

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker, a licensed dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Kai Yuan Holdings Limited, you should at once hand this circular with the enclosed form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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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 IN RELATION TO THE ENTIRE ISSUED SHARE CAPITAL OF LEADING PROSPECT LIMITED AND ASSIGNMENT OF SHAREHOLDER'S LOAN AND NOTICE OF SPECIAL GENERAL MEETING

A letter from the Board of Directors is set out on pages 5 to 15 of this circular.

A notice convening the SGM of Kai Yuan Holdings Limited to be held at Empire Room I, 1/F, Empire Hotel Hong Kong, 33 Hennessy Road, Wanchai, Hong Kong on 7 June, 2018 at 9:30 a.m. is set out on pages SGM-1 to SGM-2 of this circular.

Whether or not you are able to attend the SGM, please complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the principal office of the Company at 28/F Chinachem Century Tower, 178 Gloucester Road, Wanchai, Hong Kong not later than 48 hours before the time appointed for holding the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof if you so wish.

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DEFINITIONS

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

“Affiliate”	in relation to any person or entity, any corporation, company, partnership, association or other business entity (i) that is controlled by such person or entity, (ii) that controls such person or entity; or (iii) that is under common control with such person or entity;
“Board”	the board of Directors;
“Business Day(s)”	a day (other than a Saturday, Sunday and a public holiday) on which banks are open for general banking business in Hong Kong;
“Company”	Kai Yuan Holdings Limited, a company incorporated in Bermuda with limited liability, the issued shares of which are listed and traded on the Main Board of the Stock Exchange (Stock code: 1215);
“Completion”	completion of the Disposal in accordance with the terms of the SPA;
“Completion Accounts”	the consolidated audited balance sheet or statement of financial position of the Target Company as at the Completion Date, the consolidated audited profit and loss accounts of the Target Company for the period commencing from 1 January 2018 and ending on the Completion Date;
“Completion Date”	20 June 2018 or such other date as the Company and the Purchaser may agree in writing;
“Completion NCA”	the audited consolidated net current assets of the Target Company as at the Completion Date as determined in accordance with the SPA;
“connected person(s)”	having the meaning ascribed to it under the Listing Rules;
“Consideration”	the aggregate of the Completion NCA and HK\$810,000,000 payable by the Purchaser to the Company in relation to the Disposal subject to the terms and conditions of the SPA;
“Director(s)”	the director(s) of the Company;

DEFINITIONS

“Disposal”	the disposal of the Sale Shares and the Sale Loan by the Company to the Purchaser pursuant to the SPA;
“Executive Director(s)”	executive Director(s);
“Group”	the Company and its subsidiaries;
“HK\$”	the lawful currency of Hong Kong for the time being;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“Hotel”	Butterfly on Waterfront Sheung Wan, the hotel situated at the Property;
“Hotel Licence”	the licence in respect of the Hotel under the Hotel and Guesthouse Accommodation Ordinance (HAGAO), Chapter 349 of the Laws of Hong Kong;
“Latest Practicable Date”	21 May 2018, being the latest practicable date before the printing of this circular for the purpose of ascertaining certain information contained herein;
“Listing Committee”	the listing committee of the Stock Exchange for considering applications for listing and the granting of listing;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules;
“Pre-Completion NCA”	the unaudited consolidated net current assets of the Target Company as at 31 March 2018 as determined in accordance with the SPA, being HK\$9,469,495;
“Property”	all that piece or parcel of ground registered at The Land Registry of Hong Kong as Section A of Marine Lot No.401 and The Remaining Portion of Marine Lot No.402 And of and in the buildings and erections thereon now known as No. 95 Connaught Road West (formerly known as Nos. 94 and 95 Connaught Road West), Hong Kong;

DEFINITIONS

“Purchaser”	Ridge Avis Limited, a company incorporated in the British Virgin Islands with limited liability, an Affiliate of the Purchaser’s Guarantor;
“Purchaser’s Guarantor”	Swift China Limited;
“Remaining Group”	the Group as if the entire issued share of the Target Company had been disposed of and the Disposal had been completed;
“Sale Loan”	a shareholder’s loan owing by the Target Group to the Company as at the Completion Date;
“Sale Loan Assignment”	a deed of assignment of loan to be executed by the Company, the Purchaser and the Target Company upon Completion, pursuant to which the Company will transfer and assign the Sale Loan to the Purchaser;
“Sale Shares”	100 ordinary shares of US\$1 each in the capital of the Target Company, being all the issued shares of the Target Company;
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“SGM”	the special general meeting of the Company to be convened for the purpose of considering and, if thought fit, approve, among other things, the Disposal on the terms and conditions of the SPA and other transactions contemplated thereunder;
“Share(s)”	ordinary share(s) having a par value of HK\$0.1 each in the issued share capital of the Company;
“Shareholders”	holder(s) of the Share(s) from time to time;
“SPA”	the agreement relating to the Disposal entered into between the Company, the Purchaser and the Purchaser’s Guarantor on 13 April 2018;

DEFINITIONS

“SPA Conditions”	the conditions precedent to Completion;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Target Company”	Leading Prospect Limited, a company incorporated in the British Virgin Islands with limited liability and a directly wholly-owned subsidiary of the Company;
“Target Group”	the Target Company, A6 Limited, Hotel de EDGE Limited and Hotel de EDGE Management Limited;
“VSD Announcement”	the announcement of the Company dated 19 April 2018 relating to the SPA and the Disposal; and
“%”	per cent.



KAI YUAN HOLDINGS LIMITED

開源控股有限公司

(incorporated in Bermuda with limited liability)

(Stock Code: 1215)

Executive Directors:

Mr. Xue Jian

Mr. Law Wing Chi, Stephen

Independent Non-Executive Directors:

Mr. Tam Sun Wing

Mr. Ng Ge Bun

Mr. He Yi

Registered Office:

Canon's Court 22 Victoria

Street Hamilton HM 12

Bermuda

Principal place of business in

Hong Kong:

28th Floor Chinachem Century

Tower 178 Gloucester Road

Wanchai, Hong Kong

23 May 2018

*To the Shareholders and for information only,
the holders of the outstanding share options of the Company*

Dear Sir or Madam,

**VERY SUBSTANTIAL DISPOSAL
IN RELATION TO THE ENTIRE ISSUED SHARE CAPITAL OF
LEADING PROSPECT LIMITED AND
ASSIGNMENT OF SHAREHOLDER'S LOAN
AND
NOTICE OF SPECIAL GENERAL MEETING**

INTRODUCTION

Reference is made to the VSD Announcement in which the Board announced that on 19 April 2018, the Company, the Purchaser and the Purchaser's Guarantor entered into the SPA, pursuant to which the Company has conditionally agreed to sell to the Purchaser, and the Purchaser has conditionally agreed to purchase from the Company, the Sale Shares and the Sale Loan at the Consideration subject to the terms of the SPA. The Sale Shares represent the entire issued share capital of the Target Company, which holds the entire issued share capital of each of A6 Limited, Hotel de EDGE Limited and Hotel de EDGE Management Limited. A6 Limited is the sole registered and beneficial owner of the Property as at the date of this circular.

LETTER FROM THE BOARD

The purpose of this circular is to provide the Shareholders with further information of the SPA and the transactions contemplated therein together with such other information as required by the Listing Rules.

THE SPA

Date : 13 April 2018

Parties

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

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

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

Assets to be disposed of

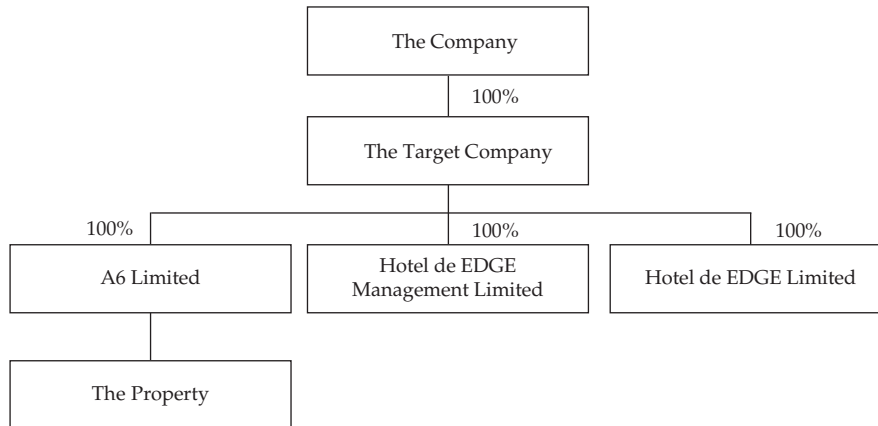
As at the date of this circular, the Company holds the Sale Shares, being 100% of the issued share capital of the Target Company. Pursuant to the SPA, the Company has conditionally agreed to sell to the Purchaser, and the Purchaser has conditionally agreed to purchase from the Company, the Sale Shares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

As at the date of this circular, the Target Company holds the entire issued share capital of each of A6 Limited, Hotel de EDGE Management Limited and Hotel de EDGE Limited. A6 Limited is the sole registered and beneficial owner of the Property situated at Nos. 94 and 95 Connaught Road West, Hong Kong, which is currently operated as a hotel known as Butterfly on Waterfront Sheung Wan.

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

LETTER FROM THE BOARD

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



Consideration

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

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

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

LETTER FROM THE BOARD

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

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

	As at 31 December 2017 HK\$'000
Hotel property at market value (valuation as at 30 April 2018)	511,600
Deferred tax assets	4,272
Inventories	68
Accounts receivable	1,188
Prepayment, deposits and other receivables	566
Bank balances and cash	7,331
Accounts payable	(364)
Other payables and accruals	(1,553)
Receipt in advance	(26)
Tax payable	(373)
Deferred tax liabilities	(56,146)
Adjusted net asset value	<u><u>466,563</u></u>

LETTER FROM THE BOARD

AVISTA Valuation Advisory Limited, an independent property valuer, has provided a valuation on the Property as at 30 April 2018. The texts of its letter and valuation certificate are set out in Appendix IV to this circular. A reconciliation of the net book value of the Property as at 31 December 2017 to its fair value as at 30 April 2018 as stated in Appendix IV to this circular is as follows:

	<i>HK\$'000</i>
Net book value of the Property as at 31 December 2017	514,311
Movement for the period from	
1 January 2018 to 30 April 2018	
Depreciation during the period (unaudited)	<u>(907)</u>
Net book value of the Property as at 30 April 2018 (unaudited)	513,404
Valuation deficit	<u>(1,804)</u>
Valuation of the Property as at 30 April 2018	<u><u>511,600</u></u>

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

- (a) a premium of approximately 75.64% over the adjusted net asset value as at 31 December 2017 of the Target Group of approximately HK\$466,563,000; and
- (b) a premium of approximately 60.18% over the market value of the Property of approximately HK\$511,600,000 as at 30 April 2018.

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

SPA Condition precedent

Completion shall be subject to and conditional upon the following:

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

LETTER FROM THE BOARD

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

As at the Latest Practicable Date, the Property was being free from all encumbrances and the Company was the sole legal and beneficial owner of the Sale Shares and the Sale Loan, in each case free from all encumbrances.

Completion

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

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

INFORMATION ON THE TARGET GROUP AND THE PROPERTY

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

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

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

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

The Property was preliminarily valued as at 30 April 2018 at HK\$511.6 million by an independent property valuer. The value of the Property was valued by the market approach assuming the sale of the Property in its existing state with the benefit of immediate vacant possession and by making reference to comparable sales transactions as available in the relevant market.

LETTER FROM THE BOARD

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

	For the year ended	
	31 December	
	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	26,431	28,961
Net profit (before taxation)	1,776	2,929
Net profit (after taxation)	1,408	2,406

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

FINANCIAL EFFECT OF THE DISPOSAL

Assuming that the Pre-Completion NCA is equal to Completion NCA, based on the Consideration less (i) the carrying value of the property, plant and equipment of approximately HK\$515,322,000 as at 31 December 2017; (ii) the net amount of the other assets and liabilities (ie. not including the carrying amount of the Property and the Sale Loan) of the Target Group of approximately HK\$(45,037,000) as at 31 December 2017 and (iii) the related expenses of approximately HK\$12,500,000, it is expected that, upon Completion, for illustrative purpose, a substantial unaudited gain before taxation of approximately HK\$336,684,000 will be recognised from the Disposal. Assuming the Disposal had taken place on 31 December 2017, the total assets of the Group would increase from approximately HK\$4,217 million to approximately HK\$4,495 million while total liabilities of the Group would decrease from approximately HK\$1,997 million to approximately HK\$1,939 million.

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

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

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

LETTER FROM THE BOARD

USE OF PROCEEDS FROM THE DISPOSAL

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

- (a) approximately HK\$96 million (HK\$ equivalent of approximately 10 million Euro dollars) will be applied to the renovation of the Paris Marriott Hotel (the final amount of which is to be determined upon completion of the hotel mock-up rooms pilot project at the hotel);
- (b) approximately HK\$160 million will be used as making mortgage loans for the Group's money lending business;
- (c) approximately HK\$500 million will be used for possible investment opportunities such as in real estate sector (i.e. investment in hotel) and/or mineral sector as they may arise in the future; and
- (d) the remaining of approximately HK\$50 million will be used for general working capital of the Group.

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

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

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

LETTER FROM THE BOARD

REASONS AND BENEFITS OF THE DISPOSAL

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

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

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

Save for the Disposal, as at the Latest Practicable Date, the Company does not have any firm agreement to acquire or invest in any new business or assets nor to dispose or scaling-down any of its existing businesses or major operating assets. As at the Latest Practicable Date, the Company has no concrete plan regarding any potential fund raising activities.

INFORMATION RELATING TO THE GROUP AND THE PURCHASER

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

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

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

LETTER FROM THE BOARD

LISTING RULES IMPLICATIONS IN RESPECT OF DISPOSAL

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

To the best of the Directors' knowledge, no Shareholder has a material interest in the Disposal which is different from other Shareholders and accordingly, no Shareholder is required to abstain from voting in respect of the ordinary resolution to approve the Disposal at the SGM.

SGM

The SGM will be held at Empire Room I, 1/F., Empire Hotel Hong Kong, 33 Hennessy Road, Wanchai, Hong Kong on 7 June 2018 at 9:30 a.m., for the purpose of considering, and, if thought fit, passing the relevant resolution(s) in relation to the Disposal. The notice convening the SGM is set out on pages SGM-1 and SGM-2 of this circular. To the best knowledge, information and belief of the Directors having made all reasonable enquiries, no Shareholder will be required to abstain from voting on the resolution in relation to the Disposal.

The register of members of the Company will be closed from Monday, 4 June 2018 to Thursday, 7 June 2018, both days inclusive, during which period no transfer of Shares will be registered. In order to be qualified for attending and voting at the SGM, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's Share Register, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Friday, 1 June 2018.

Notice of the SGM is set out on pages SGM-1 to SGM-2 of this circular. A proxy form for appointing proxy is despatched with this circular and published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (http://www.kaiyuanholdings.com/en_us/home_eng.php). Whether or not you intend to attend the SGM, you are requested to complete the proxy form in accordance with the instructions stated thereon and return it to the Company's Hong Kong branch share registrar and transfer office, Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as practicable but in any event, not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the SGM and at any adjournment thereof if you so wish. In such event, the proxy form shall be deemed to be revoked.

LETTER FROM THE BOARD

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of the Shareholders at a general meeting of the Company must be taken by poll. Accordingly, the resolution(s) to be considered and, if thought fit, passed at the SGM will be put to vote by poll by the Shareholders. Bye-law 66 of the bye-laws of the Company provides that on a poll, every Shareholder present in person or by proxy shall have one vote for every Share held by that Shareholder. The Company will announce the results of the poll in the manner set out in Rule 13.39(5) of the Listing Rules.

RECOMMENDATION

Having considered the reasons set out herein, the Directors are of the opinion that the terms of the SPA are on normal commercial terms, fair and reasonable and that the Disposal is in the interests of the Company and the Shareholders as a whole. The Directors consider that the Disposal is in the Company's ordinary and usual course of business. Accordingly, the Directors recommend the Shareholders to vote in favour of the relevant resolution(s) as set out in the notice of SGM to approve the Disposal.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

In case of any inconsistency between the English and Chinese versions of this circular, the English version shall prevail.

RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

Yours faithfully,
For and on behalf of the Board
KAI YUAN HOLDINGS LIMITED
Law Wing Chi, Stephen
Executive Director

1. FINANCIAL INFORMATION OF THE GROUP

The audited consolidated financial statements of the Group for each of the three years ended 31 December 2017, 2016 and 2015 are disclosed in the following documents which have been published on the website of the Stock Exchange (www.hkex.com.hk) and the website of the Company (www.kaiyuanholdings.com).

- The annual report 2017 of the Company for the year ended 31 December 2017 dated 26 March 2018 (pages 42 to 112);
- The annual report 2016 of the Company for the year ended 31 December 2016 dated 27 March 2017 (pages 42 to 116);
- The annual report 2015 of the Company for the year ended 31 December 2015 dated 29 March 2016 (pages 37 to 122).

2. INDEBTEDNESS**Indebtedness statement of the Remaining Group**

As at the close of business on 13 April 2018, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Remaining Group had outstanding borrowings of approximately HK\$1,646,050,000 of bank loan from Societe Generale Corporate & Investment Banking (equivalent to €175,000,000), the loan bears interest at three months EURIBOR plus 2.2% per annum and was secured by a pledged deposit of approximately HK\$24,455,000 (equivalent to €2,600,000) and the Paris Marriott Hotel property located in Paris, France and its operations.

General

For the purpose of the above statement of indebtedness, foreign currency denominated amounts have been translated into Hong Kong dollar at the rates of exchange prevailing at the close of business on 31 December 2017. Save as aforesaid and apart from intra-group liabilities and normal trade payables, the Remaining Group did not have: (a) any other debt securities issued and outstanding, and authorised or otherwise created but unissued; (b) any other term loans (whether guaranteed, unguaranteed, secured or unsecured); (c) any other borrowings or indebtedness in the nature of borrowing including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits or hire purchase commitments; (d) any other mortgages or charges; or (e) any other material guarantees or contingent liabilities as at 31 December 2017. As at the Latest Practicable Date, the Directors confirmed that, there had been no material change in the indebtedness position of the Remaining Group, except for those mentioned above and any contingent liabilities or any guarantees of the Remaining Group.

3. WORKING CAPITAL

The Directors, after due and careful enquiry, are of the opinion that, after taking into consideration the effect of the Completion and the present financial resources available to the Group, including funds internally generated from its business operations, the Group will have sufficient working capital for its business operations for at least the next twelve months from the date of publication of this circular, in the absence of unforeseeable circumstances.

4. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Remaining Group will be principally engaged in hotel operations with the hotel in France. The Remaining Group also envisages incubating money lending business.

Hotel Operation

The year 2017 was considered a transition year for the Paris Marriott Hotel where slow recovery on hotel occupancy and RevPAR as compared to 2016 was noted. The Board expects the outlook for 2018 will be more stable and positive where occupancy, average room rate and RevPAR of the Paris Marriott Hotel will continue to improve, if no significant security scare or terrorist attack occurs. However, it is too early to ascertain when average room rate and RevPAR will rebound to pre-terrorist attack level. Meanwhile, the Board notices that more new hotels will be opened in Paris, which will constitute a direct competition with the Paris Marriott Hotel. In the long-run, the French government has announced its plan to strengthen France's position as the first world tourism destination with an ambitious roadmap to benefit Paris as the capital city. Furthermore, Paris will be hosting mega events such as the Ruby World Cup in 2023 and the 2024 Olympics, which will undoubtedly attract international visitors. In the meantime, the Paris Marriott Hotel is actively facilitating and enhancing booking from tourists in Asia. The Board will also consider different improvement proposals on the Paris Marriott Hotel in order to enhance guest experience at the hotel.

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 money lending business of the Group in Hong Kong remains at early stage and at a limited scale.

In conclusion, while the Remaining Group will continue to explore investment opportunities, it will also remain dedicated to constantly review and reinforce its existing hotel operation segment, with a view to enhancing and improving returns to our Shareholders.

5. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial position or trading position of the Group since 31 December 2017, being the date to which the latest published audited financial statements of the Group was made up.

6. MANAGEMENT DISCUSSION AND ANALYSIS OF THE REMAINING GROUP

The following discussion should be read in conjunction with the financial information of the Group and the historical financial information and operating data included in this circular. The financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards.

Following the Disposal, the Remaining Group shall comprise the Company and its subsidiaries but exclude the Target Group. The management discussion and analysis of the Remaining Group for the three years ended 31 December 2017 are set out as follows:

FOR THE YEAR ENDED 31 DECEMBER 2017**BUSINESS REVIEW****OVERVIEW**

For the year ended 31 December 2017, revenue of the Remaining Group amounted to approximately HK\$261.0 million, representing an increase of approximately 4.3% from approximately HK\$250.2 million for the preceding year. The increase in revenue was mainly attributable to increase in revenue contributed by the Paris Marriott Hotel Champs-Élysées ("**Paris Marriott Hotel**"). The Remaining Group recorded a profit for the year of approximately HK\$2.3 million, as compared to the loss of approximately HK\$130.8 million for the preceding year. The turnaround from loss to profit for the year was mainly attributable to (i) the increase in revenue as described above; (ii) the absence of impairment loss on assets; (iii) the decline in finance costs during the year after full repayment of loan from a related company in the preceding year; and (iv) the record of one-off income tax credit accounted for the year, arising from the deferred tax liability recognized for the acquisition of the Paris Marriott Hotel, due to the decrease in corporate income tax rates in France to 25% as from 1 January 2022.

Segmental review of the Remaining Group's operations during the year ended 31 December 2017 is as follows:

Hotel Operation

The Remaining Group recorded a revenue of approximately HK\$258.1 million from the hotel operation segment, as compared to a revenue of approximately HK\$249.2 million for the preceding year. The increase in revenue of the hotel operation segment for the year was mainly attributable to increase in revenue contributed by the Paris Marriott Hotel. The Group recorded a loss of approximately HK\$8.9 million in this segment for the year ended 31 December 2017, as compared to the loss of approximately HK\$321.5 million for the preceding year. The decrease in loss was mainly attributable to absence of impairment loss on assets of this segment and decline in finance costs.

Paris

International tourists flocked back to Paris during the year ended 31 December 2017 as threat of terrorists attacks appeared to ease and fear of travel safety faded. According to Reuters.com, the number of international visitor to the city of Paris and the wider Ile de France region rose to 33.8 million in 2017, an increase of approximately 9.4% as compared to that of 30.9 million in 2016. Paris tourism industry showed no signs of deceleration after election of the new president and despite labour strikes in response to proposals of labour law reform and bad weather during the year ended 31 December 2017. Notwithstanding the return of international visitors, the Paris Marriott Hotel remained struggling during the year to recover from trough as the result of terrorist attacks that have occurred since 2015 which had driven down average room rate of the hotel, in particular to the reimbursement rate of the Marriott Rewards. The revenue from the Marriott Rewards accounted for a notable portion of revenue of the hotel. During the year ended 31 December 2017, the Paris Marriott Hotel had adopted adaptive and dynamic hotel room rates pricing strategy to attract bookings. The hotel had also successfully secured hotel rooms bookings from corporate customers. All these actions had contributed to increased occupancy of the hotel, while preserving RevPAR. Below is a comparison of the operational performance of the Paris Marriott Hotel during the year and against the preceding year:

	2017	2016
Occupancy	83.6%	80.2%
Average Room Rate	€403	€417
RevPAR*	€337	€334

Money Lending

Revenue from this segment amounted to approximately HK\$2.8 million during the year ended 31 December 2017, representing an increase of approximately 190% from approximately HK\$1.0 million for the preceding year. The Group recorded a profit of approximately HK\$2.3 million from this segment for the year ended 31 December 2017, as compared to the profit of approximately HK\$0.2 million for the preceding year.

As at 31 December 2017, the Remaining Group had no gross mortgage loan receivables.

PROSPECTS**Hotel Operation***Paris*

2017 was considered a transition year for the Paris Marriott Hotel where slow recovery on hotel occupancy and RevPAR as compared to 2016 was noted. The Board expects the outlook for 2018 will be more stable and positive where occupancy, average room rate and RevPAR of the Paris Marriott Hotel will continue to improve, if no significant security scare or terrorist attack occurs. However, it is too early to ascertain when average room rate and RevPAR will rebound to pre-terrorist attack level. Meanwhile, the Board notices that more new hotels will be opened in Paris, which will constitute a direct competition with the Paris Marriott Hotel. In the long-run, the French government has announced its plan to strengthen France's position as the first world tourism destination with an ambitious roadmap to benefit Paris as the capital city. Furthermore, Paris will be hosting mega events such as the Rugby World Cup in 2023 and the 2024 Olympics, which will undoubtedly attract international visitors. In the meantime, the Paris Marriott Hotel is actively facilitating and enhancing booking from tourists in Asia. The Board will also consider different improvement proposals on the Paris Marriott Hotel in order to enhance guest experience at the hotel.

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 money lending business of the Remaining Group in Hong Kong remains at early stage and at a limited scale.

LOOKING AHEAD

The Board considers investing in hotels tends to be 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 Board will conduct the Group's mortgage loan 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 31 December 2017, total assets and net assets of the Remaining Group were approximately HK\$3,688.4 million and HK\$1,749.7 million respectively. The cash and bank balance of the Remaining Group as at 31 December 2017 were approximately HK\$506.1 million. The total current assets of the Remaining Group as at 31 December 2017 were approximately HK\$576.3 million. As at 31 December 2017, the Remaining Group's outstanding bank and other borrowings amounted to approximately HK\$1,602.6 million and all have been arranged on a floating-rate basis at three months EURIBOR plus 2.2% per annum. As at 31 December 2017, the net current assets of the Remaining Group were approximately HK\$504.7 million. As at 31 December 2017, the Remaining Group's gearing ratio (total borrowings/total assets) was at approximately 43.5%. The Remaining Group constantly monitors its cash flow position, maturity profile of borrowings, availability of banking facilities, gearing ratio and interest rate exposure.

ACQUISITIONS AND DISPOSALS

During the year ended 31 December 2017, the Remaining Group had no material acquisition or disposal of subsidiaries or associated companies.

FOREIGN EXCHANGE EXPOSURE

The Remaining 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 Remaining 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 Remaining Group. For the year ended 31 December 2017, the Remaining Group had not entered into any forward contracts to hedge the foreign exchange exposure. The Remaining Group managed its foreign exchange risks by performing regular review and monitoring of foreign exchange exposure. The Remaining Group would consider employing foreign exchange hedging arrangements when appropriate and necessary.

CONTINGENT LIABILITIES

As at 31 December 2017, the Remaining Group had no significant contingent liabilities.

PLEDGE ON THE REMAINING GROUP'S ASSETS

As at 31 December 2017, cash deposits amounting to approximately HK\$24.1 million and a building of the Remaining Group with a net carrying amount of approximately HK\$3,040.6 million were pledged to secure bank loan granted to the Remaining Group.

EMPLOYEES AND REMUNERATION

The Remaining Group had 8 employees as at 31 December 2017. The total employee remuneration during the year was 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 Remaining Group also provided other employee benefits including bonuses, mandatory provident fund scheme, medical insurance scheme and participation to the share option scheme.

FOR THE YEAR ENDED 31 DECEMBER 2016**BUSINESS REVIEW****OVERVIEW**

For the year ended 31 December 2016, revenue of the Remaining Group amounted to approximately HK\$250.2 million, representing a decrease of approximately 17.5% from approximately HK\$303.3 million for the preceding year. The decrease in revenue was mainly attributable to decrease in revenue contributed by the Paris Marriott Hotel. The Remaining Group recorded a loss for the year of approximately HK\$130.8 million, as compared to the loss of approximately HK\$39.7 million for the preceding year. The increase in loss for the year was principally attributable to the significant decline in revenue from the Remaining Group's hotel operation segment and an impairment loss on goodwill and hotel property were recorded on the Paris Marriott Hotel.

Segmental review of the Remaining Group's operations during the year ended 31 December 2016 is as follows:

Hotel Operation

The Remaining Group recorded a revenue of approximately HK\$249.2 million from the hotel operation segment, as compared to a revenue of approximately HK\$303.3 million for the preceding year. The decrease in revenue of the hotel operation segment for the year was mainly attributable to decrease in revenue contributed by the Paris Marriott Hotel as the result of the lingering threat of terrorist attacks in Europe since the 2015 terrorist attacks. The Group recorded a loss of approximately HK\$321.5 million in this segment for the year ended 31 December 2016, as compared to the loss of approximately HK\$31.8 million for the preceding year. The increase in loss during the year was mainly attributable to the impairment loss for the goodwill arising from the Paris Marriott Hotel, due to decline in the profitability of the hotel. Furthermore, impairment loss on goodwill and hotel properties were recorded on the Paris Marriott Hotel.

Paris

During the year, the Paris Marriott Hotel continued to be the principal source of revenue for the Group. The impact of terrorist attacks and other small scale disturbances first occurred since early 2015 in France and continued onto 2016 had heightened security concerns on foreign visitors planning to visit Paris during the year. In accordance with the Regional Tourism Committee of France, there were in total of 1.5 million fewer French and foreign tourists visiting the greater Paris region during the Year as compared to 2015. Additionally, occurrence of certain unfortunate events in 2016 such as flooding of the Seine River and series of city-wide protests or strikes led by labour unions had also impaired foreign visitors' travel momentum. Hotels in Paris had high hopes on the 2016 UEFA European Championship to recoup declining business, but regrettably fewer tourists than expected had visited France for this event. Furthermore, prominent depreciation of the British Pound after declaration of Britain's Brexit decision from the European Union had successfully lured foreign visitors away. As a result of the decline in number of visitors, revenue, occupancy, average room rate and RevPAR during the Year significantly declined as compared to the preceding year. Below is a comparison of operational performance of the Paris Marriott Hotel during the year and against the preceding year:

	2016	2015
Occupancy	80.2%	84.3%
Average Room Rate	€417	€510
RevPAR*	€334	€429

Money Lending

The Remaining Group commenced its mortgage loan business in Hong Kong in the second half of 2016. Revenue of this segment as represented by interest income earned from mortgage loan, amounted to approximately HK\$1.0 million during the year. The Group recorded a profit of approximately HK\$0.2 million from this segment for the year ended 31 December 2016.

As at 31 December 2016, the Remaining Group had gross mortgage loan receivables of HK\$63.0 million.

PROSPECTS**Hotel Operation***Paris*

Tourism industry in Paris, France is struggling to recover from the aftermath of terrorist attacks since 2015. The Board is pleased to notice that bookings and average room rate has shown signs to bottom out in the first three months of 2017, whilst a full recovery is yet to be confirmed. The Board considers the Paris Marriott Hotel in France a crown jewel asset of the Group, as it derives unparalleled value gain potential and occupies a prime location at the affluent Avenue des Champs-Élysées of Paris. Currently, the state of emergency is still in place in France, but the Board is confident that France is a mature tourist destination, visitors will continue to travel to the country and in particular the beautiful capital city, Paris. Nonetheless, the Board is unsure and uncertain when confidence of visitors and revenue of the Paris Marriott Hotel will recover. Furthermore, the hotel industry in Paris is facing new competition from emerging channels such as Airbnb. In order to enhance guest experience and security during their stay, the Remaining Group is considering different improvement proposals, including but not limited to implementation of renovation plans for the Paris Marriott Hotel.

Money Lending Business

The Board is pleased with the achievement of the Remaining Group's money lending business during the year. The Company will continue to focus on and develop mortgage loan business in Hong Kong as a new revenue source for the Remaining Group. The Board considers that the mortgage loan business in Hong Kong is filled with challenges and opportunities. The United States Federal Reserve's decision to raise interest rates in November 2016 and March 2017 increased optimism of interest rate hike in Hong Kong which may offer business opportunities for the Remaining Group. Nonetheless, the continuous steep surge in property prices and incidents of mortgage loan fraud cases would also pose threats to this business. The Remaining Group will remain vigilant and cautious when conducting mortgage loan business.

LOOKING AHEAD

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

The mortgage loan landscape in Hong Kong remains challenging as the result of fast changing global and domestic economic factors including interest rate trend as well as recent steep surge in property prices in Hong Kong. The Board will continue to explore business opportunities from mortgage loan business in Hong Kong with caution.

Finally, the Remaining Group will also 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 31 December 2016, total assets and net assets of the Remaining Group were approximately HK\$3,388.6 million and HK\$1,680.2 million respectively. The cash and bank balance of the Remaining Group as at 31 December 2016 were approximately HK\$531.1 million. The total current assets of the Remaining Group as at 31 December 2016 were approximately HK\$655.7 million. As at 31 December 2016, the Remaining Group's outstanding bank and other borrowings amounted to approximately HK\$1,387.4 million and all have been arranged on a floating-rate basis at three months EURIBOR plus 2.2% per annum. As at 31 December 2016, the net current assets of the Remaining Group were approximately HK\$602.5 million. As at 31 December 2016, the Remaining Group's gearing ratio (total borrowings/total assets) was at approximately 40.9%. The Remaining Group constantly monitors its cash flow position, maturity profile of borrowings, availability of banking facilities, gearing ratio and interest rate exposure.

ACQUISITIONS AND DISPOSALS

With reference to the announcement of the Company dated 7 January 2016, the Remaining Group entered into a sale and purchase agreement to dispose of the entire share capital of Fame Risen Development Limited ("**Fame Risen**"), a directly wholly-owned subsidiary of the Company, and shareholder loan (the "**Fame Risen Disposal**") at the consideration of approximately HK\$2,383.1 million. Fame Risen is the foreign joint venture partner of three associated companies established in the PRC principally engaging in steel manufacturing and trading business in the PRC. The Fame Risen Disposal was completed on 15 April 2016.

FOREIGN EXCHANGE EXPOSURE

The Remaining 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 Remaining 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 Remaining Group. For the year ended 31 December 2016, the Remaining Group had not entered into any forward contracts to hedge the foreign exchange exposure. The Remaining Group managed its foreign exchange risks by performing regular review and monitoring of foreign exchange exposure. The Remaining Group would consider employing foreign exchange hedging arrangements when appropriate and necessary.

CONTINGENT LIABILITIES

As at 31 December 2016, the Remaining Group had no significant contingent liabilities.

PLEDGE ON THE REMAINING GROUP'S ASSETS

As at 31 December 2016, cash deposits amounting to approximately HK\$19.3 million and a building of the Remaining Group with a net carrying amount of approximately HK\$2,662.4 million were pledged to secure bank loan granted to the Remaining Group.

EMPLOYEES AND REMUNERATION

The Remaining Group had 9 employees as at 31 December 2016. The total employee remuneration during the year was 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 Remaining Group also provided other employee benefits including bonuses, mandatory provident fund scheme, medical insurance scheme and participation to the share option scheme.

FOR THE YEAR ENDED 31 DECEMBER 2015**BUSINESS REVIEW****OVERVIEW**

For the year ended 31 December 2015, revenue of the Remaining Group amounted to approximately HK\$303.3 million. The Remaining Group recorded a loss for the year of approximately HK\$39.7 million. The loss for the year was principally attributable to the payment of finance cost arising from interest on bank loans and loans from a related company (for the purpose of acquiring the Paris Marriott Hotel).

Segmental review of the Remaining Group's operations during the year ended 31 December 2015 is as follows:

Hotel Operation

The Remaining Group recorded a revenue of approximately HK\$303.3 million from the hotel operation segment, as compared to a revenue of approximately HK\$57.1 million for the preceding year. The increase in revenue of the hotel operation segment for the year was mainly attributable to recognition of an entire year of revenue contributed by the Paris Marriott Hotel. The Group recorded a loss of approximately HK\$31.8 million in this segment for the year ended 31 December 2015, as compared to the loss of approximately HK\$139.1 million for the preceding year. The decrease in loss was mainly attributable to the absence of one-off transaction costs for the acquisition of the Paris Marriott Hotel.

Paris

During the year, revenue from the Paris Marriott Hotel constituted principal source of revenue to the Remaining Group. Majority of customers of the Paris Marriott Hotel were originated from the United States and the Middle East. The purposes of traveling to and staying in Paris ranged from taking vacation to attending business meetings. Despite occupying a prime location in the Paris city, the hotel experienced severe impact on revenue, occupancy, average daily room rates and RevPAR as the result of terrorist attacks occurred in both the first and last quarter of the Year. Below is a summary and comparison of operational performance of the Paris Marriott Hotel during the year and against the preceding year:

	2015	2014
Occupancy	84.3%	90.1%
Average Room Rate	€510	€471
RevPAR*	€429	€425

Money Lending

The Remaining Group did not commence its money lending business during the year.

PROSPECTS**Hotel Operation***Paris*

The Board considers the Paris Marriott Hotel in France derives unparalleled value to the Remaining Group as the hotel occupies prime location in the heart of the Paris city. Notwithstanding the terrorist attacks in Paris last year, the Group is confident that performance of the Paris Marriott Hotel will soon recover. In order to enhance guest experience during their stay at the hotel, the Remaining Group is considering different renovation plans on guest rooms and reception lobby etc. for the Paris Marriott Hotel.

Based on HVS, one of the World's leading hospitality consulting and valuation firm, transaction volume of European hotels for the year increased by 65%, as compared to the preceding year, as the result of positive year-on-year RevPAR growth by the industry. The Group shares the same views on investment outlook of mid-level to luxury hotels in Europe, partly due to the sustained depreciation of Euro against United States dollars. In addition to Paris, the Remaining Group will closely look for hotel investment opportunities in major European cities.

Money Lending Business

The Remaining Group is positive towards incubating money lending business as an alternative revenue source to the hotel operations segment. The Remaining Group intends to operate money lending business under the brand name of “Kai Yuan Capital” (“Kai Yuan Capital”).

It is envisaged for Kai Yuan Capital to provide mainly short-term secured financing and mortgage loans in Hong Kong, whereby personal properties or other securities will be demanded as collaterals. With respect to the source of financing, the Remaining Group intends to apply part of the net proceeds from the disposal of the entire steel manufacturing and trading segment as start-up capital.

LOOKING AHEAD

The Board considers investing in hotels tends to be a relatively low risk investment, whilst offering stable revenue stream and considerable capital gain potential. The Board will continue to look into opportunities to enhance its portfolio of the hotel operation segment in Europe. The Remaining Group will also continue to explore investment opportunities and remain dedicated to constantly review, reinforce and, in appropriate circumstances, restructure its existing business segments with a view to enhancing and improving returns to our stakeholders.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2015, total assets and net assets of the Remaining Group were approximately HK\$5,792.6 million and HK\$2,040.1 million respectively. The cash and bank balance of the Remaining Group as at 31 December 2015 were approximately HK\$322.7 million. The total current assets of the Remaining Group as at 31 December 2015 were approximately HK\$2,610.1 million. As at 31 December 2015, the Remaining Group’s outstanding bank and other borrowings amounted to approximately HK\$3,298.5 million of which approximately HK\$1,854.3 million have been arranged on a fixed-rate at 4% per annum and approximately HK\$1,444.2 million a floating-rate basis at three months EURIBOR plus 2.2% per annum. As at 31 December 2015, the net current assets of the Remaining Group were approximately HK\$630.1 million. As at 31 December 2015, the Remaining Group’s gearing ratio (total borrowings/total assets) was at approximately 56.9%. The Remaining Group constantly monitors its cash flow position, maturity profile of borrowings, availability of banking facilities, gearing ratio and interest rate exposure.

ACQUISITIONS AND DISPOSALS

On 27 May 2015, the Remaining Group entered into a sale and purchase agreement with a third party to dispose of the entire share capital of Spread International Group Limited (“**Spread International**”), an indirectly wholly-owned subsidiary of the Company, and shareholder loan (the “**Spread International Disposal**”) at the consideration of HK\$131.0 million. Spread International was 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 were principally engaged in the supply of heat energy in Tianjin, the PRC. The Spread International Disposal constituted a very substantial disposal of the Company, and a circular of the Spread International Disposal was published on 14 August 2015. The Spread International Disposal was completed in October 2015.

FOREIGN EXCHANGE EXPOSURE

The Remaining 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 Remaining 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 Remaining Group. For the year ended 31 December 2015, the Remaining Group had not entered into any forward contracts to hedge the foreign exchange exposure. The Remaining Group managed its foreign exchange risks by performing regular review and monitoring of foreign exchange exposure. The Remaining Group would consider employing foreign exchange hedging arrangements when appropriate and necessary.

CONTINGENT LIABILITIES

As at 31 December 2015, the Remaining Group had no significant contingent liabilities.

PLEDGE ON THE REMAINING GROUP’S ASSETS

As at 31 December 2015, cash deposits amounting to approximately HK\$20.1 million and a building of the Remaining Group with a net carrying amount of approximately HK\$2,805.9 million were pledged to secure bank loan granted to the Remaining Group.

EMPLOYEES AND REMUNERATION

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

Set out below are the unaudited financial information of Leading Prospect Limited (the “**Target**”) and its subsidiaries (collectively, the “**Target Group**”) which comprises the unaudited consolidated statements of financial position of the Target Group as at 31 December 2015, 2016 and 2017 and the related unaudited consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the years ended 31 December 2015, 2016 and 2017 and certain explanatory notes (altogether the “**Unaudited Financial Information**”).

The Company’s auditor, Ernst & Young, has reviewed the Unaudited Financial Information of the Target Group in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”) and with reference to Practice Note 750 Review of Financial Information under the Hong Kong Listing Rules for a Very Substantial Disposal issued by the HKICPA. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable the auditor to obtain assurance that they would become aware of all significant matters that might be identified in an audit. Based on their review, nothing has come to their attention that causes them to believe that the Unaudited Financial Information of the Target Group is not prepared, in all material respects, in accordance with the basis of preparation as set out in Note 2 below.

UNAUDITED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the years ended 31 December 2015, 2016 and 2017

	For the year ended 31 December		
	2015	2016	2017
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
	(Unaudited)	(Unaudited)	(Unaudited)
REVENUE	26,461,275	26,430,711	28,960,833
Cost of sales	<u>(19,854,852)</u>	<u>(13,538,459)</u>	<u>(13,348,856)</u>
Gross profit	6,606,423	12,892,252	15,611,977
Other income and gains	237,020	80,207	–
Administrative expenses	(7,908,260)	(7,444,284)	(8,891,454)
Finance costs	<u>(4,026,202)</u>	<u>(3,751,718)</u>	<u>(3,791,290)</u>
(LOSS)/PROFIT BEFORE TAX	(5,091,019)	1,776,457	2,929,233
Income tax credit/(expense)	<u>768,038</u>	<u>(368,577)</u>	<u>(523,079)</u>
(LOSS)/PROFIT AND TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR	<u><u>(4,322,981)</u></u>	<u><u>1,407,880</u></u>	<u><u>2,406,154</u></u>
Attributable to:			
Owners of the Target	(4,322,981)	1,407,880	2,406,154
Non-controlling interests	<u>–</u>	<u>–</u>	<u>–</u>
	<u><u>(4,322,981)</u></u>	<u><u>1,407,880</u></u>	<u><u>2,406,154</u></u>

UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION*At 31 December 2015, 2016 and 2017*

	As at 31 December		
	2015	2016	2017
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
	(Unaudited)	(Unaudited)	(Unaudited)
NON-CURRENT ASSETS			
Property, plant and equipment	522,140,473	518,338,321	515,321,621
Deferred tax assets	4,914,795	4,506,523	4,272,056
Total non-current assets	527,055,268	522,844,844	519,593,677
CURRENT ASSETS			
Inventories	78,630	92,747	67,997
Accounts receivable	632,154	625,353	1,187,534
Prepayment, deposits and other receivables	471,158	1,280,252	566,491
Amounts due from shareholder	100	100	100
Amounts due from ultimate holding company	152,817,605	143,747,605	14,677,605
Bank balances and cash	6,689,755	8,638,231	7,330,502
Total current assets	160,689,402	154,384,288	23,830,229
CURRENT LIABILITIES			
Accounts payable	283,601	333,502	363,877
Other payables and accruals	1,607,962	1,369,079	1,552,674
Receipt in advance	28,041	38,035	26,179
Amounts due to ultimate holding company	495,719,884	496,015,149	496,313,043
Interest-bearing bank borrowings	12,000,000	12,000,000	–
Tax payable	–	137,486	372,879
Total current liabilities	509,639,488	509,893,251	498,628,652
NET CURRENT LIABILITIES	(348,950,086)	(355,508,963)	(474,798,423)
TOTAL ASSETS LESS CURRENT LIABILITIES	178,105,182	167,335,881	44,795,254
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	137,000,000	125,000,000	–
Deferred tax liabilities	56,270,125	56,092,944	56,146,163
Total non-current liabilities	193,270,125	181,092,944	56,146,163
Net liabilities	(15,164,943)	(13,757,063)	(11,350,909)
EQUITY			
Equity attributable to owners of the Target			
Share capital	780	780	780
Accumulated losses	(15,165,723)	(13,757,843)	(11,351,689)
Net deficits	(15,164,943)	(13,757,063)	(11,350,909)

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY*For the years ended 31 December 2015, 2016 and 2017*

	Share capital	Accumulated losses	Total equity
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
	(Unaudited)	(Unaudited)	(Unaudited)
At 1 January 2015	780	(10,842,742)	(10,841,962)
Loss and total comprehensive loss for the year	<u>–</u>	<u>(4,322,981)</u>	<u>(4,322,981)</u>
At 31 December 2015 and 1 January 2016	780	(15,165,723)	(15,164,943)
Profit and total comprehensive income for the year	<u>–</u>	<u>1,407,880</u>	<u>1,407,880</u>
At 31 December 2016 and 1 January 2017	780	(13,757,843)	(13,757,063)
Profit and total comprehensive income for the year	<u>–</u>	<u>2,406,154</u>	<u>2,406,154</u>
At 31 December 2017	<u><u>780</u></u>	<u><u>(11,351,689)</u></u>	<u><u>(11,350,909)</u></u>

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS*For the years ended 31 December 2015, 2016 and 2017*

	For the year ended 31 December		
	2015	2016	2017
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
	(Unaudited)	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit before tax	(5,091,019)	1,776,457	2,929,233
Adjustments for:			
Loss on disposal of property, plant and equipment	10,238	2,126	2,965
Finance costs	4,026,202	3,751,718	3,791,290
Depreciation of property, plant and equipment	11,002,464	4,255,726	3,418,127
	<u>9,947,885</u>	<u>9,786,027</u>	<u>10,141,615</u>
Decrease/(increase) in inventories	20,953	(14,117)	24,750
Decrease/(increase) in accounts receivable	73,191	6,801	(562,181)
Decrease/(increase) in prepayments, deposits and other receivables	290,180	(809,094)	713,761
(Decrease)/increase in accounts payable	(81,926)	49,901	30,375
(Decrease)/increase in other payables and accruals	(370,632)	(238,883)	183,595
(Decrease)/increase in receipt in advance	(2,105)	9,994	(11,856)
	<u>9,877,546</u>	<u>8,790,629</u>	<u>10,520,059</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	(499,025)	(455,700)	(404,392)
Decrease in amounts due from ultimate holding company	6,070,000	9,070,000	129,070,000
(Decrease)/increase in amounts due to ultimate holding company	(100,372)	295,265	297,894
	<u>5,470,603</u>	<u>8,909,565</u>	<u>128,963,502</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of obligations under finance leases	(186,950)	–	–
Repayment of interest-bearing bank borrowings	(12,000,000)	(12,000,000)	(137,000,000)
Interest paid	(4,026,202)	(3,751,718)	(3,791,290)
	<u>(16,213,152)</u>	<u>(15,751,718)</u>	<u>(140,791,290)</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	<u>(865,003)</u>	<u>1,948,476</u>	<u>(1,307,729)</u>
Cash and cash equivalents at beginning of year	7,554,758	6,689,755	8,638,231
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>6,689,755</u></u>	<u><u>8,638,231</u></u>	<u><u>7,330,502</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	<u>6,689,755</u>	<u>8,638,231</u>	<u>7,330,502</u>
Cash and cash equivalents as stated in the consolidated statement of cash flows	<u><u>6,689,755</u></u>	<u><u>8,638,231</u></u>	<u><u>7,330,502</u></u>

NOTES TO THE UNAUDITED FINANCIAL INFORMATION**1 GENERAL INFORMATION**

Leading Prospect Limited (the “**Target**”) was incorporated in British Virgin Islands with limited liability. The Target is an direct wholly-owned subsidiary of Kai Yuan Holdings Limited (the “**Company**”), a company incorporated in Bermuda with limited liability with its shares listed on the Main Board of the Stock Exchange of Hong Kong Limited. The Target and its subsidiaries (collectively, the “**Target Group**”) are principally engaged in business of operating a hotel in Hong Kong.

On 13 April 2018, the Company entered into a Sale and Purchase Agreement with Ridge Avis Limited (the “**Purchaser**”), pursuant to which the Company has conditionally agreed to sell to the Purchaser and the Purchaser has conditionally agreed to purchase from the Company, the entire issued shares of the Target and a shareholder’s loan owing by the Target Group to the Company, subject to the terms and conditions of the Sale and Purchase Agreement (the “**Disposal**”).

The Unaudited Financial Information of the Target Group is presented in Hong Kong dollars (“**HK\$**”) and all values are rounded to the nearest integer except when otherwise indicated.

2 BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL INFORMATION

The Unaudited Financial Information of the Target Group for each of the years ended 31 December 2015, 2016 and 2017 (the “**Unaudited Financial Information**”) has been prepared in accordance with paragraph 68(2)(a)(i) of Chapter 14 of the Listing Rules, and solely for the purposes of inclusion in this circular to be issued by the Company in connection with the Disposal.

The Unaudited Financial Information has been prepared using the same accounting policies adopted by the Company in the preparation of the consolidated financial statements of the Company and its subsidiaries for each of years ended 31 December 2015, 2016 and 2017, which conform with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”).

The Unaudited Financial Information of the Target Group does not contain sufficient information to constitute a complete set of financial statements as defined in Hong Kong Accounting Standard 1 (Revised) “Presentation of Financial Statements” issued by the HKICPA nor an interim report as defined in Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the HKICPA.

As at 31 December 2017, the current liabilities of the Target Group exceeded its current assets by HK\$474,798,423. The above conditions indicated the existence of uncertainties which may cast significant doubt on the abilities of the Target Group to continue as a going concern and therefore, the Target Group may not be able to realise its assets and discharge its liabilities in normal course of business. However, the Company has undertaken to provide continued financial support to enable the Target Group to fulfill its financial liabilities when they fall due. Accordingly, the Unaudited Financial Information has been prepared by the directors of the Company on a going concern basis.



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

To the Directors of Kai Yuan Holdings Limited

(Incorporated in Bermuda with limited liability)

We have completed our assurance engagement to report on the compilation of pro forma financial information of Kai Yuan Holdings Limited (the “**Company**”) and its subsidiaries (hereinafter collectively referred to as the “**Group**”) by the directors of the Company (the “**Directors**”) for illustrative purposes only. The pro forma financial information consists of the pro forma consolidated statement of financial position as at 31 December 2017 and the pro forma consolidated statement of profit or loss and other comprehensive income and the pro forma consolidated statement of cash flows for the year ended 31 December 2017 and related notes as set out on pages III-5 to III-10 of the circular dated 23 May 2018 (the “**Circular**”) issued by the Company (the “**Pro Forma Financial Information**”). The applicable criteria on the basis of which the Directors have compiled the unaudited Pro Forma Financial Information are described in Section A of Appendix III to the Circular.

The Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of a very substantial disposal (hereinafter referred to as the “**Disposal**”) by the Group, including proposed disposal of the entire issued share capital of Leading Prospect Limited (the “**Target**”) and a shareholder’s loan owing by the Target and its subsidiaries (hereinafter collectively referred to as the “**Target Group**”) to the Company, on the Group’s financial position as at 31 December 2017 and the Group’s financial performance and cash flows for the year ended 31 December 2017 as if the Disposal had taken place at 31 December 2017 and 1 January 2017, respectively. As part of this process, information about the Group’s financial position, financial performance and cash flows have been extracted by the Directors from the Group’s consolidated financial statements for the year ended 31 December 2017, on which an annual report has been published. Information about the Target Group’s financial position, financial performance and cash flows have been extracted by the Directors from the Target Group’s financial information for the year ended 31 December 2017, on which a financial information has been published in Appendix II to the Circular.

DIRECTORS’ RESPONSIBILITY FOR THE PRO FORMA FINANCIAL INFORMATION

The Directors are responsible for compiling the Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and with reference to Accounting Guideline (“**AG**”) 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”).

OUR INDEPENDENCE AND QUALITY CONTROL

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

REPORTING ACCOUNTANTS' RESPONSIBILITIES

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus* issued by the HKICPA. This standard requires that the reporting accountants comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Pro Forma Financial Information, in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Pro Forma Financial Information.

The purpose of Pro Forma Financial Information included in the Circular is solely to illustrate the impact of the Disposal on unadjusted financial information of the Group as if the Disposal had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Disposal would have been as presented.

A reasonable assurance engagement to report on whether the Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the Disposal, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the Disposal in respect of which the Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OPINION

In our opinion:

- (a) the Pro Forma Financial Information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purpose of the Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

Ernst & Young

Certified Public Accountants

Hong Kong

23 May 2018

A. BASIS OF PREPARATION OF THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP

The following is a summary of illustrative unaudited pro forma consolidated statement of financial position, unaudited pro forma consolidated statement of profit or loss and other comprehensive income, and unaudited pro forma consolidated statement of cash flows (collectively referred to as the **“Pro Forma Financial Information”**), in connection with the proposed disposal of Leading Prospect Limited (**“Target”**) and its subsidiaries (collectively referred to as the **“Target Group”**) and a shareholder’s loan owing by the Target Group to Kai Yuan Holdings Limited (the **“Company”**) (the **“Shareholder’s Loan”**) (the **“Disposal”**). The unaudited Pro Forma Financial Information presented below is prepared to illustrate (i) the financial position of the Company and its subsidiaries (collectively referred to as **“the Group”**) immediately after completion of the Disposal (collectively referred to as the **“Remaining Group”**) as at 31 December 2017 as if the Disposal had been completed on 31 December 2017; and (ii) the results and cash flows of the Remaining Group for the year ended 31 December 2017 as if the Disposal had been completed on 1 January 2017. The unaudited Pro Forma Financial Information is prepared based on the published annual report of the Group for the year ended 31 December 2017, after giving effect to the pro forma adjustments described in the notes.

The unaudited Pro Forma Financial Information is prepared in accordance with Paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and has been prepared by the Directors of the Company for illustrative purposes only.

Narrative descriptions of the unaudited pro forma adjustments that are directly attributable to the Disposal and factually supportable are summarised in the accompanying notes to the unaudited Pro Forma Financial Information.

In respect of the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and unaudited pro forma consolidated statement of cash flows, the unaudited pro forma adjustments are not expected to have a continuing effect on the Group.

The unaudited Pro Forma Financial Information has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial results, cash flows and financial position of the Remaining Group had the Disposal been completed as of the specified dates or any other dates.

The unaudited Pro Forma Financial Information should be read in conjunction with the historical financial information of the Group as set out in the published annual report of the Company for the year ended 31 December 2017 and other financial information included elsewhere in this Circular.

B. PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP

Pro Forma Consolidated Statement of Financial Position of the Remaining Group
As at 31 December 2017

	Consolidated statement of financial position of the Group as at 31 December 2017 HK\$'000 Note 1	Pro forma adjustments			The Remaining Group HK\$'000
		HK\$'000 Note 2(a)	HK\$'000 Note 3	HK\$'000 Note 3&4	
NON-CURRENT					
ASSETS					
Property, plant and equipment	3,601,397	(515,322)	–	–	3,086,075
Intangible assets	583	–	–	–	583
Deferred tax assets	29,688	(4,272)	–	–	25,416
	<u>3,631,668</u>				<u>3,112,074</u>
TOTAL NON-CURRENT ASSETS					
	<u>3,631,668</u>				<u>3,112,074</u>
CURRENT ASSETS					
Inventories	1,102	(68)	–	–	1,034
Trade receivables	23,523	(1,188)	–	–	22,335
Other receivables and prepayments	23,338	(566)	–	–	22,772
Pledged deposits	24,101	–	–	–	24,101
Cash and cash equivalents	513,396	(7,331)	481,635	325,334	1,313,034
	<u>585,460</u>				<u>1,383,276</u>
TOTAL CURRENT ASSETS					
	<u>585,460</u>				<u>1,383,276</u>
TOTAL ASSETS					
	<u>4,217,128</u>				<u>4,495,350</u>

APPENDIX III

UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE REMAINING GROUP

	Consolidated statement of financial position of the Group as at 31 December 2017	Pro forma adjustments			The Remaining Group
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	Note 1	Note 2(a)	Note 3	Note 3&4	
CURRENT LIABILITIES					
Trade payables	10,198	(364)	–	–	9,834
Other payables and accruals	51,964	(1,553)	–	–	50,411
Receipt in advance	87	(26)	–	–	61
Derivative financial instruments	11,342	–	–	–	11,342
Amounts due to the Remaining Group	–	(481,635)	481,635	–	–
Tax payable	362	(373)	–	–	(11)
	<u>73,953</u>				<u>71,637</u>
TOTAL CURRENT LIABILITIES					
	<u>73,953</u>				<u>71,637</u>
NET CURRENT ASSETS	<u>511,507</u>				<u>1,311,639</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>4,143,175</u>				<u>4,423,713</u>
NON-CURRENT LIABILITIES					
Interest-bearing bank borrowings	1,602,630	–	–	–	1,602,630
Deferred tax liabilities	309,707	(56,146)	–	–	253,561
Derivative financial instruments	10,839	–	–	–	10,839
	<u>1,923,176</u>				<u>1,867,030</u>
TOTAL NON-CURRENT LIABILITIES					
	<u>1,923,176</u>				<u>1,867,030</u>
NET ASSETS	<u>2,219,999</u>				<u>2,556,683</u>
EQUITY					
Equity attributable to owners of the Target					
Share capital	1,277,888	–	–	–	1,277,888
Reserves	942,111	–	–	336,684	1,278,795
	<u>2,219,999</u>				<u>2,556,683</u>
TOTAL EQUITY					
	<u>2,219,999</u>				<u>2,556,683</u>

Pro Forma Consolidated Profit or Loss and Other Comprehensive Income of the Remaining Group*For the year ended 31 December 2017*

	Consolidated statement of profit or loss and other comprehensive income of the Group for the year ended 31 December 2017 <i>HK\$'000</i> <i>Note 1</i>	Pro forma adjustments <i>HK\$'000</i> <i>Note 2(b)</i> <i>HK\$'000</i> <i>Note 4</i>		The Remaining Group <i>HK\$'000</i>
Revenue	289,931	(28,961)	–	260,970
Cost of sales	<u>(216,025)</u>	13,349	–	<u>(202,676)</u>
Gross profit	73,906			58,294
Other income and gains	4,187	–	–	4,187
Administrative expenses	(49,946)	8,892	–	(41,054)
Finance costs	(51,338)	3,791	–	(47,547)
Estimated gain on the Disposal	<u>–</u>	–	336,684	<u>336,684</u>
PROFIT BEFORE TAX	(23,191)			310,564
Income tax credit	<u>27,871</u>	523	–	<u>28,394</u>
PROFIT FOR THE YEAR	4,680			338,958

	Consolidated statement of profit or loss and other comprehensive income of the Group for the year ended 31 December 2017 HK\$'000 Note 1	Pro forma adjustments HK\$'000 Note 2(b)		HK\$'000 Note 4	The Remaining Group HK\$'000
OTHER COMPREHENSIVE INCOME					
Other comprehensive income to be reclassified to profit or loss in subsequent periods:					
Cash flow hedges:					
Effective portion of changes in fair value of hedging instruments arising during the year	(1,433)	–	–		(1,433)
Reclassification adjustments for loss included in the consolidated statement of profit or loss	12,967	–	–		12,967
Income tax effect	(2,608)	–	–		(2,608)
	8,926				8,926
Exchange differences on translation of foreign operations	185,464	–	–		185,464
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	194,390				194,390
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	199,070				533,348
Profit attributable to:					
Owners of the parent	4,680				338,958
Non-controlling interests	–				–
	4,680				338,958
Total comprehensive income attributable to:					
Owners of the parent	199,070				533,348
Non-controlling interests	–				–
	199,070				533,348

Pro Forma Consolidated Statement of Cash Flows of the Remaining Group*For the year ended 31 December 2017*

	Consolidated statement of cash flows of the Group for the year ended 31 December 2017 HK\$'000 Note 1	Pro forma adjustments			The Remaining Group HK\$'000
		HK\$'000 Note 2(b)	HK\$'000 Note 4&5	HK\$'000 Note 3	
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before tax	(23,191)	(2,929)	336,684	–	310,564
Adjustments for:					
Finance costs	51,338	(3,791)	–	–	47,547
Loss on disposal of items of property, plant and equipment	193	(3)	–	–	190
Estimated gain on the Disposal	–	–	(336,684)	–	(336,684)
Depreciation	40,967	(3,418)	–	–	37,549
Amortisation of intangible assets	66	–	–	–	66
Equity-settled share option expense	2,173	–	–	–	2,173
	71,546				61,405
Decrease in inventories	39	(25)	–	–	14
Increase in trade receivables	(8,002)	562	–	–	(7,440)
Decrease in loans receivable	63,000	–	–	–	63,000
Increase in other receivables and prepayments	(964)	(714)	–	–	(1,678)
Increase in trade payables	3,969	(30)	–	–	3,939
Increase in other payables and accruals	11,866	(184)	–	–	11,682
Increase in receipt in advance	49	12	–	–	61
Cash generated from operations	141,503				130,983
France profit taxes refunded	5,086	–	–	–	5,086
Net cash flows generated from operating activities	146,589				136,069

APPENDIX III

UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE REMAINING GROUP

	Consolidated statement of cash flows of the Group for the year ended 31 December 2017	Pro forma adjustments			The Remaining Group
	HK\$'000 Note 1	HK\$'000 Note 2(b)	HK\$'000 Note 4&5	HK\$'000 Note 3	HK\$'000
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchases of items of property, plant and equipment	(10,773)	404	–	–	(10,369)
Purchase of intangible assets	(205)	–	–	–	(205)
Net proceeds from the Disposal, net of cash of the Target Group	–	–	798,331	(129,368)	668,963
Increase in the Shareholder's Loan	–	(129,368)	–	129,368	–
Net cash flows generated from investing activities	(10,978)				658,389
CASH FLOWS FROM FINANCING ACTIVITIES					
Increase in pledged time deposits	(4,787)	–	–	–	(4,787)
Repayment of bank loans	(137,000)	137,000	–	–	–
Interest paid	(50,131)	3,791	–	–	(46,340)
Net cash flows used in financing activities	(191,918)				(51,127)
NET INCREASE IN CASH AND CASH EQUIVALENTS	(56,307)				743,331
Cash and cash equivalents at beginning of year	539,721	–	–	–	539,721
Effect of foreign exchange rate changes, net	29,982	–	–	–	29,982
CASH AND CASH EQUIVALENTS AT END OF YEAR	513,396				1,313,034

C. NOTES TO PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP

1. The amounts of the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit or loss and other comprehensive income and the consolidated statement of cash flows for the year ended 31 December 2017 are extracted from its consolidated financial statements as set out in the published annual report of the Company.
2. (a) The adjustments represent the exclusion of assets and liabilities of the Target Group as if the Disposal had taken place on 31 December 2017. The unaudited financial position of the Target Group as at 31 December 2017 was extracted from the Appendix II to the Circular dated 23 May 2018.

(b) The adjustments represent the exclusion of the results and cash flows of the Target Group for the year ended 31 December 2017 as if the Disposal had been completed on 1 January 2017. The unaudited financial information of the Target Group for the year ended 31 December 2017 was extracted from the Appendix II to the Circular dated 23 May 2018.
3. Pursuant to the Sale and Purchase Agreement entered on 13 April 2018 (the “SPA”), the Group had agreed to dispose of the Shareholder’s Loan. As at 1 January 2017 and 31 December 2017, the balances of the Shareholder’s Loan were HK\$352,267,000 and HK\$481,635,000, respectively. The adjustment represents the exclusion of the cash flows arising from the Shareholder’s Loan for the year ended 31 December 2017 as if the Disposal had been completed on 1 January 2017.
4. The adjustment reflects estimated gain on the Disposal with the consideration of HK\$819,469,000, as if the Disposal were completed on 31 December 2017 is as follows:

	<i>HK\$’000</i>
Consideration (i)	819,469
Less: estimated direct expenses in relation to the Disposal	<u>(12,500)</u>
	806,969
Less: net assets disposed of in relation to the Disposal as at 31 December 2017 (ii)	<u>(470,285)</u>
Estimated gain on the Disposal	<u><u>336,684</u></u>

Since the consideration was determined based on arm’s length negotiations, the Directors are of the opinion that the pro forma gain on the Disposal as if the Disposal had been completed on 1 January 2017 should not be significantly different from the pro forma gain on the Disposal as if the Disposal had been completed on 31 December 2017.

- (i) Pursuant to the SPA, the consideration shall be aggregate of (i) the Target Group’s unaudited consolidated net current assets of HK\$9,469,000 as at 31 March 2018 and (ii) HK\$810,000,000.

- (ii) The net assets of the Target Group attributable to the Group as at 31 December 2017 were as follows:

	<i>HK\$'000</i>
Property, plant and equipment	515,322
Deferred tax assets	4,272
Inventories	68
Trade receivables	1,188
Other receivables and prepayments	566
Cash and cash equivalents	7,331
Trade payables	(364)
Other payables and accruals	(1,553)
Receipt in advance	(26)
Tax payable	(373)
Deferred tax liabilities	(56,146)
	<u>470,285</u>

5. The adjustment of approximately HK\$798,331,000 represents the net cash inflows as if the Disposal had been completed by 1 January 2017 as below:

	<i>HK\$'000</i>
Consideration (<i>Note 4</i>)	819,469
Less: estimated direct expenses in relation to the Disposal	(12,500)
cash and cash equivalents of the Target Group	
as at 1 January 2017	<u>(8,638)</u>
	<u>798,331</u>

The following is the text of a letter and valuation certificate prepared for the purpose of incorporation in this circular received from AVISTA Valuation Advisory Limited, an independent valuer, in connection with its valuation of the property interests as at 30 April 2018.



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Wan Chai, Hong Kong

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23 May 2018

The Board of Directors
Kai Yuan Holdings Limited
28/F Chinachem Century Tower
178 Gloucester Road
Wanchai, Hong Kong

Dear Sirs/Madams,

INSTRUCTIONS

In accordance with the instructions for us to value the property interests held by Kai Yuan Holdings Limited (the “**Company**”) and its subsidiaries (hereinafter together referred to as the “**Group**”), we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the property as at 30 April 2018 (the “**Valuation Date**”).

PREMISES OF VALUE

The valuation is our opinion of market value which is defined by the Hong Kong Institute of Surveyors as “the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently, and without compulsion”.

BASIS OF VALUATION

In valuing the property interests, we have complied with all the requirements set out in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited (“**Listing Rules**”), the HKIS Valuation Standards (2017 Edition) published by the Hong Kong Institute of Surveyors and the International Valuation Standards published from time to time by the International Valuation Standards Council.

Our valuation exclude an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangement, special considerations or concessions granted by anyone associated with the sale, or any element of special value or costs of sale and purchase or offset for any associated taxes.

VALUATION METHODOLOGY

In the course of our valuation, unless otherwise stated, we have valued the property in their designated uses with the understanding that the property will be used as such (hereafter referred to as “**continued uses**”).

In valuing the property, we have adopted market approach in our valuation by making reference to comparable market transactions in our assessment of the market value of a property interest. This approach rests on the wide acceptance of the market transactions as the best indicator and pre-supposes that evidence of relevant transactions in the market place can be extrapolated to similar properties, subject to allowances for variable factors.

TITLE INVESTIGATION

In preparing our valuation, we have carried out land searches at the Land Registry of Hong Kong. However, we have not searched the original documents to verify ownership or to ascertain the existence of any amendment which does not appear on the copies handed to us. We are not aware of any title defects, easements or right of way affecting the property and our valuation assume that none exists, except only where otherwise stated.

SITE INVESTIGATION

We have inspected the exterior and, where possible, the accessible portions of the interior of the property being appraised. The inspection was carried out by Oswald Au (Director of AVISTA Valuation Advisory Limited), on the date of 10 April 2018. However, we have not been commissioned to carry out structural survey nor to arrange for an inspection of the services. We are, therefore, not able to report whether the property is free of rot, infestation or any other structural defects. We formulate our view as to the overall conditions of the property taking into account the general appearance, the apparent standard and age of fixtures and fittings and the existence of utility services. Hence it must be stressed that we have had regard to you with a view as to whether the buildings are free from defects or as to the possibility of latent defects which might affect our valuation. In the course of our inspection, we did not note any serious defects. No tests were carried out on any of the services. We have assumed that utility services, such as electricity, telephone, water, etc., are available and free from defect.

We have not arranged for any investigation to be carried out to determine whether or not high alumina cement concrete or calcium chloride additive or pulverized fly ash, or any other deleterious material has been used in the construction of the property. We are therefore unable to report that the property is free from risk in this respect. For the purpose of this valuation, we have assumed that deleterious material has not been used in the construction of the property.

We have not been commissioned to carry out detailed site measurements to verify the correctness of the land or building areas in respect of the property but have assumed that the areas provided to us are correct. Based on our experience of valuation of similar property, we consider the assumptions so made to be reasonable.

Moreover, we have not carried out any site investigation to determine the suitability of the ground conditions or the services for any property development erected or to be erected thereon. Nor did we undertake archaeological, ecological or environmental surveys for the property interests. Our valuation is prepared on the assumption that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during the construction period. Should it be discovered that contamination, subsidence or other latent defects exists in the property or on adjoining or neighbouring land or that the property had been or are being put to contaminated use, we reserve right to revise our opinion of value.

SOURCE OF INFORMATION

Unless otherwise stated, we shall rely to a considerable extent on the information provided to us by the Company or the legal or other professional advisers on such matters as statutory notices, planning approval, zoning, easements, tenure, completion date of building, development proposal, identification of property, particulars of occupation, site areas, floor areas, matters relating to tenure, tenancies and all other relevant matters. Dimensions, measurements and areas included in the valuation certificate is based on information contained in the documents provided to us and are therefore approximations and for reference only. We have not searched original plans, developer brochures and the like to verify them.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Company. We have also sought confirmation from the Company that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view and we have no reason to suspect that any material information has been withheld.

VALUATION ASSUMPTIONS

For the property which is held under long term land use rights, we have assumed that transferable land use rights in respect of the property interests at nominal land use fees has been granted and that any premium payable has already been fully settled. Unless stated as otherwise, we have assumed that the respective title owner of the property has an enforceable title of the property interests and have free and uninterrupted rights to occupy, use, sell, lease, charge, mortgage or otherwise dispose of the property without the need of seeking further approval from and paying additional premium to the Government for the unexpired land use term as granted. Unless noted in the report, vacant possession is assumed for the property concerned.

Moreover, we have assumed that the design and construction of the property is/will be in compliance with the local planning regulations and requirements and had been/would have been duly examined and approved by the relevant authorities.

Continued uses assumes the property will be used for the purposes for which the property is designed and built, or to which they are currently adapted. The valuation on the property in continued uses does not represent the amount that might be realised from piecemeal disposition of the property in the open market.

No environmental impact study has been ordered or made. Full compliance with applicable national, provincial and local environmental regulations and laws is assumed. Moreover, it is assumed that all required licences, consents or other legislative or administrative authority from any local, provincial or national government or private entity or organisation either have been or can be obtained or renewed for any use which the report covers.

It is also assumed that all applicable zoning and use regulations and restrictions have been complied with unless nonconformity has been stated, defined and considered in the valuation report. In addition, it is assumed that the utilisation of the land and improvements are within the boundaries of the property described and that no encroachment or trespass exists, unless noted in the report.

No allowance has been made in our report for any charges, mortgages or amounts owing on any of the property interests valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

We have further assumed that the property was not transferred or involved in any contentious or non-contentious dispute as at the valuation date. We have also assumed that there was not any material change of the property in between dates of our inspection and the valuation date.

CURRENCY

Unless otherwise stated, all amounts are denominated in Hong Kong Dollar (HKD). We enclose herewith our valuation certificate.

Yours faithfully,
For and on behalf of
AVISTA Valuation Advisory Limited
Sr Oswald W Y Au
MHKIS(GP) AAPI MSc(RE)
Registered Professional Surveyor (GP)
Director

Note: Mr. Oswald W Y Au holds a Master's Degree of Science in Real Estate from the University of Hong Kong. He is also a member of Hong Kong Institute of Surveyors (General Practice) and Associate Member of Australian Property Institute. In addition, he is a Registered Professional Surveyor (General Practice) registered with Surveyors Registration Board. He has over 10 years of property valuation experience in Hong Kong, the PRC, the U.S., Canada, East and Southeast Asia including Singapore, Japan and Korea.

VALUATION CERTIFICATE

Property interest held by the Group in Hong Kong

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 April 2018 HK\$
No. 95 Connaught Road West (formerly known as Nos. 94 and 95 Connaught Road West), Sai Ying Pun, Hong Kong	The Property comprises a site with a site area of approximately 235.20 sq.m. (2,532 sq.ft.). The Property is situated on the south of Connaught Road West near its junctions with Sutherland Street and Wilmer Street in the district of Sai Ying Pun of Hong Kong Island. The Mass Transit Railway Sai Ying Pun Station and Macau Ferry Terminal is located in close proximity to the Property. Franchised buses, public light buses, taxis are available along Connaught Road West and Des Voeux Road West.	The property was occupied as a hotel under the trade name of “Butterfly on Waterfront Sheung Wan”.	511,600,000
Section A Marine Lot No. 401 and the Remaining Portion of Marine Lot No. 402	The Property consists of a 29-storey hotel of 90 guestrooms with a total gross floor area of approximately 3,524.66 sq.m. (37,939.42 sq.ft.) completed in about 2010. Ground to the 3rd Floors of the hotel are designed as mainly entrance lobby, hotel hall, loading/unloading bay, ancillary accommodation and mechanical room whilst the upper floors are hotel guestrooms (See Note 4). The property is held from the Government under two Government Leases both for a term of 999 years commencing from 25 April 1899 at an annual Government rent of HK\$23.		

Notes:

1. The registered owner of the property is A6 Limited via an assignment dated 8 March 2010 vide Memorial No. 10033101070020.
2. The property is subject to, inter alia, the following encumbrances:
 - a. No-objection Letter dated 16 February 2005 vide Memorial No. 05042101270010; and
 - b. Occupation Permit No. HK3/2010(OP) dated 3 February 2010 vide Memorial No. 10033101070012.
3. The property lies within an area zoned "Commercial" under Sai Ying Pun & Sheung Wan Outline Zoning Plan No. S/H3/31.
4. The accommodation and area of Property is designed as the follows:

Floor *	Usage	Gross Floor Area (Approximate sq.ft.)
G/F	Loading/Unloading Area	757.45
1/F	Lobby	2,526.00
2/F	BOH Area	–
3/F	Mechanical Floor	–
5/F – 6/F	Guestroom (3 nos./flr.)	2,981.24
7/F – 12/F	Guestroom (4 nos./flr.)	8,638.56
15/F	Refuge Floor	–
16/F – 23/F & 25/F – 32/F	Guestroom (4 nos./flr.)	23,036.17
Total:		37,939.42

* 4/F, 13/F, 14/F, 24/F are omitted

5. Pursuant to the Management Agreement dated 23 January 2014, which entered into between Hotel de EDGE Limited and Butterfly Hospitality (HK) Limited (formerly known as Butterfly Hotel and Serviced Apartment Group Limited) for a term of 10 years commencing from 1 May 2014.
6. In our valuation, we have made reference to the transaction records of some hotel comparable to the property based on similar locality and similar usage. We have adopted the range of unit rate between HK\$5,600,000 – HK\$5,800,000 per room. The unit rates assumed by us are consistent with the said transaction record. Due adjustments to the unit rates of those transaction record have been made to reflect factors including but not limited to time, location and size in arriving at the key assumptions.

1. DISCLOSURE OF INTERESTS

(a) Interests and short positions of the Directors in the shares, underlying shares and debentures of the Company and its associated corporations

As at the Latest Practicable Date, the interests or short positions of the Directors or chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such Director or chief executive was taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange were as follows:

Share options

Name	Name of company in which interests or short positions were held	Nature of interests	Number of shares	Approximate percentage of shareholding
Xue Jian	The Company	Beneficial owner	127,780,000 Shares (L)	1.00%
Law Wing Chi, Stephen	The Company	Beneficial owner	10,000,000 Shares (L)	0.08%

(L) denotes the long position held in the Shares

Save as disclosed above, none of the Directors or chief executive of the Company had, as at the Latest Practicable Date, any interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such Director or chief executive was taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

(b) Interests and short positions of the substantial shareholders in the Shares, underlying Shares and debentures of the Company

As at the Latest Practicable Date, so far as known to the Directors or chief executive of the Company, the following persons (other than the Directors or chief executive of the Company) had, or were deemed or taken to have interests or short position in the Shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying the rights to vote in all circumstances at general meetings of the Company or any other member of the Remaining Group:

Name of Shareholders	Number of Shares held as beneficial owner	Number of Shares held by controlled corporation	Number of underlying Shares	Total number of Shares and underlying Shares	Approximate % of shareholding
Mr. Zhang He Yi ¹	1,400,000,000	-	-	1,400,000,000	10.96
Ga Leung Investment Company Limited ²	1,866,666,666	-	-	1,866,666,666	14.61
Mr. Sun Yong Feng ²	133,000,000	1,866,666,666	-	1,999,666,666	15.65
Ms. Meng Ya ³	133,000,000	1,866,666,666	-	1,999,666,666	15.65
Mr. Hu Yishi	1,300,000,000	-	-	1,300,000,000	10.17

Notes:

- (1) Mr. Du Shuang Hua and Mr. Zhang He Yi beneficially owns 85% and 15% interest 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, which represents 5.54% of the entire issued share capital of the Company.
- (2) Mr. Sun Yong Feng beneficially owns 100% interest in the issued capital of Ga Leung Investment Company Limited. Mr. Sun Yong Feng is deemed to be interested in the 1,866,666,666 shares held by Ga Leung Investment Company Limited under the provisions of the SFO.
- (3) 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 the Latest Practicable Date, the Company had not been notified by any person (other than the Directors or chief executives of the Company) who had interests or short positions in the shares, underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying the rights to vote in all circumstances at general meetings of any member of the Remaining Group.

2. SERVICE CONTRACT

As at the Latest Practicable Date, there was no service contract or any proposed service contract between any of the Directors or proposed Directors and the Company or any member of the Group (including any company which will become a subsidiary of the Company by reason of an acquisition which has been agreed or proposed since 31 December 2017, being the date to which the latest audited consolidated accounts of the Company have been made up), excluding contracts expiring or determinable by the Group (including any company which will become a subsidiary of the Company by reason of an acquisition which has been agreed or proposed since 31 December 2017, being the date to which the latest audited consolidated accounts of the Company have been made up) within a year without payment of any compensation (other than statutory compensation).

3. DIRECTORS' INTERESTS IN COMPETING BUSINESS

To the best knowledge of the Directors, none of the Directors or their respective associates had any interests in any business which competed or might compete with the business of the Group as at the Latest Practicable Date.

4. MATERIAL INTERESTS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in the assets which had been, since 31 December 2017, the date to which the latest published audited consolidated accounts of the Company were made up, acquired or disposed of by or leased to any member of the Group (including any company which will become a subsidiary of the Company by reason of an acquisition which has been agreed or proposed since 31 December 2017, being the date to which the latest audited consolidated accounts of the Company have been made up), or were proposed to be acquired or disposed of by or leased to any member of the Group (including any company which will become a subsidiary of the Company by reason of an acquisition which has been agreed or proposed since 31 December 2017, being the date to which the latest audited consolidated accounts of the Company have been made up).

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement which was significant in relation to the business of the Group (including any company which will become a subsidiary of the Company by reason of an acquisition which has been agreed or proposed since 31 December 2017, being the date to which the latest audited consolidated accounts of the Company have been made up).

5. LITIGATION

As at the Latest Practicable Date, so far as the Directors were aware, neither the Company nor any member of the Group (including any company which will become a subsidiary of the Company by reason of an acquisition which has been agreed or proposed since 31 December 2017, being the date to which the latest audited consolidated accounts of the Company have been made up) was engaged in any litigation nor or were these claims of material importance pending or threatened against any member of the Group (including any company which will become a subsidiary of the Company by reason of an acquisition which has been agreed or proposed since 31 December 2017, being the date to which the latest audited consolidated accounts of the Company have been made up).

6. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by members of the Group (including any company which will become a subsidiary of the Company by reason of an acquisition which has been agreed or proposed since 31 December 2017, being the date to which the latest audited consolidated accounts of the Company have been made up) within two years immediately preceding the Latest Practicable Date:

- (a) the sale and purchase agreement dated 4 January 2016 entered into among the Company, Intelligent Wealth Limited, Most Honour Limited, Mr. Du Shuang Hua in relation to the disposal of the entire issued share capital of Fame Risen Development Limited and the relevant shareholders loan by the Company to Intelligent Wealth Limited, and
- (b) the SPA.

7. EXPERTS AND CONSENT

The following is the qualification of the experts who have given opinion or advice contained in this circular:

Name	Qualification
Ernst & Young	Certified public accountants
AVISTA Valuation Advisory Limited	Independent professional valuer

Each of the Experts has given and has not withdrawn its written consent to the issue of this circular, with the inclusion of the references to its name and/or its opinion in the form and context in which they are included.

As at the Latest Practicable Date, none of the above experts had any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group, or any interests, directly or indirectly, in any assets which had been, since 31 December 2017, being the date to which the latest audited consolidated accounts of the Company have been made up, acquired, disposed of or leased to any member of the Group, or were proposed to be acquired, disposed of or leased to any member of the Group.

8. MISCELLANEOUS

- (a) The registered address of the Company is Canon's Court, 22 Victoria Street, Hamilton, HM12, Bermuda. The head office and principal place of business of the Company is at 28th Floor, Chinachem Century Tower, 178 Gloucester Road, Wanchai, Hong Kong.
- (b) The Hong Kong branch share registrar and transfer office of the Company is Tricor Tengis Limited at Level 22, Hopewell Center, 183 Queen's Road East, Hong Kong.
- (c) The secretary of the Company is Mr. Law Wing Chi, Stephen who is an associate member of The Hong Kong Institute of Certified Public Accountants.
- (d) The English text of this circular shall prevail over the Chinese text.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at 28th Floor, Chinachem Century Tower, 178 Gloucester Road, Wanchai, Hong Kong during 9 a.m. to 5 p.m. on any Business Day of the Company, from the date of this circular up to and including the date of the SGM:

- (a) the memorandum of association and bye-laws of the Company;
- (b) the material contracts referred to in the paragraph headed "Material contracts" in this appendix;
- (c) the report on review of unaudited consolidated financial information of the Target Group from Ernst & Young, the text of which is set out in Appendix II to this circular;
- (d) the report on the unaudited pro forma financial information on the Remaining Group from Ernst & Young, the text of which is set out in Appendix III to this circular;
- (e) the valuation report from AVISTA Valuation Advisory Limited, the text of which is set out in Appendix IV to this circular;

- (f) the written consent referred to in the paragraph headed “Experts and Consent” in this appendix;
- (g) the SPA; and
- (h) this circular.

The annual reports of the Company can be accessed on the website of the Stock Exchange (<http://www.hkex.com.hk>) and the website of the Company (http://www.kaiyuanholdings.com/en_us/home_eng.php).



KAI YUAN HOLDINGS LIMITED

開源控股有限公司

(incorporated in Bermuda with limited liability)

(Stock Code: 1215)

NOTICE IS HEREBY GIVEN that a special general meeting (the “**SGM**”) of Kai Yuan Holdings Limited (the “**Company**”) will be held at Empire Room I, 1/F., Empire Hotel Hong Kong, 33 Hennessy Road, Wanchai, Hong Kong at 9:30 a.m. on 7 June 2018 for the purpose of considering and, if thought fit, passing the following resolution as ordinary resolution of the Company:

ORDINARY RESOLUTION

“THAT:

- (a) the SPA as defined in the circular dated 23 May 2018 and despatched to the shareholders of the Company (the “**Circular**”), a copy of which has been produced to this meeting marked “A” and initialled by the chairman of the SGM for the purpose of identification, and all the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and
- (b) any one director of the Company (the “**Director**”) be and is hereby authorised to do all such acts and things as the Director in his sole and absolute discretion deems necessary, desirable or expedient to implement, give effect to and/or complete the SPA and the transactions contemplated thereunder, where required, any amendment of the terms of the SPA as required by, or for the purposes of obtaining the approval of, relevant authorities or to comply with all applicable laws, rules and regulations.”

By Order of the Board
KAI YUAN HOLDINGS LIMITED
Law Wing Chi, Stephen
Executive Director

Hong Kong, 23 May 2018

NOTICE OF SGM

Registered office:

Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

Principal place of business in Hong Kong:

28th Floor, Chinachem Century Tower
178 Gloucester Road,
Wanchai Hong Kong

Notes:

1. A form of proxy for use at the SGM is enclosed herewith.
2. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his/her attorney duly authorised in writing or, if the appointor is a corporation, either executed under its common seal or under the hand of any officer, attorney or other person duly authorised to sign the same.
3. Any shareholder entitled to attend and vote at the SGM or at any adjourned meeting thereof (as the case may be) is entitled to appoint another person as his/her proxy to attend and vote instead of him/her. A shareholder who is the holder of two or more shares may appoint not more than two proxies (who must be an individual or individuals) to attend and vote instead of him/her on the same occasion. A proxy need not be a shareholder of the Company but must attend the SGM in person to represent him/her.
4. In order to be valid, a form of proxy in the prescribed form together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, must be lodged with the branch share registrar and transfer office of the Company in Hong Kong, Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 48 hours before the time appointed for holding the SGM or any adjourned meeting thereof (as the case may be). Such prescribed form of proxy for use at the SGM is also published on the websites of The Stock Exchange of Hong Kong Limited at www.hkexnews.hk and the Company at http://www.kaiyuanholdings.com/en_us/home_eng.php.
5. Completion and return of the form of proxy will not preclude shareholders from attending and voting in person at the SGM or at any adjourned meeting thereof (as the case may be) should they so wish, and in such event, the form of proxy shall be deemed to be revoked.
6. Where there are joint registered holders of any share(s), any one of such joint holders may attend and vote at the SGM or at any adjourned meeting thereof (as the case may be), either in person or by proxy, in respect of such share(s) as if he/she was solely entitled thereto, but if more than one of such joint holders are present at the SGM or at any adjourned meeting thereof (as the case may be), the most senior shall alone be entitled to vote, whether in person or by proxy. For this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
7. The register of members of the Company will be closed from Monday, 4 June 2018 to Thursday, 7 June 2018, both days inclusive, during which period no transfer of Shares will be registered. In order to be qualified for attending and voting at the SGM, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's Share Register, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Friday, 1 June 2018.