



KAI YUAN HOLDINGS LIMITED
開源控股有限公司

(Incorporated in Bermuda with limited liability)
(Stock Code: 1215)

Interim Report
2016 ▶▶



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CORPORATE INFORMATION

BOARD OF DIRECTORS (THE “BOARD”)

Executive Directors

Mr. Xue Jian
Mr. Law Wing Chi, Stephen

Independent non-executive Directors

Mr. Tam Sun Wing
Mr. Ng Ge Bun
Mr. He Yi

AUDIT COMMITTEE

Mr. Tam Sun Wing (*Chairman*)
Mr. Ng Ge Bun
Mr. He Yi

REMUNERATION COMMITTEE

Mr. Tam Sun Wing (*Chairman*)
Mr. Law Wing Chi, Stephen
Mr. He Yi
Mr. Ng Ge Bun

NOMINATION COMMITTEE

Mr. Ng Ge Bun (*Chairman*)
Mr. Law Wing Chi, Stephen
Mr. He Yi
Mr. Tam Sun Wing

COMPANY SECRETARY

Mr. Law Wing Chi, Stephen

STOCK CODE

1215

WEBSITE

www.kaiyuanholdings.com

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SHARE REGISTRAR

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Hong Kong

REGISTERED OFFICE

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Hamilton HM 12
Bermuda

PRINCIPAL OFFICE IN HONG KONG

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178 Gloucester Road, Wanchai
Hong Kong

AUDITORS

Ernst & Young
Certified Public Accountants
22nd Floor, CITIC Tower
1 Tim Mei Avenue, Central
Hong Kong

SOLICITORS

K&L Gates
44th Floor, Edinburgh Tower
The Landmark
15 Queen's Road, Central
Hong Kong

PRINCIPAL BANKERS

The Hong Kong & Shanghai Banking
Corporation Limited

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**TO THE BOARD OF DIRECTORS OF KAI YUAN HOLDINGS LIMITED**

(Incorporated in Bermuda with limited liability)

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements set out on pages 4 to 36 which comprise the interim condensed consolidated statement of financial position of Kai Yuan Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) as at 30 June 2016 and the related interim condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the six-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim condensed consolidated financial statements to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants.

The directors are responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of interim condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Ernst & Young

Certified Public Accountants

22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

29 August 2016

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2016

		For the six months ended 30 June	
		2016 (Unaudited)	2015 (Unaudited) (Restated)
		HK\$'000	HK\$'000
	Notes		
CONTINUING OPERATIONS			
REVENUE	3	125,964	160,847
Cost of sales		(96,558)	(117,842)
Gross profit		29,406	43,005
Other income and gains	4	1,793	2,364
Other expenses		(60)	–
Administrative expenses		(25,402)	(23,695)
Finance costs	5	(45,420)	(59,949)
LOSS BEFORE TAX FROM CONTINUING OPERATIONS	6	(39,683)	(38,275)
Income tax credit/(expense)	7	786	(2,551)
LOSS FOR THE PERIOD FROM CONTINUING OPERATIONS		(38,897)	(40,826)
DISCONTINUED OPERATIONS			
Profit/(loss) for the period from discontinued operations	8	168,959	(33,143)
PROFIT/(LOSS) FOR THE PERIOD		130,062	(73,969)
Attributable to:			
Owners of the Company		130,062	(69,554)
Non-controlling interests		–	(4,415)
		130,062	(73,969)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic and diluted	10		
– For profit/(loss) for the period		HK\$1.02 cents	HK\$(0.54) cents
– For loss from continuing operations		HK\$(0.30) cents	HK\$(0.32) cents

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2016

	For the six months ended 30 June	
	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
PROFIT/(LOSS) FOR THE PERIOD	130,062	(73,969)
OTHER COMPREHENSIVE INCOME		
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	(20,887)	4,366
Reclassification adjustments for loss included in the consolidated statement of profit or loss	5,236	3,626
Income tax effect	5,217	(2,664)
	(10,434)	5,328
Exchange differences on translation of foreign operations	30,082	(133,263)
Reclassification of translation reserve from other comprehensive income to the consolidated statement of profit or loss upon disposal of a subsidiary	(155,523)	–
Net other comprehensive loss to be reclassified to statement of profit or loss in subsequent periods	(135,875)	(127,935)
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX	(135,875)	(127,935)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	(5,813)	(201,904)
Attributable to:		
Owners of the Company	(5,813)	(197,577)
Non-controlling interests	–	(4,327)
	(5,813)	(201,904)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2016

	Notes	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	11	3,409,109	3,378,476
Goodwill		297,313	292,060
Other intangible assets	12	298	327
Deferred tax assets	18	44,412	38,708
Total non-current assets		3,751,132	3,709,571
CURRENT ASSETS			
Inventories		1,136	1,297
Trade receivables	13	15,783	10,954
Other receivables and prepayments		18,928	15,447
Pledged deposits	14	20,441	20,080
Cash and cash equivalents		621,205	329,389
Assets of a disposal group classified as held for sale		–	2,240,807
Total current assets		677,493	2,617,974
Total assets		4,428,625	6,327,545
CURRENT LIABILITIES			
Trade payables	15	21,528	14,104
Other payables and accruals	16	33,004	32,582
Receipt in advance		76	276
Derivative financial instruments		10,353	8,312
Interest-bearing bank borrowings	17	12,000	12,000
Amounts due to a related company	23	–	20,537
Loan from a related company	23	–	1,854,308
Tax payable		71	5,948
Liabilities of a disposal group classified as held for sale		–	45,885
Total current liabilities		77,032	1,993,952
NET CURRENT ASSETS		600,461	624,022
TOTAL ASSETS LESS CURRENT LIABILITIES		4,351,593	4,333,593

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Continued)

AS AT 30 JUNE 2016

	Notes	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	17	1,599,370	1,581,201
Deferred tax liabilities	18	370,546	365,905
Derivative financial instruments		32,656	18,603
Total non-current liabilities		2,002,572	1,965,709
Net assets		2,349,021	2,367,884
EQUITY			
Share capital	19	1,277,888	1,277,888
Reserves		1,071,133	1,089,996
Total equity		2,349,021	2,367,884

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2016

	Issued capital HK\$'000	Share premium* HK\$'000	Hedging reserve* HK\$'000	Translation reserve* HK\$'000	Retained profits* HK\$'000	Other reserve* HK\$'000	Total equity HK\$'000
At 1 January 2016 (Audited)	1,277,888	1,027,637	(19,806)	(28,178)	97,293	13,050	2,367,884
Profit for the period	-	-	-	-	130,062	-	130,062
Other comprehensive income for the period:							
Cash flow hedges, net of tax	-	-	(10,434)	-	-	-	(10,434)
Exchange difference on translation of foreign operations	-	-	-	30,082	-	-	30,082
Reclassification of translation reserve from other comprehensive income to the consolidated statement of profit or loss upon disposal of a subsidiary	-	-	-	(155,523)	-	-	(155,523)
Total comprehensive loss for the period	-	-	(10,434)	(125,441)	130,062	-	(5,813)
Reclassification of other reserve to profit or loss upon disposal of a subsidiary	-	-	-	-	-	(13,050)	(13,050)
At 30 June 2016 (Unaudited)	<u>1,277,888</u>	<u>1,027,637</u>	<u>(30,240)</u>	<u>(153,619)</u>	<u>227,355</u>	<u>-</u>	<u>2,349,021</u>

Attributable to owners of the Company

	Issued capital HK\$'000	Share premium* HK\$'000	Hedging reserve* HK\$'000	Translation reserve* HK\$'000	Retained profits* HK\$'000	Other reserve* HK\$'000	Total	Non- controlling interests HK\$'000	Total equity HK\$'000
At 1 January 2015 (Audited)	1,277,888	1,027,637	(16,160)	333,502	117,636	13,050	2,753,553	305,088	3,058,641
Loss for the period	-	-	-	-	(69,554)	-	(69,554)	(4,415)	(73,969)
Other comprehensive loss for the period:									
Cash flow hedges, net of tax	-	-	5,328	-	-	-	5,328	-	5,328
Exchange difference on translation of foreign operations	-	-	-	(133,351)	-	-	(133,351)	88	(133,263)
Total comprehensive loss for the period	-	-	5,328	(133,351)	(69,554)	-	(197,577)	(4,327)	(201,904)
At 30 June 2015 (Unaudited)	<u>1,277,888</u>	<u>1,027,637</u>	<u>(10,832)</u>	<u>200,151</u>	<u>48,082</u>	<u>13,050</u>	<u>2,555,976</u>	<u>300,761</u>	<u>2,856,737</u>

* These reserve accounts comprise the consolidated reserves of HK\$1,071,133,000 (31 December 2015: HK\$1,089,996,000) in the interim condensed consolidated statement of financial position.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2016

	Notes	For the six months ended 30 June	
		2016 (Unaudited) HK\$'000	2015 (Unaudited) (Restated) HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit before tax			
From continuing operations		(39,683)	(38,275)
From discontinued operations	8	166,824	(34,880)
Adjustments for:			
Finance costs	5	45,420	59,949
Share of losses of associates		44,456	25,694
Loss on disposal of items of property, plant and equipment		–	96
Gain on disposal of a subsidiary	21	(42,709)	–
Reclassification of translation reserve from other comprehensive income to profit or loss upon disposal of a subsidiary	8	(155,523)	–
Reclassification of other reserve to profit or loss upon disposal of a subsidiary	8	(13,050)	–
Depreciation of property, plant and equipment	11	21,346	51,274
Recognition of prepaid land lease payments		–	1,681
Recognition of other long-term assets		–	405
Amortisation of other intangible assets	12	35	3,730
		27,116	69,674
Decrease in inventories		161	6,713
Increase in trade receivables		(4,829)	(8,800)
(Increase)/decrease in other receivables and prepayments		(448)	5,270
Increase in pledged deposits		–	(6,342)
Increase in trade payables		7,424	16,454
Increase in other payables and accruals		375	6,745
Decrease in receipt in advance		(200)	(118,823)
		29,599	(29,109)
Cash generated from/(used in) operations		(9,140)	–
French profit tax paid			
		20,459	(29,109)
Net cash flows generated from/(used in) operating activities			

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

		For the six months ended 30 June	
		2016 (Unaudited)	2015 (Unaudited) (Restated)
		HK\$'000	HK\$'000
Note			
	Net cash flows generated from/(used in) operating activities	20,459	(29,109)
	CASH FLOWS FROM INVESTING ACTIVITIES		
	Purchases of property, plant and equipment	(2,429)	(31,039)
	Disposal of items of property, plant and equipment	–	(4)
21	Disposal of a subsidiary	300,169	–
	Provisional proceeds for proposed disposal	–	13,100
	Decrease in amounts due from related companies	–	4,952
	Net cash flows generated from/(used in) investing activities	297,740	(12,991)
	CASH FLOWS FROM FINANCING ACTIVITIES		
	Increase in amounts due to related companies	–	668
	Repayment of bank borrowings	(6,000)	(8,530)
	Increase in pledged deposits	–	(20,907)
	Interest paid	(24,291)	(23,385)
	Net cash flows used in financing activities	(30,291)	(52,154)
	NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	287,908	(94,254)
	Cash and cash equivalents at beginning of the period	329,389	189,946
	Cash and cash equivalents attributable to a discontinued operations at beginning of the period	1,709	210,951
	Effect of foreign exchange rate changes, net	2,199	(18,652)
	CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	621,205	287,991
	ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
	Cash and bank balances	621,205	257,143
	Cash and short term deposits attributable to a discontinued operations	–	30,848
	Cash and cash equivalents as stated in the statement of cash flows	621,205	287,991

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2016

1. CORPORATE INFORMATION

The interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on 29 August 2016.

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The address of the registered office of the Company is Canon’s Court, 22 Victoria Street, Hamilton HM 12, 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 the hotel operation during the six months ended 30 June 2016 (the “Period”). The Group commenced money lending business in July 2016.

2. BASIC OF PRESENTATION AND CHANGES TO THE GROUP’S ACCOUNTING POLICIES

2.1 Basis of presentation

The interim condensed consolidated financial statements, which comprise the interim condensed consolidated statement of financial position of the Group as at 30 June 2016 and the related interim condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the Period, have been prepared in accordance with HKAS 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2015.

2. BASIC OF PRESENTATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (Continued)

2.2 Changes in accounting policy and disclosures

The accounting policies and basis of preparation adopted in the preparation of the interim condensed consolidated financial statements are the same as those used in the annual financial statements for the year ended 31 December 2015, except for the adoption of new standards, interpretations and amendments effective as of 1 January 2016 below:

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

Amendments to HKFRS 10 and HKFRS 12 and HKAS 28 (2011)	<i>Investment Entities: Applying the Consolidation Exception</i>
Amendments to HKFRS 11	<i>Accounting for Acquisitions of Interests in Joint Operations</i>
Amendments to HKAS 1	<i>Disclosure Initiative</i>
Amendments to HKAS 16 and HKAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>
Amendments to HKAS 16 and HKAS 41	<i>Agriculture: Bearer Plants</i>
Amendments to HKAS 27 (2011)	<i>Equity Method in Separate Financial Statements</i>
<i>Annual Improvements 2012-2014 Cycle</i>	<i>Amendments to a number of HKFRSs</i>

The adoption of the revised HKFRSs has had no significant financial effect on these financial statements.

3. REVENUE AND SEGMENT INFORMATION

For management purposes, the Group has only one (six months ended 30 June 2015: two) reportable operating segment: the hotel operation segment engaged in operation of hotel businesses in Paris, France and Hong Kong. Management reviews the consolidated results when making decisions about allocating resources and assessing the performance of the Group. Accordingly, no segment analysis is presented.

The steel manufacturing and trading segment holding significant interests in three associates, located in Shandong Province, engaged in steel and steel product manufacturing and trading, has been disposed on 15 April 2016, details of which are given in notes 8 and 21 to the interim condensed consolidated financial statements.

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

	For the six months ended 30 June	
	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Income from hotel operation	<u>125,964</u>	<u>160,847</u>

4. OTHER INCOME AND GAINS

	For the six months ended 30 June	
	2016 (Unaudited) HK\$'000	2015 (Unaudited) (Restated) HK\$'000
Other income		
Bank interest income	387	792
Gains		
Foreign exchange gains	–	1,428
Others	<u>1,406</u>	<u>144</u>
	<u>1,406</u>	<u>1,572</u>
	<u>1,793</u>	<u>2,364</u>

5. FINANCE COSTS

	For the six months ended 30 June	
	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Interest on bank borrowings		
– wholly repayable within five years	24,070	22,657
Interest on a loan from a related company (note 23)	21,350	37,292
	45,420	59,949

6. LOSS BEFORE TAX FROM CONTINUING OPERATIONS

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

	For the six months ended 30 June	
	2016 (Unaudited) HK\$'000	2015 (Unaudited) (Restated) HK\$'000
Cost of hotel service	75,212	91,674
Depreciation of property, plant and equipment	21,346	26,168
Amortisation of intangible assets	35	34
Minimum lease payments under operating leases:		
– land and buildings	796	888
Foreign exchange differences, net	60	(1,428)
Bank interest income	(387)	(792)
Employee benefit expense (excluding directors' remuneration)	1,925	1,857

7. INCOME TAX CREDIT/(EXPENSE)

The major components of income tax expense for the six months ended 30 June 2016 and 2015 are as follows:

	For the six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	HK\$'000	(Restated) HK\$'000
Current income tax		
Europe	42	28
Deferred income tax	(828)	2,523
	<hr/>	<hr/>
Income tax (credit)/expenses for the period	(786)	2,551
	<hr/>	<hr/>

Hong Kong profits tax should be provided at the rate of 16.5% (for the six months ended 30 June 2015: 16.5%) of the estimated assessable profits arising in Hong Kong during the Period. No provision for Hong Kong profits tax has been made in the interim condensed consolidated financial statements, as the Group does not have any assessable profit arising in Hong Kong.

The provision for Mainland China current income tax should be based on the statutory rate of 25% (for the six months ended 30 June 2015: 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 in the interim condensed consolidated financial statements, as the Group does not have any assessable profit arising in Mainland China.

The provision of French current income tax is based on the rate of 33.33% (six months ended 30 June 2015: 33.33%) of the estimated assessable profits arising during the Period.

The provision of Luxembourg's current income tax is based on the rate of 29.22% (six months ended 30 June 2015: 29.22%) of the estimated assessable profits arising during the Period.

8. DISCONTINUED OPERATIONS

(a) Disposal of steel manufacturing and trading segment

On 4 January 2016, the board of the Company (the “Board”) passed a resolution to dispose of the entire issued share capital of Fame Risen Development Limited (“Fame Risen”) and a shareholder’s loan owing by Fame Risen to the Company (“Shareholder’s Loan from Fame Risen”) (collectively referred to as the “Disposal of Fame Risen”) to Intelligent Wealth Limited (“Intelligent Wealth”). Intelligent Wealth is considered a related company to the Company as it is wholly owned by Mr. Du Shuang Hua, a shareholder who is deemed to be interested in approximately 5.54% of the issued share capital of the Company.

Fame Risen was the foreign joint venture partner of the associated companies and held:

- (i) a 30% equity interest in 日照型钢有限公司 (Rizhao Medium Section Mill Co., Ltd.), which is principally engaged in the manufacturing and sale of wire rod, medium size wide and heavy plate, section steel and related products, including H-beams which are widely used in the construction, infrastructure, aeronautics and ship-building industries;
- (ii) a 30% equity interest in 日照钢铁有限公司 (Rizhao Steel Co., Ltd.), which is principally engaged in the manufacturing and sale of common carbon steel, low alloy steel and other steel billet; and
- (iii) a 25% equity interest in 日照钢铁轧钢有限公司 (Rizhao Steel Wire Co., Limited), which is principally engaged in the manufacturing and sale of high-end metal parts, rod and wire materials for construction, strips and related products, including deformed steel bar, round steel bars and steel rolls.

As at 31 December 2015, the discussion and negotiation for the disposal were in progress and Fame Risen has been classified as a disposal group held for sale and as discontinued operations.

On 4 January 2016, the Company entered into an agreement regarding the Disposal of Fame Risen. A circular containing information on the Disposal of Fame Risen was despatched to the shareholders on 25 February 2016. A special general meeting of the Company was convened on 14 March 2016 and the relevant resolution approving the Disposal of Fame Risen was passed by the shareholders at the meeting.

8. DISCONTINUED OPERATIONS (Continued)**(a) Disposal of steel manufacturing and trading segment** (Continued)

The disposal of Fame Risen was completed on 15 April 2016. The results of discontinued operations for the Period are presented below:

	For the six months ended 30 June	
	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Other income and gains	–	672
Administrative expenses	(2)	(118)
Share of losses of associates	(44,456)	(25,690)
Loss before tax from the discontinued operations	(44,458)	(25,136)
Income tax credit	2,135	1,285
Loss from the discontinued operations	(42,323)	(23,851)
Gain on disposal (note 21)	42,709	–
Reclassification of translation reserve from other comprehensive income to the consolidated statement of profit or loss upon disposal of a subsidiary	155,523	–
Reclassification of other reserve to profit or loss upon disposal of a subsidiary	13,050	–
Profit/(loss) from the discontinued operations	168,959	(23,851)
Attributable to: Owners of the Company	168,959	(23,851)

8. DISCONTINUED OPERATIONS (Continued)

(a) Disposal of steel manufacturing and trading segment (Continued)

The net cash flows incurred by Fame Risen are as follows:

	For the six months ended 30 June	
	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Net cash outflows from operating activities	(2)	–

Earnings/(loss) per share for the above mentioned discontinued operations are stated below:

	For the six months ended 30 June	
	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Basic and diluted from the discontinued operations	HK\$1.32 cents	HK\$(0.19) cents

The calculation of basic earnings/(loss) per share from the discontinued operations is based on:

	For the six months ended 30 June	
	2016 (Unaudited)	2015 (Unaudited)
Profit/(loss) (HK\$'000)		
Profit/(loss) attributable to ordinary equity holders of the Company from the discontinued operations	168,959	(23,851)
Number of shares ('000)		
Weighted average number of ordinary shares in issue during the period used in the basic earnings/(loss) per share calculation (note 10)	12,778,880	12,778,880

8. DISCONTINUED OPERATIONS (Continued)

(b) Disposal of heat energy supply segment

On 27 May 2015, the Company entered into an agreement to dispose of the entire issued capital of Spread International Group Limited (“Spread International”) and its subsidiaries (collectively as the “Disposal Group”) and a shareholder’s loan owing by the Disposal Group to the Group (the “Shareholder’s Loan”) to a third party (the “Disposal”).

Spread International holds 100% equity interests in Achieve (China) Limited (“Achieve”). Spread International and Achieve acted solely as an investment holding company. Achieve holds 49% equity interests in Tianjin Heating Development Company Limited (“Tianjin Heating”). The disposal of the Disposal Group was completed on 28 October 2015. Upon completion of the Disposal, the Group ceased to hold any interest in the Disposal Group and Spread International ceased to be a subsidiary of the Company.

Tianjin Heating and its subsidiaries are engaged in the production and supply of heat energy, installation, engineering and maintenance of heating systems and management of heating pipes, covering a vast area of heat energy supply within the municipality of Tianjin.

The results of the Disposal Group for the Period are presented below:

	For the six months ended 30 June	
	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Revenue	–	174,070
Cost of sales and expenses	–	(183,810)
Share of loss of an associate	–	(4)
	<hr/>	<hr/>
Operating loss	–	(9,744)
Finance costs	–	–
	<hr/>	<hr/>
Loss before tax from the discontinued operations	–	(9,744)
Income tax credit	–	452
	<hr/>	<hr/>
Loss from the discontinued operations	–	(9,292)
	<hr/>	<hr/>
Attributable to:		
Owners of the Company	–	(4,877)
Non-controlling interests	–	(4,415)
	<hr/>	<hr/>
	–	(9,292)
	<hr/>	<hr/>

8. DISCONTINUED OPERATIONS (Continued)**(b) Disposal of heat energy supply segment** (Continued)

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

	For the six months ended 30 June	
	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Operating activities	–	(78,790)
Investing activities	–	(23,238)
Financing activities	–	(631)
	<hr/>	<hr/>
Net cash outflow	–	(102,659)

Loss per share for the above mentioned discontinued operations is stated below:

	For the six months ended 30 June	
	2016 (Unaudited)	2015 (Unaudited)
Basic and diluted from the discontinued operations	–	HK\$(0.04) cents
	<hr/>	<hr/>

The calculation of basic and diluted loss per share from the discontinued operations is based on:

	For the six months ended 30 June	
	2016 (Unaudited)	2015 (Unaudited)
Loss (HK\$'000)		
Loss attributable to ordinary equity holders of the Company from discontinued operations	–	(4,877)
	<hr/>	<hr/>
Number of shares ('000)		
Weighted average number of ordinary shares in issue during the period used in the basic and diluted loss per share calculation	–	12,778,880
	<hr/>	<hr/>

9. DIVIDENDS

The Directors do not recommend the payment of any dividend in respect of the Period (for the six months ended 30 June 2015: Nil).

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

The calculation of the basic earnings/(loss) per share amount is based on the profit/(loss) for the period attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 12,778,880,000 (for the six months ended 30 June 2015: 12,778,880,000) in issue during the Period.

The calculations of basic earnings/(loss) per share amounts are based on:

	For the six months ended 30 June	
	2016 (Unaudited)	2015 (Unaudited) (Restated)
Profit/(loss) (HK\$'000)		
Profit/(loss) attributable to ordinary equity holders of the Company, used in basic and diluted earnings/(loss) per share calculation		
From continuing operations	(38,897)	(40,826)
From discontinued operations	168,959	(28,728)
	130,062	(69,554)
Number of shares ('000)		
Weighted average number of ordinary shares in issue during the period used in the basic earnings/(loss) per share calculation	12,778,880	12,778,880

The Group had no potentially dilutive ordinary shares in issue during those periods.

11. PROPERTY, PLANT AND EQUIPMENT

During the Period, the Group acquired items of property, plant and equipment with a cost of HK\$2,429,000 (six months ended 30 June 2015: HK\$2,470,000). Depreciation for items of property, plant and equipment was HK\$21,346,000 during the Period (six months ended 30 June 2015: HK\$26,168,000).

No significant property, plant and equipment were disposed of for the six months ended 30 June 2015 and 2016.

At 30 June 2016, certain of the Group's hotel properties with a net carrying amount of approximately HK\$3,359,784,000 (31 December 2015: approximately HK\$3,325,675,000) were pledged to secure general banking facilities granted to the Group (note 17).

12. OTHER INTANGIBLE ASSETS

During the period, the Group did not acquire other intangible assets (six months ended 30 June 2015: Nil). Amortisation for other intangible assets were HK\$35,000 during the Period (six months ended 30 June 2015: HK\$34,000).

No other intangible asset was disposed of for the six months ended on 30 June 2015 and 2016.

13. TRADE RECEIVABLES

	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
Trade receivables	15,783	10,954

Trade receivables are non-interest-bearing.

For travel agents and certain corporate customers, the credit period is generally one month. Trade receivables are non-interest-bearing. Hotel operation revenue is normally settled by cash or credit card.

13. TRADE RECEIVABLES (Continued)

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

	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
Within 1 month	10,174	6,820
1 to 3 months	5,609	4,087
Over 3 months	–	47
	<u>15,783</u>	<u>10,954</u>

No impairment allowance is necessary in respect of trade receivables because there has not been a significant change in credit quality and the balances are still considered fully recoverable.

14. PLEDGED DEPOSITS

	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
Pledged deposits	<u>20,441</u>	<u>20,080</u>

As at 30 June 2016 and 31 December 2015, the pledged deposits represent the time deposits pledged to secure repayment of interests arising from interest-bearing bank borrowings.

15. TRADE PAYABLES

	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
Trade payables	<u>21,528</u>	<u>14,104</u>

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. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

The carrying amount of trade payables approximates to their fair value.

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

	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
Within 1 month	21,525	14,104
1 to 3 months	<u>3</u>	<u>–</u>
	<u>21,528</u>	<u>14,104</u>

16. OTHER PAYABLES AND ACCRUALS

	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
Other payables	16,520	14,853
Accruals	6,831	12,471
Other tax payables	9,653	5,258
	33,004	32,582

Other payables have no significant balances with ageing over one year.

17. INTEREST-BEARING BANK BORROWINGS

On 13 October 2014, the Group borrowed EUR175,000,000 loans from Societe Generale Corporate & Investment Banking which will be repaid on 14 October 2019 bearing interest at three months EURIBOR plus 2.2%. The loans were pledged by the Group's hotel property situated in France, which had an aggregate carrying value of HK\$2,841,392,000 as at 30 June 2016 (31 December 2015: HK\$2,805,923,000).

On 27 March 2014, the Group borrowed HK\$170,000,000 loans from The Hong Kong and Shanghai Banking Corporation Limited with interest rate of one month HIBOR plus 2.36% which will be repayable by 71 equal monthly instalments of HK\$1,000,000, commencing one month after drawdown plus a final instalment of HK\$99,000,000. The Group had repaid HK\$6,000,000 for the six months ended 30 June 2016 (six months ended 30 June 2015: HK\$6,000,000). The loans were pledged by the Group's hotel property situated in Hong Kong, which had an aggregate carrying value of HK\$518,392,000 as at 30 June 2016 (31 December 2015: HK\$519,752,000).

18. DEFERRED TAX

The components of deferred tax assets and liabilities are as follows:

	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
Deferred tax assets:		
Depreciation in excess of related depreciation allowance	4,858	5,062
Cash flow hedges	14,336	8,972
Losses available for offsetting against future taxable profits-France	32,585	31,276
	51,779	45,310

	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
Deferred tax liabilities:		
Fair value adjustments from acquisition of subsidiaries	370,546	365,905
Others	7,367	6,602
	377,913	372,507

For presentation purposes, certain deferred tax assets and liabilities have been offset in the consolidated statement of financial position.

	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
Deferred tax assets recognised in the consolidated statement of financial position	44,412	38,708
Net deferred tax liabilities recognised in the consolidated statement of financial position	370,546	365,905

19. ISSUED CAPITAL

	Number of shares		Share capital	
	30 June 2016 '000	31 December 2015 '000	30 June 2016 HK\$'000	31 December 2015 HK\$'000
Ordinary shares of HK\$0.10 each				
Authorised	20,000,000	20,000,000	2,000,000	2,000,000
Issued and fully paid	12,778,880	12,778,880	1,277,888	1,277,888

20. SHARE OPTION SCHEME

Pursuant to a resolution passed on 17 May 2012 (the “Effective Date”), the Company adopted a new share option scheme (the “2012 Option Scheme”), which is for the purpose of providing incentives or rewards to eligible participants for their contributions to the Group and/or to enable the Group to recruit and retain high calibre employees and attract human resources that are valuable to the Group and any entity in which the Group holds an equity interest. Under the 2012 Option Scheme, the board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

Pursuant to the 2012 Option Scheme, the maximum number of shares which may be issued upon exercise of all outstanding options granted and not yet exercised under the 2012 Option Scheme and any other share option schemes of the Company shall not exceed 30% of the share in issue from time to time. The subscription price for shares in respect of any options granted under the 2012 Option Scheme will be a price determined by the board of the directors of the Company, in its absolute discretion, but in any case will not be lower than the higher of (i) the closing price of the shares as stated in the Stock Exchange’s daily quotation sheet on the date of offer, which must be a trading day; (ii) the average closing price of the shares as stated in the Stock Exchange’s daily quotation sheets for the five trading days immediately preceding the date of grant; and (iii) the nominal value of a share on the date of grant, provided that for the purpose of calculating the subscription price, where the shares have been listed on the Stock Exchange for less than five trading days, the new issue price shall be used as the closing price for any trading day falling within the period before such listing. Upon acceptance of the option, the grantee shall pay HK\$1.00 to the Company by way of consideration for the grant.

No eligible participant shall be granted an option if the total number of shares of the Company issued and to be issued upon exercise of the options granted and to be granted (including both exercised and outstanding options) in any 12-month period up to the date of the proposed grant to such eligible participant would exceed 1% of the shares of the Company for the time being in issue unless the proposed grant has been approved by the shareholders of the Company in general meeting with the proposed eligible participant and his associates abstaining from voting.

20. SHARE OPTION SCHEME (Continued)

An option may be exercised in accordance with the terms of the 2012 Option Scheme at any time during a period as the Board may in its absolute discretion determine which shall not be more than ten years from the date of grant of the option and subject to the provisions of early termination thereof and the Board may provide restrictions on the exercise of an option.

Up to the date of this report, the Company has not granted any share options under the 2012 Option Scheme.

21. DISPOSAL OF A SUBSIDIARY

As detailed in note 8, the Group disposed of Fame Risen during the Period.

	For the six months ended 30 June 2016 HK\$'000 (Unaudited)
Net assets disposed of:	
Investment in an associate	2,169,620
Cash and cash equivalents	1,707
Deferred tax liabilities	(16,233)
Amount due to the Group	<u>(27,536)</u>
	2,127,558
Consideration	2,383,148
Less: Disposal related expenses	(8,784)
Mainland China taxation regarding the Disposal of Fame Risen	(176,561)
Disposal of the Shareholder's Loan from Fame Risen	(27,536)
	<u>2,170,267</u>
Net proceeds received	2,170,267
Gain on the Disposal of Fame Risen	<u>42,709</u>

21. DISPOSAL OF A SUBSIDIARY (Continued)

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

	For the six months ended 30 June 2016 HK\$'000 (Unaudited)
Consideration	2,383,148
Disposal related expenses paid	(8,784)
Income tax paid	(176,561)
Set-off against the outstanding loan of the Group due to a related company	(1,854,308)
Set-off against the outstanding loan interest of the Group due to a related company	(41,619)
Cash and bank balances disposed of	(1,707)
	<hr/>
Net inflows of cash and cash equivalents in respect of the disposal of a subsidiary	300,169

22. CAPITAL COMMITMENTS

At the end of each reporting period, the Group did not have any significant capital commitments.

23. RELATED PARTY TRANSACTIONS AND BALANCES

(a) Related party transactions

Other than the disposal of a subsidiary to a related party in note 8(a) and note 21 in the interim condensed consolidated financial statements, the Group entered into the following transactions with related parties during the Period:

	For the six months ended 30 June	
	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Continuing operations:		
Interest expense to Most Honour Limited (i)	21,350	37,292
Discontinued operations:		
Purchase of coal from Tianjin Jinre Logistics Company Limited ("Tianjin Jinre logistics") (ii)(a)	–	40,944
Purchase of raw materials from Tianjin Jinbin Heat Supply Company Limited ("Tianjin Jinbin") (ii)(a)	–	13,966
Heat energy supply service conducted by Tianjin Jinbin on behalf of the Group (ii)(b)		
– Revenue	–	43,168
– Cost of sales	–	31,572
Management fee to a non-controlling shareholder of a subsidiary of the Group (ii)(c)	–	12,941

- (i) The amount is generated from a loan from Most Honour Limited, a company wholly-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. The loan was denominated in US dollars with an amount of US\$239,265,600 (equivalent to approximately HK\$1,854,308,000), which is secured by the shares of Crown Value Limited, bears interest at 4% per annum. As mentioned in note 21, the loan was set-off against consideration upon disposal of steel manufacturing and trading segment.
- (ii) Due to the disposal of heat energy supply segment on 28 October 2015 as mentioned in note 8(b), there is no such transactions during the Period.
- (a) The purchases from Tianjin Jinre logistics and Tianjin Jinbin were made according to the published prices and conditions offered by them to their major customers.
- (b) The heat energy supply service is according to an agreement entered into between Tianjin Jinbin and Tianjin Meijiang Heating Company Ltd. on 1 September 2014 and 2013.
- (c) The management fee agreement was based on a certain percentage of heating supply income which was in accordance with a management fee agreement.

23. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)**(b) Compensation of key management personnel of the Group**

The remuneration of key management personnel during the Period was as follows:

	For the six months ended 30 June	
	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Short term employee benefits	3,980	4,380
Post-employment benefits	26	27
	<hr/>	<hr/>
Total compensation paid to key management personnel	4,006	4,407
	<hr/>	<hr/>

Having due regard to the substance of the relationships, the directors of the Company are of the opinion that meaningful information relating to related party disclosures has been adequately disclosed.

(c) Related party balances

	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
Amounts due to a related company		
Most Honour Limited	–	20,537
	<hr/>	<hr/>
Loan from a related company		
Most Honour Limited	–	1,854,308
	<hr/>	<hr/>

Management believes that no further impairment allowance is necessary in respect of the amounts due from related companies and associates because there has not been a significant change in credit quality and the balances are still considered full receivable.

24. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of reporting period are as follows:

30 June 2016

Financial assets

	Loans and receivables (Unaudited) HK\$'000
Trade receivables	15,783
Financial assets included in prepayments, deposits and other receivables	4,183
Pledged deposits	20,441
Cash and cash equivalents	<u>621,205</u>
	<u>661,612</u>

Financial liabilities

	Derivatives designated as hedge instruments in hedge relationship (Unaudited) HK\$'000	Financial liabilities at amortised cost (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Trade payables	–	21,528	21,528
Derivative financial instruments	43,009	–	43,009
Financial liabilities included in other payables and accruals	–	16,520	16,520
Interest-bearing bank borrowings	–	1,611,370	1,611,370
	<u>43,009</u>	<u>1,649,418</u>	<u>1,692,427</u>

24. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

31 December 2015

Financial assets

	Loans and receivables (Audited) HK\$'000
Trade receivables	10,954
Financial assets included in other receivables and prepayments	13,491
Pledged deposits	20,080
Cash and cash equivalents	<u>329,389</u>
	<u>373,914</u>

Financial liabilities

	Derivatives designated as hedge instruments in hedge relationship (Audited) HK\$'000	Financial liabilities at amortised cost (Audited) HK\$'000	Total (Audited) HK\$'000
Trade payables	–	14,104	14,104
Derivative financial instruments	26,915	–	26,915
Financial liabilities included in other payables and accruals	–	14,853	14,853
Amounts due to a related company	–	20,537	20,537
Interest-bearing bank borrowings	–	1,593,201	1,593,201
Loan from a related company	–	1,854,308	1,854,308
	<u>26,915</u>	<u>3,497,003</u>	<u>3,523,918</u>

25. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's and the Company's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
Financial liabilities				
Derivative financial instruments	43,009	26,915	43,009	26,915

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade receivables, trade payables, financial assets included in other receivables and prepayments, financial liabilities included in other payables and accruals, amounts due to a related company, loan from a related company and current portion of interest-bearing bank borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's corporate finance team headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The corporate finance team reports directly to the chief financial officer and the audit committee. At each reporting date, the corporate finance team analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion of interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The fair values have been assessed approximate to their carrying amounts.

The Group enters into derivative financial instruments with creditworthy financial institutions. Derivative financial instruments, mainly interest rate swaps, are measured using valuation techniques similar to swap models, using present value calculations. The models incorporate various market observable inputs including the credit quality of counterparties, and interest rate curves. The carrying amounts of interest rate swaps are the same as their fair values.

25. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

(Continued)

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

As at 30 June 2016

	Fair value measurement using			Total (Unaudited) HK\$'000
	Quoted prices in active markets (Level 1) (Unaudited) HK\$'000	Significant observable inputs (Level 2) (Unaudited) HK\$'000	Significant unobservable inputs (Level 3) (Unaudited) HK\$'000	
Derivative financial instruments	–	43,009	–	43,009

As at 31 December 2015

	Fair value measurement using			Total (Audited) HK\$'000
	Quoted prices in active markets (Level 1) (Audited) HK\$'000	Significant observable inputs (Level 2) (Audited) HK\$'000	Significant unobservable inputs (Level 3) (Audited) HK\$'000	
Derivative financial instruments	–	26,915	–	26,915

The Group did not have any financial assets measured at fair value as at 30 June 2016 and 31 December 2015.

During the Period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (six months ended 30 June 2015: Nil).

26. EVENTS AFTER THE REPORTING PERIOD

As announced by the Company on 27 July 2016, Kai Yuan Capital Limited (“Kai Yuan Capital”), an indirect wholly owned subsidiary of the Company and as lender, entered into the credit facility letter with a borrower (the “Borrower”), pursuant to which Kai Yuan Capital has agreed to provide secured revolving credit facilities in the sum of not exceeding HK\$100 million to the Borrower for a term of 12 months. The interest rate is 6.25 per cent per annum.

27. COMPARATIVE FIGURES

The comparative condensed consolidated statement of profit or loss has been represented as if the discontinued operations had been discontinued at the beginning of the comparative period (note 8).

INTERIM DIVIDENDS

The Board does not recommend the payment of interim dividend in respect of the Period (for the six months ended 30 June 2015: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Overview

For the Period, the hotel operation segment constituted continuing operations of the Group. During the Period, revenue of the continuing operations of the Group amounted to approximately HK\$126.0 million, representing a decrease of approximately 21.7% from approximately HK\$160.8 million for the six months ended 30 June 2015 (the “Comparing Period”). The decrease in revenue during the Period was mainly attributable to continuous acts of terrorism in Europe and softened demand for hotel rooms in Paris, France and Hong Kong, both affecting occupancy and leading to the decline in average room rate. As the result of reduced revenue, gross profit generated from the hotel operation segment declined during the Period. The Group recorded a loss from continuing operations for the Period of approximately HK\$38.9 million, as compared to a loss of approximately HK\$40.8 million for the Comparing Period. The decrease in loss for the Period from continuing operations was mainly attributable to reduction in finance costs after full repayment of the loan from a related company during the Period, but compensated by decrease in gross profit from the hotel operation.

During the Period, the Company disposed of the entire investment in the steel manufacturing and trading segment. Therefore, results of this segment were recorded under discontinued operations. After completion of the Disposal of Fame Risen, the Group recorded a profit for the Period from discontinued operations of approximately HK\$169.0 million, as compared to a loss of approximately HK\$33.1 million* for the Comparing Period.

* The loss from discontinued operations included the results of both the heat energy supply segment and the steel manufacturing and trading segment.

The Group recorded a profit of approximately HK\$130.1 million during the Period, as compared to a loss of approximately HK\$74.0 million for the Comparing Period. Profit attributable to owners of the Company for the Period was approximately HK\$130.1 million, as compared to a loss of approximately HK\$69.6 million for the Comparing Period. The basic and diluted earnings per share of the Company for the Period was HK\$1.02 cents, as compared to the basic and diluted loss per share of HK\$0.54 cents for the Comparing Period.

Hotel Operation

During the Period, the Group recorded revenue of approximately HK\$126.0 million from hotel operation, as compared to the revenue of approximately HK\$160.8 million for the Comparing Period. The decrease in revenue for the Period was mainly attributable to continuous acts of terrorism in Europe and softened demand for hotel rooms in Paris, France and Hong Kong. The Group recorded a loss of approximately HK\$38.9 million from the hotel operation for the Period, as compared to a loss of approximately HK\$40.8 million for the Comparing Period. The decrease in loss from hotel operation during the Period was mainly attributable to reduction in finance costs after full repayment of the loan from a related company during the Period, but compensated by decrease in gross profit from the hotel operation. Assuming interests and taxation were excluded, the Company recorded earnings before interests and taxes (EBIT) of approximately HK\$16.3 million for the Period, as compared to an EBIT of approximately HK\$30.5 million for the Comparing Period.

During the Period, the Paris Marriott Hotel in Paris, France continued to be the principal revenue contributor for the Group, a majority of customers of the hotel were originated from the United States and the Middle East. Subsequent to the terrorists attacks which occurred in Paris in November 2015, the state of emergency was declared in France, and the U.S. Embassy in Paris also released a security message for U.S. citizens about travel to France because of increased terrorist threats, all contributed to deter foreign tourists visiting Paris during the Period. Hotels in Paris had high hopes on hosting of major events such as the 2016 UEFA European Championship to recoup descended occupancy and average room rate. Regrettably, fewer foreign tourists than expected had visited France amid concerns over security and safety during the Period. Furthermore, series of strikes and protests led by labour unions during the Period posed threat to the French economy and had impacted tourism in Paris.

Below is a summary and comparison of operational performance of the Paris Marriott Hotel during the Period against the Comparing Period:

	2016	2015
Occupancy	75.3%	82.8%
Average Room Rate	€401	€475
RevPAR*	€302	€393

* Revenue per available room

Based on Hong Kong’s visitor arrivals statistics of June 2016, the total number of visitor arrivals during the Period declined approximately 7.4% as compared with the same period in 2015. Mainland tourists, which constituted a majority of the total visitor numbers, showed a shrinkage of approximately 10.6% in number of arrivals during the Period. The fall in Mainland visitor arrivals was attributed to a number of reasons, including continued depreciation of regional currencies under strong U.S. dollar environment, and political tension between Hong Kong and Beijing. As the result of softened demand for hotel rooms, room revenue, average room rate and RevPAR* of Butterfly on Waterfront declined for the Period.

Below is a summary and comparison of operational performance of the Butterfly on Waterfront during the Period against the Comparing Period:

	2016	2015
Occupancy	99.5%	98.6%
Average Room Rate	HK\$721	HK\$793
RevPAR*	HK\$717	HK\$781

* Revenue per available room

PROSPECTS

Hotel Operation

Western European countries, in particular France, Germany and Belgium, continued to suffer from waves of terrorist attacks during the Period. The declared state of emergency in France has been prolonged as the result of the truck attack on Bastille Day in Nice, France. The perception that certain Western European cities, such as Paris, are prone to be target of terrorist attack is expected to continue to deter foreign tourists from visiting. Furthermore, Britain’s decision to leave the European Union has led to a fall in exchange rate of the pound sterling, and diverts foreign tourists from visiting Britain. These factors, among others, have caused travelers shifting trips to other countries such as Spain or Portugal, which have not had major terrorist attacks recently. Although it is normal to expect that travel patterns will resume in time after attacks, the Board is uncertain whether the attacks would pose long-term impact on Paris’s tourism or would there be an immediate rebound in performance of the Paris Marriott Hotel in the second half of 2016 to 2015 level. In the meantime, the Group will closely monitor operation of the Paris Marriott Hotel.

Based on news reporting, the number of overall tourists visiting Hong Kong in July 2016 has rebounded, which is attributed by security and safety issues in some European Countries diverting Mainland Tourists back to Hong Kong. Besides, the sharp surge of yen against other currencies in recent months also made Japan less attractive to tourists. The Board expects that the occupancy and average room rate of the Butterfly on Waterfront in the second half of 2016 will be comparable to 2015 level.

Money Lending Business

With reference to the announcement of the Company dated 27 July 2016, the Group entered into a credit facility letter with a borrower (the “Borrower”) that an indirect wholly-owned subsidiary of the Company, holding a money lenders license in Hong Kong, has agreed to provide secured revolving credit facilities in the sum of and not exceeding HK\$100 million (the “Credit Facility”) to the Borrower for a term of 12 months. The Credit Facility is secured by sub-charge(s)/ sub-mortgage(s) of the first legal charges/mortgages of real properties in Hong Kong, and an unconditional continuing irrevocable corporate guarantee to be executed by a guarantor. The Board expects revenue to be contributed from this segment from the second half of 2016 onwards. The Group will remain vigilant and cautious when conducting business and developing this new business segment.

LOOKING AHEAD

The Group will continue to explore investment opportunities and remain dedicated to constantly review, reinforce its existing business segments with a view to enhancing returns to our stakeholders.

Liquidity and Financial Resources

As at 30 June 2016, total assets and net assets of the Group were approximately HK\$4,428.6 million and HK\$2,349.0 million respectively (31 December 2015: approximately HK\$6,327.5 million and HK\$2,367.9 million respectively). The cash and bank balance of the Group as at 30 June 2016 were approximately HK\$621.2 million, and were denominated in Hong Kong dollars, Euro, United States dollars and Renminbi (31 December 2015: approximately HK\$333.1 million). The total current assets of the Group as at 30 June 2016 were approximately HK\$677.5 million (31 December 2015: approximately HK\$2,618.0 million). As at 30 June 2016, the Group had net current assets of approximately HK\$600.5 million (31 December 2015: net current assets approximately HK\$624.0 million).

The Group adopted a conservative treasury approach and had tight controls over its cash management. As at 30 June 2016, the Group had outstanding bank loans and other borrowings amounted to approximately HK\$1,611.4 million¹ (31 December 2015: approximately HK\$3,447.5 million), of which approximately HK\$12.0 million (31 December 2015: approximately HK\$1,866.3 million) were due within one year. As at 30 June 2016, the Group’s gearing ratio (total borrowings/total assets) was at approximately 36.4% (31 December 2015: approximately 54.5%). The Group constantly monitors its cash flows position, maturity profile of borrowings, availability of banking facilities, gearing ratio and interest rate exposure.

Acquisitions and Disposals

During the Period, the Group completed the Disposal of Fame Risen and a shareholder loan at the consideration of approximately HK\$2,383.1 million. Fame Risen was the foreign joint venture partner of the three associates companies established in the PRC that principally engaged in steel manufacturing and trading business in the PRC, the Disposal of Fame Risen constituted a very substantial disposal of the Company.

¹ (i) Approximately HK\$1,468.4 million (equivalent to €175,000,000) at the interest rates of 3 months EURIBOR plus 2.2% per annum; and
(ii) Approximately HK\$143.0 million at the interest rate of 1 month HIBOR plus 2.36% per annum.

Foreign Exchange Exposure

The Group had operations in the France, Luxembourg, PRC and Hong Kong where transactions and cash flows were denominated in the 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 2016, 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 the foreign exchange exposure. The Group would consider employing foreign exchange hedging arrangements when appropriate and necessary.

Contingent Liabilities

As at 30 June 2016, the Group had no significant contingent liabilities.

Pledge on the Group's Assets

As at 30 June 2016, cash deposits amounting to approximately HK\$20.4 million (31 December 2015: approximately HK\$20.1 million) and certain buildings of the Group with a net carrying amount of approximately HK\$3,359.8 million (31 December 2015: approximately HK\$3,325.7 million) were pledged to secure general banking facilities granted to the Group.

Employees and Remuneration

The Group had 10 employees as at 30 June 2016 (31 December 2015: 10), the total employee remuneration during the Period were approximately HK\$5.9 million (31 December 2015: approximately HK\$21.2 million). Remuneration policies were reviewed regularly to ensure that compensation and benefit packages were in line with the market level. In addition to basic remuneration, the Group also provided other employee benefits including bonuses, mandatory provident fund scheme and medical insurance scheme and participation to stock option scheme.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2016, none of the Directors or chief executive of the Company had interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") as recorded in the register required to be kept by the Company pursuant to Section 352 of SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules.

PERSONS HOLDING 5% OR MORE INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 June 2016, the following persons (other than a Director or chief executive of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Ordinary shares of HK\$0.10 each of the Company

Name of shareholders	Capacity	Number of ordinary shares held	Percentage of issued share capital
Mr. Du Shuang Hua	Interest of controlled corporation	708,000,000	5.54%
Happy Sino International Limited ¹	Beneficial interest	708,000,000	5.54%
Mr. Zhang He Yi	Beneficial interest	1,400,000,000	10.96%
Ms. Lu Xiao Mei	Interest of controlled corporation	753,190,000	5.89%
Sincere Profit Group Limited ²	Beneficial interest	753,190,000	5.89%
Ga Leung Investment Company Limited ³	Beneficial interest	1,866,666,666	14.61%
Mr. Sun Yong Feng	Interest of controlled corporation	1,866,666,666	14.61%
	Beneficial interest	133,000,000	1.04%
Ms. Meng Ya ⁴	Interest of spouse	1,999,666,666	15.65%
Mr. Hu Yishi	Beneficial interest	1,300,000,000	10.17%

¹ Mr. Du Shuang Hua and Mr. Zhang He Yi beneficially own 85% and 15% interests respectively in the issued share capital of Happy Sino International Limited. Mr. Du Shuang Hua is deemed to be interested in the 708,000,000 shares held by Happy Sino International Limited under the provisions of the SFO.

² Ms. Lu Xiao Mei beneficially owns 100% interest in the issued share capital of Sincere Profit Group Limited. Ms. Lu Xiao Mei is deemed to be interested in the 753,190,000 shares held by Sincere Profit Group Limited under the provisions of the SFO.

³ Mr. Sun Yong Feng beneficially owns 100% interest in the issued capital of Ga Leung Investment Company Limited. Mr. Sun Yong Feng is deemed to be interested in the 1,866,666,666 shares held by Ga Leung Investment Company Limited under the provisions of the SFO.

⁴ Ms. Meng Ya is the spouse of Mr. Sun Yong Feng. Ms. Meng Ya is deemed to be interested in the 1,999,666,666 shares in which Mr. Sun Yong Feng is interested.

Save as disclosed above, as at 30 June 2016, no person, other than the Directors and chief executive of the Company, whose interests or short positions are set out in the section "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above, had registered any interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to section 336 of the SFO.

SHARE OPTION SCHEME

The Company operates a share option scheme (the “Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Further details of the Scheme are disclosed in note 20 to the interim condensed consolidated financial statements.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the interim period, neither the Company, nor any of its subsidiaries purchased, redeemed or sold 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 the Listing Rules.

The Company had complied with the code provision of the CG Code throughout the six months ended 30 June 2016 with the following deviations:

- A.4.1 Non-executive Directors are not appointed for a specific term. They are, however, subject to retirement by rotation and re-election at the annual general meetings of the Company pursuant to the Company’s Bye-laws. As such, the Company considers that such provisions are sufficient to meet the underlying objectives of the relevant provisions of the CG Code.
- A.4.2 The Chairman is not, whilst holding such office, subject to retirement by rotation or taken into account in determining the number of Directors to retire in each year in accordance with the Company’s Bye-laws. In the opinion of the Board, it is important for the stability and growth of the Company that there is, and is seen to be, continuity of leadership in these roles and, in consequence, the Board is of the view that the chairman should not be subject to retirement by rotation or hold office for a limited term at the present time.
- E.1.2 The Chairman of the Board did not attend the annual general meeting held on 16 May 2016 due to the fact that he had other business commitments. Another executive Director, Mr. Law Wing Chi, Stephen was elected to chair the annual general meeting in accordance with the Company’s Bye-laws.

The Board will keep 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.

After resignation of Mr. Hu Yishi as chairman of the Company with effect from 1 June 2016, no replacement appointment in relation thereto has been made by the Board. Meanwhile, the roles and responsibilities of chairman on governance matters of the Company was shared between the executive Directors. The Company will publish an announcement once an appointment has been made in accordance with the Listing Rule.

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 terms of reference of the Audit Committee has been revised on 29 March 2016 to be in line with the revised CG Code. 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 comprises one executive Director namely Mr. Law Wing Chi, Stephen and three independent non-executive Directors namely Mr. Ng Ge Bun (Chairman), Mr. He Yi and Mr. Tam Sun Wing.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions on terms no less exacting than the required standard of the Model Code. Having made specific enquiries with all Directors, the Company 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 results announcement is published on the websites of the Stock Exchange (www.hkexnews.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.

BOARD OF DIRECTORS

As at the date of this report, the Board comprises of 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).

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

Hong Kong, 29 August 2016