provision of Luxembourg's current income tax is based on the rate of 29.22% (six months ended 30 June 2017: 29.22%) of the estimated assessable profits arising during the Period.

8. DISCONTINUED OPERATION

On 13 April 2018, the Company entered into an agreement to dispose of the entire issued shares of Leading Prospect Limited (the "**Target**") and a shareholder's loan owing by the Target and its subsidiaries (the "**Target Group**") to the Company (the "**shareholder's Loan**") to a third party, Ridge Avis Limited (collectively referred to as the "**Disposal**").

The Target Group is engaged in operation of hotel business in Hong Kong. Particulars of the Target Group are as follows:

Name of subsidiary	Legal form of business	Place of incorporation or registration/ place of operation	Issued and fully paid-up share/ registered capital	Percentage of issued share/ registered capital attributable to the Company before the Disposal		Principal activities
				Direct %	Indirect %	
Leading Prospect Limited	Corporation	British Virgin Islands	US$100	100	–	Investment holding
A6 Limited	Corporation	Hong Kong	HK$10,000	–	100	Owner of hotel property
Hotel de EDGE Limited	Corporation	Hong Kong	HK$100	–	100	Hotel operation
Hotel de EDGE Management Limited	Corporation	Hong Kong	HK$100	–	100	Hotel licence owner

The Disposal was completed on 20 June 2018. The results of a discontinued operation for the Period are presented below:

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
REVENUE	**14,159**	12,983
Cost of sales	**(6,866)**	(6,340)
Gross profit	**7,293**	6,643
Administrative expenses	**(3,655)**	(3,550)
Finance costs	**–**	(1,889)
Profit before tax from a discontinued operation	**3,638**	1,204
Income tax expense	**(579)**	(236)
Profit after tax from a discontinued operation	**3,059**	968
Gain on disposal of subsidiaries *(note 13)*	**335,570**	–
Profit for the Period from a discontinued operation	**338,629**	968

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

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Operating activities	**4,704**	5,417
Investing activities	**(236)**	3,826
Financing activities	**–**	(7,889)
Net cash outflows	**4,468**	1,354

Earnings per share amounts for the abovementioned discontinued operation are stated below:

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
Basic and diluted from the discontinued operation	**HK$2.65 cents**	HK$0.01 cents

The calculation of basic and diluted earnings per share from the discontinued operation are based on profit attributable to ordinary equity holders of the parent from the discontinued operation and weighted average number of ordinary shares of 12,778,880,000 (six months ended 30 June 2017: 12,778,880,000) in issue during the Period. The share option scheme gives rise to an anti-dilutive effect, which has been ignored in the calculation of diluted earnings per share from the discontinued operation.

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 2017: Nil).

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

The calculation of the basic earnings/(loss) per share amount is based on the profit/(loss) for the 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 2017: 12,778,880,000) in issue during the Period.

The calculation of basic and diluted earnings/(loss) per share amounts are based on:

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
		(Restated)
Profit/(loss) (HK$'000)		
Profit/(loss) attributable to ordinary equity holders of the Company, used in the basic and diluted earnings/(loss) per share calculation		
From continuing operations	**(6,157)**	(14,186)
From a discontinued operation	**338,629**	968
	332,472	(13,218)
Number of shares ('000)		
Weighted average number of ordinary shares in issue during the Period used in the basic earnings/(loss) per share calculation	**12,778,880**	12,778,880
Effect of dilution-weighted average number of ordinary shares		
Share options	**144,780**	–
	12,923,660	12,778,880

The share option scheme gives rise to an anti-dilutive effect on diluted earnings per share for profit for the six months ended 30 June 2018, which has been ignored in calculation. Meanwhile, those share options result in dilutive effect on diluted losses per share for loss from continuing operations for the six months ended 30 June 2018, which has been included in calculation.

11. TRADE RECEIVABLES

	30 June 2018 (Unaudited) *HK$'000*	31 December 2017 (Audited) *HK$'000*
Trade receivables	**30,332**	23,523

Trade receivables are non-interest-bearing.

For travel agents and certain corporate customers, the credit period is generally one month.

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

	30 June 2018 (Unaudited) *HK$'000*	31 December 2017 (Audited) *HK$'000*
Within 1 month	**18,932**	16,937
1 to 3 months	**11,349**	6,534
Over 3 months	**51**	52
	30,332	23,523

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.

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 SUBSIDIARIES

The net liabilities disposed of and gain on disposal of subsidiaries in relation to the Disposal detailed in note 8 are as follows:

	20 June 2018
	HK$'000
Net liabilities disposed of:	
Property, plant and equipment	**514,061**
Deferred tax assets	**4,147**
Inventories	**57**
Trade receivables	**463**
Other receivables and prepayments	**597**
Cash and cash equivalents	**11,799**
Other payables and accruals	**(1,184)**
Receipt in advance	**(11)**
Deferred tax liabilities	**(56,586)**
Amount due to the Group	**(481,635)**
	(8,292)
Gain on disposal of subsidiaries	**335,570**
	327,278
Satisfied by	
Cash	**821,721**
Less: directly attributable expenses	**(12,808)**
Less: disposal of Shareholder's loan from the Target Group	**(481,635)**
	327,278

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

	For the six months ended 30 June 2018 *HK$'000*
Cash consideration	**821,721**
Cash consideration to be received	**(2,252)**
Directly attributable expenses	**(12,808)**
Cash and cash equivalents disposed of	**(11,799)**
Net inflows of cash and cash equivalents in respect of the disposal of subsidiaries	**794,862**

14. EVENTS AFTER THE REPORTING PERIOD

To the date of approval of the financial information, no material subsequent event requiring disclosure occurred.

15. COMPARATIVE AMOUNTS

The comparative interim condensed consolidated statement of profit or loss has been restated as if the operation discontinued during the current period had been discontinued at the beginning of the comparative period (note 8).

INTERIM DIVIDENDS

The Board does not recommend the payment of interim dividend in respect of the Period (six months ended 30 June 2017: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Overview

During the Period, revenue of the Group from continuing operations amounted to approximately HK$140.1 million, representing an increase of approximately 20.7% from approximately HK$116.1 million for the six months ended 30 June 2017 (the "**Comparing Period**"). The increase in revenue from continuing operations during the Period was mainly attributable to increase in revenue contributed by the Paris Marriott Champs Elysées Hotel ("**Paris Marriott Hotel**") of the hotel operation segment, as well as the increase in loan interest income from the money lending segment. The Group recorded a loss for the Period from continuing operations of approximately HK$6.2 million, as compared to a loss of approximately HK$14.2 million for the Comparing Period. The Group recorded a profit for the Period of approximately HK$332.5 million, as compared to a loss of approximately HK$13.2 million for the Comparing Period. The turnaround from loss to profit for the Period was mainly attributable to the gain on disposal of approximately HK$335.6 million from the disposal of the entire issued share capital of Leading Prospect Limited as well as its subsidiary companies (the "**Disposal Group**") and an assignment of shareholders' loan completed during the Period (the "**Disposal**"). The Disposal Group owned a property in Hong Kong and engaged in hotel operation business. Profit attributable to owners of the Company for the Period was approximately HK$332.5 million, as compared to a loss of approximately HK$13.2 million for the Comparing Period. The basic and diluted earnings per share of the Company for the Period was HK$2.60 cents, as compared to the basic and diluted loss per share of HK$0.10 cents for the Comparing Period.

Total assets of the Group as at 30 June 2018 amounted to approximately HK$4,437.7 million, representing an increase of approximately 5.2% from approximately HK$4,217.1 million as at 31 December 2017. The increase in total assets of the Group was mainly attributable to increase in cash and cash equivalents as the result of receipt of considerations from the Disposal. Total liabilities of the Group as at 30 June 2018 amounted to approximately HK$1,916.8 million, representing a decrease of approximately 4.0% from approximately HK$1,997.1 million as at 31 December 2017. The decrease in total liabilities of the Group was mainly attributable to decrease in interest-bearing bank borrowings balance of bank loan drawn in France, as the result of depreciation of Euro against Hong Kong dollar.

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

Hotel Operation

The Group recorded revenue of approximately HK$136.8 million from the hotel operation segment, as compared to a revenue of approximately HK$113.9 million for the Comparing Period. The increase in revenue of the hotel operation segment for the Period was mainly attributable to increase in revenue contributed by the Paris Marriott Hotel. The Group recorded a loss of approximately HK$2.1 million in this segment for the Period, as compared to the loss of approximately HK$11.4 million for the Comparing Period. The decrease in loss was mainly attributable to improved hotel room occupancy and average room rate of the Paris Marriott Hotel.

Paris

As the fear of terror faded, Paris resumed as the in-demand destinations for international tourists. During the Period, Paris enjoyed the benefit from continued surge in tourist arrivals, leading to increase in demand for overall hotel rooms. The sustained influx of tourists had also boosted demand of hotel rooms at the Paris Marriott Hotel, leading to prominent increase in occupancy and average room rate of the hotel. Below is a comparison of the operational performance of the Paris Marriott Hotel during the Period against the Comparing Period:

	2018	2017
Occupancy	**84.1%**	79.5%
Average Room Rate	**€405**	€392
RevPAR*	**€341**	€311

* Revenue per available room

Hong Kong

With reference to the Hong Kong Tourism Board, the total number of visitors arrivals to Hong Kong amounted to 30.6 million during the Period, representing a year-on-year growth of 10.1% as compared to the Comparing Period. The sustained stream of visitors from the Mainland Chinese continued as constituent growth contributor. The sustained improvement from inbound tourism to Hong Kong drove up overall hotel occupancy and room rates. The Group completed Disposal of the Disposal Group on 20 June 2018 and the Disposal Group's results were recorded under discontinued operation. Below is a comparison of operational performance of the Butterfly on Waterfront Sheung Wan during 1 January 2018 upto 20 June 2018 against the Comparing Period:

	2018 Up to 20 June 2018	2017
Occupancy	**99.7%**	99.5%
Average Room Rate	**HK$911**	HK$788
RevPAR*	**HK$908**	HK$784

* Revenue per available room

Money Lending

Revenue from this segment amounted to approximately HK$3.3 million during the Period, representing an increase of approximately 49.7% from approximately HK$2.2 million for the Comparing Period. The Group recorded a profit of approximately HK$3.1 million from this segment for the Period, as compared to the profit of approximately HK$1.9 million for the Comparing Period. As at 30 June 2018, gross mortgage loan receivable amounted to HK$160 million (Comparing Period: HK$63 million).

PROSPECTS

Hotel Operation

Based on current hotel room bookings forecast, the improvement in occupancy and average room rate will continue in the second half of this year. Notwithstanding this positive sign and while Paris remains as top-tier destinations for tourists, the capital city noticed growing tension from sustained influx of visitors. Sporadic labour strikes are still noticed in Paris, leading to temporary closure of pronounced tourist attractions. For the moment, occupancy and average room rate of the Paris Marriott Hotel have not resumed to pre-terrorist attacks level in 2015. In order to improve performance and enhance guest experience, the Group is also considering different improvement proposals on the Paris Marriott Hotel, including but not limited to conducting overall renovation. No renovation plans have been confirmed to date, more details will be announced as and when a plan is confirmed.

Money Lending Business

The Board considers Hong Kong's mortgage loan market remained challenging, heavily competitive and with uncertain prospects. The Board would exercise utmost caution when conducting mortgage loan business in Hong Kong. In the meantime, the scale of this segment remains limited and at the preliminary stage.

LOOKING AHEAD

The Board considers investing in hotels is a relatively low risk investment, whilst offering stable revenue stream and considerable capital gain potential. The Board will concurrently review our portfolio to restructure and enhance quality of assets held in the hotel operation segment.

Given the challenging and heavily competitive mortgage loan market in Hong Kong, the Group will conduct money lending business in Hong Kong in a prudent manner.

Finally, the Board will continue to explore investment opportunities from new business segments with a view to enhancing and improving returns to our stakeholders.

Liquidity and Financial Resources

As at 30 June 2018, total assets and net assets of the Group were approximately HK$4,437.7 million and HK$2,521.0 million respectively (31 December 2017: approximately HK$4,217.1 million and HK$2,220.0 million, respectively). The cash and bank balances of the Group as at 30 June 2018 were approximately HK$1,173.8 million, and were denominated in Hong Kong dollars, Euro, United States dollars and Renminbi (31 December 2017: approximately HK$513.4 million). The total current assets of the Group as at 30 June 2018 were approximately HK$1,413.5 million (31 December 2017: approximately HK$585.5 million). As at 30 June 2018, the Group had net current assets of approximately HK$1,321.8 million (31 December 2017: approximately HK$511.5 million). The Group adopted a conservative treasury approach and had tight controls over its cash management. As at 30 June 2018, the Group had outstanding bank loans and other borrowings amounted to approximately HK$1,571.8 million[1] (31 December 2017: approximately HK$1,602.6 million), none of which (31 December 2017: Nil) was due within one year. As at 30 June 2018, the Group's gearing ratio (total borrowings/total assets) was at approximately 35.4% (31 December 2017: approximately 38.0%). The Group constantly monitors its cash flow position, maturity profile of borrowings, availability of banking facilities, gearing ratio and interest rate exposure.

(1) Approximately HK$1,571.8 million (equivalent to €175,000,000) at the interest rates of 3 months EURIBOR plus 2.2% per annum.

Acquisitions and disposals

The Company, as seller, entered into a sale and purchase agreement with an independent third party, as purchaser, to dispose of the entire issued share capital of Leading Prospect Limited ("**Leading Prospect**") and shareholder loan due at the consideration of approximately HK$821,721,000 (the "**Disposal**"). Leading Prospect holds the entire issued share capital of A6 Limited, Hotel de EDGE Limited and Hotel de EDGE Management Limited (the "**Target Group**"). Target Group owned a property which was operated as a hotel in Hong Kong.

The Disposal was completed on 20 June 2018, the Target Group ceased to be subsidiaries of the Group and the financial results of the members of the Target Group will no longer be consolidated into the financial statements of the Group. Please refer to note 13 in the interim condensed consolidated financial information for further details.

Save as disclosed above, the Group had no other material acquisition or disposal of subsidiaries and associated companies during the Period.

Foreign Exchange Exposure

The Group had operations in France, Luxembourg, PRC and Hong Kong where transactions and cash flow were denominated in 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 2018, 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 foreign exchange exposure. The Group would consider employing foreign exchange hedging arrangements when appropriate and necessary.

Contingent Liabilities

As at 30 June 2018, the Group had no significant contingent liabilities.

Pledge on the Group's Assets

As at 30 June 2018, cash deposits amounting to approximately HK$23.6 million (31 December 2017: approximately HK$24.1 million) and a building of the Group with a net carrying amount of approximately HK$2,956.3 million (31 December 2017: approximately HK$3,040.6 million) were pledged to secure bank loan granted to the Group.

Employees and Remuneration

The Group had 7 employees as at 30 June 2018 (31 December 2017: 8). The total employee remuneration during the Period was approximately HK$4.0 million (31 December 2017: 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, medical insurance scheme and participation to the share option scheme.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the Period, neither the Company, nor any of its subsidiaries purchased, sold or redeemed 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 2018 with the following deviations:

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

- E.1.2 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 the above matters under review.

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

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 for Securities Transactions by Directors of Listed Issuers ("**Model Code**") set out in Appendix 10 to the Listing Rules. The Company has confirmed with all 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 (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, 24 August 2018

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