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KAI YUAN HOLDINGS LIMITED

開源控股有限公司

(incorporated in Bermuda with limited liability)

(Stock Code: 1215)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

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 2020 (the “**Year**”) together with comparative figures for the year ended 31 December 2019 (the “**Preceding Year**”) as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2020

		2020	2019
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
REVENUE	4	37,770	244,685
Cost of sales		(103,008)	(202,937)
Gross (loss)/profit		(65,238)	41,748
Other income and gains	4	40,950	32,431
Administrative expenses		(33,979)	(48,314)
Other expenses	5	(333,837)	–
Finance costs	6	(43,425)	(52,924)
Share of loss of an associate		(6,621)	–
LOSS BEFORE TAX	7	(442,150)	(27,059)
Income tax credit/(expense)	8	109,276	(3,556)
LOSS FOR THE YEAR		(332,874)	(30,615)
Attributable to:			
Owners of the Company		(332,874)	(30,615)
Non-controlling interests		–	–
		(332,874)	(30,615)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	10		
Basic and diluted			
– For loss for the year		HK(2.60) cents	HK(0.24) cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

	2020 HK\$'000	2019 HK\$'000
LOSS FOR THE YEAR	<u>(332,874)</u>	<u>(30,615)</u>
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) that may 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	(7,699)	(5,298)
Reclassification adjustments for loss included in the consolidated statement of profit or loss	2,969	10,779
Income tax effect	<u>1,182</u>	<u>(1,962)</u>
	<u>(3,548)</u>	<u>3,519</u>
Exchange differences:		
Exchange differences on translation of foreign operations	<u>114,787</u>	<u>(35,455)</u>
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods	<u>111,239</u>	<u>(31,936)</u>
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:		
Equity investment designated at fair value through other comprehensive income:		
Changes in fair value	–	(10,637)
Restoration to original cost for the investment subsequently becoming an associate	<u>10,637</u>	<u>–</u>
Net other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods	<u>10,637</u>	<u>(10,637)</u>
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX	<u>121,876</u>	<u>(42,573)</u>
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	<u>(210,998)</u>	<u>(73,188)</u>
Attributable to:		
Owners of the Company	(210,998)	(73,188)
Non-controlling interests	<u>–</u>	<u>–</u>
	<u>(210,998)</u>	<u>(73,188)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	<i>Notes</i>	2020 HK\$'000	2019 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		2,686,692	2,814,235
Right-of-use assets		2,045	3,845
Intangible assets		224	298
Investment in an associate		33,386	–
Equity investment designated at fair value through other comprehensive income		–	13,799
Financial assets at fair value through profit or loss		106,333	–
Long-term prepayments		–	5,444
Loan to an associate		127,008	–
Deferred tax assets		40,827	12,351
		<hr/>	<hr/>
Total non-current assets		2,996,515	2,849,972
CURRENT ASSETS			
Inventories		686	957
Trade receivables	12	–	12,798
Loans receivable		–	35,000
Prepayment, other receivables and other assets		40,623	35,374
Loan to an associate		93,928	–
Pledged deposits		42,544	38,801
Cash and cash equivalents		892,871	1,237,219
		<hr/>	<hr/>
Total current assets		1,070,652	1,360,149
		<hr/>	<hr/>
Total assets		4,067,167	4,210,121
CURRENT LIABILITIES			
Trade payables	13	3,084	2,619
Other payables and accruals		51,894	62,052
Derivative financial instruments		9,859	1,059
Lease liabilities		1,749	1,788
Interest-bearing bank borrowings		1,625,806	–
Tax payable		–	1,182
		<hr/>	<hr/>
Total current liabilities		1,692,392	68,700
		<hr/>	<hr/>
NET CURRENT (LIABILITIES)/ASSETS		(621,740)	1,291,449
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		2,374,775	4,141,421
		<hr/>	<hr/>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)*As at 31 December 2020*

	2020 HK\$'000	2019 <i>HK\$'000</i>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>2,374,775</u>	<u>4,141,421</u>
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	–	1,480,951
Lease liabilities	406	2,145
Deferred tax liabilities	162,528	232,170
Derivative financial instruments	<u>–</u>	<u>3,316</u>
Total non-current liabilities	<u>162,934</u>	<u>1,718,582</u>
Net assets	<u>2,211,841</u>	<u>2,422,839</u>
EQUITY		
Share capital	1,277,888	1,277,888
Reserves	<u>933,953</u>	<u>1,144,951</u>
Total equity	<u>2,211,841</u>	<u>2,422,839</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

1. CORPORATE AND GROUP 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 Victoria Place, 5th Floor, 31 Victoria Street, Hamilton HM 10, 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, and its subsidiaries are principally engaged in hotel operation and money lending.

Information about subsidiaries

Particulars of the Company’s subsidiaries are as follows:

Name of subsidiary	Form of legal entity	Place of incorporation or registration/ or place of operations	Issued ordinary/ registered share capital	Percentage of issued share/ registered capital attributable to the Company		Principal activities
				Direct %	Indirect %	
Crown Value Limited (“Crown Value”)	Corporation	Hong Kong/Hong Kong	HK\$1	100	–	Investment holding
Splendid Holdings S.à r.l.	Corporation	Luxembourg/Luxembourg	EUR20,000	–	100	Investment holding
MCE OpCo HoldCo	Corporation	France/France	EUR6,973,155	–	100	Investment holding
MCE OpCo	Corporation	France/France	EUR8,835,915	–	100	Hotel operation
Splendid PropCo	Corporation	France/France	EUR44,000,010	–	100	Owner of a hotel property
Global Strategy International Limited ⁽ⁱ⁾	Corporation	British Virgin Islands/ Hong Kong	US\$100	100	–	Investment holding
Kai Yuan Capital Limited	Corporation	Hong Kong/Hong Kong	HK\$10,000	–	100	Money lending
Star Wonder Limited	Corporation	Hong Kong/Hong Kong	HK\$1	–	100	Investment holding
Ever Info Limited ⁽ⁱ⁾	Corporation	British Virgin Islands/ Hong Kong	US\$100	100	–	Investment holding

Name of subsidiary	Form of legal entity	Place of incorporation or registration/ or place of operations	Issued ordinary/ registered share capital	Percentage of issued share/ registered capital attributable to the Company		Principal activities
				Direct %	Indirect %	
Universal Yield Investments Limited ⁽ⁱ⁾	Corporation	British Virgin Islands/ Hong Kong	US\$1	100	–	Investment holding
Deluxe (China) Limited	Corporation	Hong Kong/Hong Kong	HK\$1	–	100	Investment holding
Shanghai Top Star Advanced Materials Co., Limited.	Wholly-owned foreign enterprise	The PRC/Mainland China	US\$35,000,000	–	100	Investment holding
Ever Profit Management Limited	Corporation	Hong Kong/Hong Kong	HK\$1,000,000	100	–	Service provision
Charter Best Investments Limited ⁽ⁱ⁾	Corporation	British Virgin Islands/ Hong Kong	US\$1	100	–	Investment holding
Oriental Institute of Science Limited	Corporation	Hong Kong/Hong Kong	HK\$100	–	100	Research and development
Full Kingdom Limited ⁽ⁱ⁾	Corporation	British Virgin Islands/ Hong Kong	US\$1	100	–	Investment holding
New York Limited ⁽ⁱⁱ⁾	Corporation	Hong Kong/Hong Kong	HK\$1	–	100	Investment holding

- (i) No audited financial statements have been prepared for these entities for the year ended 31 December 2020, as these entities were not subject to any statutory audit requirement under relevant rules and regulations in their jurisdictions of incorporation.
- (ii) No audited financial statement has been prepared for the entity for the year ended 31 December 2020, as the entity only operated for 3 months during the year.

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 disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments and an equity investment designated at fair value through other comprehensive income which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

As disclosed in the Group's various public announcements relating to the COVID-19 development updates and the recent announcement as dated 12 March 2021, in light of the prevailing COVID-19 precautionary measures and restrictions on travels that affecting the overall tourism industry, the Group undertakes to comply with the applicable public health regulations issued by the local authorities, and the Group's Paris Marriott Hotel ("**Hotel**") business operations has been disrupted under temporarily closure situation, and the management has decided to further delay the Hotel's re-opening and the earliest date to consider re-opening the Hotel will be the end of April 2021.

As at 31 December 2020, the Group's current liabilities exceeded its current assets by HK\$621,740,000. During the year, there are certain financial covenants in respect of the Group's 5-year bank borrowings of EUR175,000,000 (equivalent to HK\$1,625,806,000) with original maturity date on 14 October 2024 not fulfilled. The non-compliance of covenants may result in the relevant banks to demand for the repayment of borrowings before its maturity dates, and hence the bank borrowings has been presented as current liabilities in the consolidated financial statements as at 31 December 2020. The Directors consider that the Group has taken various measures and will have adequate funds available to enable it to operate as a going concern, taken into account the past operating performance of the Group and the following:

- Management maintains continuous communication negotiating with the respective lenders to seek for a waiver, revision of the terms, or remedial actions. As of the date of approval of the consolidated financial statements, the lenders did not request the Group to repay the borrowings, and based on the Group's on-going negotiation effort and discussions with the lenders, the Directors are of the opinion that the lenders will not initiate any action over the non-compliance of covenants;
- The Group obtained the financial support commitment from a shareholder, through a controlled entity owned by the shareholder Mr. Du, who indirectly holds approximately 5.54% of the issued share capital of the Company, and committed to provide financial support to enable the Group to meet its liabilities when they fall due in the foreseeable future (at least 12 months from the date of the consolidated financial information); and
- As at 31 December 2020, the Group has cash and cash equivalents of HK\$892,871,000, which is expected to be sufficient to maintain the operating cash outflows of the Group in the next twelve months ending 31 December 2021. Moreover, the Directors are closely monitoring the progress from the introduction of vaccines and other preventive measures targeted to contain the outbreaks. If the outcome is positive, the Directors expects that the tourism industry would gradually recover.

The Directors have reviewed the Group's cash flow forecast covering a period of twelve months from the end of the reporting period. The Directors are of the opinion that, taking into account the above-mentioned action plans and measures, the Group is expected to have sufficient working capital to finance its operations and meet its financial obligations as and when they fall due in the foreseeable future. Accordingly, the Directors believe it is appropriate to prepare the consolidated financial statements of the Group for the year ended 31 December 2020 on a going concern basis.

Notwithstanding the above, there is significant uncertainty exist as to whether the Group is able to achieve its plans and measures as described above which have incorporated assumptions about future events and conditions that are subject to inherent uncertainties. Whether the Group will be able to continue as a going concern would depend upon the successful negotiation with the banks to obtain waiver or to revise the existing terms and conditions of the bank borrowings for the continuous compliance thereof as and when needed such that the existing bank borrowings will continue to be available to the Group and be repaid in accordance with the agreed repayment schedules.

Should the Group be unable to achieve the above-mentioned plans and measures and operate as a going concern, adjustments would have to be made to write down the carrying values of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effects of these adjustments have not been reflected in the consolidated financial statements.

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 2020. 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).

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 above. 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 Conceptual Framework for Financial Reporting 2018 and the following revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 3	<i>Definition of a Business</i>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendment to HKFRS 16	<i>COVID-19-Related Rent Concessions</i>
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i>

The application of the Conceptual Framework for Financial Reporting 2018 and the amendments to HKFRSs in the current year had no material impact on the Groups' consolidated financial positions and performance for the current and prior years.

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.

Amendments to HKFRS 3	<i>Reference to the Conceptual Framework</i> ²
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	<i>Interest Rate Benchmark Reform – Phase 2</i> ¹
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ⁴
HKFRS 17	<i>Insurance Contracts</i> ³
Amendments to HKFRS 17	<i>Insurance Contracts</i> ^{3, 6}
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current</i> ^{3, 5}
Amendments to HKAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i> ²
Amendments to HKAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract</i> ²
Annual Improvements to HKFRSs 2018-2020	<i>Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41</i> ²

¹ Effective for annual periods beginning on or after 1 January 2021

² Effective for annual periods beginning on or after 1 January 2022

³ Effective for annual periods beginning on or after 1 January 2023

⁴ No mandatory effective date yet determined but available for adoption

⁵ As a consequence of the amendments to HKAS 1, Hong Kong Interpretation 5 Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause was revised in October 2020 to align the corresponding wording with no change in conclusion

⁶ As a consequence of the amendments to HKFRS 17 issued in October 2020, HKFRS 4 was amended to extend the temporary exemption that permits insurers to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2023

While the adoption of some of the new and revised HKFRSs may result in changes in accounting policies, none of these HKFRSs is expected to have a significant impact on the Group's results of operations and financial position.

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units base on their products and services and has two reportable operating segments (2019: two) as follows:

- (a) the hotel operation segment engaged in operation of hotel businesses in 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 resource 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, other interest income from financial assets at fair value through profit or loss, interest income from loan to an associate, fair value gains on financial assets at fair value through profit or loss, share of loss of an associate and corporate expenses are excluded from such measurement.

An analysis for the Group's revenue is as follows:

Year ended 31 December 2020	Hotel operation HK\$'000	Money lending HK\$'000	Total HK\$'000
<i>Segment revenue (note 4)</i>			
Sales to external customers	<u>36,880</u>	<u>890</u>	<u>37,770</u>
Segment results	<u>(445,117)</u>	<u>(97)</u>	<u>(445,214)</u>
<i>Reconciliation:</i>			
Bank interest income			10,586
Interest income from loan to an associate			8,743
Fair value gains on financial assets at fair value through profit or loss			8,533
Share of loss of an associate			(6,621)
Corporate and other unallocated expenses			<u>(18,177)</u>
Loss before tax			<u>(442,150)</u>
 Year ended 31 December 2019	 Hotel operation HK\$'000	 Money lending HK\$'000	 Total HK\$'000
<i>Segment revenue (note 4)</i>			
Sales to external customers	<u>240,901</u>	<u>3,784</u>	<u>244,685</u>
Segment results	<u>(14,743)</u>	<u>2,644</u>	<u>(12,099)</u>
<i>Reconciliation:</i>			
Bank interest income			15,766
Corporate and other unallocated expenses			<u>(30,726)</u>
Loss before tax			<u>(27,059)</u>

Geographical information

(a) Revenue from external customers

	2020 HK\$'000	2019 HK\$'000
France	36,880	240,901
Hong Kong	890	3,784
	<u>37,770</u>	<u>244,685</u>

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

(b) Non-current assets

	2020 HK\$'000	2019 HK\$'000
France	2,649,827	2,779,834
Mainland China	72,489	38,497
Hong Kong	31	47
	<u>2,722,347</u>	<u>2,818,378</u>

The non-current asset information above is based on the locations of the assets and excludes financial instruments, long-term prepayments and deferred tax assets.

Information about major customers

No revenue from transaction with a single customer amounted to 10% or more of the Group's total revenue for the year ended 31 December 2020 and 2019.

4. REVENUE, OTHER INCOME AND GAINS

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Revenue from contracts with customers	36,880	240,901
Revenue from other sources		
Interest income	<u>890</u>	<u>3,784</u>
	37,770	244,685
Other income		
Gross rental income from a property operating lease:		
Fixed lease payments	1,688	2,427
Interest income from loan to an associate	8,743	–
Government grants	1,756	–
Bank interest income	<u>10,586</u>	<u>15,766</u>
	22,773	18,193
Gains		
Gain on financial assets at fair value through profit or loss	8,533	–
Business interruption compensation	9,227	14,195
Foreign exchange gains	–	40
Others	<u>417</u>	<u>3</u>
	18,177	14,238
	40,950	32,431

The disaggregation of the Group's revenue from contracts with customers is as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Type of services		
Rendering of accommodation services	27,925	192,013
Rendering of catering services	6,934	45,320
Rendering of travel agency services	1,815	2,354
Rendering of laundry services	206	1,214
	<hr/>	<hr/>
Total revenue from contracts with customers	36,880	240,901
	<hr/>	<hr/>
Geographical markets		
France and total revenue from contracts with customers	36,880	240,901
	<hr/>	<hr/>
Timing of revenue recognition		
Services transferred over time and total revenue from contracts with customers	36,880	240,901
	<hr/>	<hr/>

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

5. OTHER EXPENSES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Impairment of property, plant and equipment	333,609	–
Foreign exchange losses	228	–
	<hr/>	<hr/>
	333,837	–
	<hr/>	<hr/>

6. FINANCE COSTS

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Interest on bank borrowings	40,304	41,375
Fair value losses, net:		
Cash flow hedges (transfer from other comprehensive income)	2,969	10,779
Interest on lease liabilities	152	770
	<hr/>	<hr/>
	43,425	52,924
	<hr/>	<hr/>

7. LOSS BEFORE TAX

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

	<i>Notes</i>	2020 HK\$'000	2019 HK\$'000
Cost of hotel operation		67,835	165,233
Depreciation of property, plant and equipment		35,032	37,704
Depreciation of right-of-use assets		1,814	5,511
Amortisation of intangible assets		95	117
Impairment of property, plant and equipment		333,609	–
Lease payments not included in the measurement of lease liabilities		94	959
Auditor's remuneration		2,231	2,096
Wages, salaries and other benefits (including directors' and chief executive's remuneration)		8,483	10,817
Foreign exchange difference, net	4, 5	228	(40)
Fair value losses, net:			
Cash flow hedges (transfer from other comprehensive income)	6	2,969	10,779
Financial assets at fair value through profit or loss		(8,533)	–
Interest income from loan to an associate		(8,743)	–
Bank interest income	4	(10,586)	(15,766)

8. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2019: 16.5%) on the estimated assessable profits arising in Hong Kong during the Year, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax regime. The first HK\$2,000,000 (2019: HK\$2,000,000) of assessable profits of this subsidiary is taxed at 8.25% (2019: 8.25%) and the remaining assessable profits are taxed at 16.5% (2019: 16.5%). Taxed on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates.

The provision for PRC current income tax was based on the statutory rate of 25% (2019: 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 current income tax was based on the rate of 28% (2019: 28%) for the estimated assessable profits arising during the year. The tax rates in France are as follows:

For year 2020	28%
For year 2021	26.5%
For year 2022 and afterwards	25%

The provision of Luxembourg's current income tax was based on the rate of 29.22% (2019: 29.22%) of the estimated assessable profits arising during the Year.

The major components of income tax expense for the years ended 31 December 2020 and 2019 were as follows:

	2020 HK\$'000	2019 HK\$'000
Current income tax – Hong Kong		
Charge for the year	–	88
Under-provision in prior years	40	–
Current income tax – France Under-provision in prior years	5	–
Current income tax – Luxembourg	–	30
Deferred	(109,321)	3,438
Income tax expenses for the year	(109,276)	3,556

A reconciliation of the tax expense applicable to loss before tax from continuing operations at the statutory rates for the jurisdictions in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates are as follows:

2020	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	(352)		18,131		(461,266)		1,381		(44)		(442,150)	
Tax at the statutory income tax rate	(88)	25.0	2,992	16.5	(129,154)	28.0	404	29.2	–	–	(125,846)	28.5
Effect of different tax rate	–	–	–	–	13,267	(2.9)	–	–	–	–	13,267	(3.0)
Expenses not deductible for tax	1,655	(470.2)	–	–	6,566	(1.4)	–	–	–	–	8,221	(1.9)
Income not subject to tax	–	–	(7,063)	(39.0)	–	–	(404)	(29.2)	–	–	(7,467)	1.7
Tax losses utilised from previous periods	(1,567)	445.2	–	–	–	–	–	–	–	–	(1,567)	0.4
Tax losses not recognised	–	–	4,071	22.5	–	–	–	–	–	–	4,071	(0.9)
Prior year tax adjustment	–	–	40	0.2	5	–	–	–	–	–	45	0.0
Tax charge at the Group's effective rate	–	–	40	0.2	(109,316)	23.7	–	–	–	–	(109,276)	24.8

2019	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	<u>(4,814)</u>		<u>7,274</u>		<u>(30,482)</u>		<u>1,003</u>		<u>(40)</u>		<u>(27,059)</u>	
Tax at the statutory income tax rate	(1,204)	25.0	1,200	16.5	(8,535)	28.0	293	29.2	-	-	(8,246)	30.5
Lower tax rate enacted by local authority	-	-	(88)	(1.2)	-	-	-	-	-	-	(88)	0.3
Expenses not deductible for tax	-	-	-	-	11,973	(39.3)	-	-	-	-	11,973	(44.2)
Income not subject to tax	-	-	(5,022)	(69.0)	-	-	(293)	(29.2)	-	-	(5,315)	19.6
Tax losses not recognised	1,204	(25.0)	3,998	55.0	-	-	-	-	-	-	5,202	(19.2)
Minimum corporate income tax	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>30</u>	<u>3.0</u>	<u>-</u>	<u>-</u>	<u>30</u>	<u>(0.1)</u>
Tax charge at the Group's effective rate	<u>-</u>	<u>-</u>	<u>88</u>	<u>1.3</u>	<u>3,438</u>	<u>(11.3)</u>	<u>30</u>	<u>3.0</u>	<u>-</u>	<u>-</u>	<u>3,556</u>	<u>(13.1)</u>

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

9. DIVIDENDS

The directors do not recommend the payment of any dividend in respect of the year (2019: Nil).

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

The calculation of the basic losses per share amount is based on the loss for the year attributable to ordinary equity holders of the Company, and the weighted average number of 12,778,880,000 (2019: 12,778,880,000) shares in issue during the year.

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

No adjustment has been made to the basic losses per share amounts presented for the year ended 31 December 2020 and 2019 in respect of a dilution as the exercise prices of the Company's outstanding share options were higher than the average market prices for the Company's shares during the years.

The calculation of basic loss per share is based on:

	2020 HK\$'000	2019 HK\$'000
Loss		
Loss attributable to ordinary equity holders of the Company	<u>(332,874)</u>	<u>(30,615)</u>
	2020	2019
Shares ('000)		
Weighted average number of ordinary shares in issue during the year used in the diluted loss per share calculation	<u>12,778,880</u>	<u>12,778,880</u>

11. INVESTMENT IN AN ASSOCIATE

	31 December 2020 HK\$'000	31 December 2019 HK\$'000
Share of net assets	32,167	–
Goodwill on acquisition	<u>1,219</u>	<u>–</u>
	<u>33,386</u>	<u>–</u>

Particulars of the material associate are as follows:

Name	Particulars of Issued Share held	Place of incorporation/ registration and business	Percentage of ownership interest attributable to the Group	Principal activity
Beijing Chemical Reaction Engineering Science & Technology Co., Ltd.*	Registered capital of RMB 1 each	PRC/Mainland China	<u>37.125</u>	Manufacture and sale of chemical products

The Group's shareholding in the associate is held through a wholly-owned subsidiary of the Company.

On 18 December 2018 and 3 March 2020, the Group acquired 6.25% (the “**First tranche**”, previously classified as equity investment designated at fair value through other comprehensive income “**FVOCI**”) and 30.875% (the “**Second Tranche**”) equity interests of Beijing Chemical Reaction Engineering Science & Technology Co., Ltd.* (“**Beijing Chemical**”) with cost of RMB22,000,000 (equivalent to HK\$24,436,000) and RMB12,350,000 (equivalent to HK\$13,676,000), respectively, and gained significant influence through such step acquisition. This acquisition has been accounted for using an accumulated cost approach in determining initial carrying amount of the associate under equity method.

* For identification purposes only

The financial effect arising from the acquisition of Beijing Chemical as an associate was summarised as follows:

	As at 3 March 2020 HK\$'000
6.25% interests held by the Group in FVOCI prior to the acquisition	13,799
Restoration to original cost for the equity investment at FVOCI subsequently becoming an associate	10,637
Consideration in Cash	<u>13,676</u>
Total consideration	<u>38,112</u>
Group's share of net assets of the associate	<u>36,893</u>
Goodwill on acquisition	<u>1,219</u>

The following table illustrates the summarised financial information in respect of the associate adjusted for any differences in accounting policies and reconciled to the carrying amount in the consolidated statement of financial position:

	31 December 2020 HK\$'000
Current assets	272,640
Non-current assets	906,918
Current liabilities	(620,770)
Non-current liabilities	<u>(445,746)</u>
Net assets	<u>113,042</u>
Reconciliation to the Group's interest in the associate:	
Proportion of the Group's ownership	37.125%
Group's share of net assets of the associate	41,967
Adjustments arising from step acquisition using accumulated cost approach	(9,800)
Goodwill on acquisition	<u>1,219</u>
	<u>33,386</u>

**For the
period from
3 March 2020
(date of
commencement
of equity method
accounting) to
31 December 2020
HK\$'000**

Loss for the period	(17,835)
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For the period from 3 March 2020 (date of commencement of equity method accounting) to 31 December 2020, the associate did not generate any revenue, which was in the phase of construction.

12. TRADE RECEIVABLES

	2020 HK\$'000	2019 HK\$'000
Trade receivables	–	12,798

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. There is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An ageing analysis of trade receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	2020 HK\$'000	2019 HK\$'000
Within 1 month	–	8,621
1 to 3 months	–	1,531
Over 3 months	–	2,646
	–	12,798

The Group applies a simplified approach in calculating expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on share credit risk characteristics and the days past due. The expected credit losses have also incorporated forward looking information. The expected credit loss rates for trade receivables that were not yet past due are minimal.

13. TRADE PAYABLES

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Within 1 month	410	906
1 to 3 months	6	329
Over 3 months	<u>2,668</u>	<u>1,384</u>
	<u>3,084</u>	<u>2,619</u>

The trade payables are non-interest-bearing and are normally settled on 30 to 60 days.

14. EVENTS AFTER THE REPORTING PERIOD

Affected by the outbreak and widespread of COVID-19 pandemic, the Paris Marriott Hotel has been closed since 17 March 2020 and the earliest date to consider re-opening will be the end of April 2021, subject to the then circumstances. As a result, revenue from the hotel operation segment in note 3 decreased significantly during the year.

In preparing these consolidated financial statements, the Group has taken into account the increased risks caused by COVID-19 on impairment of the Group's financial and non-financial assets. Given the dynamic circumstance and uncertainties of COVID-19 situation, the Group will continuously attend to the development of COVID-19 situation and react actively to its impacts on the operation and financial position of the Group, and in the event that there are any significant financial impacts, the Company will reflect it in the Group's 2021 financial statements.

FINAL DIVIDEND

The Board does not recommend the payment of final dividend for the year ended 31 December 2020 (2019: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Overview

For the year ended 31 December 2020, revenue of the Group amounted to approximately HK\$37.8 million, representing a decrease of approximately 84.6% from approximately HK\$244.7 million for the Preceding Year. The significant decrease in revenue during the Year was mainly attributable to the decrease in revenue contributed by the Paris Marriott Hotel Champs-Élysées (“**Paris Marriott Hotel**”) of the hotel operation segment, as well as the decrease in revenue generated from the money lending segment. Due to the temporary closure of the Paris Marriott Hotel during the Year, the Group recorded an impairment loss of approximately HK\$333.6 million on the Paris Marriott Hotel properties. The Group recorded a share of loss of an associate of approximately HK\$6.6 million during the Year, as the associate was still in the construction phase. The Group also recorded the gain on financial assets at fair value through profit or loss of approximately HK\$8.5 million.

As the result of the outbreak of the coronavirus pandemic, government subsidies had been made available to the Group’s subsidiaries in France and in Hong Kong and the Group applied the government subsidies to reduce operational costs in France and Hong Kong respectively. The Group recorded the loss for the Year of approximately HK\$332.9 million, as compared to the loss of approximately HK\$30.6 million for the Preceding Year. The increase in loss for the Year was mainly attributable to (i) the decline in revenue and gross profit of the Paris Marriott Hotel during the Year because of the temporary closure; and (ii) the record of the impairment loss on the Paris Marriott Hotel properties. Loss attributable to owners of the Company for the Year was approximately HK\$332.9 million, as compared to the loss of approximately HK\$30.6 million for the Preceding Year. The basic and diluted loss per share for the Year was HK2.6 cents, as compared to the basic and diluted loss per share of HK0.24 cents for the Preceding Year.

The total non-current assets of the Group as at 31 December 2020 amounted to approximately HK\$2,996.5 million, representing an increase of approximately 5.1% from approximately HK\$2,850.0 million as at 31 December 2019. The increase in the total non-current assets of the Group during the Year was mainly due to the record of an impairment loss on property, plant

and equipment, but compensated by the record of investment in an associate, financial assets at fair value through profit or loss and loan to an associate. The total current assets of the Group as at 31 December 2020 amounted to approximately HK\$1,070.7 million, representing a decrease of approximately 21.3% from approximately HK\$1,360.1 million as at 31 December 2019. The decrease in the total current assets of the Group during the Year was mainly due to the reduction in the cash and cash equivalents as the result of the provision of the loan to an associate, the subscription of the convertible bonds in the principal amount of HK\$97.8 million, and the reduction in trade receivables and loan receivables.

The total current liabilities of the Group as at 31 December 2020 amounted to approximately HK\$1,692.4 million, representing an increase of approximately 2,363.5% from approximately HK\$68.7 million as at 31 December 2019. The increase in the total current liabilities of the Group during the Year was mainly due to the classification of the interest-bearing bank borrowings of EUR175.0 million (equivalent to approximately HK\$1,625.8 million) from non-current liabilities to current liabilities, as the Group could not fulfil certain financial ratio required in the financing arrangement. The total non-current liabilities of the Group as at 31 December 2020 amounted to approximately HK\$162.9 million, representing a decrease of approximately 90.5% from approximately HK\$1,718.6 million as at 31 December 2019. The decrease in the non-current liabilities of the Group during the Year was mainly due to the classification of the interest-bearing bank borrowings of EUR175.0 million (equivalent to approximately HK\$1,625.8 million) from non-current liabilities to current liabilities, as the Group could not fulfil certain financial ratio required in the financing arrangement. The Group is in the process to negotiate a waiver from the lenders and the formal response from the lenders is still outstanding as of the date of this announcement. When the formal waiver is available, the bank borrowings will be classified as non-current liabilities. Besides, the directors are of the opinion that the lenders will not take any action to exercise their rights in respect the non-compliance with certain financial ratio based on their communications with the lenders.

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

Hotel Operation

The Group recorded the revenue of approximately HK\$36.9 million from the hotel operation segment, as compared to the revenue from the hotel operation segment of approximately HK\$240.9 million for the Preceding Year. The decrease in revenue of the hotel operation segment for the Year was mainly attributable to the decrease in revenue contributed by the Paris Marriott Hotel as the Paris Marriott Hotel had been temporarily closed since 17 March 2020 as the result of the coronavirus pandemic. Majority of the hotels within the competitive set of the Paris Marriott Hotel also closed temporarily as at 31 December 2020. The Group recorded the loss of approximately HK\$445.1 million in this segment for the Year, as compared

to the loss of approximately HK\$14.7 million for the Preceding Year. The increase in loss of this segment during the Year was mainly attributable to the significant decline in the revenue contributed by the Paris Marriott Hotel. During the Year, the French government had deployed different measures including the declaration of public health state of emergency and night curfew in order to combat the coronavirus pandemic, as the number of daily infection cases escalated. Cinemas, theatres and other cultural centres was order to remain closed. In addition, general travel from the United States of America and the Middle East, from where customers constituted a significant proportion of the revenue of the Paris Marriott Hotel, were not allowed in France during the Year. As a result, the Board had decided to temporarily close the Paris Marriott Hotel as a measure to restrain operating costs.

The coronavirus pandemic continued during the second half of the Year and showed no signs of subsidence in near period, the Paris Marriott Hotel was actively considering and taking measures to further restrain operating costs. During the Year, the Paris Marriott Hotel received a one-off net insurance compensation from the business interruption caused by the Yellow Vest Movement of approximately HK\$9.2 million. The Paris Marriott Hotel also received government grants and subsidies as the result of the coronavirus pandemic and had applied the subsidies to reduce the operating costs. Below is a comparison of the operational performance of the Paris Marriott Hotel during the Year against the Preceding Year:

	2020 up to 17 March	2019 Full Year
Occupancy	61.7%	82.2%
Average Room Rate	€343	€ 386
RevPAR*	€212	€ 317

* Revenue per available room

Money Lending

Revenue from this segment amounted to approximately HK\$0.9 million during the Year, representing a decrease of approximately 76.5% from approximately HK\$3.8 million for the Preceding Year. The decrease in revenue generated from this segment was mainly due to the decrease in the amount of mortgage loans granted to borrowers for interest income during the Year. The Group recorded a loss of approximately HK\$0.1 million from this segment for the Year, as compared to the profit of approximately HK\$2.6 million for the Preceding Year. There was no mortgage loan receivable as at 31 December 2020 (31 December 2019: approximately HK\$35.0 million).

Equity Investment and Other Investment

The Group owned 37.125% equity interests in the Associated Company, 北京凱瑞英科技有限公司 (Beijing Chemical Reaction Engineering Science & Technology Co., Ltd*). During the Year, the Group entered into and completed a RMB180.0 million pledged loan agreement with the Associated Company at an interest rate of 6% per annum. The interest income incurred from the Pledged Loan would contribute as another income of the Group.

During the Year, the Group subscribed for the 3-year convertible bonds (the “**Convertible Bonds**”) issued by a listed company in Hong Kong in an aggregate principal amount of HK\$97.8 million at the coupon rate of 8% per annum with a view to leveraging on the opportunity to bringing in interest income and additional benefits by exercising the conversion rights attaching to the convertible bonds. Please refer to the announcement of the Company dated 2 November 2020 for details. The Group recorded the gain on financial assets at fair value through profit or loss of approximately HK\$8.5 million during the Year.

PROSPECTS

Hotel Operation

The coronavirus pandemic continues into 2021. As of the date of this announcement, the Paris Marriott Hotel remains closed temporarily due to the number of infection cases hover at high level, and the various lockdown and night curfew measures currently in place. The circulation of the coronavirus has also been accelerated due to the existence of different virus variant. Based on the latest information, France aims to have vaccinated at least 30 million people only until mid-April to mid-May 2021. In the meantime, the Paris Marriott Hotel will continue to restrain operating costs during this difficult time. The Group will continue to monitor the development of the coronavirus pandemic and assess its impact on the operations and financial performance of the Group.

Money Lending

The Board considers Hong Kong’s mortgage loan market will remain challenging, being heavily competitive with uncertain prospects. The performance of this segment is dependent on the amount of successful loans granted to the borrowers and general market interest rate trend. The Board would exercise the utmost caution when conducting mortgage loan business in Hong Kong.

* For identification purpose only

Equity Investment and Other Investment

The commercial production of the first phase production project of the Associated Company has commenced in January 2021. The Board holds an optimistic view in the prospect of the chemical industry in the PRC, as it is projected that the PRC's chemical industry will provide over half of the global chemical industry's growth over the coming decade. The Board also expects that the Associated Company will benefit from the enforcement of higher environmental standards for the chemical industry in the PRC.

The interest rate of the Convertible Bonds is higher than the interest rates of fixed deposits offered by well-recognised financial institutions in Hong Kong. The Directors remain the view that the subscription of the Convertible Bonds would broaden the Group's source of income and provide the Group with a stable and attractive recurring income.

LOOKING AHEAD

The Board will concurrently review the Group's portfolio to restructure and enhance the quality of assets held. The Board will also continue to explore investment opportunities from new business segments with a view to enhancing and improving returns to the Company's stakeholders.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2020, total assets and net assets of the Group were approximately HK\$4,067.2 million and HK\$2,211.8 million respectively (31 December 2019: approximately HK\$4,210.1 million and HK\$2,422.8 million, respectively). The cash and bank balance of the Group as at 31 December 2020 were approximately HK\$892.9 million, and were denominated in Hong Kong dollar, Euro, United States dollar and Renminbi (31 December 2019: approximately HK\$1,237.2 million). The total current assets of the Group as at 31 December 2020 were approximately HK\$1,070.7 million (31 December 2019: approximately HK\$1,360.1 million). As at 31 December 2020, the Group had net current liabilities of approximately HK\$621.7 million (31 December 2019: net current assets of approximately HK\$1,291.4 million). The Group adopted a conservative treasury approach and had tight control over its cash management. As at 31 December 2020, the Group had outstanding bank loans and other borrowings amounted to approximately HK\$1,625.8 million⁽¹⁾ (31 December 2019: approximately HK\$1,481.0 million), none of which (31 December 2019: Nil) were due within one year. As at 31 December 2020, the Group's gearing ratio (total borrowings/total assets) was at approximately 40.0% (31 December 2019: approximately 35.2%). 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\$1,625.8 million (equivalent to €175,000,000) at the interest rate of 3 months EURIBOR plus 2.2% per annum.

ACQUISITIONS AND DISPOSALS

During the Year, the Group had no material acquisition or disposal of subsidiaries, associates and joint ventures.

FOREIGN EXCHANGE EXPOSURE

The Group had operations in France, Luxembourg, the People's Republic of China (the "PRC") and Hong Kong where transactions and cash flow were denominated in local currencies, including Euro, Renminbi and Hong Kong dollars. As a result, the Group was exposed to foreign currency exposure with respect to Euro and Renminbi, which mainly occurred from conducting daily operations and financing activities through local offices where local currencies were different from the Group. For the year ended 31 December 2020, 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 31 December 2020, the Group had no contingent liabilities.

PLEDGE ON THE GROUP'S ASSETS

As at 31 December 2020, cash deposits amounting to approximately HK\$42.5 million (31 December 2019: approximately HK\$38.8 million) and a building of the Group with a net carrying amount of approximately HK\$2,647.6 million (31 December 2019: approximately HK\$2,775.7 million) were pledged to secure bank loan granted to the Group.

EMPLOYEES AND REMUNERATION

The Group had 7 employees as at 31 December 2020 (31 December 2019: 7). The total employee remuneration during the Year was approximately HK\$7.3 million (31 December 2019: approximately HK\$8.5 million). Remuneration policies were reviewed regularly to ensure that compensation and benefits 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, 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 the 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 (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 provisions of the CG Code throughout the year ended 31 December 2020 with the following deviations:

- A.2.1 The Company does not have a Chairman. No replacement appointment of the Chairman of the Board was made during the Year. The role and responsibilities of the Chairman on governance matters of the Company were shared between the executive Directors during the Year. The Company will publish an announcement once an appointment has been made in accordance with the Listing Rules.
- 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 (the "**Bye-laws**"). As such, the Company considers that such provisions are sufficient to meet the underlying objectives of the relevant provision of the CG Code.
- E.1.2 The Company does not have a Chairman, an executive Director, Mr. Law Wing Chi, Stephen, was elected to chair the annual general meeting of the Company held on 28 May 2020 in accordance with the Bye-laws.

The Board will keep these matters under review.

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

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

AUDIT COMMITTEE

The audit committee of the Company (the “**Audit Committee**”) comprises three independent non-executive Directors namely Mr. Tam Sun Wing (Chairman), Mr. Ng Ge Bun and Mr. He Yi. The Audit Committee has reviewed with the management the accounting policies and practices adopted by the Group 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 annual results for the year ended 31 December 2020 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 Directors' securities transactions on terms no less exacting than the required standard of the Model Code for Securities Transactions by Directors of Listed Issuers ("**Model Code**") set out in Appendix 10 to the Listing Rules. The Company, having made specific enquiry, 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.

EXTRACT OF INDEPENDENT AUDITOR'S REPORT

The following is an extract of the independent auditor's report on the Group's annual financial statements for the year ended 31 December 2020:

Opinion

We have audited the consolidated financial statements of Kai Yuan Holdings Limited (the "**Company**") and its subsidiaries (the "**Group**"), which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Material uncertainty related to going concern

We draw attention to note 2.1 to the financial statements which indicates that as at 31 December 2020, the Group had net current liabilities of HK\$621.74 million. This condition, along with other matters as set forth in note 2.1, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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 2020 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 2021

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).