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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 2020

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 2020 (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 2020

	<i>Notes</i>	For the six months ended 30 June	
		2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
REVENUE	4	35,635	111,126
Cost of sales		<u>(60,720)</u>	<u>(95,275)</u>
Gross (loss)/profit		(25,085)	15,851
Other income and gains	4	20,348	8,526
Other expenses		(549)	(108)
Administrative expenses		(14,538)	(17,116)
Finance costs		(20,860)	(23,413)
Share of loss of an associate		<u>(2,490)</u>	<u>–</u>
LOSS BEFORE TAX	5	(43,174)	(16,260)
Income tax credit	6	<u>9,600</u>	<u>1,588</u>
LOSS FOR THE PERIOD		<u>(33,574)</u>	<u>(14,672)</u>
Attributable to:			
Owners of the Company		(33,574)	(14,672)
Non-controlling interests		<u>–</u>	<u>–</u>
		<u>(33,574)</u>	<u>(14,672)</u>
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	8		
Basic and diluted			
– For loss for the period		<u>(HK0.26 cents)</u>	<u>(HK0.11 cents)</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2020

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
LOSS FOR THE PERIOD	<u>(33,574)</u>	<u>(14,672)</u>
OTHER COMPREHENSIVE INCOME/(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	(4,728)	(318)
Reclassification adjustments for loss included in the consolidated statement of profit or loss	1,427	6,358
Income tax effect	<u>825</u>	<u>(1,872)</u>
	(2,476)	4,168
Exchange differences on translation of foreign operations	<u>(6,866)</u>	<u>(11,300)</u>
Net other comprehensive loss to be reclassified to statement of profit or loss in subsequent periods	<u>(9,342)</u>	<u>(7,132)</u>
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Equity investment designated at fair value through other comprehensive income:		
Restoration to original cost for the investment subsequently becoming an associate	<u>10,637</u>	<u>–</u>
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods	<u>10,637</u>	<u>–</u>

**For the six months
ended 30 June**

	2020	2019
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>

OTHER COMPREHENSIVE INCOME/(LOSS)
FOR THE PERIOD, NET OF TAX

	<u>1,295</u>	<u>(7,132)</u>
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TOTAL COMPREHENSIVE LOSS FOR
THE PERIOD

	<u>(32,279)</u>	<u>(21,804)</u>
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Attributable to:

Owners of the Company

	<u>(32,279)</u>	<u>(21,804)</u>
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Non-controlling interests

	<u>–</u>	<u>–</u>
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	<u>(32,279)</u>	<u>(21,804)</u>
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INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2020

		30 June	31 December
		2020	2019
		(Unaudited)	(Audited)
	<i>Notes</i>	HK\$'000	HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		2,795,640	2,814,235
Right-of-use assets		2,939	3,845
Intangible assets		251	298
Investment in an associate		34,694	–
Equity investment designated at fair value through other comprehensive income		–	13,799
Long-term prepayments		–	5,444
Loan to an associate		155,808	–
Deferred tax assets		22,157	12,351
		<hr/>	<hr/>
Total non-current assets		3,011,489	2,849,972
CURRENT ASSETS			
Inventories		852	957
Trade receivables	9	1,176	12,798
Loan receivables		10,003	35,000
Prepayment, other receivables and other assets		28,599	35,374
Loan to an associate		41,577	–
Pledged deposits		30,196	38,801
Cash and cash equivalents		1,033,533	1,237,219
		<hr/>	<hr/>
Total current assets		1,145,936	1,360,149
		<hr/>	<hr/>
Total assets		4,157,425	4,210,121
CURRENT LIABILITIES			
Trade payables	10	1,712	2,619
Other payables and accruals		41,754	62,052
Derivative financial instruments		7,715	1,059
Lease liabilities		1,772	1,788
Interest-bearing bank borrowings		1,481,735	–
Tax payable		–	1,182
		<hr/>	<hr/>
Total current liabilities		1,534,688	68,700
		<hr/>	<hr/>
NET CURRENT (LIABILITIES)/ASSETS		(388,752)	1,291,449
		<hr/>	<hr/>

	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>2,622,737</u>	<u>4,141,421</u>
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	–	1,480,951
Deferred tax liabilities	230,966	232,170
Lease liabilities	1,211	2,145
Derivative financial instruments	–	3,316
Total non-current liabilities	<u>232,177</u>	<u>1,718,582</u>
Net assets	<u>2,390,560</u>	<u>2,422,839</u>
EQUITY		
Share capital	1,277,888	1,277,888
Reserves	1,112,672	1,144,951
Total equity	<u>2,390,560</u>	<u>2,422,839</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2020

1. CORPORATE INFORMATION

The interim condensed consolidated financial information were approved and authorised for issue by the board of directors on 24 August 2020.

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 2020 (the “**Period**”).

2.1 BASIS OF PREPARATION

The interim condensed consolidated financial information for the six months ended 30 June 2020 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 2019.

As at 30 June 2020, the Group’s current liabilities exceeded its current assets by HK\$388,752,000. The directors are of the opinion that the Group will have sufficient cash flows for its foreseeable future operations (at least 12 months from the date of the interim condensed consolidated financial information), and concluded that a going concern basis was appropriate when preparing the financial statements, after taking into consideration of followings:

- Affected by the outbreak and widespread of COVID-19 pandemic, the Group could not fulfill certain financial ratio required in the financing arrangement of the EUR175,000,000 (equivalent to HK\$1,481,735,000) bank borrowings and, therefore, the bank borrowings have been presented as current liabilities in the interim condensed consolidated statement of financial position. 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 approval of the interim condensed consolidated financial statements. When the formal waiver is available, the bank borrowings will be classified as non-current liabilities; and
- An entity owned by Mr. Du Shuang Hua, who in turn is a shareholder deemed to be interested in approximately 5.54% of the issued share capital of the Company, has 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 interim condensed consolidated financial information).

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 2019, 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>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>

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 2019: two) as follows:

- (a) the hotel operation segment engaged in operation of hotel businesses in France;
- (b) the money lending segment engaged in providing mortgage loans in Hong Kong.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment 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 loan to an associate, 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 2020 and 2019, respectively.

Six months ended 30 June 2020	Hotel operation HK\$'000	Money lending HK\$'000	Total HK\$'000
Revenue			
Sales to external customers	<u>34,728</u>	<u>907</u>	<u>35,635</u>
Results			
Segment (loss)/profit	<u>(43,168)</u>	<u>420</u>	<u>(42,748)</u>
<i>Reconciliation</i>			
Bank interest income			7,614
Interest income from loan to an associate			2,644
Share of loss of an associate			(2,490)
Corporate and other unallocated expenses			<u>(8,194)</u>
Loss before tax			<u>(43,174)</u>
Six months ended 30 June 2019	Hotel operation HK\$'000	Money lending HK\$'000	Total HK\$'000
Revenue			
Sales to external customers	<u>108,462</u>	<u>2,664</u>	<u>111,126</u>
Results			
Segment (loss)/profit	<u>(17,717)</u>	<u>2,345</u>	<u>(15,372)</u>
<i>Reconciliation</i>			
Bank interest income			7,163
Corporate and other unallocated expenses			<u>(8,051)</u>
Loss before tax			<u>(16,260)</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	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Revenue		
Rendering of services	34,728	108,462
Interest income	907	2,664
	<u>35,635</u>	<u>111,126</u>
Other income		
Rental income	1,069	1,361
Bank interest income	7,614	7,163
Interest income from loan to an associate	2,644	–
	<u>11,327</u>	<u>8,524</u>
Gains		
Business interruption compensation	8,917	–
Others	104	2
	<u>9,021</u>	<u>2</u>
	<u>20,348</u>	<u>8,526</u>

The disaggregation of the Group's revenue from contracts with customers, including rendering of services above, for the six months ended 30 June 2020 and 2019, respectively, are as follows:

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Type of services		
Rendering of accommodation services	26,426	86,951
Rendering of catering services	6,389	19,854
Rendering of travel agency services	1,718	1,167
Rendering of laundry services	195	490
	<u>34,728</u>	<u>108,462</u>
Total revenue from contracts with customers	<u>34,728</u>	<u>108,462</u>
Geographical markets		
France and total revenue from contracts with customers	<u>34,728</u>	<u>108,462</u>
Timing of revenue recognition		
Services transferred over time and total revenue from contracts with customers	<u>34,728</u>	<u>108,462</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	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Cost of hotel service	42,959	76,951
Depreciation of property, plant and equipment	17,761	18,324
Depreciation of right-of-use assets	905	700
Amortisation of intangible assets	46	62
Foreign exchange differences, net	549	108
	<u>549</u>	<u>108</u>

6. INCOME TAX CREDIT

The major components of income tax credit for the six months ended 30 June 2020 and 2019 are as follows:

	For the six months ended 30 June	
	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Current income tax:		
Hong Kong	–	106
Luxembourg	–	42
Under-provision in prior period	54	–
Deferred income tax	<u>(9,654)</u>	<u>(1,736)</u>
Income tax credit for the period	<u>(9,600)</u>	<u>(1,588)</u>

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2019: 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 2019: HK\$2,000,000) of assessable profits of this subsidiary are taxed at 8.25% and the remaining assessable profits are taxed at 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 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. No provision for Mainland China current income tax has been made, as the Group does not have any assessable profit arising in Mainland China.

The provision of French current income tax was based on the rate of 28% (six months ended 30 June 2019: 28%) of the estimated assessable profits arising during the Period. The tax rates effective for the coming years 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 is based on the rate of 29.22% (six months ended 30 June 2019: 29.22%) of the estimated assessable profits arising during the Period.

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 2019: 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 2019: 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 2020 and 2019, respectively, in respect of a dilution as the impact of the share options had an anti-dilutive effect on the basic loss per share amounts presented.

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

	For the six months ended 30 June	
	2020	2019
	(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>(33,574)</u>	<u>(14,672)</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 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Within 1 month	–	8,621
1 to 3 months	11	1,531
Over 3 months	1,165	2,646
	1,176	12,798

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. IMPACT OF COVID 19

Affected by the outbreak and widespread of COVID-19 pandemic, the Paris Marriott Hotel has been closed since 17 March 2020 and may reopen in September 2020, subject to the then circumstances. As a result, revenue from the hotel operation segment in note 3 decreased significantly during the Period. The Group will continue to monitor the development of COVID-19 pandemic and will assess its impact on the operations and financial performance of the Group.

12. 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 do not recommend the payment of interim dividend in respect of the Period (six month ended 30 June 2019: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Overview

For the six months ended 30 June 2020 (the “**Period**”), the revenue of the Group amounted to approximately HK\$35.6 million, representing a decrease of approximately 67.9% from approximately HK\$111.1 million for the six months ended 30 June 2019 (the “**Comparing Period**”). The significant decline in revenue of the Group during the Period was mainly attributable to the significant 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. The decrease in revenue of the hotel operation segment for the Period was mainly attributable to the decrease in revenue contributed by the Paris Marriott Hotel, as the hotel has been closed temporarily since 17 March 2020 as the result of the outbreak of the coronavirus disease in France.

During the Period, the Paris Marriott Hotel received a one-off net insurance compensation of approximately HK\$8.9 million on the business interruption caused by the Yellow Vest Movement. The Group also recorded a loan interest income of approximately HK\$2.6 million from loan to an associate. Both the insurance compensation and the interest income from loan to an associate were recorded as the other income during the Period. As the result of the outbreak of the coronavirus disease, government subsidies had been made available to the Paris Marriott Hotel in Paris, France, as well as to the Group’s operation in Hong Kong. The Group applied the government subsidies to reduce the operational costs in both France and Hong Kong, respectively. During the Period, the Group shared a loss of approximately HK\$2.5 million from the investment in an associate, as the associate was still in the construction phase.

The Group recorded a loss for the Period of approximately HK\$33.6 million, as compared to a loss of approximately HK\$14.7 million for the Comparing Period. The increase in the loss for the Period was mainly attributable to the significant decline in revenue and the absence of gross profit at the Paris Marriott Hotel during the Period, as the hotel has been closed temporarily since 17 March 2020 as the result of the outbreak of the coronavirus disease in France.

Loss attributable to the owners of the Company for the Period was approximately HK\$33.6 million, as compared to the loss of approximately HK\$14.7 million for the Comparing Period. The basic and diluted loss per share of the Company for the Period was HK0.26 cents, as compared to the loss per share of HK0.11 cents for the Comparing Period.

The total non-current assets of the Group as at 30 June 2020 amounted to approximately HK\$3,011.5 million, representing an increase of approximately 5.7% 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 Period was mainly due to the recognition of an investment in an associate and a loan to an associate of RMB180.0 million (equivalent to approximately HK\$194.7 million). The total current assets of the Group as at 30 June 2020 amounted to approximately HK\$1,145.9 million, representing a decrease of approximately 15.7% from approximately HK\$1,360.1 million as at 31 December 2019. The decrease in the total current assets of the Group during the Period was mainly due to the reduction in the cash and cash equivalents as the result of the provision of a loan to an associate of RMB180.0 million (equivalent to approximately HK\$194.7 million) and the reduction in trade receivables and loan receivables.

The total current liabilities of the Group as at 30 June 2020 amounted to approximately HK\$1,534.7 million, representing an increase of approximately 2,133.9% from approximately HK\$68.7 million as at 31 December 2019. The increase in the total current liabilities of the Group during the Period was mainly due to the classification of the interest-bearing bank borrowings of EUR175.0 million (equivalent to approximately HK\$1,481.7 million) from the non-current liabilities to current liabilities, as the Group could not fulfill certain financial ratio required in the financing arrangement. The total non-current liabilities of the Group as at 30 June 2020 amounted to approximately HK\$232.2 million, representing a decrease of approximately 86.5% from approximately HK\$1,718.6 million as at 31 December 2019. The decrease in the non-current liabilities of the Group during the Period was mainly due to the classification of the interest-bearing bank borrowings of EUR175.0 million (equivalent to approximately HK\$1,481.7 million) from the non-current liabilities to current liabilities, as the Group could not fulfill 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 approval of the interim condensed consolidated financial statements. When the formal waiver is available, the bank borrowings will be classified as non-current liabilities.

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

Hotel Operation

The Group recorded the revenue of approximately HK\$34.7 million from the hotel operation segment during the Period, as compared to the revenue of approximately HK\$108.5 million for the Comparing Period. The decrease in revenue of the hotel operation segment for the Period was mainly attributable to the decrease in revenue contributed by the Paris Marriott Hotel, as the hotel has been closed temporarily since 17 March 2020 as the result of the outbreak of the coronavirus disease in France. As at the date of this announcement, most hotels within the competitive set of the Paris Marriott Hotel remain closed temporarily. During the Period, the Paris Marriott Hotel received a one-off net insurance compensation from the business interruption caused by the Yellow Vest Movement of approximately HK\$8.9 million. The hotel also received government subsidies as the result of the coronavirus disease during the Period and has applied the subsidies to reduce the operational costs. The Paris Marriott Hotel also implemented measures to reduce operational costs during the temporary closure period. The Group recorded the loss of approximately HK\$43.2 million from this segment for the Period, as compared to a loss of approximately HK\$17.7 million for the Comparing Period. The increase in the loss during the Period was mainly attributable to the temporary closure of the Paris Marriott Hotel since 17 March 2020. Below is a comparison of the operational performance of the Paris Marriott Hotel during the Period against the Comparing Period:

	2020	2019
Occupancy	26.1%	77.8%
Average Room Rate	EUR343	EUR370
RevPAR*	EUR90	EUR288

* *Revenue per available room*

Money Lending

Revenue from this segment amounted to approximately HK\$0.9 million during the Period, representing a decrease of approximately 66.0% from approximately HK\$2.7 million for the Comparing Period. The decrease in revenue generated from this segment was mainly due to the decrease in the amount of loan receivables during the Period. The Group recorded a profit of approximately HK\$0.4 million from this segment for the Period, as compared to the profit of approximately HK\$2.3 million for the Comparing Period. As at 30 June 2020, the balance of the loan receivables amounted to approximately HK\$10.0 million (31 December 2019: approximately HK\$35.0 million), this loan receivables balance had been fully repaid as at the date of this announcement.

Equity Investment

During the Period, the Group completed the acquisition of additional equity interest of 北京凱瑞英科技有限公司 (Beijing Chemical Reaction Engineering Science & Technology Co., Limited*) to 37.125%. The Group had also completed the provision of a RMB180.0 million (equivalent to approximately HK\$194.7 million) loan to 北京凱瑞英科技有限公司 (Beijing Chemical Reaction Engineering Science & Technology Co., Limited*).

Subsequent to the increase in the Group's equity interest in 北京凱瑞英科技有限公司 (Beijing Chemical Reaction Engineering Science & Technology Co., Limited*) during the Period, the investment was classified from an equity investment designated at fair value through other comprehensive income to investment in an associate. During the Period, the Group shared a loss of approximately HK\$2.5 million from the investment in an associate, as the associate was still in the construction phase.

* For identification purpose only

PROSPECTS

Hotel Operation

The coronavirus disease has brought devastating effects to the hospitality industry and the worldwide economy. The measures, such as social distancing and travel restrictions, crucial and necessary to be implemented in order to reduce transmission from people to people, have brought countrywide lockdown for months in the first half of 2020 in France. Despite the gradual relaxation of the lockdown measures in July, the desire for international travellers to take on oversea trips remains weak. The performance of the Paris Marriott Hotel was severely impacted during the Period, leading to an unprecedented low occupancy rate, average daily rate, and revenue per available room. For the moment, France is actively defending the country for the likelihood of the second wave of coronavirus disease infection in the autumn or winter this year. Based on the latest forecast of the International Air Transport Association, long haul corporate travel will be reduced; global passenger traffic will not return to pre-coronavirus disease levels within a short period. Because the majority of the customers of the Paris Marriott Hotel are international travellers, the Board expects that it would be a long road to the recovery of the hospitality industry. Meanwhile, the Paris Marriott Hotel is actively implementing cost-saving measures to reduce operational costs.

The Paris Marriott Hotel has been temporarily closed since 17 March 2020 in response to the French government's measures to combat the coronavirus disease. As at the date of this announcement, the Paris Marriott Hotel remains temporarily closed as France is not permitting the general travel to and from the United States of America and the Middle East, and customers from these areas constituted a significant proportion of the revenue of the hotel. As at the date of this announcement, most hotels within the competitive set of the Paris Marriott Hotel remain closed temporarily. The Group will continue to monitor the development of the coronavirus disease and assess its impact on the operations and financial performance of the Group.

It was mentioned in the 2019 annual report of the Company that the Board is planning to undergo a renovation project to guest rooms and selected public areas of the Paris Marriott Hotel (the "**Hotel Renovation**"). Due to the outbreak of the coronavirus disease in France, the planning of the Hotel Renovation is suspended. The Board shall review the Hotel Renovation plan again in the fourth quarter of this year, subject to the then circumstances.

Money Lending

Hong Kong's economy has been severely destructed by the lockdown restrictions necessary to combat the coronavirus disease during the Period. The rebound on the number of the daily confirmed coronavirus disease cases in the third quarter of this year has caused the Hong Kong government to prolong the social distancing measures that would lead to an even slower economic activities in Hong Kong and might bring uncertainty to property prices. The Board would exercise extreme caution when conducting mortgage loan business in Hong Kong. Currently, the Group has not granted any new loan.

Equity Investment

During the Period, the construction of the production facilities and offices in 山東省樂陵市鐵營鎮化工園區 (Tieying Chemical Industry Park*) of Lao ling City in Shandong Province, the PRC (“**Project**”) continues. It was reported in our 2019 annual report that the first phase of the Project will be delayed due to the outbreak of the coronavirus disease. Nevertheless, based on the latest information, the construction of the first phase Project will be further delayed to the fourth quarter of this year due to the recurring adverse weather during the Period. The commencement of the commercial production is therefore expected to be delayed correspondingly. The Board will closely monitor the construction of the Project.

The Board remains taking an optimistic view in the prospect of the chemical industry in the PRC after the outbreak of the coronavirus disease. After the completion of the acquisition of the equity interest in 北京凱瑞英科技有限公司 (Beijing Chemical Reaction Engineering Science & Technology Co., Limited*), the Group is interested to pursue further investment opportunities in the chemical industry in the PRC to expand its business segments.

LOOKING AHEAD

The Board expects that the second half of 2020 will be extremely challenging. Concurrently, the Board will continue to explore new investment or business opportunities with prudence with a view to enhancing and improving returns to the Company's stakeholders.

* *For identification purpose only*

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2020, total assets and net assets of the Group were approximately HK\$4,157.4 million and approximately HK\$2,390.6 million respectively (31 December 2019: approximately HK\$4,210.1 million and approximately HK\$2,422.8 million, respectively). The cash and bank balance of the Group as at 30 June 2020 were approximately HK\$1,033.5 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 30 June 2020 were approximately HK\$1,145.9 million (31 December 2019: approximately HK\$1,360.1 million). As at 30 June 2020, the Group had net current liabilities of approximately HK\$388.8 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 30 June 2020, the Group had outstanding bank loans and other borrowings amounted to approximately HK\$1,481.7 million¹ (31 December 2019: approximately HK\$1,481.0 million), all of which (31 December 2019: Nil) were presented as due within one year as the Group could not fulfill certain financial ratio required in the financing arrangement. As at 30 June 2020, the Group's gearing ratio (total borrowings/total assets) was at approximately 35.6% (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.

ACQUISITIONS AND DISPOSALS

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

FOREIGN EXCHANGE EXPOSURE

The Group had operations in France, Luxembourg, the PRC and Hong Kong where transactions and cash flow were denominated in local currencies, including Euro, Renminbi and Hong Kong dollar. As a result, the Group was exposed to foreign currency exposures with respect to Euro and Renminbi, which mainly occurred from conducting daily operations and financing activities by local offices where local currencies were different from the Group. For the six months ended 30 June 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.

(1) Approximately HK\$1,481.7 million (equivalent to €175,000,000) at the interest rate of 3 months EURIBOR plus 2.2% per annum.

CONTINGENT LIABILITIES

As at 30 June 2020, the Group had no contingent liabilities.

PLEDGE ON THE GROUP'S ASSETS

As at 30 June 2020, cash deposits amounting to approximately HK\$30.2 million (31 December 2019: approximately HK\$38.8 million) and a building of the Group with a net carrying amount of approximately HK\$2,758.7 million (31 December 2019: approximately HK\$2,775.7 million) were pledged to secure a bank loan granted to the Group.

EMPLOYEES AND REMUNERATION

The Group had 7 employees as at 30 June 2020 (31 December 2019: 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, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

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

The Board has set up procedures on corporate governance that comply with the requirements of the 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 provision of the CG Code throughout the six months ended 30 June 2020 with the following deviations:

- A.4.1 Non-executive Directors are not appointed for a specific term. They are, however, subject to retirement by rotation and re-election at the annual general meetings of the Company pursuant to the Company's bye-laws (the "**Bye-laws**"). As such, the Company considers that such provisions are sufficient to meet the underlying objectives of the relevant provisions of the CG Code.
- E.1.2 Another executive Director, Mr. Law Wing Chi, Stephen was elected to chair the annual general meeting 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 replacement appointment of the Chairman of the Board was made during the Period. The roles and responsibilities of the Chairman on governance matters of the Company were shared between the executive Directors during the Period. The Company will publish an announcement once an appointment has been made in accordance with the Listing 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 results and the unaudited condensed consolidated financial statements for the Period have been reviewed by the Audit Committee and the auditors of the Group.

REMUNERATION COMMITTEE

The remuneration committee of the Company (the “**Remuneration Committee**”) has been set up with written terms of reference in accordance with the requirements of the Listing Rules, amongst other things, to make recommendations to the Board on the Company’s remuneration policy and structure for all directors and senior management. The Remuneration Committee comprises one executive Director namely Mr. Law Wing Chi, Stephen, and three independent non-executive Directors namely Mr. Tam Sun Wing (Chairman), Mr. He Yi and Mr. Ng Ge Bun.

NOMINATION COMMITTEE

The nomination committee of the Company (the “**Nomination Committee**”) has been set up with written terms of reference in accordance with the requirements of the Listing Rules, amongst other things, to review the structure, size and composition of the Board. The Nomination Committee currently consists of one executive Director namely Mr. Law Wing Chi, Stephen and three independent non-executive Directors namely Mr. Ng Ge Bun (Chairman), Mr. He Yi and Mr. Tam Sun Wing.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding 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.

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, 24 August 2020

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).