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## **KAI YUAN HOLDINGS LIMITED**

**開源控股有限公司**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 1215)**

### **VERY SUBSTANTIAL DISPOSAL AND RESUMPTION OF TRADING**

On 27 May 2015 (after trading hours), the Vendor, the Purchaser and the Guarantors entered into the Sale and Purchase Agreement, pursuant to which the Vendor (being a wholly-owned subsidiary of the Company) has agreed to sell and the Purchaser has agreed to purchase the Sale Shares (being the entire issued share capital of the Target) and the Shareholder's Loan at the cash consideration of HK\$131 million subject to the terms and conditions of the Sale and Purchase Agreement.

As at the date of this announcement, the Target is the beneficial owner of 49% equity interests in Tianjin Heating Development Company Limited (天津市供熱發展有限公司), a company established in the PRC, which together with its subsidiaries and associated companies are principally engaged in the supply of heat energy in Tianjin, the PRC.

#### **LISTING RULES IMPLICATIONS**

As the relevant percentage ratios (as defined in the Listing Rules) exceed 75%, the Disposal constitutes a very substantial disposal of the Company under Chapter 14 of the Listing Rules. Accordingly, the Disposal has to be approved by the Shareholders at the SGM.

The SGM will be convened to be held to consider and thought fit, pass the relevant resolution approving the Sale and Purchase Agreement and the transactions contemplated thereunder.

As at the date of this announcement, Mr. Tsui, one of the Guarantors and beneficial owners of the Purchaser, is interested in 101,520,000 Shares, representing approximately 0.79% of the issued share capital of the Company. Accordingly, Mr. Tsui is required to abstain from voting on the relevant resolution to be proposed at the SGM.

A circular containing, among other things, information on the Disposal, financial information relating to the Group and the Target Group, as well as the notice of SGM will be despatched to the Shareholders on or before 31 July 2015.

**Completion is conditional upon the satisfaction or, if applicable, waiver of the conditions set out in the paragraph headed “Conditions Precedent” in this announcement, including the approval of the Sale and Purchase Agreement and the transactions contemplated thereunder by the Shareholders at the SGM. Accordingly, the Disposal may or may not proceed.**

**Shareholders and potential investors of the Company are advised to exercise caution when dealing in the shares of the Company.**

#### **RESUMPTION OF TRADING**

Trading in the Shares on the Stock Exchange was suspended with effect from 9:00 a.m. on 28 May 2015 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 9 July 2015.

Reference is made to the announcement of the Company dated 28 April 2015 in relation to the MOU as regards the possible disposal of entire issued share capital of the Target and assignment of all rights, title, benefit and interest in the Shareholder’s Loan.

The Board is pleased to announce that on 27 May 2015 (after trading hours), the Vendor, the Purchaser and the Guarantors entered into the Sale and Purchase Agreement, pursuant to which the Vendor (being a wholly-owned subsidiary of the Company) has agreed to sell and the Purchaser has agreed to purchase the Sale Shares and the Shareholder’s Loan subject to the terms and conditions of the Sale and Purchase Agreement. Details of the principal terms of the Sale and Purchase Agreement are summarised below.

## **SALE AND PURCHASE AGREEMENT**

**Date:** 27 May 2015

**Parties:**

**Vendor:** the Vendor (being Charter Best Investments Limited), a wholly-owned subsidiary of the Company

**Purchaser:** the Purchaser (being Colour Blossom Limited)

**Purchaser's guarantors:** the Guarantors, being

(i) Mr. Wang; and

(ii) Mr. Tsui

The Purchaser is a company beneficially owned by the Guarantors, as to 70% by Mr. Wang and as to 30% by Mr. Tsui. According to the Purchaser, it is principally engaged in investment holding.

As at the date of this announcement, Mr. Tsui is interested in 101,520,000 Shares, representing approximately 0.79% of the issued share capital of the Company. Save for the aforesaid, the Purchaser together with its beneficial owners are Independent Third Parties.

**Assets to be disposed of**

- (i) the Sale Shares, being 100 shares of US\$1.00 each in the capital of the Target, representing the entire issued share capital of the Target as at the date of this announcement; and
- (ii) the Shareholder's Loan, being all amount due and owing by the Target to the Vendor as at the date of Completion. As at the date of this announcement, the amount due and owing by the Target to the Vendor amount to approximately HK\$53.6 million.

As at the date of this announcement, the Target is the beneficial owner of 49% equity interests in Tianjin Heating Development Company Limited (天津市供熱發展有限公司), a company established in the PRC, which together with its subsidiaries and associated companies are principally engaged in the supply of heat energy in Tianjin, the PRC.

## **Consideration**

The Consideration is HK\$131 million, which shall be satisfied in cash. The Purchaser shall pay the Deposit (being HK\$13.1million) as deposit and part payment of the Consideration within five business days after the date of the Sale and Purchase Agreement. The Deposit shall be applied towards satisfaction of the Consideration at Completion. The balance of the Consideration (being HK\$117.9 million) shall be payable upon Completion.

As at the date of this announcement, the Deposit has been paid.

If the Conditions Precedent have not been satisfied (or waived, as the case may be) before the Long Stop Date, the Vendor shall refund the Deposit (without interest) to the Purchaser.

If Completion does not take place:

- (i) due to the fault of the Vendor, the Deposit shall be refunded to the Purchaser (without interest); or
- (ii) due to reasons other than the fault of the Vendor, the Vendor shall be entitled to forfeit the Deposit.

The Consideration was determined after arm's length negotiations between the Vendor and the Purchaser with reference to the consolidated net asset value of the Target Group attributable to the Sale Shares as at 31 December 2014 of approximately HK\$32.1 million, and the Shareholder's Loan of approximately HK\$53.6 million as at the date of the Sale and Purchase Agreement.

The Directors consider that the terms of the Disposal are fair and reasonable and are on normal commercial terms, which are in the interests of the Company and the Shareholders as a whole.

## Conditions Precedent

The Disposal is subject to the following Conditions Precedent:

- (i) the Shareholders (other than those who are required to abstain from voting according to the Listing Rules) having passed the relevant resolution at the SGM approving the Sale and Purchase Agreement and the transactions contemplated thereunder;
- (ii) the warranties given by the Purchaser and the Guarantors in the Sale and Purchase Agreement are not untrue or misleading and there have been no breach of such warranties; and
- (iii) all necessary consents and approvals in relation to the sale and purchase of the Sale Shares and the Shareholder's Loan having been obtained.

The Conditions Precedent set out in sub-paragraphs (i) and (iii) above cannot be waived. The Vendor may waive the Condition Precedent set out in sub-paragraph (ii) above by notice in writing to the Purchaser. As at the date of this announcement, the Group has no intention to waive the Condition Precedent set out in sub-paragraph (ii) above. The Group will only consider waiving such condition if the breach of warranties is immaterial and that such breach will not render the warranties given being misleading. If the Conditions Precedent are not satisfied or waived (as the case may be) on or before the Long Stop Date, the Sale and Purchase Agreement shall lapse and shall be of no further effect. Subject to refund of the Deposit as mentioned above, no party to the Sale and Purchase Agreement shall have any claim against or liability to the other party, save in respect of any antecedent breach thereof.

## Completion

Completion shall take place on the fifth business day after the Conditions Precedent set out in sub-paragraphs (i) and (iii) above have been satisfied.

## TERMINATION OF ENTRUSTMENT AGREEMENT

Apart from the Group's interests in the Target which in turn holds 49% equity interests in Tianjin Heating Development Company Limited (天津市供熱發展有限公司), the Group is also a party to an entrustment agreement (the "**Entrustment Agreement**") in relation to entrustment of 5% equity interests in Tianjin Heating Development Company Limited (天津市供熱發展有限公司). It is the current intention of the Group that subject to having obtained all necessary consents and approvals, the Entrustment Agreement be terminated upon Completion. Pursuant to the Sale and Purchase Agreement, the Purchaser has also acknowledged and agreed to the proposed termination of the Entrustment Agreement upon Completion.

Upon Completion, the Group will cease to hold any interest in the Target Group and the Target will cease to be a subsidiary of the Company.

## INFORMATION ON THE TARGET GROUP

The Group's heat energy supply business in Tianjin, the PRC is currently conducted by the Target Group.

(i) The Target is indirectly holding 49% interests in; and (ii) the Group is a party to the Entrustment Agreement in relation to 5% equity interests in Tianjin Heating Development Company Limited (天津市供熱發展有限公司), which is principally engaged in the supply of heat energy in Tianjin, the PRC.

Set out below is the consolidated financial information of the Target Group for each of the two years ended 31 December 2014, which was prepared in accordance with Hong Kong Financial Reporting Standards:

	<b>For the year ended 31 December 2013</b>	<b>For the year ended 31 December 2014</b>
	Unaudited (HK\$'000)	Unaudited (HK\$'000)
Net profit/(loss) before taxation	30,272	(944)
Net profit/(loss) after taxation	8,658	(5,535)
	<b>As at 31 December 2013</b>	<b>As at 31 December 2014</b>
	(HK\$'000)	(HK\$'000)
Net asset value	344,127	337,233

The major assets of the Target Group consist of property, plant and equipment.

## INFORMATION ON THE GROUP AND REASONS OF DISPOSAL

The Group is principally engaged in manufacturing and trading of steel and steel product, supply of heat energy, as well as operation of hotel.

The Group's heat energy supply business was acquired in 2008 with a view to capturing the increase in demand for heat energy supply brought upon by new property projects launched in Tianjin, the PRC. Over the past few years, however, the Group's heat energy supply business has been challenged by the fluctuation in the number of new projects, the increase in

operating costs, as well as costs of constituent raw materials. Under the circumstances, notwithstanding the increase in segment revenue attributable to new property projects, the segment recognised loss for the four consecutive financial years ended 31 December 2012. Notwithstanding a profit after taxation of the Target Group of approximately HK\$8.7 million was recorded for the year ended 31 December 2013, the Target Group recorded a net loss for the financial year ended 31 December 2014. In view of the unsatisfactory performance of the Target Group over the past years, as set out in the Company's annual report for the year ended 31 December 2014, the Group had closely monitored the performance of the heat energy supply, and executed caution in assessing resources to this segment. Due to the inelastic fixed cost structure of heat energy generation, and that heat energy supply facilities have yet to be fully utilized to reach economies of scale, the performance of this segment has not achieved any significant improvement.

In the past few years, the Group had been constantly reviewing its existing business portfolio and had been dedicated to look for new investment opportunities in order to broaden and strengthen its revenue stream. To this end, the Group had successfully acquired Butterfly on Waterfront Sheung Wan ("**Butterfly on Waterfront**") and Paris Marriott Champs Elysees Hotel ("**Paris Marriott Hotel**"), details of which are set out in the Company's announcement dated 16 December 2013 and circular dated 29 August 2014. As set out in the latter, as of that time, it was the intention of the Company to continue other existing business of the Group and not to downsize the same or dispose of any material assets of the same, while at the same time the Board would continue to review its existing business portfolio and strive to maximize the returns to Shareholders. It was not until mid-April 2015 when the Purchaser approached the Group as regards the Disposal against the background of the Target Group's business environment set out above did the Board consider commencing negotiations relating to this segment. During the course of negotiations leading up to signing of the Sale and Purchase Agreement on 27 May 2015, the Company considers the substantial possible gain on Disposal (as detailed below in the section headed "Financial effect of the Disposal") represents an attractive return on this investment with reference to its loss making results and future prospects. Also, given (i) the fact that despite the management's efforts in cost control over the past few years, the Target Group continued to experience a deterioration of its financial performance, and the material costs are expected to increase continuously in the coming years, (ii) the possible benefits brought upon by new property projects in Tianjin are not expected to trigger a meaningful turnaround to the Group's operating results going forward, whereupon the disposal of the Target Group will allow the Group to reduce any future financial losses from its heat energy supply business, and (iii) the hotel operation business acquired by the Group during 2013 is expected to serve as a better driver for the Group's performance with solid revenue base and capital gain potentials, the Board considered that entering into the Sale and Purchase Agreement is in the interests of the Company and the shareholders as a whole.

Upon Completion, other than the Group's investment in steel and steel products manufacturing and trading via its associated companies, the principal business of the Remaining Group will be the operation of hotels in Hong Kong (being Butterfly on Waterfront) and Paris (being Paris Marriott Hotel). As at the date of this announcement, the Company does not intend to propose any changes to the management of the Remaining Group. The Board considers the Disposal enables the Group to focus on developing the operation of hotels.

Looking forward, in order to maximise the hotel performance, it is contemplated that the main marketing focus of Butterfly on Waterfront will shift and guests are encouraged to make booking through the hotel website directly to minimise cost of commission to travel agents. Electronic marketing tactics are also planned with a view to generating bookings and improving average room rate of Butterfly on Waterfront. An eMarketing consultant services company has been engaged to provide support for continuous growth of the digital platforms, including but not limited to: (i) enhancement of the hotel website layout and booking procedures; (ii) enhancement of online distribution and exposure by performing search engine marketing; (iii) performance of online reputation management to enhance brand recognition; and (iv) performance of social media marketing through online social media platform to attract brand awareness. Besides, Butterfly on Waterfront plans to perform the following key sales and marketing tactics to strengthen occupancy rate of hotel rooms, such as (i) to capture business from particular industries, overseas conference and exhibition organisers and official agents to various trade shows; (ii) to strengthen business relationship with existing corporate clients by conducting regular sales blitz, entertainment and hotel inspections; (iii) to offer aggressive pricing during low seasons; (iv) to tailor promotions according to target markets' preferences; (v) to monitor and update rates regularly in order to stay competitive; (vi) to participate in all regional marketing programmes launched by online travel agents; and (vii) to explore joint promotions with travel agents on selected markets during low seasons.

On the other hand, the Paris Marriott Hotel is expected to remain one of the leading international hotels on the Avenue des Champs-Élysées with stable accommodation demand. The Paris Marriott Hotel will continue driving exceptional service and providing a unique Parisian atmosphere and a brilliant Marriott guest experience to maintain its market position and revenue. The Paris Marriott Hotel will also (i) put more marketing effort in the PRC market in attracting more Chinese customers to improve the occupancy of the hotel; (ii) enhance its amenities and services for accommodation from time to time to elevate the experience of guests; and (iii) continuously organise special events to boost its food and beverage revenue. Besides, the Paris Marriott Hotel will launch upgrade of certain facilities, such as elevators and disable accessible facilities, in 2015. The Group is also in consideration of undergoing renovation works on Paris Marriott Hotel, which if materialised will take place between late 2016 and mid-2017. The purpose of renovation is to maintain hotel's occupancy and catering revenue in low and shoulder seasons and to drive the hotel's average daily rate all year round.



Based on the above, the Board believes that the Butterfly on Waterfront and the Paris Marriott Hotel are well positioned to support the business of the Remaining Group.

The Directors considered that the Disposal represents a good opportunity for the Group to realise its investment in the heat energy supply segment, and will allow the Group to focus on its strategic businesses.

In view of the above, the Directors are of the view that the terms of the Disposal are fair and reasonable, which have been arrived at after arm's length negotiations and are in the interests of the Company and the Shareholders as a whole.

Reference is also made to the announcement of the Company dated 11 May 2015 in relation to the approach by Mr. Du Shuang Hua as regards his interests in acquiring the Group's minority interests in 日照型鋼有限公司 (Rizhao Medium Section Mill Co., Ltd.\*), 日照鋼鐵有限公司 (Rizhao Steel Co., Ltd.\*) and 日照鋼鐵軋鋼有限公司 (Rizhao Steel Wire Co., Limited\*) (together, the "**Associated Companies**"), all being associated companies of the Company (the "**Possible Disposals**"). The Company would like to inform the Shareholders that the Board has put the discussion on hold for the moment in order to concentrate on the Disposal. Accordingly, as at the date hereof, no concrete terms of Possible Disposal have been arrived at. The Company expects that discussions will resume after publication of this announcement. The Possible Disposals are subject to signing of legally binding agreement(s), and may or may not proceed. The Company will comply with the Listing Rules and make appropriate announcement(s) as and when appropriate.

## **FINANCIAL EFFECT OF THE DISPOSAL**

Without taking into account the expenses to be incurred in connection with the Disposal and subject to review by the Company's auditors, based on the Consideration of HK\$131,000,000, the Group is expected to incur a gain on the Disposal of approximately HK\$70,195,000. Such amount is arrived at by adding the consolidated net asset value of the Target Group attributable to the Sale Shares as at 31 December 2014 (being approximately HK\$32,145,000) to the estimated amount of the Shareholder's Loan (being approximately HK\$53,610,000 as at 30 April 2015), then deducting therefrom the aggregate sale proceeds of HK\$131,000,000 (thus a sub-total of approximately HK\$45,245,000), plus reclassification of translation reserve from other comprehensive income to profit or loss upon Completion of approximately HK\$24,950,000.

\* *For identification purposes only*

## **USE OF PROCEEDS**

The net proceeds of approximately HK\$125,000,000 from the Disposal will be used as general working capital of the Group and for future acquisitions or investments should the opportunity arises. As at the date of this announcement, the Group has not identified any target for acquisition or investment. The Company will publish appropriate announcement(s) as and when required in compliance with the Listing Rules.

## **IMPLICATIONS OF THE LISTING RULES**

As the relevant percentage ratios (as defined in the Listing Rules) exceed 75%, the Disposal constitutes a very substantial disposal of the Company under Chapter 14 of the Listing Rules. Accordingly, the Disposal has to be approved by the Shareholders at the SGM.

The SGM will be convened to be held to consider and thought fit, pass the relevant resolution(s) approving the Sale and Purchase Agreement and the transactions contemplated thereunder. As at the date of this announcement, Mr. Tsui, one of the Guarantors and beneficial owners of the Purchaser, is interested in 101,520,000 Shares, representing approximately 0.79% of the issued share capital of the Company. Accordingly, Mr. Tsui is required to abstain from voting on the relevant resolution to be proposed at the SGM. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, save for the aforesaid, the Purchaser and its associates do not hold other Shares.

A circular containing, among other things, information on the Disposal, financial information relating to the Group and the Target Group, as well as the notice of SGM will be despatched to the Shareholders. As more time is required to collate the relevant financial information and proforma financial information in relation to the Disposal, the aforesaid circular will be despatched on or before 31 July 2015.

## **RESUMPTION OF TRADING**

Trading in the Shares on the Stock Exchange was suspended with effect from 9:00 a.m. on 28 May 2015 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 9 July 2015.

## DEFINITIONS

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

“associates”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	Kai Yuan Holdings Limited, a company incorporated in Bermuda with limited liability, the issued Shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 1215)
“Completion”	completion of the Disposal in accordance with the Sale and Purchase Agreement
“Conditions Precedent”	the conditions precedent to the Disposal as set out in the Sale and Purchase Agreement, details of which are set out in the paragraph headed “Conditions Precedent” of the section headed “Sale and Purchase Agreement” of this announcement
“connected persons”	has the meaning ascribed to it under the Listing Rules
“Consideration”	the total consideration for the Disposal, being HK\$131 million
“Deposit”	being HK\$13.1 million
“Director(s)”	the director(s) of the Company
“Disposal”	disposal of the Sale Shares and the Shareholder’s Loan by the Vendor to the Purchaser pursuant to the Sale and Purchase Agreement
“Group”	the Company and its subsidiaries
“Guarantors”	together, Mr. Wang and Mr. Tsui

“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Parties”	independent third parties who are independent of and not connected with the Company and the connected person(s) (as defined in the Listing Rules) of the Company
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	31 October 2015
“MOU”	the memorandum of understanding dated 28 April 2015 entered into between the Company and the Purchaser in relation to the Disposal
“Mr. Tsui”	Mr. Tsui Pan
“Mr. Wang”	Mr. Wang Feng
“PRC”	the People’s Republic of China, excluding Hong Kong, Macau Special Administrative Region of the PRC and Taiwan for the purpose of this announcement
“Purchaser”	Colour Blossom Limited
“Remaining Group”	the Group excluding the Target Group
“Sale and Purchase Agreement”	the sale and purchase agreement dated 27 May 2015 entered into among the Vendor, the Purchaser and the Guarantors in relation to the Disposal
“Sale Shares”	the 100 shares of US\$1.00 each in the capital of the Target
“SGM”	the special general meeting of the Company to be convened and held for the Shareholders to consider and, if thought fit, approve the Sale and Purchase Agreement and the transactions contemplated thereunder
“Share(s)”	share(s) of the Company

“Shareholder(s)”	holder(s) of the Shares
“Shareholder’s Loan”	all amount due and owing from the Target to the Vendor as at the date of Completion
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target”	Spread International Group Limited, a company incorporated in the British Virgin Islands with limited liability and an indirect wholly-owned subsidiary of the Company
“Target Group”	the Target and its subsidiaries
“Vendor”	Charter Best Investments Limited
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“%”	per cent.

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

Hong Kong, 8 July 2015

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