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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 INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2022

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 2022 (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 2022

	<i>Notes</i>	For the six months ended 30 June	
		2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000
REVENUE	4	45,345	3,267
Cost of sales		<u>(63,664)</u>	<u>(58,116)</u>
Gross loss		(18,319)	(54,849)
Other income and gains	4	26,406	34,766
Other expenses		(181)	(7,318)
Administrative expenses		(14,830)	(14,608)
Finance costs		(20,806)	(22,983)
Share of loss of an associate		<u>–</u>	<u>(5,780)</u>
LOSS BEFORE TAX	5	(27,730)	(70,772)
Income tax credit	6	<u>5,674</u>	<u>14,079</u>
LOSS FOR THE PERIOD		<u>(22,056)</u>	<u>(56,693)</u>
Attributable to:			
Owners of the Company		<u>(22,056)</u>	<u>(56,693)</u>
		<u>(22,056)</u>	<u>(56,693)</u>
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	8		
Basic and diluted			
– For loss for the period		<u>HK(0.17) cents</u>	<u>HK(0.44) cents</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2022

	For the six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
LOSS FOR THE PERIOD	<u>(22,056)</u>	<u>(56,693)</u>
OTHER COMPREHENSIVE LOSS		
Other comprehensive loss 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	39,902	997
Reclassification adjustments for profit included in the profit or loss	1,413	1,548
Income tax effect	<u>(10,329)</u>	<u>(636)</u>
	30,986	1,909
Exchange differences on translation of foreign operations	<u>(83,932)</u>	<u>(28,549)</u>
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods	<u>(52,946)</u>	<u>(26,640)</u>
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX	<u>(52,946)</u>	<u>(26,640)</u>
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	<u>(75,002)</u>	<u>(83,333)</u>
Attributable to:		
Owners of the Company	<u>(75,002)</u>	<u>(83,333)</u>
	<u>(75,002)</u>	<u>(83,333)</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2022

		30 June 2022	31 December 2021
		(Unaudited)	(Audited)
	<i>Notes</i>	HK\$'000	HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		2,304,483	2,470,596
Right-of-use assets		4,300	543
Intangible assets		173	186
Investment in an associate		–	–
Financial assets at fair value through profit or loss		97,156	96,714
Loan to an associate		–	87,235
Derivative financial instruments		39,905	387
Deferred tax assets		36,255	42,865
		<hr/>	<hr/>
Total non-current assets		2,482,272	2,698,526
CURRENT ASSETS			
Inventories		481	576
Trade receivables	9	12,322	4,539
Prepayments, other receivables and other assets		47,356	52,466
Loan to an associate		132,489	48,108
Pledged deposits		20,375	39,276
Cash and cash equivalents		825,955	871,732
		<hr/>	<hr/>
Total current assets		1,038,978	1,016,697
		<hr/>	<hr/>
Total assets		3,521,250	3,715,223
CURRENT LIABILITIES			
Trade payables	10	1,041	1,354
Other payables and accruals		53,146	58,339
Derivative financial instruments		471	516
Lease liabilities		1,510	481
Tax payable		5,014	3,502
		<hr/>	<hr/>
Total current liabilities		61,182	64,192
		<hr/>	<hr/>
NET CURRENT LIABILITIES		977,796	952,505
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		3,460,068	3,651,031
		<hr/>	<hr/>

	30 June 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>3,460,068</u>	<u>3,651,031</u>
NON-CURRENT LIABILITIES		
Other long-term payables	1,600	1,635
Interest-bearing bank borrowings	1,409,408	1,516,793
Deferred tax liabilities	137,390	148,868
Lease liabilities	2,937	–
	<u>1,551,335</u>	<u>1,667,296</u>
Total non-current liabilities	<u>1,551,335</u>	<u>1,667,296</u>
Net assets	<u>1,908,733</u>	<u>1,983,735</u>
EQUITY		
Share capital	1,277,888	1,277,888
Reserves	630,845	705,847
	<u>1,908,733</u>	<u>1,983,735</u>
Total equity	<u>1,908,733</u>	<u>1,983,735</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2022

1. CORPORATE INFORMATION

The interim condensed consolidated financial information were approved and authorised for issue by the board of directors on 29 August 2022.

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. Its subsidiaries are principally engaged in hotel operation and money lending during the six months ended 30 June 2022 (the “**Period**”).

2.1 BASIS OF PREPARATION

The interim financial information for the six months ended 30 June 2022 has been prepared in accordance with HKAS 34 *Interim Financial Reporting*. The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2021.

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 applied in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2021, except for the adoption of the following revised Hong Kong Financial Reporting Standards (“**HKFRSs**”) for the first time for the current period’s financial information.

Amendments to HKFRS 3	<i>Reference to the Conceptual Framework</i>
Amendments to HKAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i>
Amendments to HKAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract</i>
Annual Improvements to HKFRSs 2018-2020	<i>Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41</i>

While the adoption of some of the 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. 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 2021: 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 resources allocation and performance assessment. Segment performance is evaluated based on reportable segment loss, which is a measure of adjusted loss before tax. The adjusted loss before tax is measured consistently with the Group's loss before tax except that bank interest income, interest income from financial assets at fair value through profit or loss, interest income from loan to an associate, fair value loss on financial assets at fair value through profit or loss, share of loss of an associate and corporate and other unallocated expenses are excluded from such measurement.

The following tables present revenue and profit information for the Group's operating segments for the six months ended 30 June 2022 and 2021, respectively.

Six months ended 30 June 2022	Hotel operation HK\$'000	Money lending HK\$'000	Total HK\$'000
Revenue			
Sales to external customers	<u>45,345</u>	<u>–</u>	<u>45,345</u>
Results			
Segment loss	<u>(32,659)</u>	<u>(369)</u>	<u>(33,028)</u>
<i>Reconciliation</i>			
Bank interest income			2,507
Interest income from financial assets at fair value through profit or loss			3,912
Interest income from loan to an associate			6,015
Fair value gain on financial assets at fair value through profit or loss			442
Corporate and other unallocated expenses			<u>(7,578)</u>
Loss before tax			<u>(27,730)</u>

Six months ended 30 June 2021	Hotel operation <i>HK\$'000</i>	Money lending <i>HK\$'000</i>	Total <i>HK\$'000</i>
Revenue			
Sales to external customers	<u>3,267</u>	<u>–</u>	<u>3,267</u>
Results			
Segment loss	<u>(62,283)</u>	<u>(486)</u>	<u>(62,769)</u>
<i>Reconciliation</i>			
Bank interest income			1,786
Interest income from financial assets at fair value through profit or loss			3,912
Interest income from loan to an associate			6,354
Fair value loss on financial assets at fair value through profit or loss			(7,127)
Share of loss of an associate			(5,780)
Corporate and other unallocated expenses			<u>(7,148)</u>
Loss before tax			<u>(70,772)</u>

4. REVENUE, OTHER INCOME AND GAINS

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

	For the six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Revenue		
Rendering of services	<u>45,345</u>	<u>3,267</u>
	45,345	3,267
Other income		
Government grants	12,619	18,221
Interest income from loan to an associate	6,015	6,354
Interest income from financial assets at fair value through profit or loss	3,912	3,912
Bank interest income	2,507	1,786
Gross rental income from a property operating lease: Fixed lease payments	911	914
Insurance indemnity	<u>–</u>	<u>3,339</u>
	25,964	34,526
Gains		
Fair value gains on financial assets at fair value through profit or loss	442	–
Others	<u>–</u>	<u>240</u>
	26,406	34,766

The disaggregation of the Group's revenue from contracts with customers, including rendering of services above, for the six months ended 30 June 2022 and 2021, respectively, are as follows:

	For the six months ended 30 June	
	2022	2021
	(Unaudited) <i>HK\$'000</i>	(Unaudited) <i>HK\$'000</i>
Types of services		
Rendering of accommodation services	40,372	2,225
Rendering of catering services	4,186	747
Rendering of travel agency services	572	270
Rendering of laundry services	215	25
	<u>45,345</u>	<u>3,267</u>
Geographical markets		
France and total revenue from contracts with customers	<u>45,345</u>	<u>3,267</u>
Timing of revenue recognition		
Services transferred over time and total revenue from contracts with customers	<u>45,345</u>	<u>3,267</u>

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

5. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging:

	For the six months ended 30 June	
	2022	2021
	(Unaudited) <i>HK\$'000</i>	(Unaudited) <i>HK\$'000</i>
Cost of hotel service	45,414	38,721
Depreciation of property, plant and equipment	18,250	19,395
Depreciation of right-of-use assets	795	871
Amortisation of intangible assets	12	14
Foreign exchange differences, net	<u>181</u>	<u>191</u>

6. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2021: 16.5%) on the estimated assessable profits arising in Hong Kong during the Period, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime. The first HK\$2,000,000 (six months ended 30 June 2021: HK\$2,000,000) of assessable profits of this subsidiary are taxed at 8.25% (2021: 8.25%) and the remaining assessable profits are taxed at 16.5% (2021: 16.5%). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates.

The provision for Mainland China current income tax should be based on the statutory rate of 25% (six months ended 30 June 2021: 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 25% (six months ended 30 June 2021: 26.50%) of the estimated assessable profits arising during the Period.

The provision of Luxembourg's current income tax is based on the rate of 24.94% (six months ended 30 June 2021: 24.94%) of the estimated assessable profits arising during the Period.

The major components of income tax credit for the six months ended 30 June 2022 and 2021 are as follows:

	For the six months ended 30 June	
	2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000
Current income tax:		
Mainland China	1,547	1,514
Hong Kong	152	135
Deferred income tax	<u>(7,373)</u>	<u>(15,728)</u>
Income tax credit for the period	<u>(5,674)</u>	<u>(14,079)</u>

7. DIVIDENDS

The directors of the Company do not recommend the payment of any dividend in respect of the Period (six months ended 30 June 2021: Nil).

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

The calculation of the basic loss per share amount is based on the loss for the 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 2021: 12,778,880,000) in issue during the Period.

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

No adjustment has been made to the basic loss per share amounts presented for the six months ended 30 June 2022, as all share options of the Company, which were brought forward from last year, lapsed and accordingly, there were no potential ordinary shares in issue during the Period.

No adjustment has been made to the basic loss per share amounts presented for the six months ended 30 June 2021 in respect of a dilution as the impact of the share options had an anti-dilutive effect on the basic earnings per share amounts presented.

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

	For the six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
Loss (HK\$'000)		
Loss attributable to ordinary equity holders of the Company, used in the basic and diluted loss per share calculation	<u>(22,056)</u>	<u>(56,693)</u>
Number of shares ('000)		
Weighted average number of ordinary shares in issue during the period used in the basic loss per share calculation	<u>12,778,880</u>	<u>12,778,880</u>

9. TRADE RECEIVABLES

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

	30 June 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000
Within 1 month	11,237	3,222
1 to 3 months	1,080	838
Over 3 months	<u>5</u>	<u>479</u>
	<u>12,322</u>	<u>4,539</u>

10. 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.

11. EVENTS AFTER THE REPORTING PERIOD

To the date of approval of the financial information, there is no material subsequent event undertaken by the Group.

INTERIM DIVIDEND

The board does not recommend the payment of interim dividend in respect of the Period (six months ended 30 June 2021: Nil)

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Overview

For the six months ended 30 June 2022 (the “**Period**”), revenue of the Group amounted to approximately HK\$45.3 million, representing an increase of approximately 1,288.0% from the approximately HK\$3.3 million for the six months ended 30 June 2021 (the “**Preceding Period**”). The significant increase in revenue during the Period was mainly attributable to the increase in the revenue contributed by the Paris Marriott Hotel Champs-Élysées (“**Paris Marriott Hotel**”) of the hotel operation segment, as compared to its temporary closure for approximately six months during the Preceding Period due to the coronavirus pandemic. In addition, the Paris Marriott Hotel was granted a one-off government grant for coronavirus pandemic relief of approximately HK\$12.6 million during the Period. With regards to the three-year convertible bonds (“**Convertible Bonds**”) subscribed by the Group recorded under financial assets at fair value through profit or loss, the Group recorded the fair value gain of approximately HK\$0.4 million for the Period, as opposed to fair value loss of approximately HK\$7.1 million for the Preceding Period. The record of the fair value gain was due to the adjustment of fair value of the Convertible Bonds.

The Group recorded loss for the Period of approximately HK\$22.1 million, representing the decrease of approximately 61.1% from the loss of approximately HK\$56.7 million for the Preceding Period. The decrease in the loss for the Period is mainly attributable to (i) the increase in revenue contributed by the Paris Marriott Hotel during the Period; (ii) the absence of share of loss of an associate, as the investment in the associate had been fully provided for impairment; and (iii) the record of the fair value gain of approximately HK\$0.4 million from the Convertible Bonds. The loss attributable to owners of the Company for the Period was approximately HK\$22.1 million, as compared to the loss of approximately HK\$56.7 million for the Preceding Period. The basic and diluted loss per share for the Period was HK0.17 cents, as compared to the basic and diluted loss per share of HK0.44 cents for the Preceding Period.

The total non-current assets of the Group as at 30 June 2022 amounted to approximately HK\$2,482.3 million, representing the decrease of approximately 8.0% from approximately HK\$2,698.5 million as at 31 December 2021. The decrease in the total non-current assets during the Period was mainly due to the decrease in property, plant and equipment as a result of the depreciation of Euro against Hong Kong Dollar, the reallocation of loan to an associate from non-current assets to current assets and the record of the derivative financial instruments. The total current assets of the Group as at 30 June 2022 amounted to approximately HK\$1,039.0 million, representing an increase of approximately 2.2% from approximately HK\$1,016.7 million as at 31 December 2021. The increase in the total current assets during the Period was mainly due to the reallocation of loan to an associate from non-current assets to current assets, and the decrease in the pledged deposits and cash and cash equivalents.

The total current liabilities of the Group as at 30 June 2022 amounted to approximately HK\$61.2 million, representing the decrease of approximately 4.7% from approximately HK\$64.2 million as at 31 December 2021. The total non-current liabilities of the Group as at 30 June 2022 amounted to approximately HK\$1,551.3 million, representing the decrease of approximately 7.0% from approximately HK\$1,667.3 million as at 31 December 2021. The decrease in the non-current liabilities was mainly due to the decrease in the interest-bearing bank borrowings as a result of the 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\$45.3 million from the hotel operation segment, representing an increase of approximately 1,288.0%, from approximately HK\$3.3 million for the Preceding Period. The increase in revenue of the hotel operation segment for the Period was mainly attributable to the increase in revenue contributed by the Paris Marriott Hotel. As a result of the prominent increase in number of tourists to Paris after the relaxation of lockdown, the demand for hotel rooms at the Paris Marriott Hotel had been strong since the beginning of the Period. The Group recorded a loss of approximately HK\$32.7 million in this segment for the Period, as compared to the loss of approximately HK\$62.3 million for the Preceding Period. The decrease in the loss of this segment during the Period was mainly attributable to the significant increase in the revenue contributed by the Paris Marriott Hotel. During the Period, the Paris Marriott Hotel received a one-off government grant of approximately HK\$12.6 million for coronavirus pandemic relief.

With reference to the announcement of the Company dated 1 December 2021 and 5 August 2022, the Paris Marriott Hotel was partially closed during the Period to facilitate the Phase 1 renovation (the “**Renovation**”) of the hotel. The Renovation covers certain number of guest rooms, replacement of the vertical air conditioning networks, work on the façade, replacement of windows and renovation of the main kitchen on the ground floor and basement. The Renovation commenced on 3 January 2022 and was originally planned to be completed by 8 June 2022. As of the date of this announcement, the Renovation remained on-going primarily due to the shortage of skilled labour in France.

Below is a comparison of the operational performance of the Paris Marriott Hotel during the Period against the Preceding Period:

	2022 from 1 January up to 30 June	2021 from 15 June up to 30 June
Occupancy	32.0%	29.3%
Average Room Rate	EUR436	EUR325
RevPAR*	EUR139	EUR95

* *Revenue per available room*

Money Lending

The Group did not record any revenue from this segment during the Period (the Preceding Period: nil). The Group recorded the loss of approximately HK\$0.4 million from this segment for the Period, as compared to the loss of approximately HK\$0.5 million for the Preceding Period. There was no mortgage loan receivable as at 30 June 2022 (31 December 2021: nil).

Equity Investment and Other Investment

Interests in an Associate

As disclosed in the Annual Report for the financial year ended 31 December 2021, the financial performance of 北京凱瑞英科技有限公司 (Beijing Chemical Reaction Engineering Science & Technology Co., Limited*) (the “**Associate**”), together with its subsidiaries, the associate group (“**Associate Group**”), was below original target due to (i) the coronavirus pandemic as well as the then socio-economic environment in the People’s Republic of China; (ii) due to competitors’ production technology breakthrough regarding hydroxylamine hydrochloride (鹽酸脛胺), re-adjustments would need to be made to the original product mix of medical intermediary products offered by a subsidiary of the Associate (the “**Associate Subsidiary**”); and (iii) the Associate Subsidiary has been involved in certain cases of litigation (“**Litigation Case**”) regarding outstanding balance on construction of its production plant. Provision for impairment of approximately HK\$8.3 million on the investment in the Associate; and the provision for impairment of approximately HK\$103.6 million on the loan granted to the Associate and interest receivable were recorded for the financial year ended 31 December 2021. The effects of the coronavirus pandemic and the then socio-economic environment in the People’s Republic of China carried on to the first half of 2022.

Despite the increase in revenue recorded during the Period as compared to the Preceding Period, the Associate Group continued operating at a loss during the first half of 2022. During the Period, the Group recorded the receipt of loan interest of approximately HK\$3.2 million from the Associate. As at the date of this announcement, the Associate has still not resolved the Litigation Case with the contractors and suppliers.

Convertible Bonds

During the Period, the Group recorded interest from the Convertible Bonds of approximately HK\$3.9 million (30 June 2021: approximately HK\$3.9 million). During the Period, the Group recorded fair value gain of approximately HK\$0.4 million from the Convertible Bonds (30 June 2021: fair value loss of approximately HK\$7.1 million), due to adjustment of fair value of the Convertible Bonds.

* For identification purpose only

PROSPECTS

Hotel Operation

According to the research of an international booking site, Paris was the second-most sought-after global destination in the first half of 2022. In combination with the relaxation of lockdown measures, tourists quickly resumed their plan to visit Paris. The depreciation of Euro against US dollars during the Period also boosted the return of guests from the United States of America. All these have led to a rise in the demand of guest rooms since the beginning of this year, the demand for guest rooms remains high for the third quarter of 2022. The Renovation of the Paris Marriott Hotel has been delayed and is still on-going as of the date of this announcement due to the shortage of skilled labour in France. It is currently expected that the Renovation is to be completed by late August 2022. Subject to the then circumstance, the Board may consider the commencement of the renovation of the remaining guest rooms upon the completion of the Renovation.

Money Lending

The Board considered Hong Kong's mortgage loan market will remain challenging, being heavily competitive with uncertain prospects. The Board would exercise the utmost caution when conducting mortgage loan business in Hong Kong.

Equity Investment and Other Investment

Interests in an Associate

The Associate Group has still not resolved the Litigation Case with the contractors and suppliers. The Board shall continue closely monitor its investment in the Associate. Further announcement will be published by the Company as and when appropriate if there are any significant changes to the Associate.

Convertible Bonds

The interest income received from the Convertible Bonds offered a premium over the interest rates of fixed deposit. The Directors remain the view that the subscription of the Convertible Bonds would enhance the income of the Group.

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 30 June 2022, total assets and net assets of the Group were approximately HK\$3,521.3 million and approximately HK\$1,908.7 million, respectively (31 December 2021: approximately HK\$3,715.2 million and approximately HK\$1,983.7 million, respectively). The cash and bank balance of the Group as at 30 June 2022 were approximately HK\$826.0 million, and were denominated in Hong Kong dollar, Euro, United States dollar and Renminbi (31 December 2021: approximately HK\$871.7 million). The total current assets of the Group as at 30 June 2022 were approximately HK\$1,039.0 million (31 December 2021: approximately HK\$1,016.7 million). As at 30 June 2022, the Group had net current assets of approximately HK\$977.8 million (31 December 2021: net current assets of approximately HK\$952.5 million). The Group adopted a conservative treasury approach and had tight control over its cash management. As at 30 June 2022, the Group had outstanding bank loans and other borrowings amounted to approximately HK\$1,409.4 million¹ (31 December 2021: approximately HK\$1,516.8 million), none of which (31 December 2021: Nil) were due within one year. As at 30 June 2022, the Group's gearing ratio (total borrowings/total assets) was at approximately 40.0% (31 December 2021: approximately 40.8%). 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\$1,409.4 million (equivalent to €175,000,000) at the interest rate of 3-month EURIBOR plus 2.2% per annum.

ACQUISITIONS AND DISPOSALS

During the Period, 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, United States Dollars and Hong Kong dollars. 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 Company. For the six months ended 30 June 2022, 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 2022, the Group had no contingent liabilities.

PLEDGE ON THE GROUP'S ASSETS

As at 30 June 2022, cash deposits amounting to approximately HK\$20.4 million (31 December 2021: approximately HK\$39.3 million) and a building of the Group with a net carrying amount of approximately HK\$2,268.9 million (31 December 2021: approximately HK\$2,432.3 million) were pledged to secure a bank loan granted to the Group.

EMPLOYEES AND REMUNERATION

The Group had 7 employees as at 30 June 2022 (31 December 2021: 7). 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, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the Period, 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 six months ended 30 June 2022 with the following deviations:

- C.2.1 The Company does not have a Chairman. No replacement appointment of the Chairman of the Board was made during the Period. The role and responsibilities of the Chairman on governance matters of the Company were shared between the executive Directors during the Period. The Company will publish an announcement once an appointment has been made in accordance with the Listing Rules.
- F.2.2 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 2 June 2022 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 Period. The role and responsibilities of the Chairman on governance matters of the Company were shared between the executive Directors during the Period. The Company will publish an announcement once an appointment has been made in accordance with the Listing 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 interim report and the unaudited interim condensed consolidated financial information 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 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.

UPDATE ON THE DIRECTOR'S INFORMATION UNDER RULE 13.51B OF THE LISTING RULES

Pursuant to Rule 13.51B of the Listing Rules, changes in Director's information since the date of the 2021 annual report of the Company are set out below:

Mr. Xue Jian has been appointed as non-executive director of Qingdao Rural Commercial Bank Corporation* (Stock Code: 002958.SZ), the issued shares of which are listed on the Shenzhen Stock Exchange of the People's Republic of China.

Save as disclosed above, pursuant to Rule 13.51B of the Listing Rules, the Company is not aware of other changes to the Directors' information since the date of the 2021 annual report of the Company.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

The interim results 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, 29 August 2022

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).

* *For identification purpose only*