KAI YUAN HOLDINGS LIMITED
開源控股有限公司

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

Interim Report 2018

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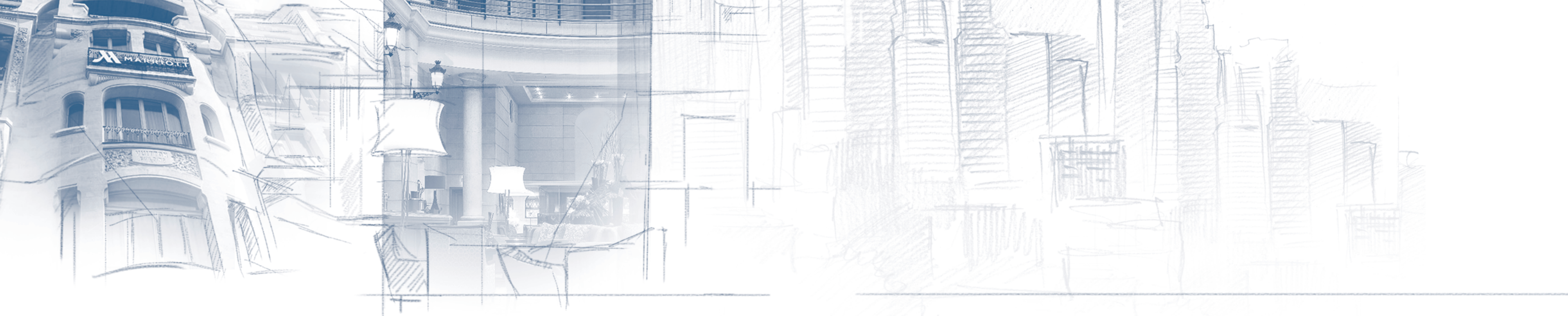

CORPORATE INFORMATION

BOARD OF DIRECTORS (THE "BOARD")

Executive Directors

Dr. Li Zhiqiang *(Chairman)* (appointed on 12 June 2018)
Mr. Xue Jian *(CEO)*
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

PRINCIPAL REGISTRAR

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The Belvedere Building
69 Pitts Bay Road
Pembroke HM08, Bermuda

SHARE REGISTRAR

Tricor Tengis Limited
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183 Queen's Road East
Hong Kong

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

PRINCIPAL OFFICE IN HONG KONG

28th Floor, Chinachem Century Tower
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 BANKER

The Hongkong & Shanghai Banking
Corporation Limited

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

TO THE BOARD OF DIRECTORS OF KAI YUAN HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

Introduction

We have reviewed the interim condensed consolidated financial information set out on pages 4 to 38 which comprises 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 2018 and the related interim condensed consolidated statement of profit or loss, the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing 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 information 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 ("HKICPA").

The directors are responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim condensed consolidated financial information 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 HKICPA. A review of interim condensed consolidated financial information 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 information is not prepared, in all material respects, in accordance with HKAS 34.

Ernst & Young
Certified Public Accountants
Hong Kong

24 August 2018

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

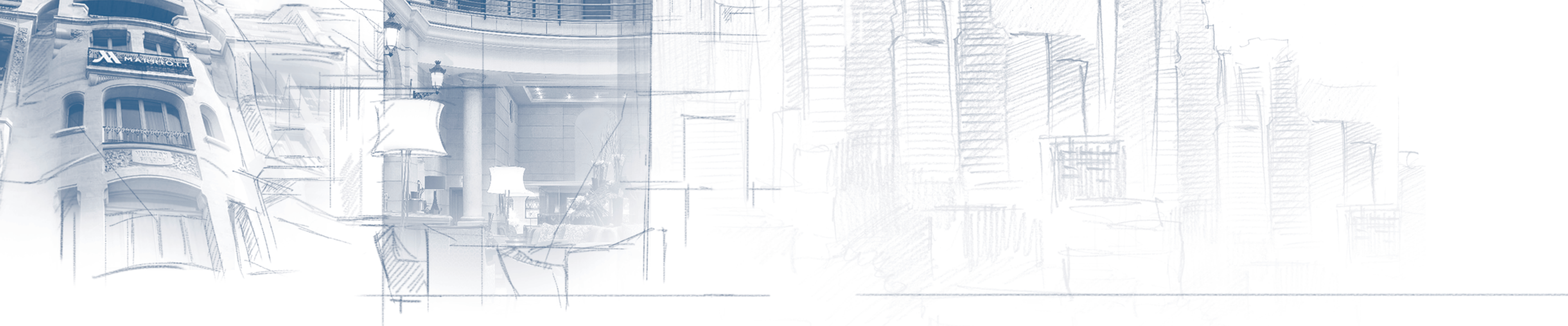
FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Notes	For the six months ended 30 June 2018 (Unaudited) HK$'000	2017 (Unaudited) (Restated) HK$'000
CONTINUING OPERATIONS			
REVENUE	4	**140,072**	116,061
Cost of sales		**(110,426)**	(94,602)
Gross profit		**29,646**	21,459
Other income and gains	4	**7,929**	1,244
Other expenses		**–**	(123)
Administrative expenses		**(19,845)**	(17,242)
Finance costs	5	**(24,911)**	(22,806)
LOSS BEFORE TAX FROM CONTINUING OPERATIONS	6	**(7,181)**	(17,468)
Income tax credit	7	**1,024**	3,282
LOSS FOR THE PERIOD FROM CONTINUING OPERATIONS		**(6,157)**	(14,186)
DISCONTINUED OPERATION			
Profit for the period from a discontinued operation	8	**338,629**	968
PROFIT/(LOSS) FOR THE PERIOD		**332,472**	(13,218)
Attributable to:			
Owners of the Company		**332,472**	(13,218)
Non-controlling interests		**–**	–
		332,472	(13,218)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	10		
Basic and diluted			
– For profit/(loss) for the period		**HK$2.60 cents**	(HK$0.10 cents)
Basic			
– For loss from continuing operations		**(HK$0.05 cents)**	(HK$0.11 cents)
Diluted			
– For loss from continuing operations		**(HK$0.05 cents)**	(HK$0.11 cents)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
		(Restated)
	HK$'000	HK$'000
PROFIT/(LOSS) FOR THE PERIOD	**332,472**	(13,218)
OTHER COMPREHENSIVE (LOSS)/INCOME		
Other comprehensive (loss)/income 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	**(1,835)**	1,526
Reclassification adjustments for loss included in the consolidated statement of profit or loss	**6,951**	6,240
Income tax effect	**(1,586)**	(2,174)
	3,530	5,592
Exchange differences on translation of foreign operations	**(35,036)**	114,316
Net other comprehensive (loss)/income to be reclassified to statement of profit or loss in subsequent periods	**(31,506)**	119,908
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD, NET OF TAX	**(31,506)**	119,908
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**300,966**	106,690
Attributable to:		
Owners of the Company	**300,966**	106,690
Non-controlling interests	**–**	–
	300,966	106,690



INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2018

	Notes	30 June 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	11	**3,000,337**	3,601,397
Intangible assets	12	**500**	583
Deferred tax assets	19	**23,370**	29,688
Total non-current assets		**3,024,207**	3,631,668
CURRENT ASSETS			
Inventories		**953**	1,102
Trade receivables	13	**30,332**	23,523
Loan receivables	14	**160,000**	–
Other receivables and prepayments		**24,877**	23,338
Pledged deposits	15	**23,566**	24,101
Cash and cash equivalents		**1,173,805**	513,396
Total current assets		**1,413,533**	585,460
Total assets		**4,437,740**	4,217,128
CURRENT LIABILITIES			
Trade payables	16	**14,989**	10,198
Other payables and accruals	17	**66,112**	51,964
Receipt in advance		**111**	87
Derivative financial instruments		**10,443**	11,342
Tax payable		**45**	362
Total current liabilities		**91,700**	73,953
NET CURRENT ASSETS		**1,321,833**	511,507
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,346,040**	4,143,175

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Continued)

AS AT 30 JUNE 2018

	Notes	30 June 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,346,040**	4,143,175
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	18	**1,571,843**	1,602,630
Deferred tax liabilities	19	**246,942**	309,707
Derivative financial instruments		**6,290**	10,839
Total non-current liabilities		**1,825,075**	1,923,176
Net assets		**2,520,965**	2,219,999
EQUITY			
Share capital	20	**1,277,888**	1,277,888
Reserves		**1,243,077**	942,111
Total equity		**2,520,965**	2,219,999

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Issued capital HK$'000	Share premium* HK$'000	Share option reserve* HK$'000	Hedging reserve* HK$'000	Translation reserve* HK$'000	(Accumulated losses)/ retained profit* HK$'000	Total equity HK$'000
At 1 January 2018 (Audited)	1,277,888	1,027,637	2,173	(15,424)	(44,898)	(27,377)	2,219,999
Profit for the period	–	–	–	–	–	332,472	332,472
Other comprehensive loss for the period:							
Cash flow hedges, net of tax	–	–	–	3,530	–	–	3,530
Exchange differences on translation of foreign operations	–	–	–	–	(35,036)	–	(35,036)
Total comprehensive income for the period	–	–	–	3,530	(35,036)	332,472	300,966
At 30 June 2018 (Unaudited)	1,277,888	1,027,637	2,173	(11,894)	(79,934)	305,095	2,520,965

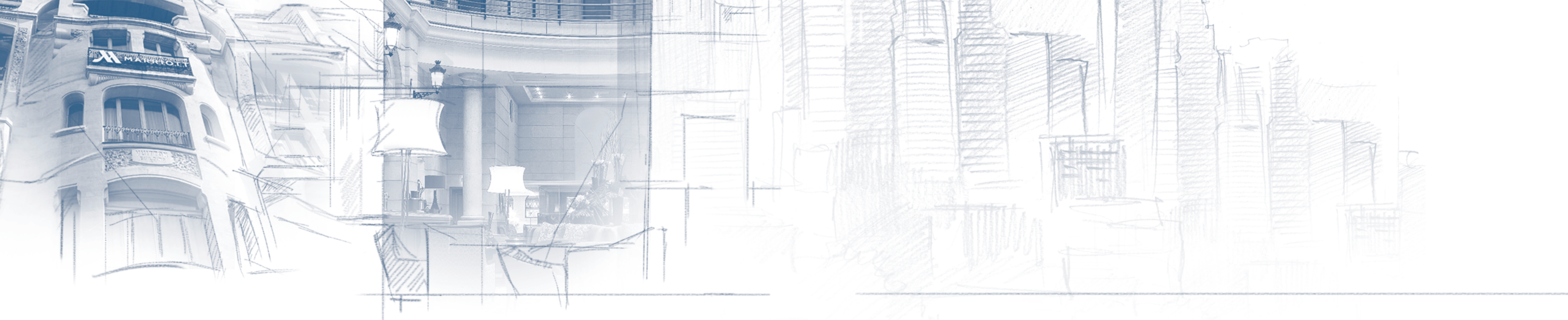
	Issued capital HK$'000	Share premium* HK$'000	Hedging reserve* HK$'000	Translation reserve* HK$'000	Accumulated losses* HK$'000	Total equity HK$'000
At 1 January 2017 (Audited)	1,277,888	1,027,637	(24,350)	(230,362)	(32,057)	2,018,756
Loss for the period	–	–	–	–	(13,218)	(13,218)
Other comprehensive income for the period:						
Cash flow hedges, net of tax	–	–	5,592	–	–	5,592
Exchange differences on translation of foreign operations	–	–	–	114,316	–	114,316
Total comprehensive income for the period	–	–	5,592	114,316	(13,218)	106,690
At 30 June 2017 (Unaudited)	1,277,888	1,027,637	(18,758)	(116,046)	(45,275)	2,125,446

* These reserve accounts comprise the consolidated reserves of HK$1,243,077,000 (31 December 2017: HK$942,111,000) in the interim condensed consolidated statement of financial position.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Notes	For the six months ended 30 June 2018 (Unaudited) HK$'000	2017 (Unaudited) (Restated) HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit before tax:			
From continuing operations		**(7,181)**	(17,468)
From discontinued operation	8	**339,208**	1,204
Adjustments for:			
Finance costs		**24,911**	24,695
Gain on disposal of subsidiaries	22	**(335,570)**	–
Depreciation of property, plant and equipment	11	**23,279**	19,512
Amortisation of intangible assets	12	**72**	32
		44,719	27,975
Decrease in inventories		**92**	11
Increase in trade receivables		**(7,272)**	(7,639)
Increase in loan receivables		**(160,000)**	–
Decrease in other receivables and prepayments		**218**	2,044
Increase in trade payables		**4,791**	6,535
Increase in other payables and accruals		**15,567**	1,868
Increase in receipt in advance		**35**	20
Cash (used in)/generated from operations		**(101,850)**	30,814
Hong Kong profits tax paid		**(496)**	–
Refund of French profits tax prepayment in a previous period		**5**	5,407
Net cash flows (used in)/generated from operating activities		**(102,341)**	36,221



INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Note	For the six months ended 30 June 2018 (Unaudited) HK$'000	 2017 (Unaudited) (Restated) HK$'000
Net cash flows (used in)/generated from operating activities		**(102,341)**	36,221
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment		**(2,160)**	(5,812)
Disposal of items of property, plant and equipment		**–**	39
Disposal of subsidiaries	22	**794,862**	–
Net cash flows generated from/(used in) investing activities		**792,702**	(5,773)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of bank borrowings		**–**	(6,000)
Interest paid		**(25,146)**	(23,644)
Net cash flows used in financing activities		**(25,146)**	(29,644)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**665,215**	804
Cash and cash equivalents at beginning of the period		**513,396**	539,721
Effect of foreign exchange rate changes, net		**(4,806)**	16,805
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		**1,173,805**	557,330
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**1,173,805**	557,330
Cash and cash equivalents as stated in the statement of cash flows		**1,173,805**	557,330

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

1. CORPORATE INFORMATION

The interim condensed consolidated financial information were approved and authorised for issue by the board of directors on 24 August 2018.

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 HM12, Bermuda, and the principal place of business is 28th Floor, Chinachem Century Tower, 178 Gloucester Road, Wanchai, Hong Kong.

The principal activity of the Company is investment holding. Its subsidiaries are principally engaged in hotel operation and money lending during the six months ended 30 June 2018 (the "Period").

2. BASIS OF PRESENTATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES

2.1 Basis of preparation

The unaudited interim condensed consolidated financial information, which comprises the interim condensed consolidated statement of financial position of the Group as at 30 June 2018 and the related interim condensed consolidated statement of profit or loss, the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of cash flows for the six months ended 30 June 2018, 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 of Hong Kong Limited.

The interim condensed consolidated financial information 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 2017.

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

2.2 Changes in accounting policies and disclosures

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2017, except for the adoption of new standards effective as of 1 January 2018 below:

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

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*
Amendments to HKAS 40	*Transfers of Investment Property*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014-2016 Cycle	Amendments to HKFRS 1 and HKAS 28

The Group applies, for the first time, HKFRS 15 *Revenue from Contracts with Customers* and HKFRS 9 *Financial Instruments*. As required by HKAS 34, the nature and effect of these changes are disclosed below.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 supersedes HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

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

2.2 Changes in accounting policies and disclosures (Continued)

HKFRS 15 Revenue from Contracts with Customers (Continued)

The Group adopted HKFRS 15 using the modified retrospective method of adoption. The effect of adopting HKFRS 15 is, as follows:

- The comparative information for each of the primary financial statements would be presented based on the requirements of HKAS 11, HKAS 18 and related interpretations;

- As required by HKAS 34, the Group disaggregated revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. The Group also disclosed information about the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment. Refer to note 4 for the disclosure on disaggregated revenue. Disclosures for the comparative period in the notes would also follow the requirements of HKAS 11, HKAS 18 and related interpretations. As a result, the disclosure of disaggregated revenue in note 4 would not include comparative information.

There is no cumulative catch-up adjustment to the opening balance of retained profits (or other components of equity) as at 1 January 2018 with the modified retrospective method of adoption for the Group. Consequently, the new disclosure requirements on disaggregated revenue and reconciliation from disaggregated revenue to revenue information of each reportable segment for the current period are the only substantial change upon adoption of HKFRS 15.

HKFRS 9 Financial Instruments

HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group has not restated comparative information for 2017 for financial instruments in the scope of HKFRS 9. Therefore, the comparative information for 2017 is reported under HKAS 39 and is not comparable to the information presented for the six months ended 30 June 2018.

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

2.2 Changes in accounting policies and disclosures (Continued)

Changes to classification and measurement

To determine their classification and measurement category, HKFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

The HKAS 39 measurement categories of financial assets, including financial assets at fair value through profit or loss, loans and receivables, available-for-sale financial investments and held-to-maturity investments have been replaced by:

- Debt instruments at amortised cost;
- Debt instruments at fair value through other comprehensive income, with gains or losses recycled to profit or loss on derecognition;
- Equity instruments at fair value through other comprehensive income, with no recycling of gains or losses to profit or loss on derecognition; and
- Financial assets at fair value through profit or loss.

The accounting for financial liabilities remains largely the same as it was under HKAS 39.

As at 1 January 2018, the category of loans and receivables under HKAS 39, including cash and cash equivalents, pledged deposits, trade receivables and financial assets included in other receivables and prepayments were transferred to debt instruments at amortised cost under HKFRS 9.

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

2.2 Changes in accounting policies and disclosures (Continued)

Changes to the impairment calculation

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or lifetime basis. The Group applies the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade receivables. Furthermore, the Group applies the general approach to loan receivables and record twelve-month expected credit losses that are estimated based on the possible default events on its loan within next twelve months. Under the general approach, the Group recognizes a loss allowance based on either twelve-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. The impact of adopting expected credit losses model under HKFRS 9 was not significant.

All other amendments and interpretations applied for the first time in 2018, but do not have an impact on the interim condensed consolidated financial information of the Group.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

3. SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has two reportable operating segments (six months ended 30 June 2017: two) as follows:

(a) the hotel operation segment engaged in operation of hotel business in France;

(b) the money lending segment engaged in providing mortgage loans in Hong Kong.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax from continuing operations. The adjusted profit/loss before tax from continuing operations is measured consistently with the Group's profit before tax from continuing operations except that interest income and corporate and other unallocated expenses are excluded from such measurement.

The hotel operation segment, located in Hong Kong, engaged in operation of hotel business was disposed of on 20 June 2018 and details of which are given in notes 8 and 22.

3. SEGMENT INFORMATION (Continued)

The following tables present revenue and profit information for the Group's operating segments for the six months ended 30 June 2018 and 2017, respectively.

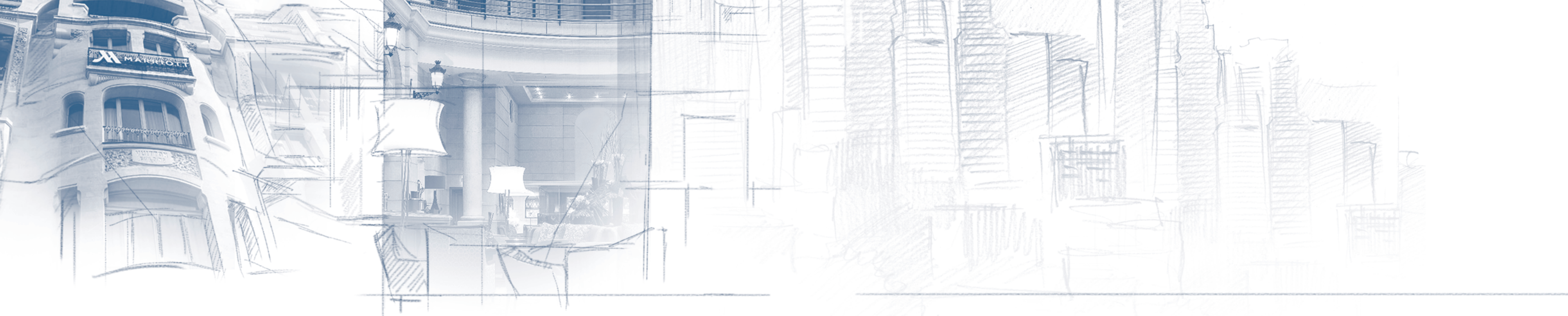
Six months ended 30 June 2018	Hotel operation HK$'000	Money lending HK$'000	Total HK$'000
Revenue			
Sales to external customers and revenue from continuing operations	136,793	3,279	140,072
Results			
Segment (loss)/profit	(2,127)	3,120	993
Reconciliation			
Bank interest income			905
Corporate and other unallocated expenses			(9,079)
Loss before tax from continuing operations			(7,181)

Six months ended 30 June 2017	Hotel operation HK$'000 (Restated)	Money lending HK$'000	Total HK$'000 (Restated)
Revenue			
Sales to external customers and revenue from continuing operations	113,870	2,191	116,061
Results			
Segment (loss)/profit	(11,432)	1,946	(9,486)
Reconciliation			
Bank interest income			945
Corporate and other unallocated expenses			(8,927)
Loss before tax from continuing operations			(17,468)

4. REVENUE, OTHER INCOME AND GAINS

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

	For the six months ended 30 June	
	2018 (Unaudited) HK$'000	2017 (Unaudited) (Restated) HK$'000
Revenue		
Rendering of services	136,793	113,870
Interest income	3,279	2,191
	140,072	116,061
Other income		
Bank interest income	905	945
Gains		
Foreign exchange gains	5	–
Business interruption compensation	5,960	–
Others	1,059	299
	7,024	299
	7,929	1,244



4. REVENUE, OTHER INCOME AND GAINS (Continued)

With the adoption of HKFRS 15 from 1 January 2018, the disaggregation of the Group's revenue from contracts with customers, including rendering of services above, for the six months ended 30 June 2018 is as follows:

	For the six months ended 30 June 2018 HK$'000
Type of services	
Rendering of accommodation services	**109,374**
Rendering of catering services	**25,644**
Rendering of laundry services	**1,167**
Rendering of travel agency services	**608**
Total revenue from contracts with customers	**136,793**
Geographical market	
France and total revenue from contracts with customers	**136,793**
Timing of revenue recognition	
Services transferred over time and total revenue from contracts with customers	**136,793**

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

5. FINANCE COSTS

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
		(Restated)
	HK$'000	HK$'000
Interest on bank borrowings	**17,960**	16,566
Fair value losses, net:		
Cash flow hedges (transfer from other comprehensive income)	**6,951**	6,240
	24,911	22,806

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	
	2018	2017
	(Unaudited)	(Unaudited)
		(Restated)
	HK$'000	HK$'000
Cost of hotel service	**88,644**	76,828
Depreciation of property, plant and equipment	**21,782**	17,774
Amortisation of intangible assets	**72**	32
Minimum lease payments under operating leases:		
Land and buildings	**856**	714
Foreign exchange differences, net	**(5)**	123
Bank interest income	**(905)**	(945)
Employee benefit expenses (excluding directors' remuneration)	**1,286**	1,340

7. INCOME TAX CREDIT

The major components of income tax credit for the six months ended 30 June 2018 and 2017 are as follows:

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Current income tax		
Europe	**60**	71
Deferred income tax	**(1,084)**	(3,353)
Income tax credit for the Period	**(1,024)**	(3,282)

Hong Kong profits tax should be provided at the rate of 16.5% (six months ended 30 June 2017: 16.5%) of the estimated assessable profits arising in Hong Kong during the Period. No provision for Hong Kong profits tax has been made, as the Group does not have any assessable profit from continuing operations arising in Hong Kong.

The provision for Mainland China current income tax should be based on the statutory rate of 25% (six months ended 30 June 2017: 25%) of the assessable profits of the Group's subsidiaries in Mainland China as determined in accordance with the relevant income tax rules and regulations of the PRC Corporate Income Tax Law, which came into effect on 1 January 2008. No provision for Mainland China current income tax has been made as the Group does not have any assessable profit arising in Mainland China.

7. INCOME TAX CREDIT (Continued)

The provision of French current income tax was based on the rate of 28% for the estimated assessable profits within EUR500,000 (inclusive) and 33.33% for that above EUR500,000 (six months ended 30 June 2017: 33.33%) of the estimated assessable profits arising during the Period. The following tax rates are effective from 1 January 2018 in France:

For year 2018	28% for the estimated assessable profits within EUR500,000 (inclusive) and 33.33% for that above EUR500,000
For year 2019	28% for the estimated assessable profits within EUR500,000 (inclusive) and 31% for that above EUR500,000
For year 2020	28%
For year 2021	26.5%
For year 2022 and afterwards	25%

The provision of Luxembourg's current income tax is based on the rate of 29.22% (six months ended 30 June 2017: 29.22%) of the estimated assessable profits arising during the Period.

8. DISCONTINUED OPERATION

On 13 April 2018, the Company entered into an agreement to dispose of the entire issued shares of Leading Prospect Limited (the "Target") and a shareholder's loan owing by the Target and its subsidiaries (the "Target Group") to the Company (the "shareholder's Loan") to a third party, Ridge Avis Limited (collectively referred to as the "Disposal").

The Target Group is engaged in operation of hotel business in Hong Kong. Particulars of the Target Group are as follows:

Name of subsidiary	Legal form of business	Place of incorporation or registration/ place of operation	Issued and fully paid-up share/ registered capital	Percentage of issued share/registered capital attributable to the Company before the Disposal		Principal activities
				Direct %	Indirect %	
Leading Prospect Limited	Corporation	British Virgin Islands	US$100	100	–	Investment holding
A6 Limited	Corporation	Hong Kong	HK$10,000	–	100	Owner of hotel property
Hotel de EDGE Limited	Corporation	Hong Kong	HK$100	–	100	Hotel operation
Hotel de EDGE Management Limited	Corporation	Hong Kong	HK$100	–	100	Hotel licence owner

8. DISCONTINUED OPERATION (Continued)

The Disposal was completed on 20 June 2018. The results of a discontinued operation for the Period are presented below:

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
REVENUE	**14,159**	12,983
Cost of sales	**(6,866)**	(6,340)
Gross profit	**7,293**	6,643
Administrative expenses	**(3,655)**	(3,550)
Finance costs	**–**	(1,889)
Profit before tax from a discontinued operation	**3,638**	1,204
Income tax expense	**(579)**	(236)
Profit after tax from a discontinued operation	**3,059**	968
Gain on disposal of subsidiaries (note 22)	**335,570**	–
Profit for the Period from a discontinued operation	**338,629**	968

8. DISCONTINUED OPERATION (Continued)

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

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Operating activities	**4,704**	5,417
Investing activities	**(236)**	3,826
Financing activities	**–**	(7,889)
Net cash outflows	**4,468**	1,354

Earnings per share amounts for the abovementioned discontinued operation are stated below:

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
Basic and diluted from the discontinued operation	**HK$2.65 cents**	HK$0.01 cents

The calculation of basic and diluted earnings per share from the discontinued operation are based on profit attributable to ordinary equity holders of the parent from the discontinued operation and weighted average number of ordinary shares of 12,778,880,000 (six months ended 30 June 2017: 12,778,880,000) in issue during the Period. The share option scheme in note 21 gives rise to an anti-dilutive effect, which has been ignored in the calculation of diluted earnings per share from the discontinued operation.

9. DIVIDENDS

The directors of the Company do not recommend the payment of any dividend in respect of the Period (six months ended 30 June 2017: 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 (six months ended 30 June 2017: 12,778,880,000) in issue during the Period.

The calculation of basic and diluted earnings/(loss) per share amounts are based on:

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
		(Restated)
Profit/(loss) (HK$'000)		
Profit/(loss) attributable to ordinary equity holders of the Company, used in the basic and diluted earnings/(loss) per share calculation		
From continuing operations	**(6,157)**	(14,186)
From a discontinued operation	**338,629**	968
	332,472	(13,218)
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
Effect of dilution-weighted average number of ordinary shares		
Share options	**144,780**	–
	12,923,660	12,778,880

The share option scheme in note 21 gives rise to an anti-dilutive effect on diluted earnings per share for profit for the six months ended 30 June 2018, which has been ignored in calculation. Meanwhile, those share options result in dilutive effect on diluted losses per share for loss from continuing operations for the six months ended 30 June 2018, which has been included in calculation.

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2018, the Group acquired items of property, plant and equipment with a cost of HK$2,160,000 (six months ended 30 June 2017: HK$5,812,000). Depreciation for items of property, plant and equipment was HK$23,279,000 during the Period (six months ended 30 June 2017: HK$19,512,000).

The Disposal led to a decrease of HK$514,061,000 of property, plant and equipment during the six months ended 30 June 2018 (six months ended 30 June 2017: Nil), which is detailed in note 22.

At 30 June 2018, a hotel property of the Group with a net carrying amount of approximately HK$2,956,347,000 (31 December 2017: approximately HK$3,040,597,000) was pledged to secure general banking facilities granted to the Group (note 18).

12. INTANGIBLE ASSETS

During the Period, the Group did not acquire intangible assets (six months ended 30 June 2017: Nil). Amortisation for intangible assets were HK$72,000 during the Period (six months ended 30 June 2017: HK$32,000).

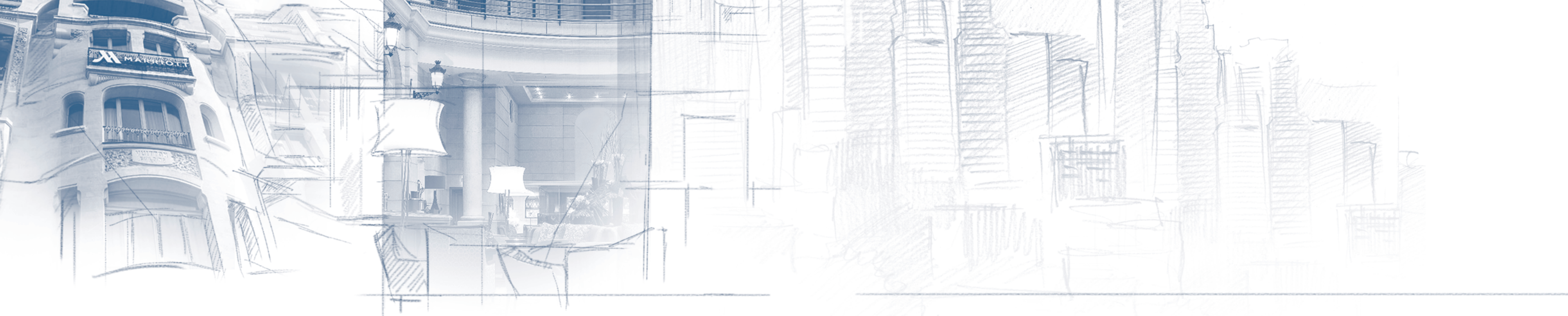
No intangible asset was disposed of for the six months ended 30 June 2018 and 2017 respectively.

13. TRADE RECEIVABLES

	30 June 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000
Trade receivables	**30,332**	23,523

Trade receivables are non-interest-bearing.

For travel agents and certain corporate customers, the credit period is generally one month.



13. TRADE RECEIVABLES (Continued)

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

	30 June 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000
Within 1 month	**18,932**	16,937
1 to 3 months	**11,349**	6,534
Over 3 months	**51**	52
	30,332	23,523

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 considered fully recoverable.

14. LOAN RECEIVABLES

	30 June 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000
Loan receivables	**160,000**	–

The Group's loan receivables, which arise from the money lending business of providing mortgage loans in Hong Kong, are denominated in Hong Kong dollars.

Loan receivables are secured by collaterals providing by customers, bear interest and are repayable within fixed terms agreed with the customers.

As at 30 June 2018, loan receivables were neither past due or impaired.

15. PLEDGED DEPOSITS

	30 June 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000
Pledged deposits	**23,566**	24,101

As at 30 June 2018 and 31 December 2017, the pledged deposits represent the time deposits pledged to secure repayment of interests arising from interest-bearing bank borrowings.

16. TRADE PAYABLES

The trade payables are non-interest-bearing and are normally settled on 30-day terms. The trade payables have no significant balances with ageing over one year based on the invoice date. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

17. OTHER PAYABLES AND ACCRUALS

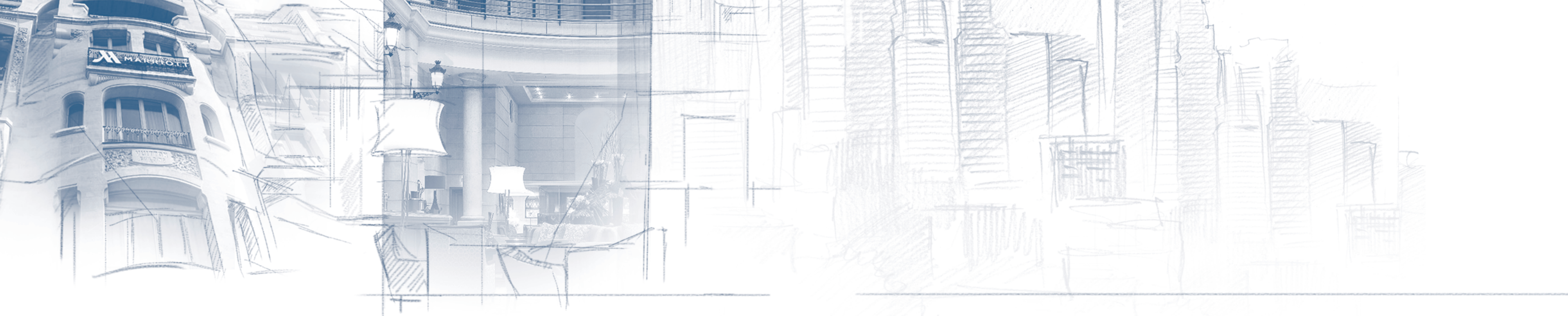
	30 June 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000
Other payables	**25,522**	14,022
Other tax payables	**20,726**	19,604
Accruals	**11,548**	9,787
Interest payable	**8,316**	8,551
	66,112	51,964

18. 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$2,956,347,000 as at 30 June 2018 (31 December 2017: HK$3,040,597,000).

At 30 June 2018 and 31 December 2017, the Group had an interest rate swap agreement in place with a notional amount of EUR175,000,000 whereby it received interest at a variable rate equal to EURIBOR on the notional amount and paid interest at a fixed rate of 0.516%.

The swap is designated as a hedging instrument to hedge the exposure to changes in future cash outflows of interests arising from its 5-year secured loan. The secured loan and the interest rate swap agreement have the same critical terms.



19. DEFERRED TAX

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

	30 June 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000
Deferred tax assets:		
Depreciation in excess of related depreciation allowance	–	4,273
Cash flow hedges	5,187	6,875
Losses available for offsetting against future taxable profits-France	22,633	24,595
	27,820	35,743

	30 June 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000
Deferred tax liabilities:		
Fair value adjustments from acquisition of subsidiaries	246,942	309,707
Others	4,450	6,055
	251,392	315,762

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

	30 June 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000
Deferred tax assets recognised in the consolidated statement of financial position	23,370	29,688
Net deferred tax liabilities recognised in the consolidated statement of financial position	246,942	309,707

20. ISSUED CAPITAL

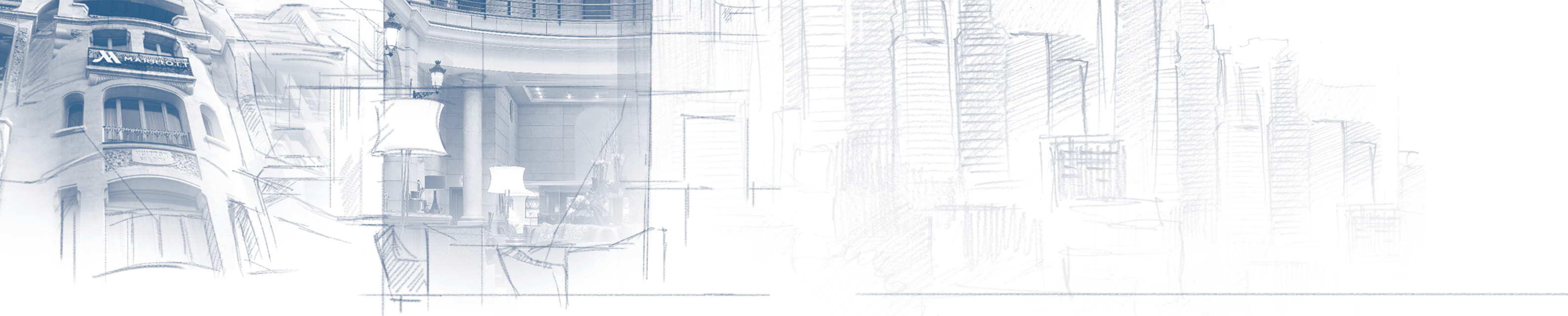
	Number of shares		Share capital	
	30 June 2018 ’000	31 December 2017 ’000	**30 June 2018 HK$’000**	31 December 2017 HK$’000
Ordinary shares of HK$0.10 each				
Authorised	**20,000,000**	20,000,000	**2,000,000**	2,000,000
Issued and fully paid	**12,778,880**	12,778,880	**1,277,888**	1,277,888

21. 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 highest 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 of 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 a general meeting with the proposed eligible participant and his associates abstaining from voting.



21. 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 10 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.

As at 30 June 2018, the exercise prices and exercise periods of share options outstanding are as follows:

Grantees	At 1 January 2018	Granted during the Period	Exercised during the Period	Cancelled/ Lapsed during the Period	Outstanding as at 30 June 2018	Exercise price per share (subject to anti-dilutive adjustment)	Closing price per share before the date on which the options were granted
	'000	'000	'000	'000	'000	HK$	HK$
Directors							
Mr. Xue Jian	127,780	-	-	-	127,780	0.100	0.047
Mr. Law Wing Chi, Stephen	10,000	-	-	-	10,000	0.100	0.047
Employees							
Other employees	8,000	-	-	1,000	7,000	0.100	0.047
Exercisable at the end of the Period	145,780	-	-	-	144,780		
Weighted average exercise price per share (HK$)					0.1		

21. SHARE OPTION SCHEME (Continued)

The exercise price and exercise period of the share options outstanding as at the end of the reporting period were as follows:

2018

Number of options '000	Exercise price* HK$ per share	Exercise period
144,780	**0.1**	**15 December 2017 to 16 May 2022**

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

The fair value of equity-settled share options granted was estimated as at the date of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the scheme:

Expected volatility (%)	63.55
Risk-free interest rate (%)	1.53
Exercise multiple – Directors	3.34
Exercise multiple – Other employees	2.86
Weighted average share price (HK$ per share)	0.1

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

At the end of the Period, the Company had 144,780,000 share options outstanding under the Scheme.

21. SHARE OPTION SCHEME (Continued)

The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 144,780,000 additional ordinary shares of the Company, additional share capital of HK$14,478,000 and share premium of HK$2,158,000 transferred from the share option reserve to share premium.

At the date of approval of these financial statements, the Company had 144,780,000 share options outstanding under the 2012 Option Scheme, which represented 1.13% of the Company's shares in issue.

As at 30 June 2018 and 31 December 2017, the exercise prices and exercise periods of the share options outstanding are as follows:

30 June 2018

Grantees	**Number of options '000**	**Exercise price per share HK$**	**Exercise period**
Directors of the Company	137,780	0.100	15 December 2017 to 16 May 2022
Other employees	7,000	0.100	15 December 2017 to 16 May 2022
	144,780		

31 December 2017

Grantees	Number of options '000	Exercise price per share HK$	Exercise period
Directors of the Company	137,780	0.100	15 December 2017 to 16 May 2022
Other employees	8,000	0.100	15 December 2017 to 16 May 2022
	145,780		

The Group did not recognise share-based payment expenses for the period because there was no new share options granted during the Period and all expenses related to share options granted previously had been recognised by the end of 2017 (six months ended 30 June 2017: Nil).

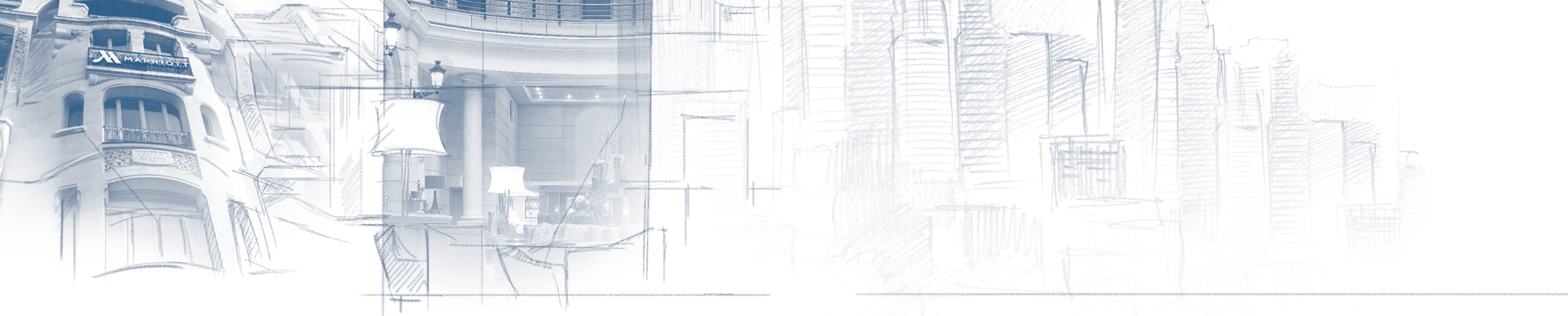
22. DISPOSAL OF SUBSIDIARIES

The net liabilities disposed of and gain on disposal of subsidiaries in relation to the Disposal detailed in note 8 are as follows:

	20 June 2018 HK$'000
Net liabilities disposed of:	
Property, plant and equipment	514,061
Deferred tax assets	4,147
Inventories	57
Trade receivables	463
Other receivables and prepayments	597
Cash and cash equivalents	11,799
Other payables and accruals	(1,184)
Receipt in advance	(11)
Deferred tax liabilities	(56,586)
Amount due to the Group	(481,635)
	(8,292)
Gain on disposal of subsidiaries	335,570
	327,278
Satisfied by	
Cash	821,721
Less: directly attributable expenses	(12,808)
Less: disposal of Shareholder's loan from the Target Group	(481,635)
	327,278

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

	For the six months ended 30 June 2018 HK$'000
Cash consideration	821,721
Cash consideration to be received	(2,252)
Directly attributable expenses	(12,808)
Cash and cash equivalents disposed of	(11,799)
Net inflows of cash and cash equivalents in respect of the disposal of subsidiaries	794,862



23. CAPITAL COMMITMENTS

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

24. RELATED PARTY TRANSACTIONS AND BALANCES

(a) Related party transactions

The Group had no material transactions with related parties for the period ended 30 June 2018 (six months ended 30 June 2017: Nil).

(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	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Short term employee benefits	**1,980**	1,980
Post-employment benefits	**18**	18
Total compensation paid to key management personnel	**1,998**	1,998

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.

25. 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 2018

Financial assets

	Debt instruments at amortised cost (Unaudited) HK$'000
Trade receivables	30,332
Loan receivables	160,000
Financial assets included in other receivables and prepayments	4,543
Pledged deposits	23,566
Cash and cash equivalents	1,173,805
	1,392,246

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	–	14,989	14,989
Derivative financial instruments	16,733	–	16,733
Financial liabilities included in other payables and accruals	–	33,837	33,837
Interest-bearing bank borrowings	–	1,571,843	1,571,843
	16,733	1,620,669	1,637,402

25. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

31 December 2017

Financial assets

	Loans and receivables (Audited) HK$'000
Trade receivables	23,523
Financial assets included in other receivables and prepayments	2,733
Pledged deposits	24,101
Cash and cash equivalents	513,396
	563,753

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	–	10,198	10,198
Derivative financial instruments	22,181	–	22,181
Financial liabilities included in other payables and accruals	–	22,573	22,573
Interest-bearing bank borrowings	–	1,602,630	1,602,630
	22,181	1,635,401	1,657,582

26. 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 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000	**30 June 2018 (Unaudited) HK$'000**	31 December 2017 (Audited) HK$'000
Financial liabilities				
Derivative financial instruments	**16,733**	22,181	**16,733**	22,181

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, loan receivables, trade receivables, financial assets included in other receivables and prepayments, trade payables, financial liabilities included in other payables and accruals and the 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 due to their floating interest rates.

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.

26. 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 2018

	Fair value measurement using			
	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$'000	Total (Unaudited) HK$'000
Derivative financial instruments	–	16,733	–	16,733

As at 31 December 2017

	Fair value measurement using			
	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$'000	Total (Audited) HK$'000
Derivative financial instruments	–	22,181	–	22,181

The Group did not have any financial assets measured at fair value as at 30 June 2018 and 31 December 2017.

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 2017: Nil).

27. EVENTS AFTER THE REPORTING PERIOD

To the date of approval of the financial information, no material subsequent event requiring disclosure occurred.

28. COMPARATIVE AMOUNTS

The comparative interim condensed consolidated statement of profit or loss has been restated as if the operation discontinued during the current period 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 (six months ended 30 June 2017: Nil).

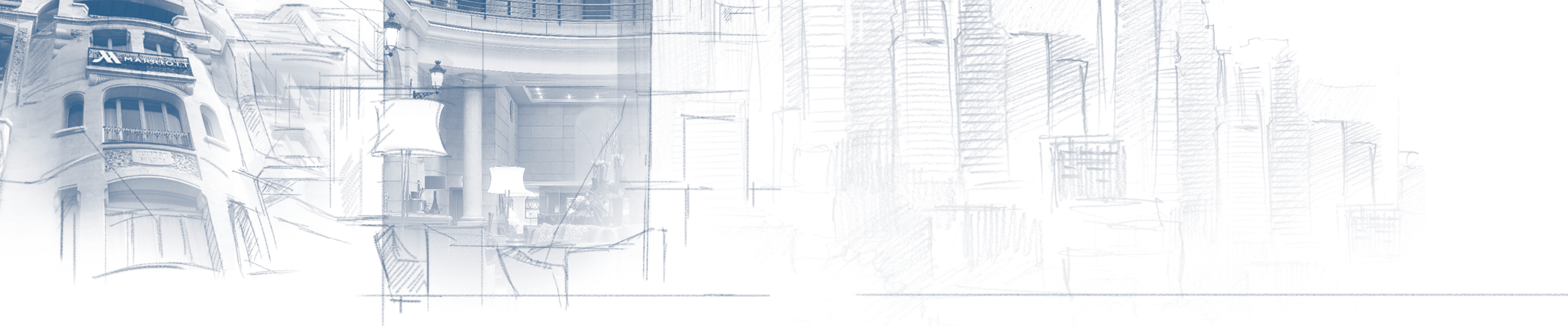
MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Overview

During the Period, revenue of the Group from continuing operations amounted to approximately HK$140.1 million, representing an increase of approximately 20.7% from approximately HK$116.1 million for the six months ended 30 June 2017 (the "Comparing Period"). The increase in revenue from continuing operations during the Period was mainly attributable to increase in revenue contributed by the Paris Marriott Champs Elysées Hotel ("Paris Marriott Hotel") of the hotel operation segment, as well as the increase in loan interest income from the money lending segment. The Group recorded a loss for the Period from continuing operations of approximately HK$6.2 million, as compared to a loss of approximately HK$14.2 million for the Comparing Period. The Group recorded a profit for the Period of approximately HK$332.5 million, as compared to a loss of approximately HK$13.2 million for the Comparing Period. The turnaround from loss to profit for the Period was mainly attributable to the gain on disposal of approximately HK$335.6 million from the disposal of the entire issued share capital of Leading Prospect Limited as well as its subsidiary companies (the "Disposal Group") and an assignment of shareholders' loan completed during the Period (the "Disposal"). The Disposal Group owned a property in Hong Kong and engaged in hotel operation business. Profit attributable to owners of the Company for the Period was approximately HK$332.5 million, as compared to a loss of approximately HK$13.2 million for the Comparing Period. The basic and diluted earnings per share of the Company for the Period was HK$2.60 cents, as compared to the basic and diluted loss per share of HK$0.10 cents for the Comparing Period.

Total assets of the Group as at 30 June 2018 amounted to approximately HK$4,437.7 million, representing an increase of approximately 5.2% from approximately HK$4,217.1 million as at 31 December 2017. The increase in total assets of the Group was mainly attributable to increase in cash and cash equivalents as the result of receipt of considerations from the Disposal. Total liabilities of the Group as at 30 June 2018 amounted to approximately HK$1,916.8 million, representing a decrease of approximately 4.0% from approximately HK$1,997.1 million as at 31 December 2017. The decrease in total liabilities of the Group was mainly attributable to decrease in interest-bearing bank borrowings balance of bank loan drawn in France, as the result of depreciation of Euro against Hong Kong dollar.



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

Hotel Operation

The Group recorded revenue of approximately HK$136.8 million from the hotel operation segment, as compared to a revenue of approximately HK$113.9 million for the Comparing Period. The increase in revenue of the hotel operation segment for the Period was mainly attributable to increase in revenue contributed by the Paris Marriott Hotel. The Group recorded a loss of approximately HK$2.1 million in this segment for the Period, as compared to the loss of approximately HK$11.4 million for the Comparing Period. The decrease in loss was mainly attributable to improved hotel room occupancy and average room rate of the Paris Marriott Hotel.

Paris

As the fear of terror faded, Paris resumed as the in-demand destinations for international tourists. During the Period, Paris enjoyed the benefit from continued surge in tourist arrivals, leading to increase in demand for overall hotel rooms. The sustained influx of tourists had also boosted demand of hotel rooms at the Paris Marriott Hotel, leading to prominent increase in occupancy and average room rate of the hotel. Below is a comparison of the operational performance of the Paris Marriott Hotel during the Period against the Comparing Period:

	2018	2017
Occupancy	**84.1%**	79.5%
Average Room Rate	**€405**	€392
RevPAR*	**€341**	€311

* Revenue per available room

Hong Kong

With reference to the Hong Kong Tourism Board, the total number of visitors arrivals to Hong Kong amounted to 30.6 million during the Period, representing a year-on-year growth of 10.1% as compared to the Comparing Period. The sustained stream of visitors from the Mainland China continued as constituent growth contributor. The sustained improvement from inbound tourism to Hong Kong drove up overall hotel occupancy and room rates. The Group completed Disposal of the Disposal Group on 20 June 2018 and the Disposal Group's results were recorded under discontinued operation. Below is a comparison of operational performance of the Butterfly on Waterfront Sheung Wan during 1 January 2018 up to 20 June 2018 against the Comparing Period:

	2018 Up to 20 June 2018	2017
Occupancy	**99.7%**	99.5%
Average Room Rate	**HK$911**	HK$788
RevPAR*	**HK$908**	HK$784

* Revenue per available room

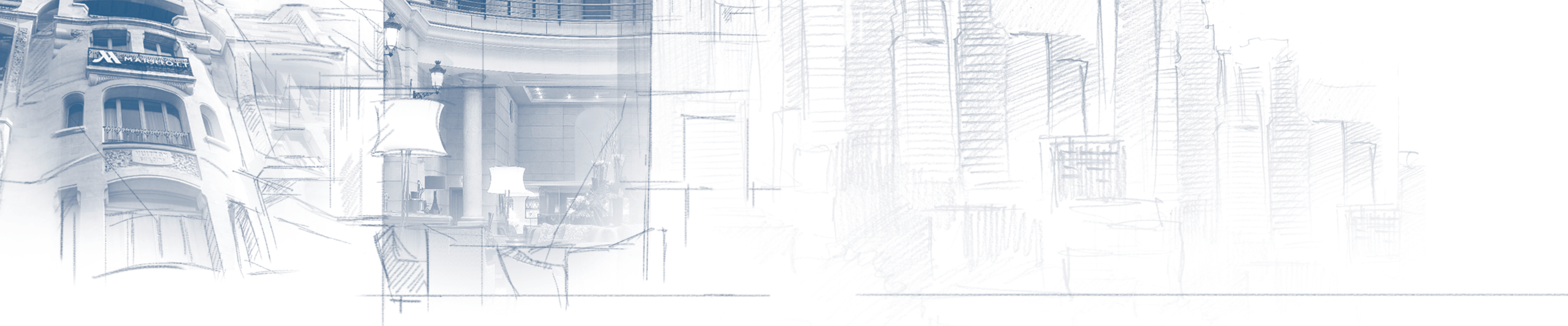
Money Lending

Revenue from this segment amounted to approximately HK$3.3 million during the Period, representing an increase of approximately 49.7% from approximately HK$2.2 million for the Comparing Period. The Group recorded a profit of approximately HK$3.1 million from this segment for the Period, as compared to the profit of approximately HK$1.9 million for the Comparing Period. As at 30 June 2018, gross mortgage loan receivable amounted to HK$160 million (Comparing Period: HK$63 million).

PROSPECTS

Hotel Operation

Based on current hotel room bookings forecast, the improvement in occupancy and average room rate will continue in the second half of this year. Notwithstanding this positive sign and while Paris remains as top-tier destinations for tourists, the capital city noticed growing tension from sustained influx of visitors. Sporadic labour strikes are still noticed in Paris, leading to temporary closure of pronounced tourist attractions. For the moment, occupancy and average room rate of the Paris Marriott Hotel have not resumed to pre-terrorist attacks level in 2015. In order to improve performance and enhance guest experience, the Group is also considering different improvement proposals on the Paris Marriott Hotel, including but not limited to conducting overall renovation. No renovation plans have been confirmed to date, more details will be announced as and when a plan is confirmed.



Money Lending Business

The Board considers Hong Kong's mortgage loan market remained challenging, heavily competitive and with uncertain prospects. The Board would exercise utmost caution when conducting mortgage loan business in Hong Kong. In the meantime, the scale of this segment remains limited and at the preliminary stage.

LOOKING AHEAD

The Board considers investing in hotels is a relatively low risk investment, whilst offering stable revenue stream and considerable capital gain potential. The Board will concurrently review our portfolio to restructure and enhance quality of assets held in the hotel operation segment.

Given the challenging and heavily competitive mortgage loan market in Hong Kong, the Group will conduct money lending business in Hong Kong in a prudent manner.

Finally, the Board will continue to explore investment opportunities from new business segments with a view to enhancing and improving returns to our stakeholders.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2018, total assets and net assets of the Group were approximately HK$4,437.7 million and HK$2,521.0 million respectively (31 December 2017: approximately HK$4,217.1 million and HK$2,220.0 million, respectively). The cash and bank balances of the Group as at 30 June 2018 were approximately HK$1,173.8 million, and were denominated in Hong Kong dollars, Euro, United States dollars and Renminbi (31 December 2017: approximately HK$513.4 million). The total current assets of the Group as at 30 June 2018 were approximately HK$1,413.5 million (31 December 2017: approximately HK$585.5 million). As at 30 June 2018, the Group had net current assets of approximately HK$1,321.8 million (31 December 2017: approximately HK$511.5 million). The Group adopted a conservative treasury approach and had tight controls over its cash management. As at 30 June 2018, the Group had outstanding bank loans and other borrowings amounted to approximately HK$1,571.8 million[1] (31 December 2017: approximately HK$1,602.6 million), none of which (31 December 2017: Nil) was due within one year. As at 30 June 2018, the Group's gearing ratio (total borrowings/total assets) was at approximately 35.4% (31 December 2017: approximately 38.0%). The Group constantly monitors its cash flow position, maturity profile of borrowings, availability of banking facilities, gearing ratio and interest rate exposure.

(1) Approximately HK$1,571.8 million (equivalent to €175,000,000) at the interest rates of 3 months EURIBOR plus 2.2% per annum.

ACQUISITIONS AND DISPOSALS

The Company, as seller, entered into a sale and purchase agreement with an independent third party, as purchaser, to dispose of the entire issued share capital of Leading Prospect Limited ("Leading Prospect") and shareholder loan due at the consideration of approximately HK$821,721,000 (the "Disposal"). Leading Prospect holds the entire issued share capital of A6 Limited, Hotel de EDGE Limited and Hotel de EDGE Management Limited (the "Target Group"). Target Group owned a property which was operated as a hotel in Hong Kong.

The Disposal was completed on 20 June 2018, the Target Group ceased 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. Please refer to note 22 in the interim condensed consolidated financial information for further details.

Save as disclosed above, the Group had no other material acquisition or disposal of subsidiaries and associated companies during the Period.

FOREIGN EXCHANGE EXPOSURE

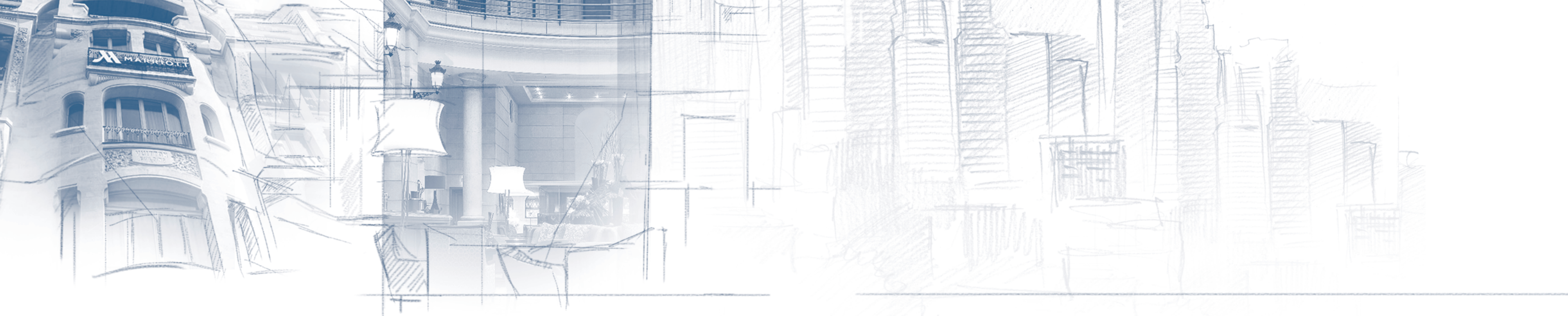
The Group had operations in France, Luxembourg, PRC and Hong Kong where transactions and cash flow were denominated in local currencies, including Euro, Renminbi and Hong Kong dollar. As a result, the Group was exposed to foreign currency exposures with respect to Euro and Renminbi, which mainly occurred from conducting daily operations and financing activities by local offices where local currencies were different from the Group. For the six months ended 30 June 2018, the Group had not entered into any forward contracts to hedge the foreign exchange exposure. The Group managed its foreign exchange risks by performing regular review and monitoring of foreign exchange exposure. The Group would consider employing foreign exchange hedging arrangements when appropriate and necessary.

CONTINGENT LIABILITIES

As at 30 June 2018, the Group had no significant contingent liabilities.

PLEDGE ON THE GROUP'S ASSETS

As at 30 June 2018, cash deposits amounting to approximately HK$23.6 million (31 December 2017: approximately HK$24.1 million) and a building of the Group with a net carrying amount of approximately HK$2,956.3 million (31 December 2017: approximately HK$3,040.6 million) were pledged to secure bank loan granted to the Group.



EMPLOYEES AND REMUNERATION

The Group had 7 employees as at 30 June 2018 (31 December 2017: 8). The total employee remuneration during the Period was approximately HK$4.0 million (31 December 2017: approximately HK$11.7 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, medical insurance scheme and participation to the share option scheme.

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

The interests and short positions of the Directors or chief executive of the Company 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 of Hong Kong Limited 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 were as follows:

Long positions – share options

Name of Directors	Capacity	Number of options held	Number of underlying shares
Mr. Xue Jian	Beneficial owner	127,780,000	127,780,000
Mr. Law Wing Chi, Stephen	Beneficial owner	10,000,000	10,000,000

Save as disclosed above, none of the Directors or chief executive has registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of the SFO) that was required to be recorded pursuant to Section 352 of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 30 June 2018, the following persons (other than the Directors 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:

Long position in 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[1]	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[1]	Beneficial interest	1,400,000,000	10.96%
Ms. Lu Xiao Mei[2]	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[3]	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 owns 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% interests 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% interests 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 2018, 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 21 to the interim condensed consolidated financial information.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the Period, neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

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

The Board has set up procedures on corporate governance that comply with the requirements of the Listing Rules on corporate governance practices based on the principles and code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to Listing Rules.

The Company had complied with the code provision of the CG Code throughout the six months ended 30 June 2018 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.

- E.1.2 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 the above 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.

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") comprises three independent non-executive Directors namely Mr. Tam Sun Wing (Chairman), Mr. Ng Ge Bun and Mr. He Yi. The Audit Committee has reviewed with the management the accounting policies and practices adopted by the Group and discussed risk management and internal control systems and matters. The Audit Committee is satisfied with the Group's internal control procedures and financial reporting disclosures. The interim results and the unaudited condensed consolidated financial statements for the Period have been reviewed by the Audit Committee and the auditors of the Group.

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

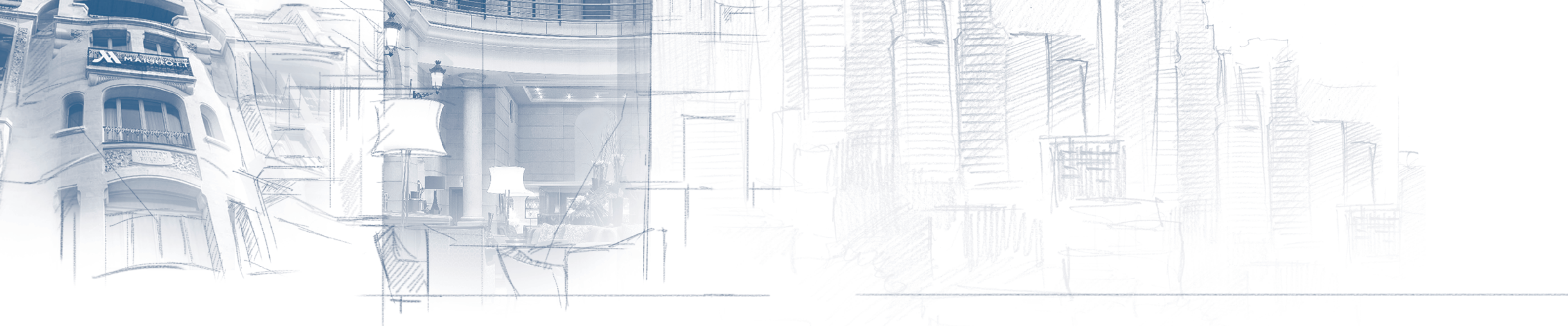
The nomination committee of the Company (the "Nomination Committee") has been set up with written terms of reference in accordance with the requirements of the Listing Rules, amongst other things, to review the structure, size and composition of the Board. The Nomination Committee currently consists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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions on terms no less exacting than the required standard of the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 to the Listing Rules. The Company has confirmed with all Directors that they have complied with the required standard set out in the Model Code and its code of conduct regarding Directors' securities transactions.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

The interim results announcement is published on the websites of the Stock Exchange (www.hkex.com.hk) and the Company (www.kaiyuanholdings.com). The interim report of the Company for the Period containing all information required by Appendix 16 to the Listing Rules will be despatched to the shareholders of the Company and made available for review on the same websites in due course.



BOARD OF DIRECTORS

As at the date of this report, the Board comprises Dr. Li Zhiqiang, Mr. Xue Jian and Mr. Law Wing Chi, Stephen (all 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, 24 August 2018