

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



KAI YUAN HOLDINGS LIMITED

開源控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 1215)

VERY SUBSTANTIAL DISPOSAL IN RELATION TO THE DISPOSAL OF THE ENTIRE ISSUED SHARE CAPITAL OF LEADING PROSPECT LIMITED AND ASSIGNMENT OF SHAREHOLDER'S LOAN AND RESUMPTION OF TRADING

THE DISPOSAL

The Board announces that on 13 April 2018 (after trading hours), the Company, the Purchaser and the Purchaser's Guarantor entered into the SPA, pursuant to which the Company has conditionally agreed to sell to the Purchaser, and the Purchaser has conditionally agreed to purchase from the Company, the Sale Shares and the Sale Loan at the Consideration subject to the terms of the SPA. The Sale Shares represent the entire issued share capital of the Target Company, which holds the entire issued share capital of each of A6 Limited, Hotel de EDGE Limited and Hotel de EDGE Management Limited. A6 Limited is the sole registered and beneficial owner of the Property as at the date of this announcement.

Upon Completion, the members of the Target Group will cease to be subsidiaries of the Group and the financial results of the members of the Target Group will no longer be consolidated into the financial statements of the Group.

LISTING RULES IMPLICATIONS

As one of the applicable percentage ratios (as defined under the Listing Rules) set out in Rule 14.07 of the Listing Rules in respect of the Disposal exceed 75%, the Disposal constitutes a very substantial disposal for the Company and is subject to reporting, announcement, circular, and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

The SGM will be convened and held for the Shareholders to consider and, if thought fit, approve the SPA and the transactions contemplated thereunder. To the best of the Directors' knowledge, no Shareholder has a material interest in the Disposal which is different from other Shareholders and accordingly, no Shareholder is required to abstain from voting in respect of the ordinary resolution to approve the Disposal at the SGM.

A circular containing, among other things, information relating to the Disposal and the notice of convening the SGM and other information as required under the Listing Rules is expected to be despatched to the Shareholders on or before 11 May 2018.

RESUMPTION OF TRADING

Trading in the Shares on the Stock Exchange was halted with effect from 9:00 a.m. on 16 April 2018 at the request of the Company pending the publication of this announcement. An application has been made to the Stock Exchange for the resumption of trading in the Shares on the Stock Exchange with effect from 9:00 a.m. on 20 April 2018.

Completion of the Disposal is conditional upon the satisfaction of the Conditions set out in the section headed "The SPA – Conditions precedent" in this announcement, including the approval of the SPA and the transactions contemplated thereunder by the Shareholders at the SGM. Accordingly, the Disposal may or may not proceed. Shareholders and potential investors are therefore advised to exercise caution when dealing in the Shares.

THE DISPOSAL

Reference is made to the announcement of the Company dated 16 March 2018 in relation to the memorandum of understanding relating to the possible disposal of a property of the Company entered into between the Company and the Purchaser.

The Board is pleased to announce that on 13 April 2018 (after trading hours), the Company, the Purchaser and the Purchaser's Guarantor entered into the SPA, pursuant to which the Company has conditionally agreed to sell to the Purchaser, and the Purchaser has conditionally agreed to purchase from the Company, the Sale Shares and the Sale Loan at the Consideration subject to the terms of the SPA. The principal terms of the SPA are set out below.

THE SPA

Date : 13 April 2018

Parties

- (i) The vendor : Kai Yuan Holdings Limited
- (ii) The Purchaser : Ridge Avis Limited
- (iii) The Purchaser's Guarantor : Swift China Limited

As at the date of this announcement, to the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, the Purchaser, the Purchaser's Guarantor and their respective ultimate beneficial owners are third parties independent of the Company and its connected persons.

The Purchaser's Guarantor has agreed to guarantee to the Company the performance by the Purchaser of all its obligations under the SPA.

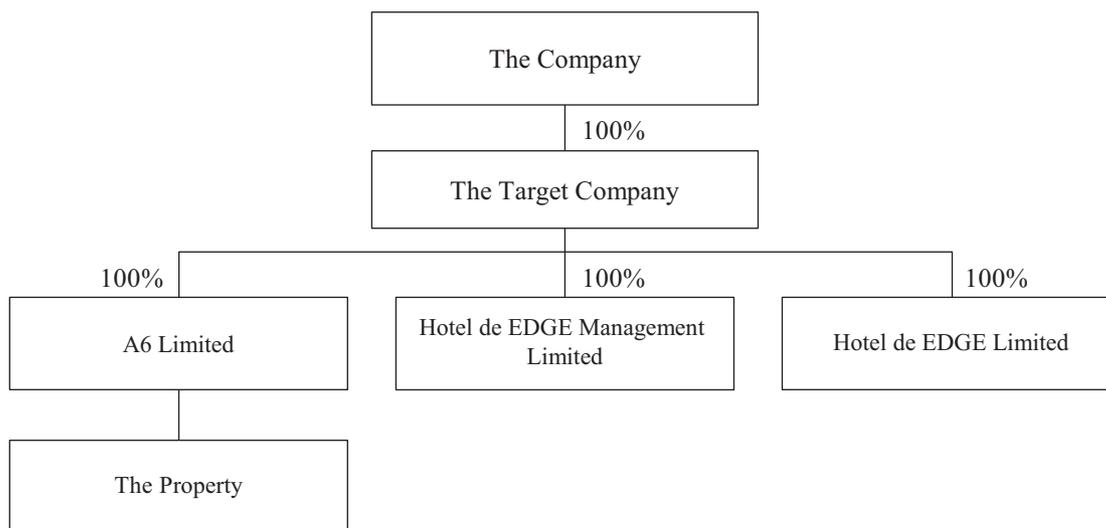
Assets to be disposed of

As at the date of this announcement, the Company holds the Sale Shares, being 100% of the issued share capital of the Target Company. Pursuant to the SPA, the Company has conditionally agreed to sell to the Purchaser, and the Purchaser has conditionally agreed to purchase from the Company, the Sale Shares and the Sale Loan free from all encumbrances at the Consideration subject to the terms of the SPA. As at the date of this announcement, the amount of the Sale Loan is approximately HK\$481,635,000.

As at the date of this announcement, the Target Company holds the entire issued share capital of each of A6 Limited, Hotel de EDGE Management Limited and Hotel de EDGE Limited. A6 Limited is the sole registered and beneficial owner of the Property situated at No. 94 and No. 95 Connaught Road West, Hong Kong, which is currently operated as a hotel known as Butterfly on Waterfront Sheung Wan.

Butterfly on Waterfront Sheung Wan is a boutique hotel situated at Sheung Wan managed by Hotel de EDGE Limited, the Hotel Licence of which is owned by Hotel de EDGE Management Limited.

The following diagram illustrates the shareholding structure of the Target Group as at the date of this announcement:



Consideration

Pursuant to the SPA, the Consideration for the Sale Shares and the Sale Loan shall be the aggregate of (i) the Completion NCA and (ii) HK\$810,000,000 and shall be satisfied in the following manner:

- (a) HK\$81,000,000 shall be paid by the Purchaser by way of a solicitors' cheque to the Company upon signing of the SPA (the "**Deposit**");
- (b) HK\$738,469,495, being the aggregate of HK\$729,000,000 and the amount equal to the Pre-Completion NCA shall be paid by the Purchaser to the Company at Completion;
- (c) the amount equal to the difference between the Completion NCA and the Pre-Completion NCA (if the Completion NCA is more than the Pre-Completion NCA) shall be paid by the Purchaser to the Company within five (5) Business Days after the issue of the Completion Accounts; and
- (d) the amount equal to the difference between the Pre-Completion NCA and the Completion NCA (if the Pre-Completion NCA is more than the Completion NCA) shall be paid by the Company to the Purchaser within five (5) Business Days after the issue of the Completion Accounts.

As at the date of this announcement, the Purchaser has paid the Company the Deposit in accordance with the SPA.

The Consideration was determined after arm's length negotiations between the Group and the Purchaser with reference to, among others, (i) prevailing market prices of similar properties in the relevant location; (ii) the historical acquisition cost of approximately HK\$488,000,000 of the Property paid by the Group against a substantial unaudited gain before taxation of HK\$336,684,000 from the Disposal; and (iii) the total assets and liabilities of the Target Group. Assuming that the Pre-Completion NCA is equal to Completion NCA, the Consideration comprises the consideration for the Sale Shares being HK\$337,834,057 and the consideration for the Sale Loan being HK\$481,635,438. Based on the management accounts of the Target Company, the amount of the Pre-Completion NCA was HK\$9,469,495 as at 31 March 2018. The Directors consider that the Consideration is fair and reasonable and in the interest of the Company and its Shareholders as a whole.

The adjusted net asset value as at 31 December 2017 of the Target Group is as follows:

	As at 31 December 2017 HK\$'000
Hotel property at market value (valuation as at 31 March 2018)	511,600
Deferred tax assets	4,272
Inventories	68
Accounts receivable	1,188
Prepayment, deposits and other receivables	566
Bank balances and Cash	7,331
Accounts payable	(364)
Other payables and accruals	(1,553)
Receipt in advance	(26)
Tax Payable	(373)
Deferred tax liabilities	(56,146)
	<hr/>
Net asset value	<u>466,563</u>

Assuming that the Pre-Completion NCA is equal to Completion NCA, the Consideration of HK\$819,469,495 represents:

- (a) a premium of approximately 75.64% over the adjusted net asset value as at 31 December 2017 of the Target Group of approximately HK\$466,563,000; and
- (b) a premium of approximately 60.18% over the market value of the Property of approximately HK\$511,600,000 as at 31 March 2018.

In light of the large premium, the Company considers the Disposal to be a good exit opportunity.

Conditions precedent

Completion shall be subject to and conditional upon the following:

- (a) the passing by the Shareholders of the Company of such resolution(s) approving the SPA and the transactions contemplated hereunder as may be required by and in accordance with the Listing Rules;
- (b) the Property being free from all encumbrances; and
- (c) the Company being the sole legal and beneficial owner of the Sale Shares and the Sale Loan, in each case free from all encumbrances.

If any of the Conditions has not been fulfilled (or, waived by the Purchaser in writing) on or before the Completion Date, the SPA shall terminate in accordance with the SPA. The Purchaser may in its absolute discretion at any time waive in writing any of the Conditions or any part thereof on such terms as it may decide except the Condition set out in paragraph (a) above.

Completion

Completion shall take place on the Completion Date. At Completion, the Company, the Purchaser and the Target Company will execute the Sale Loan Assignment pursuant to which the Company will transfer and assign the Sale Loan to the Purchaser.

Upon Completion, the Company shall cease to hold any interest in the Target Group and the members of the Target Group will cease to be the subsidiaries of the Group.

INFORMATION ON THE TARGET GROUP AND THE PROPERTY

The Target Group comprises the Target Company and its three directly wholly-owned subsidiaries, namely A6 Limited, Hotel de EDGE Management Limited and Hotel de EDGE Limited. The Target Company is an investment holding company.

A6 Limited, a company incorporated in Hong Kong with limited liability, is the sole registered and beneficial owner of the Property.

The principal activity of Hotel de EDGE Limited, a company incorporated in Hong Kong with limited liability, is operation of the Hotel.

Hotel de EDGE Management Limited, a company incorporated in Hong Kong with limited liability, owns the Hotel Licence.

The Property was preliminarily valued as at 31 March 2018 at HK\$511.6 million by an independent property valuer. The value of the Property was valued by the market approach assuming the sale of the Property in its existing state with the benefit of immediate vacant possession and by making reference to comparable sales transactions as available in the relevant market.

The following is a summary of the unaudited consolidated financial information of the Target Group for the two years ended 31 December 2016 and 2017 respectively (prepared in accordance with Hong Kong Financial Reporting Standards):

	For the year ended	
	31 December	
	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	26,431	28,961
Net profit (before taxation)	1,776	2,929
Net profit (after taxation)	1,259	2,406

The unaudited consolidated net liabilities of the Target Group as at 31 March 2018 was approximately HK\$9,287,000. The unaudited Pre-Completion NCA as at 31 March 2018 was approximately HK\$9,469,000.

FINANCIAL EFFECT OF THE DISPOSAL

Assuming that the Pre-Completion NCA is equal to Completion NCA, based on the Consideration less (i) the carrying value of the Property of approximately HK\$515,322,000 as at 31 December 2017; (ii) the net amount of the other assets and liabilities (ie. not including the carrying amount of the Property and the Sale Loan) of the Target Group of approximately HK\$(45,037,000) as at 31 December 2017 and (iii) the related expenses of approximately HK\$12,500,000, it is expected that, upon Completion, for illustrative purpose, a substantial unaudited gain before taxation of approximately HK\$336,684,000 will be recognised from the Disposal.

The actual gain or loss arising from the Disposal shall be determined based on the net asset value of the Target Group and the amount of the Sale Loan as at the date of Completion, and also the amount of expenses actually incurred incidental to the Disposal which may be different from the above.

The above calculation and accounting treatment are subject to review by the auditors of the Group. The actual financial impact to the Group arising from the Disposal to be recorded in the Group's consolidated accounts will be recalculated based on the net asset value of the Target Group as at the date to which Completion Accounts are drawn up.

Upon Completion, (i) the members of the Target Group will cease to be subsidiaries of the Group; (ii) the Company will no longer be interested in the Property; and (iii) and the financial results of the members of the Target Group will no longer be consolidated into the financial statements of the Group.

USE OF PROCEEDS FROM THE DISPOSAL

The net proceeds from the Disposal (after deducting the expenses directly related to the Disposal) are estimated to be approximately HK\$806,969,495. The Group intends to apply the net proceeds from the Disposal for the following:

- (a) approximately HK\$96 million (HK\$ equivalent of approximately 10 million Euro dollars) will be applied to the renovation of the Paris Marriott Hotel (the final amount of which is to be determined upon completion of the hotel mockup rooms pilot project at the hotel);
- (b) approximately HK\$100 million to HK\$150 million will be used as making mortgage loans for the Group's money lending business;

- (c) approximately HK\$50 million will be used for general working capital of the Group; and
- (d) the remaining net proceeds will be used for possible investment opportunities such as in real estate sector (i.e. investment in hotel) and mineral sector as they may arise in the future.

Following the Disposal, the Group will have one remaining hotel, the Paris Marriott Hotel. During 2017, the Paris Marriott Hotel had adopted adaptive and dynamic hotel room rates pricing strategy to attract bookings. The hotel had also successfully secured hotel rooms bookings from corporate customers. All these actions had contributed to increased occupancy of the hotel and hence an increase in the revenue of the hotel operation. The Group intends to renovate and modernise the hotel in the future.

Upon Completion, the Group will continue to be principally engaged in hotel operation and the money lending business. The Group does not have current intention to dispose of the Paris Marriot Hotel nor scale down its existing business. The shareholding structure of the Group will remain unchanged. The Group will continue to conduct its existing business while it is exploring new investment opportunities with a view to maximising the return to its Shareholders. Nevertheless, the Group has no intention to change its principal business of hotel operation.

The Group has identified certain potential investment opportunities in relation to the mineral business and real estate business (i.e. investment in hotel). The opportunities identified are still in preliminary stage and the Group is in the process of reviewing these possible investment opportunities. As at the date hereof, the Group has not entered into any agreement, arrangement, understanding, intention nor negotiation in relation to those possible investment opportunities. The Group may or may not proceed with those possible investment opportunities. The Company will make announcements as and when appropriate in compliance with the requirements of the Listing Rules.

REASONS AND BENEFITS OF THE DISPOSAL

The Company is an investment holding company principally engaged in operation of hotels. The Company is also engaged in money lending business through its subsidiaries.

A6 Limited holds the Group's interests in the Property situated at No. 94 and No. 95 Connaught Road West, Hong Kong. A6 Limited is the registered owner of the Property. As disclosed in the announcement of the Company dated 16 December 2013, the Group entered into an agreement in relation to the acquisition of the Property at an aggregate consideration of HK\$488 million. The said acquisition was completed in December 2013.

Taking into consideration of the proceeds from the Disposal and the estimated unaudited capital gain from the Disposal, the Board considers that the Disposal provides an optimal opportunity for the Company to realize cash and unlock the value of its investment in the Property at fair market value. Following Completion of the Disposal, the Group expects to record in its consolidated income statement an estimated unaudited capital gain of approximately HK\$336,684,000 and to realise a cash amount of approximately HK\$807,000,000 for its future reinvestment. In light of the above, the Directors consider that the terms of the SPA and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

INFORMATION RELATING TO THE PURCHASER AND THE PURCHASER'S GUARANTOR

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, (i) the Purchaser is incorporated in the British Virgin Islands with limited liability; (ii) the Purchaser is investment holding company; and (iii) the Purchaser's Guarantor is an Affiliate of the Purchaser and a property holding company.

The Purchaser's Guarantor is Swift China Limited and is a property holding company. Dr. Leong Siu Hung, Edwin is the ultimate beneficial owner of the Purchaser and the Purchaser's Guarantor.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, none of the Purchaser and Purchaser's Guarantor have any existing or prior relationship or arrangement (business or otherwise) with the Company or its connected persons.

LISTING RULES IMPLICATIONS

As one of the applicable percentage ratios (as defined under the Listing Rules) set out in Rule 14.07 of the Listing Rules in respect of the Disposal exceed 75%, the Disposal constitutes a very substantial disposal for the Company and is subject to reporting, announcement, circular, and Shareholders' approval requirement under Chapter 14 of the Listing Rules.

The SGM will be convened and held for the Shareholders to consider and, if thought fit, approve the SPA and the transactions contemplated thereunder. To the best of the Directors' knowledge, no Shareholder has a material interest in the Disposal which is different from other Shareholders and accordingly, no Shareholder is required to abstain from voting in respect of the ordinary resolution to approve the Disposal at the SGM.

A circular containing, among other things, information relating to the Disposal and the notice of convening the SGM and other information as required under the Listing Rules is expected to be despatched to the Shareholders on or before 11 May 2018.

RESUMPTION OF TRADING

Trading in the shares of the Company on the Stock Exchange was halted with effect from 9:00 a.m. on 16 April 2018 at the request of the Company pending the publication of this announcement. An application has been made to the Stock Exchange for the resumption of trading in the shares of the Company on the Stock Exchange with effect from 9:00 a.m. on 20 April 2018.

Completion of the Disposal is conditional upon the satisfaction of the conditions set out in the section headed "The SPA – Conditions precedent" in this announcement, including the approval of the SPA and the transactions contemplated thereunder by the Shareholders at the SGM. Accordingly, the Disposal may or may not proceed. Shareholders and potential investors are therefore advised to exercise caution when dealing in the Shares.

DEFINITIONS

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

“Affiliate”	in relation to any person or entity, any corporation, company, partnership, association or other business entity (i) that is controlled by such person or entity, (ii) that controls such person or entity; or (iii) that is under common control with such person or entity;
“Board”	the board of Directors;
“Business Day(s)”	a day (other than a Saturday, Sunday and a public holiday) on which banks are open for general banking business in Hong Kong;
“Company”	Kai Yuan Holdings Limited, a company incorporated in Bermuda with limited liability, the issued shares of which are listed and traded on the Main Board of the Stock Exchange (Stock code: 1215);
“Completion”	completion of the Disposal in accordance with the terms of the SPA;
“Completion Accounts”	the consolidated audited balance sheet or statement of financial position of the Target Company as at the Completion Date, the consolidated audited profit and loss accounts of the Target Company for the period commencing from 1 January 2018 and ending on the Completion Date;
“Completion Date”	20 June 2018 or such other date as the Company and the Purchaser may agree in writing;
“Completion NCA”	the audited consolidated net current assets of the Target Company as at the Completion Date as determined in accordance with the SPA;

“Conditions”	the conditions precedent to Completion;
“connected person(s)”	having the meaning ascribed to it under the Listing Rules;
“Consideration”	the aggregate of the Completion NCA and HK\$810,000,000 payable by the Purchaser to the Company in relation to the Disposal subject to the terms and conditions of the SPA;
“Director(s)”	director(s) of the Company;
“Disposal”	the disposal of the Sale Shares and the Sale Loan by the Company to the Purchaser pursuant to the SPA;
“Group”	the Company and its subsidiaries;
“HK\$”	the lawful currency of Hong Kong for the time being;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“Hotel”	Butterfly on Waterfront Sheung Wan, the hotel situated at the Property;
“Hotel Licence”	the licence in respect of the Hotel under the Hotel and Guesthouse Accommodation Ordinance (HAGAO), Chapter 349 of the Laws of Hong Kong;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Pre-Completion NCA”	the unaudited consolidated net current assets of the Target Company as at 31 March 2018 as determined in accordance with the SPA;
“Property”	all that piece or parcel of ground registered at The Land Registry of Hong Kong as Section A of Marine Lot No.401 and The Remaining Portion of Marine Lot No.402 And of and in the buildings and erections thereon now known as No.95 Connaught Road West (formerly known as Nos.94 and 95 Connaught Road West), Hong Kong;

“Purchaser”	Ridge Avis Limited, a company incorporated in the British Virgin Islands with limited liability, an Affiliate of the Purchaser’s Guarantor;
“Purchaser’s Guarantor”	Swift China Limited;
“Sale Loan”	a shareholder’s loan owing by the Target Group to the Company as at the Completion Date;
“Sale Loan Assignment”	a deed of assignment of loan to be executed by the Company, the Purchaser and the Target Company upon Completion, pursuant to which the Company will transfer and assign the Sale Loan to the Purchaser;
“Sale Shares”	100 ordinary shares of US\$100 each in the capital of the Target Company, being all the issued shares of the Target Company;
“SGM”	the special general meeting of the Company to be convened for the purpose of considering and, if thought fit, approve, among other things, the Disposal on the terms and conditions of the SPA and the other transactions contemplated thereunder;
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company;
“Shareholders”	holder(s) of the Share(s);
“SPA”	the agreement relating to the Disposal entered into between the Company, the Purchaser and the Purchaser’s Guarantor on 13 April 2018;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;

“Target Company”	Leading Prospect Limited, a company incorporated in the British Virgin Islands with limited liability and a directly wholly-owned subsidiary of the Company;
“Target Group”	the Target Company, A6 Limited, Hotel de EDGE Limited and Hotel de EDGE Management Limited; and
“%”	per cent.

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

Hong Kong, 19 April 2018

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