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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)

DISCLOSEABLE TRANSACTION IN RELATION TO THE ACQUISITION OF A HOTEL BUSINESS IN SHEUNG WAN, HONG KONG

The Board is pleased to announce that on 14 December 2013, the Purchaser, a wholly-owned subsidiary of the Company, entered into the Acquisition Agreement with the Vendors pursuant to which the Purchaser conditionally agreed to acquire, and the Vendors conditionally agreed to dispose of, the Sale Shares and the Sale Debts at an aggregate consideration of HK\$488 million. The Sale Shares represent the entire issued share capital of each of the Target Companies, which together own and operate the business of the Hotel, and the Sale Debts shall represent the loan due to one of the Vendors by two of the Target Companies as at Completion.

The Hotel is a 32-story tower located at No. 95 (formerly Nos. 94 and 95) Connaught Road West, Sheung Wan, Hong Kong with 90 guest rooms and a restaurant.

As more than one of the applicable percentage ratios (as defined in the Listing Rules) in respect of the Acquisition exceed 5% but all applicable percentage ratios are less than 25%, the Acquisition constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

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THE ACQUISITION AGREEMENT

Date

14 December 2013

Parties

Purchaser: Leading Prospect Limited, a wholly-owned subsidiary of the Company

Vendors: (1) Mr. Mohinani Hassomal Bulchand (“**Mr. MHB**”)
 (2) Mr. Mohinani Harry Hassomal
 (3) Mr. Mohinani Vijay Harish

To the best of the Directors’ knowledge, information and belief, having made all reasonable enquiries, each of the Vendors is a third party independent of the Group and its connected persons (as defined in the Listing Rules), and each of the Vendors is a businessman.

Assets to be acquired

Sale Shares

The Vendors shall sell, and the Purchaser shall purchase, the Sale Shares free from all encumbrances and together with all rights attaching or accruing to them at Completion. The First Target Shares represent the entire issued share capital of the Hotel Company, the Second Target Shares represent the entire issued share capital of the Licence Company and the Third Target Shares represent the entire issued share capital of the Operation Company. The Target Companies currently own and operate the business of the Hotel together.

Sale Debts

On Completion, Mr. MHB shall lend to (i) the Hotel Company a sum equal to the sum of (a) the HSBC Release Amount to enable the Hotel Company to repay and discharge the HSBC Debt and to secure a release of the HSBC Guarantees and the Mortgage; and (b) the outstanding amount of the Hotel MEL Debt to enable the Hotel Company to repay and discharge the Hotel MEL Debt; and (ii) the Operation Company a sum equal to the outstanding amount of the Operation MEL Debt to enable the Operation Company to repay and discharge the Operation MEL Debt.

Mr. MHB shall assign to the Purchaser, as beneficial owner, all the rights and interests in the Sale Debts, free from all encumbrances and together with all rights attaching or accruing to it at Completion. The Sale Debts shall therefore represent the aforesaid loans due to Mr. MHB by the Hotel Company and the Operation Company as at Completion.

As at the date of the Acquisition Agreement, the outstanding amount of each of the HSBC Debt, Hotel MEL Debt and Operation MEL Debt was approximately HK\$141 million, HK\$73 million and HK\$16 million, respectively.

Consideration

The aggregate consideration for the sale and purchase of the Sale Shares and the Sale Debts is HK\$488 million (the “**Aggregate Consideration**”), being HK\$258,287,793 for the Sale Shares and approximately HK\$230 million for the Sale Debts, and payable by the Purchaser to the Vendors in the following manner:

- (i) within one Business Day of the signing of the Acquisition Agreement, the Purchaser shall pay a deposit in the sum of HK\$48,800,000.00 (the “**Deposit**”) to be held by a stakeholder, who is the legal advisers to the Vendors, pending the execution of the Escrow Agreement. Upon execution of the Escrow Agreement, the stakeholder shall pay the Deposit to the escrow agent to be held in accordance with the terms of the Escrow Agreement; and
- (ii) at Completion, the Deposit shall be applied towards settlement in part of the Completion Amount by transfer of funds. The Purchaser shall also (a) pay to MEL a sum equal to the Hotel MEL Debt on behalf of the Hotel Company and the Operation MEL Debt on behalf of the Operation Company by transfer of funds or by a cashier order drawn on a Hong Kong licensed bank and made payable to MEL; (b) pay to HSBC (on the account of the Hotel Company) a sum equal to the HSBC Release Amount; and (c) pay the Retained Amount to the retention account maintained with the escrow agent.

In the event that the Acquisition Agreement is terminated due to non-satisfaction of the conditions precedent set out below or the non-compliance by the Vendors of their obligations under the Acquisition Agreement, the Vendors and the Purchaser shall instruct the stakeholder or the escrow agent to release the Deposit, together with any interest accrued thereon (if any), to the Purchaser. In the event that the Acquisition Agreement is terminated due to non-compliance by the Purchaser of its obligations under the Acquisition Agreement, the Vendors and the Purchaser shall instruct the stakeholder or the escrow agent to release the Deposit, together with any interest accrued thereon (if any), to Mr. MHB (for himself and on behalf of the other Vendors).

In the event that the existing hotel management agreement is terminated prior to its expiry and the manager is entitled to any relevant payment thereunder, according to the Acquisition Agreement, the relevant amount payable to the manager will be compensated by the Vendors to the Purchaser. In case the relevant payment amount exceeds the Retained Amount, the Vendors have also undertaken to pay any such shortfall to the Purchaser.

The consideration of the Acquisition will be financed by internal resources and/or external financing of the Group.

The consideration of the Acquisition was determined after arm’s length negotiations between the Purchaser and the Vendors, and taking into account of the valuation of the Hotel of approximately HK\$490 million as at 13 December 2013, as valued by an independent professional valuer with market approach, the amount of Sale Debts and the historical financial performance of the Target Companies.

Conditions precedent

Completion is conditional upon the satisfaction or waiver (as the case may be) of the following conditions:

- (i) the Purchaser having been satisfied with the results of such enquiries, investigations and due diligence reviews of the business, affairs, operations and financial position of the Target Companies by the Purchaser or any of its officers, employees, agents, professional advisers or other agents as the Purchaser in its discretion deems necessary, desirable or appropriate to undertake;
- (ii) the representations and warranties given by the Vendors remaining true and accurate in all respects and not misleading in any respect as of the Completion Date by reference to the facts and circumstances subsisting as at the Completion Date;
- (iii) no notice, order, judgment, action or proceeding of any court, arbitrator, authority, statutory or regulatory body having been served, issued or made which restrains, prohibits or makes unlawful any transaction contemplated by the Acquisition Agreement or which is reasonably likely to materially and adversely affect the right of the Purchaser to own the legal and beneficial title to the Sale Shares, free from encumbrances, following the Completion Date;
- (iv) all necessary approvals and consents required to be obtained by any of the Target Companies and/or the Purchaser and/or the Company from any authority or other third party in respect of the Acquisition Agreement and/or the transactions contemplated thereunder having been obtained unconditionally and irrevocably, or where such approval or consent is given subject to conditions, on such conditions as are acceptable to the Purchaser; and
- (v) the Purchaser having been satisfied that each of the HSBC Debt, the Hotel MEL Debt and the Operation MEL Debt has been repaid in full and each of the HSBC Guarantees and the Mortgage has been or will be discharged and released to the satisfaction of the Purchaser.

The Purchaser may at any time waive in whole or in part and conditionally or unconditionally any of the conditions set out above by notice in writing to the Vendors. If the conditions above are not satisfied or waived on or before the Completion Date, the Acquisition Agreement shall automatically lapse without liability to any party to the Acquisition Agreement and the Deposit shall be returned to the Purchaser, except that in the case where the non-satisfaction of the conditions above is due to the breach of any of the Vendors' obligations under the Acquisition Agreement, the Vendors shall pay to the Purchaser an additional amount equal to the Deposit as liquidated damages for the loss suffered by the Purchaser.

Completion

Completion shall take place on 20 December 2013, or such other date as Mr. MHB, being one of the Vendors, and the Purchaser may agree.

INFORMATION ON TARGET COMPANIES

Hotel Company

The Hotel Company is owned as to 56% by Mr. Mohinani Hassomal Bulchand, 34% by Mr. Mohinani Harry Hassomal and 10% by Mr. Mohinani Vijay Harish.

The Hotel Company is incorporated in Hong Kong with limited liability on 9 November 2007. The principal asset of the Hotel Company is the holding of the Hotel as investment properties. The Hotel formally commenced operation in May 2011. The Hotel is a 32-story tower located at No. 95 (formerly Nos. 94 and 95) Connaught Road West, Sheung Wan, Hong Kong with 90 guest rooms and a restaurant.

Financial information

Set out below is the summary of the audited financial information of the Hotel Company for the two years ended 31 March 2013 and the unaudited financial information of the Hotel Company for the eight months ended 30 November 2013 as extracted from the management account of the Hotel Company provided by the Vendors:

	For the year ended 31 March		For the eight months ended
	2012	2013	30 November
	<i>HK\$'000</i>	<i>HK\$'000</i>	2013
			<i>HK\$'000</i>
			(Unaudited)
Revenue	4,250	8,200	3,600
Profit before taxation	423	4,388	2,411
Profit after taxation	423	4,147	2,411

The revenue of the Hotel Company represented the rental charged to the Operation Company in relation to the leasing of the Hotel for operating the Hotel by the Operation Company. The Hotel Company is the borrower under the HSBC Debt and Hotel MEL Debt, which shall be repaid in full with the loan from Mr. MHB prior to Completion.

Based on the unaudited management account of the Hotel Company provided by the Vendors, the unaudited net liabilities of the Hotel Company amounted to approximately HK\$1.3 million as at 30 November 2013, among which the aggregate outstanding amount of the HSBC Debt and Hotel MEL Debt as at 30 November 2013 amounted to approximately HK\$214.0 million. The unaudited net book value of the Hotel as at 30 November 2013 was approximately HK\$187.9 million and the fair value of the Hotel, as valued by an independent professional valuer with market approach, as at 13 December 2013 was approximately HK\$490 million.

Operation Company

The Operation Company is owned as to 56% by Mr. Mohinani Hassomal Bulchand, 34% by Mr. Mohinani Harry Hassomal and 10% by Mr. Mohinani Vijay Harish.

The Operation Company is incorporated in Hong Kong with limited liability on 22 February 2010. The principal business of the Operation Company is operating the Hotel. The Operation Company currently employs approximately 50 full-time staff.

Financial information

Set out below is the summary of the audited financial information of the Operation Company for the year ended 31 March 2012 and the unaudited financial information of the Operation Company for the year ended 31 March 2013 and eight months ended 30 November 2013 as extracted from the management account of the Operation Company provided by the Vendors:

	For the year ended 31 March		For the eight months ended
	2012	2013	30 November
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Unaudited)
Revenue	31,006	35,766	22,052
(Loss)/profit before taxation	(5,042)	2,379	2,417
(Loss)/profit after taxation	(5,042)	2,379	2,417

Most of the revenue of the Operation Company was derived from rental of guestrooms of the Hotel which represented approximately 89%, 88% and 89% of the revenue of the Operation Company for the two years ended 31 March 2013 and eight months ended 30 November 2013.

The Operation Company is the borrower under the Operation MEL Debt, which shall be repaid in full with the loan from Mr. MHB prior to Completion.

Based on the unaudited management account of the Operation Company provided by the Vendors, the unaudited net liabilities of the Operation Company amounted to approximately HK\$11.3 million as at 30 November 2013.

Licence Company

The Licence Company is owned as to 56% by Mr. Mohinani Hassomal Bulchand, 34% by Mr. Mohinani Harry Hassomal and 10% by Mr. Mohinani Vijay Harish.

The Licence Company is incorporated in Hong Kong with limited liability on 30 July 2010. The principal business of the Licence Company is holding the licences for the Hotel and the restaurant of the Hotel.

Financial information

Set out below is the summary of the unaudited financial information of the Licence Company for the two years ended 31 March 2013 and the eight months ended 30 November 2013 as extracted from the management accounts of the Licence Company provided by the Vendors:

	For the year ended 31 March		For the eight months ended 30 November
	2012	2013	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)
Revenue	–	–	–
Loss before taxation	(47)	(55)	(47)
Loss after taxation	(47)	(55)	(47)

Based on the unaudited management account of the Licence Company provided by the Vendors, the unaudited net liabilities of the Licence Company amounted to approximately HK\$150,000 as at 30 November 2013.

Upon Completion, the Target Companies will become fellow subsidiaries of each other and the their respective financial results will be consolidated to the financial statements of the Company and the inter-company transactions and balances among the Target Companies, if any, will be eliminated in the consolidated financial statements of the Company.

REASONS FOR THE ACQUISITION

For the past few years, the Group has been principally engaged in the business segments of steel manufacturing and trading investment, as well as heat energy supply. In addition, as announced in November 2013, a wholly-owned subsidiary of the Company has obtained a money lender licence to carry on money lending business in Hong Kong.

The Group has recorded losses for each of the three years ended 31 December 2012 and the six months ended 30 June 2013 which was principally attributable to unfavourable weakened steel industry in the PRC and the heat energy supply segment had been challenged by increase in operating costs and costs of constituent raw materials. Notwithstanding this, as stated in the interim report of the Company for the six months ended 30 June 2013, the Group shall remain dedicated to reinforcing existing business segments and to exploring new business opportunities with a view to enhancing returns of the stakeholders of the Company. In the meantime, the Group has been constantly seeking to expand the business portfolios in order to expand the revenue stream and would continue to explore property investment opportunities to strengthen asset quality if suitable opportunities arise.

In view of the financial performance of the Group for the past few years, the Directors consider that it is beneficial for the Group to seek suitable investment opportunities from time to time to diversify its existing business portfolio and to broaden its source of income. According to UNWTO World Tourism Organisation, a specialised agency of the United Nations, worldwide international tourism receipts increased from approximately US\$680 billion in 2005 to approximately US\$1,075 billion in 2012, representing a compound annual growth rate of approximately 6.8%. The international tourism receipts in Hong Kong increased from approximately US\$27.7 billion in 2011 to approximately US\$32.1 billion in 2012, bringing Hong Kong to be the ninth in terms of international tourism receipts among all countries. It is further projected by UNWTO World Tourism Organisation that the international tourist arrivals in worldwide will be further increased.

In respect of the Hong Kong tourism industry, visitor arrivals registered an increase of approximately 16% to a record-high of 48.6 million in 2012, while the visitor arrivals for the ten months ended 30 October 2013 reached approximately 44.5 million, representing a growth of approximately 12.3% as compared to the same period in 2012, according to the Hong Kong Government. During the first seven months ended 31 July 2013, the average occupancy rate of the hotel rooms was approximately 87%. To this end, the Company has identified the Target Companies as appropriate acquisition targets to the Group and are of the view that the Acquisition would allow the Group to diversify into a new line of business. In light of the growing prospects of the tourism industry, the Company has been looking for and considering further related investment opportunities (including but not limited to in Asia and Europe). The Company will inform shareholders and potential investors of the relevant development as and when appropriate.

Taking into account of the aforesaid, the Directors (including the independent non-executive Directors) consider that the Acquisition shall represent an opportunity to broaden the income stream of the Group with relatively stable level of revenue, and would form a solid foundation for the Group's further development in the related area. Accordingly, the Directors consider that the terms and conditions of the Acquisition Agreement are fair and reasonable, and the Acquisition is in the interests of the Company and its shareholders as a whole.

GENERAL

As more than one of the applicable percentage ratios (as defined in the Listing Rules) in respect of the Acquisition exceed 5% but all applicable percentage ratios are less than 25%, the Acquisition constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

DEFINITIONS

In this announcement, the following expressions shall, unless the context requires otherwise, have the following meanings:

“Acquisition”	the acquisition of the Sale Shares and Sale Debts pursuant to the Acquisition Agreement
“Acquisition Agreement”	the conditional share purchase agreement dated 14 December 2013 entered into between the Vendors and the Purchaser in relation to the Acquisition
“Board”	the board of Directors
“Business Day”	a day other than (a) a general holiday as defined in the General Holidays Ordinance, Chapter 149 of the Laws of Hong Kong; (b) a Saturday and (c) any day on which typhoon signal No. 8 or above is hoisted or the black rainstorm warning signal is issued during the period from 9:00 a.m. to 5:00 p.m. on any weekday
“Company”	Kai Yuan Holdings Limited, a company incorporated in Bermuda with limited liability, the issued Shares of which are listed on the Stock Exchange
“Completion”	completion of the Acquisition
“Completion Amount”	an amount equal to the Aggregate Consideration less (a) the Deposit, (b) the Retained Amount, (c) the HSBC Release Amount, and (d) a sum equal to the Hotel MEL Debt and the Operation MEL Debt
“Completion Date”	date of Completion, being 20 December 2013 or such other date as Mr. MHB and the Purchaser may agree
“Director(s)”	the director(s) of the Company
“Escrow Agreement”	the escrow agreement to be signed between the Purchaser, Mr. MHB and the escrow agent
“First Target Shares”	the entire issued share capital of the Hotel Company
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Hotel”	Hotel de EDGE by Rhombus, a 90-room hotel situated at No. 95 (formerly Nos. 94 and 95) Connaught Road West, Sheung Wan, Hong Kong

“Hotel Company”	A6 Limited, a company incorporated in Hong Kong with limited liability and one of the Target Companies
“Hotel MEL Debt”	all debts due from the Hotel Company to MEL, which as at the date of the Acquisition Agreement, are in the sum of HK\$72,618,194.00
“HSBC”	The Hongkong and Shanghai Banking Corporation Limited
“HSBC Debt”	the debt outstanding due by the Hotel Company to HSBC as at the Completion Date pursuant to facility letter dated 12 December 2012 and which is secured by the Mortgage
“HSBC Guarantees”	the guarantees and undertakings as set out in the facility letter dated 12 December 2012 and given by each of the Target Companies in favour of HSBC to secure, among others, the HSBC Debt
“HSBC Release Amount”	the amount to be confirmed between Mr. MHB and the Purchaser which shall be paid to HSBC for repayment in full of the HSBC Debt and discharge and release of the HSBC Guarantees and the Mortgage
“Licence Company”	Hotel de EDGE Management Limited, a company incorporated in Hong Kong with limited liability and one of the Target Companies
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“MEL”	Multiplex (Exports) Limited, a company incorporated in Hong Kong with limited liability and the lender under the Hotel MEL Debt and Operation MEL Debt
“Mortgage”	the mortgage on the Hotel dated 8 March 2010 by the Hotel Company in favour of HSBC
“Operation Company”	Hotel de EDGE Limited, a company incorporated in Hong Kong with limited liability and one of the Target Companies
“Operation MEL Debt”	all debts due from the Operation Company to MEL, which as at the date of the Acquisition Agreement, are in the sum of HK\$15,680,010.00
“Purchaser”	Leading Prospect Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company

“Retained Amount”	an amount equal to HK\$3,000,000 to be held in an retention account in accordance with the terms of the Escrow Agreement
“Sale Debts”	the loan to be made by Mr. MHB to the Hotel Company to enable the Hotel Company to repay the HSBC Debt and to secure a release of the Mortgage and the Hotel MEL Debt; and the loan to be made by Mr. MHB to the Operation Company to enable the Operation Company to repay the Operation MEL Debt
“Sale Shares”	the First Target Shares, the Second Target Shares and the Third Target Shares
“Second Target Shares”	the entire issued share capital of the Licence Company
“Share(s)”	share(s) of HK\$0.1 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Companies”	the Hotel Company, the Operation Company and the Licence Company
“Third Target Shares”	the entire issued share capital of the Operation Company
“Vendors”	Mohinani Hassomal Bulchand, Mohinani Harry Hassomal and Mohinani Vijay Harish
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	per cent.

By Order of the Board of
Kai Yuan Holdings Limited
Law Wing Chi, Stephen
Executive Director

Hong Kong, 16 December 2013

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