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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 licensed securities dealer, registered institution 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 to the purchaser or the transferee or to the bank, licensed securities dealer, registered institution in securities or other agent through whom the sales or transfer was effected for transmission to the purchaser or the 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 ACQUISITION

Financial adviser to the Company

Deloitte.
德勤

Deloitte & Touche Corporate Finance Limited

A letter from the board of directors of the Company is set out on pages 6 to 43 of this circular.

A notice convening the special general meeting of the Company to be held at 1/F, Empire Room I, Empire Hotel Hong Kong Wanchai, 33 Hennessy Road, Wanchai, Hong Kong at 9:30 a.m. on Friday, 19 September 2014 or any adjournment thereof is set out on pages SGM-1 to SGM-2 of this circular. A form of proxy for use in the special general meeting is enclosed. Whether or not you are able to attend the special general meeting in person, you are requested to complete and return the accompanying form of proxy to the Company's Hong Kong branch share registrar and transfer office at Tricor Tengis Limited at 22nd Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the special general meeting of the Company. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the special general meeting of the Company should you so wish.

29 August 2014

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DEFINITIONS

In this circular, unless the context otherwise requires, capitalised terms used shall have the following meanings:

“Acquisitions”	together, the Property Acquisition and Shares Acquisition
“Agreements”	together, the Purchase Option Agreement and the Share Purchase Agreement
“associate(s)”	has the same meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“Company”	Kai Yuan Holdings Limited, a company incorporated in Bermuda with limited liability, the issued Shares of which are listed on the Main Board of the Stock Exchange
“Completion”	together, completion of the Property Acquisition and the Shares Acquisition
“Completion Date”	the date of Completion
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Consideration”	the sum of the Property Consideration and the Shares Consideration
“Crown Value”	Crown Value Limited, a wholly-owned subsidiary of the Company incorporated in Hong Kong, being the holder of the entire equity interest in Splendid Holdings
“Director(s)”	director(s) of the Company
“Enlarged Group”	the Company and its subsidiaries immediately after Completion
“EURIBOR”	the Euro Interbank Offered Rate
“Final Accounts”	the unaudited corporate accounts (balance sheet and profit and loss account) of HoldCo and OpCo as at the Completion Date prepared in accordance with French generally accepted accounting principles
“Group”	the Company and its subsidiaries
“HoldCo”	MCE OpCo HoldCo, a simplified joint-stock company (<i>societe par actions simplifiee</i>) incorporated under the laws of France

DEFINITIONS

“HoldCo Shares”	the 464,877 shares, each with a nominal value of €15, representing 100% of the share capital and voting rights of HoldCo held by the Shares Vendor
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hotel”	the hotel located at 70-72 avenue des Champs-Élysées, 75008 Paris, managed by Marriott Hotels Manager France SAS pursuant to the Management Agreement
“Hotel Business”	the on-going business concern (<i>fonds de commerce</i>) of the Hotel held by OpCo
“Initial Base Price”	has the meaning ascribed to the term as set out in the section headed “Basis of Consideration” in the letter from the Board
“Latest Practicable Date”	27 August 2014, being the latest practicable date prior to the printing of this circular for ascertaining certain information herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Loan Agreement”	the facility letter dated 3 June 2014 issued by Most Honor and accepted by the Company in relation to the loan in the principal amount of US\$280,000,000 (equivalent to approximately HK\$2,170,000,000) which shall be secured by a charge on the shares of Crown Value for payment of part of the Consideration
“Management Agreement”	the management agreement dated 16 June 1995 and as amended from time to time thereafter, and entered into, among others, between OpCo and Marriott Hotels Manager France SAS and ancillary agreements concerning the Hotel and the Hotel Business
“Most Honor”	Most Honor Limited, a company wholly-owned by Mr. Du Shuang Hua, who in turn was a Shareholder deemed to be interested in approximately 5.54% of the issued share capital of the Company as at the Latest Practicable Date
“New PropCo”	has the meaning ascribed to such term in the section headed “Structure upon Completion” in the letter from the Board

DEFINITIONS

“OpCo”	MCE OpCo, a general partnership (<i>societe en nom collectif</i>) incorporated under the laws of France, in which HoldCo holds 589,060 shares, each with a nominal value of €15, and the Shares Vendor holds the remaining one OpCo Share
“OpCo Share”	the one share of OpCo directly held by the Shares Vendor
“PRC”	the People’s Republic of China, which for the purpose of this circular shall exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Property”	the 7 floors and 3 basement levels of the building currently used for hotel usage (as operated by OpCo as the Hotel) and erected on plots of land registered at the Land Register of Paris under section BG numbers 12, 13 and 15, and located at 70-72, avenue des Champs-Élysées, Paris, France
“Property Acquisition”	the acquisition of the Property pursuant to the Purchase Option Agreement
“Property Completion”	completion of the Property Acquisition
“Property Consideration”	consideration for the Property Acquisition
“Property Vendor”	MCE PropCo, a real estate company (<i>societe de placement a preponderance immobiliere a capital variable</i>) incorporated in France
“Purchase Option Agreement”	the purchase option agreement in relation to the sale and purchase of the Property entered into between Splendid Holdings and the Property Vendor on 3 June 2014 (as supplemented by a letter dated 22 August 2014 issued by Splendid Holdings and counter signed by the Property Vendor)
“Sale Shares”	together, the HoldCo Shares and the OpCo Share
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company to be convened and held on Friday, 19 September 2014 for the Shareholders to consider and, if thought fit, approve the Agreements and the transactions contemplated thereunder
“Share(s)”	share(s) of HK\$0.10 each in the share capital of the Company

DEFINITIONS

“Share Purchase Agreement”	the agreement for the sale and purchase of Sale Shares entered into between Splendid Holdings and the Shares Vendor on 3 June 2014 (as supplemented by a letter dated 26 August 2014 signed by Splendid Holdings and the Shares Vendor)
“Shareholder(s)”	holder(s) of Shares
“Shareholder’s Loan”	the loan to be advanced by Most Honor to the Group under the Loan Agreement for the Acquisitions
“Shares Acquisition”	the acquisition of the Sale Shares pursuant to the Share Purchase Agreement
“Shares Completion”	completion of the Shares Acquisition
“Shares Consideration”	consideration for the Shares Acquisition
“Shares Vendor”	Tamweelview European Holdings SA, <i>a société anonyme</i> incorporated under the laws of Luxembourg
“Splendid Holdings”	Splendid Holdings S.À.R.L., an indirect wholly-owned subsidiary of the Company established in the Grand Duchy of Luxembourg
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Trademarks”	the name “Marriott” when used alone or in connection with another word and the Marriott trademarks, service marks, trade names, symbols, logos and designs including but not limited to restaurant names, lounge names etc
“United States”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“Vendors”	together, the Property Vendor and the Shares Vendor
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“US\$”	United States dollars, the lawful currency of the United States
“€”	Euros, the lawful currency of the European Union
“%”	per cent.

DEFINITIONS

Unless otherwise specified in this circular, amounts denominated in Euros and US\$ have been converted into Hong Kong dollars at €1.00 to HK\$10.56 and US\$1.00 to HK\$7.75, respectively, for illustration purpose only. No representation has been made by the Company that any amount has been, could have been, or could be converted at the above rate or at any other rates or at all.

LETTER FROM THE BOARD



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

Non-executive Director:

Mr. Hu Yishi

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

*Head office and principal place of
business in Hong Kong:*

28th Floor, Chinachem Century Tower

178 Gloucester Road

Wanchai

Hong Kong

29 August 2014

To the Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION

INTRODUCTION

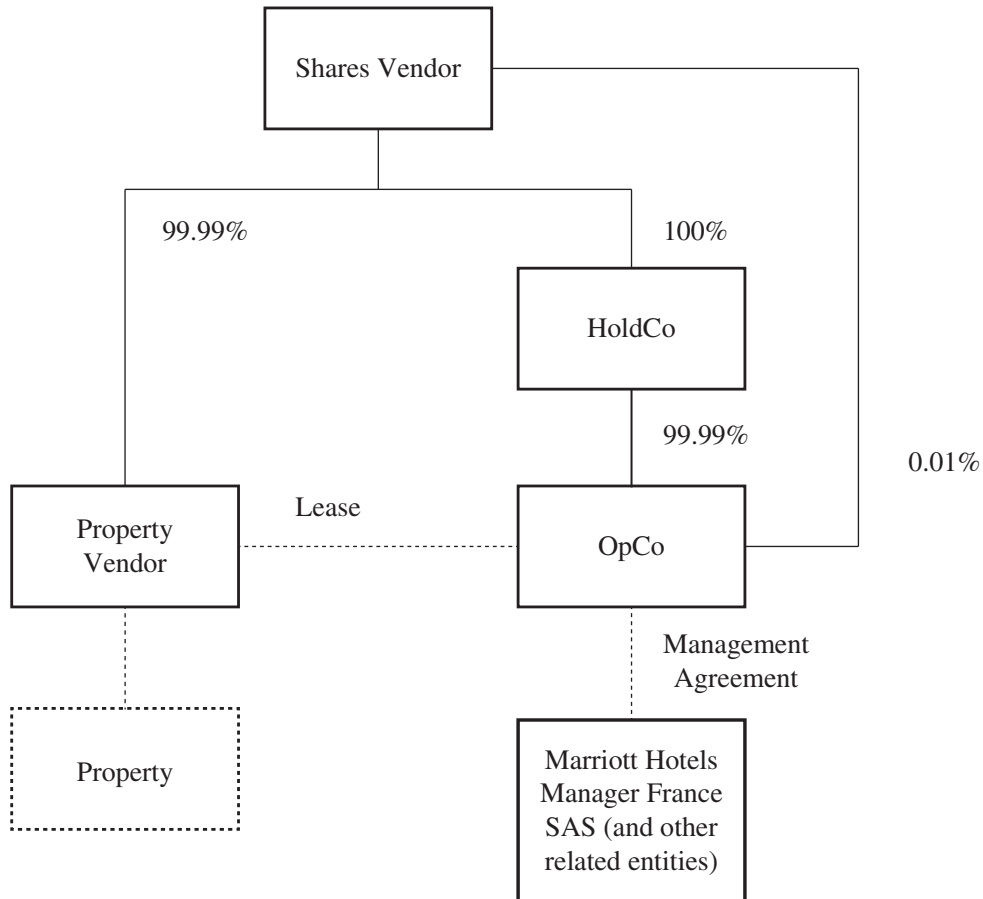
On 16 June 2014, the Board announced that on 3 June 2014, the Group had agreed to acquire Paris Marriott Hotel Champs-Élysées (comprising the Property and operations of the Hotel) at the provisional consideration of €344,512,199 (equivalent to approximately HK\$3,638,048,821) (subject to final determination as set out below). Completion is subject to fulfilment of conditions precedent as set out below. The Property Completion and the Shares Completion must take place on the same date.

As the relevant percentage ratios (as defined in the Listing Rules) exceed 100%, the Acquisitions together constitute a very substantial acquisition for the Company pursuant to Rule 14.06(5) of the Listing Rules. The Agreements and the transactions contemplated thereunder are therefore subject to approval by the Shareholders at the SGM by poll.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with, among other things, (i) details of the Acquisitions; (ii) the financial and other information on the Group; (iii) financial information relating to HoldCo and OpCo; (iv) the valuation report on the Property; (v) the pro forma financial information of the Enlarged Group; and (vi) a notice convening the SGM at which ordinary resolution will be proposed to consider and, if thought fit, approve the Agreements and the respective transactions contemplated thereunder.

As at the Latest Practicable Date, the Property was operated as the Hotel, being Paris Marriott Hotel Champs-Élysées. HoldCo is wholly-owned by the Shares Vendor. HoldCo and the Shares Vendor are respective holders of approximately 99.99% and 0.01% of the entire equity interests of OpCo, which in turn has entered into the Management Agreement with, among others, Marriott Hotels Manager France SAS, pursuant to which the latter is appointed to manage and supervise the operations of the Hotel. The following group chart illustrates the ownership of the Property, HoldCo and OpCo as at the Latest Practicable Date based on the information provided by the Vendors:



LETTER FROM THE BOARD

THE PROPERTY ACQUISITION

Principal terms of the Purchase Option Agreement

Date

3 June 2014

(as supplemented by a letter dated 22 August 2014 issued by Splendid Holdings and counter signed by the Property Vendor)

Parties

Vendor: the Property Vendor

Purchaser: Splendid Holdings

According to the Property Vendor, the purpose of the Property Vendor is to offer the Shares Vendor and affiliates, for the term of their investment, exposure to one or more property assets in the hotel sector located primarily in France, and these assets may be acquired already leased or for leasing purposes in order to ensure a regular distribution of rental revenues.

To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, the Property Vendor and its ultimate beneficial owner(s) are third parties independent of the Group and its connected persons. Pursuant to the Purchase Option Agreement, Splendid Holdings can acquire the Property either by itself or via the Company's wholly-owned subsidiary at the Property Completion.

Assets to be acquired

The Property, being the 7 floors and 3 basement levels of the building erected on plots of land registered at the Land Register of Paris under section BG numbers 12, 13 and 15, currently operated as the Hotel on 70-72 avenue des Champs-Élysées, Paris, France. The property risks pertaining to the Property have passed to Splendid Holdings upon the signing of the Purchase Option Agreement, subject to the Property Vendor not having terminated the multi-risk insurance coverage on the Property. In the event of any disasters affecting the Property, the Property Vendor shall transfer to Splendid Holdings the benefit of its insurance indemnities. Given the aggregate amount of the insurance coverage maintained on the Property is not less than the Consideration, the Directors consider this term is fair and reasonable.

LETTER FROM THE BOARD

Consideration

The Property Consideration

The Property Consideration is €226,000,000 (equivalent to approximately HK\$2,386,560,000), of which:

- (a) a deposit in the amount of €3,410,000 (equivalent to approximately HK\$36,009,600) (the “**Fixed Deposit**”) has been paid, which is held by an escrow agent; and
- (b) the remaining balance of €222,590,000 (equivalent to approximately HK\$2,350,550,400) shall be payable in cash upon the Property Completion.

The Property Consideration represents the carrying amount of the Property as at 31 December 2013.

The Fixed Deposit

The Fixed Deposit shall be released to the Property Vendor as follows:

- (a) upon the Property Completion – where the Fixed Deposit shall be released to the Property Vendor to set-off against part of the Property Consideration; or
- (b) in the event that the Shares Completion does not take place on the Completion Date (which shall be within 8 business days after the fulfilment of all conditions precedent to the Property Acquisition (save for the condition precedent as set out in the sub-paragraph (c) in the paragraph headed “Conditions precedent” below relating to Shares Completion)) for any reason other than those attributable to the Property Vendor or the Shares Vendor’s actions or negligence; or
- (c) in the event that (i) all conditions precedent of the Property Acquisition are fulfilled on or before 26 August 2014 (or the Completion Date as regards the condition precedent as set out in the sub-paragraph (c) in the paragraph headed “Conditions precedent” below relating to Shares Completion), but (ii) the Property Acquisition is not completed on the Completion Date for any reason whatsoever not attributable to the Property Vendor, the Fixed Deposit shall be released in favour of the Property Vendor as a first indemnity, notwithstanding the Property Vendor’s right to obtain additional damages and/or the performance of the Property Acquisition.

The Fixed Deposit shall be released to Splendid Holdings as follows:

- (a) in the event that the conditions precedent of the Property Acquisition (save for the condition precedent as set out in the sub-paragraph (c) in the paragraph headed “Conditions precedent” below relating to Shares Completion) have not been fulfilled on or before 26 August 2014; or

LETTER FROM THE BOARD

- (b) in the event that the Shares Completion does not take place on the Completion Date for any reasons attributable to the Property Vendor or the Shares Vendor's actions or negligence.

Conditions precedent

The Property Completion is conditional upon satisfaction of the following conditions by the respective dates as set out below:

- (a) express waiver of any pre-emptive right, right of first refusal and/or the urban pre-emptive right by holder(s) of such rights, or the non-response from the holder of such rights to the declaration of intent to alienate such rights within the time limit set upon by applicable regulations by 26 August 2014;
- (b) provision of mortgage information on the Property by the Property Vendor, which shall not contain any mortgage registration the amount of which has exceeded the Property Consideration, and there being no charges or publication affecting the free disposability of any property right pertaining to the Property by 26 August 2014;
- (c) the Shares Completion having taken place on the Completion Date in accordance with the terms of the Share Purchase Agreement; and
- (d) the Shareholders having approved of the Purchase Option Agreement (together with the deed of sale attached thereto which shall be executed at the Property Completion) and the transactions contemplated thereunder, as soon as possible and in any event on 29 August 2014 at the latest, and notified to the Property Vendor at the latest on 4 September 2014.

The condition(s) precedent set out in (i) sub-paragraphs (a) and (c) above may be waived only by mutual consent of the Property Vendor and Splendid Holdings; and (ii) sub-paragraphs (b) and (d) above can only be waived by Splendid Holdings. The Shareholders' approval as set out in sub-paragraph (d) above is a Listing Rule requirement and therefore Splendid Holdings will not waive such condition precedent. Splendid Holdings has no present intention to waive any other conditions precedent set out above. In the event the above conditions precedents are not fulfilled before on or before the respective dates set out above, the Purchase Option Agreement shall become null and void.

As at the Latest Practicable Date, save for the conditions set out in sub-paragraphs (a) and (b) above, none of the conditions set out above had been fulfilled.

As at the Latest Practicable Date, Splendid Holdings was engaged in discussions with the Property Vendor on further extension of the long stop date for satisfaction of the outstanding conditions precedent under the Purchase Option Agreement. Further announcement will be made by the Company as and when an agreement has been reached between Splendid Holdings and the Property Vendor.

LETTER FROM THE BOARD

Completion

The Property Completion shall take place within 8 business days from the date on which all conditions precedent have been fulfilled (save for the condition precedent set out in sub-paragraph (c) of the paragraph headed "Conditions precedent" above relating to the Shares Completion which shall be fulfilled on the Completion Date), but in any event on 5 September 2014 at the latest. As at the Latest Practicable Date, Splendid Holdings was engaged in discussions with the Property Vendor on extension of the Completion Date. Further announcement will be made by the Company as and when an agreement has been reached between Splendid Holdings and the Property Vendor.

The Property Vendor and Splendid Holdings acknowledge the transactions set out in the Share Purchase Agreement and those set out in the Purchase Option Agreement form a global transaction. It is the parties' common intention that the Acquisitions shall be completed on the Completion Date.

THE SHARES ACQUISITION

Principal terms of the Share Purchase Agreement

Date

3 June 2014

(as supplemented by a letter dated 26 August 2014 signed by Splendid Holdings and the Shares Vendor)

Parties

Vendor: the Shares Vendor

Purchaser: Splendid Holdings

According to the Shares Vendor, it is principally engaged in the holding of participations in companies and all other forms of investments, the acquisition and sale of securities and the management control and development of such participations.

To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, the Shares Vendor and its ultimate beneficial owner(s) are third parties independent of the Group and its connected persons. Pursuant to the Share Purchase Agreement, Splendid Holdings can acquire the Sale Shares either by itself or via its wholly-owned subsidiary at the Shares Completion.

Assets to be acquired

The Sale Shares, being the HoldCo Shares and the OpCo Share. Pursuant to the Share Purchase Agreement, any encumbrance would be released upon the Shares Completion.

LETTER FROM THE BOARD

As at the Latest Practicable Date, HoldCo was wholly-owned by the Shares Vendor. HoldCo and the Shares Vendor are respective owners of approximately 99.99% and 0.01% of the equity interests of OpCo. Upon Shares Completion, HoldCo and OpCo shall become wholly-owned subsidiaries of the Company.

Consideration

The Shares Consideration

The Shares Consideration is the aggregate of:

- (a) the fixed purchase price of €1 (equivalent to approximately HK\$10.56) for the OpCo Share, which shall not be subject to any adjustment, and which shall be payable in cash upon the Shares Completion; and
- (b) a price (the “**Final Purchase Price**”) for the HoldCo Shares calculated as follows:

$$PP = HB + NEH + NEO - NBVH - NBVO - WKS$$

Whereas

PP	is the Final Purchase Price
HB	means €115,000,000 (equivalent to approximately HK\$1,214,400,000) (<i>Note 1</i>)
NEH	is the net equity of HoldCo as shown in the Final Accounts
NEO	is the net equity of OpCo as shown in the Final Accounts
NBVH	is the net book value of fixed assets (intangible, tangible and financial fixed assets) of HoldCo as shown in the Final Accounts
NBVO	is the net book value of fixed assets (intangible, tangible and financial fixed assets) of OpCo as shown in the Final Accounts
WKS	means €2,850,000 (equivalent to approximately HK\$30,096,000), being the capital expenditure to be performed in the Hotel

Note 1: As set out in the section headed “Basis of Consideration” of this letter from the Board below, this base value of HoldCo Shares in the amount of €115,000,000 (equivalent to approximately HK\$1,214,400,000) was agreed and arrived at after deducting the carrying amount of the Property as at 31 December 2013 (being €226,000,000 (equivalent to approximately HK\$2,386,560,000)) and the consideration for the OpCo Share (being €1 (equivalent to approximately HK\$10.56)) from the Initial Base Price (being €341,000,001 (equivalent to approximately HK\$3,600,960,011)) after arm’s length negotiations.

Based on the above, the Shares Vendor and Splendid Holdings also agreed in the Share Purchase Agreement that the provisional purchase price (the “**Provisional Purchase Price**”) for the HoldCo Shares is €118,512,198 (equivalent to approximately HK\$1,251,488,811), which shall be payable in cash upon the Shares Completion. The

LETTER FROM THE BOARD

Provisional Purchase Price has taken into account the unaudited financial information of HoldCo and OpCo as at 31 December 2013 by using the above formula, together with a cushion of approximately €200,000 (equivalent to approximately HK\$2,112,000).

The Final Purchase Price shall be determined after delivery of the Final Accounts. Pursuant to the Share Purchase Agreement, the Final Accounts shall be delivered by the Shares Vendor to Splendid Holdings within 30 business days after the Completion Date. The difference between the Provisional Purchase Price and the Final Purchase Price shall be payable (by the Shares Vendor or Splendid Holdings, as the case may be) within 17 business days after delivery of the Final Accounts if Splendid Holdings does not have any comment on the same. Pursuant to the Share Purchase Agreement, the Final Purchase Price shall not exceed the Provisional Purchase Price by more than €5,000,000 (equivalent to approximately HK\$52,800,000).

Pursuant to the Share Purchase Agreement, the Shares Vendor shall prepare the draft Final Accounts with the assistance of its accountants, PriceWaterhouseCoopers. Splendid Holdings shall have 30 business days upon receipt of the draft Final Accounts to provide the Shares Vendor with comments on the draft Final Accounts and the proposed Final Purchase Price calculated by the Shares Vendor. Any disputed items shall be resolved in accordance with article 1592 of the French Civil Code by an independent accountant. As such, the Directors consider that such basis on determining the Final Purchase Price is fair and reasonable notwithstanding the Final Accounts are unaudited. Given both HoldCo and OpCo were incorporated in France and their statutory audited accounts are prepared in accordance with French generally accepted accounting principles, the Directors consider it fair and reasonable, for both Splendid Holdings and the Shares Vendor, to apply consistent generally accepted accounting principles to prepare the Final Accounts after considering there being no material difference between the French generally accepted accounting principles and the Hong Kong Financial Reporting Standards as regards the accounting principles applicable to HoldCo and OpCo.

Conditions precedent

The Shares Completion is conditional upon:

- (a) fulfilment of the conditions precedent of the Property Acquisition (save for the condition precedent set out in the sub-paragraph (c) of the paragraph headed "Conditions precedent" in the section headed "The Property Acquisition" above relating to Shares Completion) by 4 September 2014; and
- (b) the passing of resolutions by the Shareholders at the SGM approving the Share Purchase Agreement and the transactions contemplated thereunder and having been notified to the Shares Vendor on or before 4 September 2014.

The above conditions precedent can only be waived by mutual consent of the Shares Vendor and Splendid Holdings. In the event any of the conditions precedent above is not timely fulfilled or waived by the parties, the Share Purchase Agreement shall be automatically terminated. The Shareholders' approval as set out in sub-paragraph (b) above is a Listing Rule requirement and therefore Splendid Holdings will not waive such

LETTER FROM THE BOARD

condition precedent. Splendid Holdings has no present intention to waive the remaining condition precedent as set out in sub-paragraph (a) above.

As at the Latest Practicable Date, none of the conditions set out above had been fulfilled.

As at the Latest Practicable Date, Splendid Holdings was engaged in discussions with the Shares Vendor on further extension of the long stop date for satisfaction of the outstanding conditions precedent under the Share Purchase Agreement. Further announcement will be made by the Company as and when an agreement has been reached between Splendid Holdings and the Shares Vendor.

Completion

The Shares Completion shall take place within 8 business days after the date on which the conditions precedent are satisfied (or at such other place or on such other date as the Shares Vendor and Splendid Holdings may agree in writing), but in any event on 5 September 2014 at the latest. As at the Latest Practicable Date, Splendid Holdings was engaged in discussions with the Shares Vendor on extension of the Completion Date. Further announcement will be made by the Company as and when an agreement has been reached between Splendid Holdings and the Shares Vendor.

The Shares Vendor and Splendid Holdings acknowledge the transactions set out in the Share Purchase Agreement and those set out in the Purchase Option Agreement form a global transaction. It is the parties' common intention that the Acquisitions shall be completed on the Completion Date. Accordingly, the Shares Acquisition shall be automatically rescinded in the event the Property Completion does not take place on the Completion Date immediately after the Shares Acquisition.

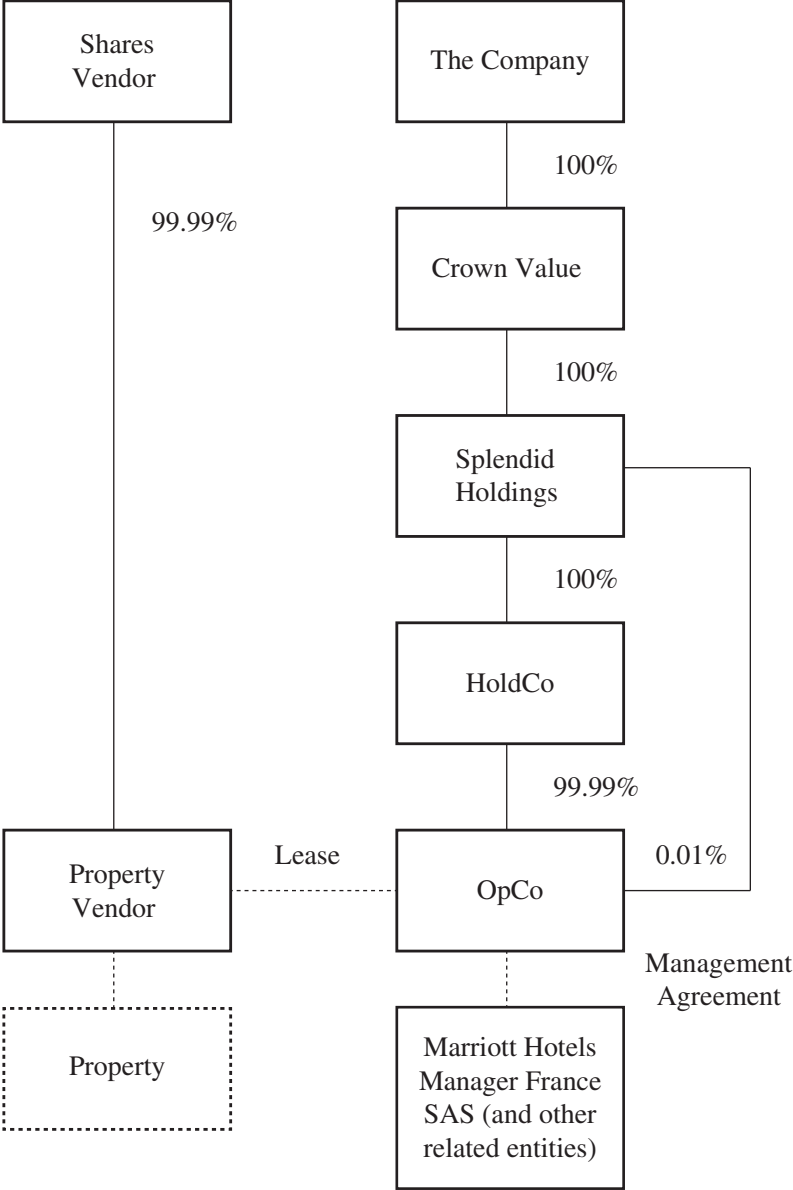
As at the date of the Share Purchase Agreement, according to the Shares Vendor, (i) OpCo was indebted to the Shares Vendor; and (ii) the Property Vendor was indebted to OpCo. The Shares Vendor and the Property Vendor might assign and settle the aforesaid indebtedness prior to the Shares Completion. In the event there being any outstanding amount due and owing by OpCo to the Shares Vendor upon Completion, OpCo must repay in full such outstanding indebtedness to the Shares Vendor immediately after the Shares Completion, failure of which would entitle the Shares Vendor to rescind the Shares Completion. In the event there being any such outstanding indebtedness due by OpCo to the Shares Vendor, the net equity of OpCo may be reduced, which in turn might lead to reduction of the Final Purchase Price based on the calculation of the Final Purchase Price as set out in the paragraph headed "The Shares Consideration" above. It is the intention of the Group that the aforesaid outstanding indebtedness would be settled upon Completion.

Upon the Shares Completion, HoldCo and OpCo will become wholly-owned subsidiaries of the Company and their financial results will be consolidated in the Group's financial statements after the Shares Completion.

LETTER FROM THE BOARD

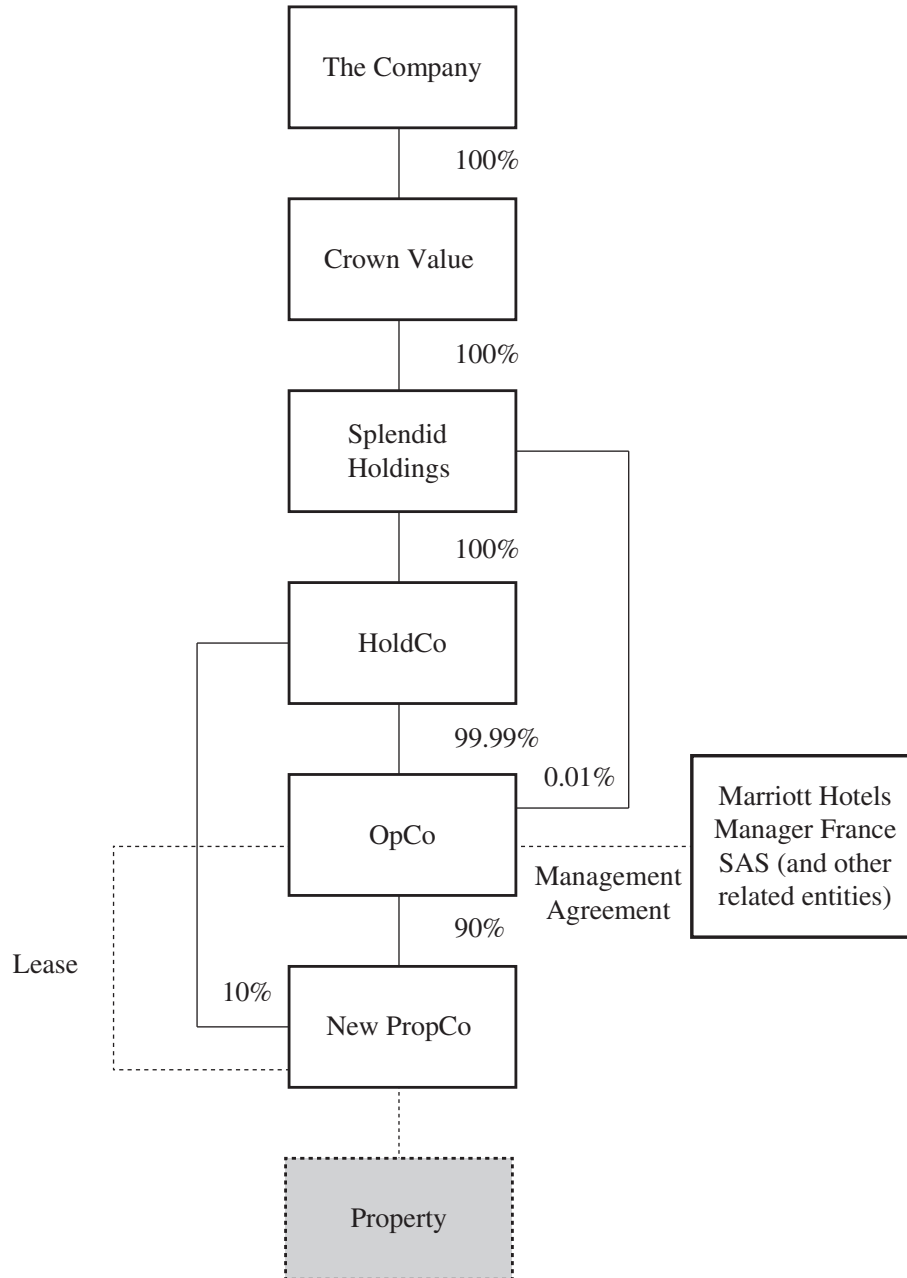
STRUCTURE UPON COMPLETION

Upon the Shares Completion but before the Property Completion, the shareholding structure of the Hotel will be as follows:



LETTER FROM THE BOARD

For better administration of the Property and operation of the Hotel, the Group intends to establish a new company (the “**New PropCo**”) (i) which shall be acquired by OpCo immediately upon the Shares Completion; and (ii) which shall acquire and hold the Property upon the Property Completion, such that the shareholding structure of the Hotel immediately following the Property Completion will be as follows:



LETTER FROM THE BOARD

BASIS OF CONSIDERATION

As set out above, the Property Acquisition and the Shares Acquisition form a global transaction which is part and parcel to each other – (i) if the Shares Completion does not take place, the Property Completion will not take place; and (ii) if the Property Completion does not take place, the Shares Completion will be rescinded. The Group negotiated the Consideration as if it were making acquisition of one single target comprising both the Property and operations of the Hotel. The Group negotiated with the Vendors with reference to an initial base price of €341,000,001 (equivalent to approximately HK\$3,600,960,011) (the “**Initial Base Price**”) for the Acquisitions, which was arrived at after arm’s length negotiations with reference to (i) the draft preliminary valuation of the Property as at 30 April 2014 in the region of €323,000,000 to €342,000,000 (equivalent to approximately HK\$3,410,880,000 to HK\$3,611,520,000) prepared by LCH (Asia-Pacific) Surveyors Limited, a firm of independent professional valuers, adopting the sales comparison approach, as well as the term and reversion method; (ii) the fixed assets of HoldCo and OpCo; and (iii) the contracts, leases, licences, permits, agreements, rights, and benefits utilized in connection with the ownership, use and operation of the Hotel, before taking into account the non-fixed assets and liabilities of HoldCo and OpCo.

The Vendors and the Group agreed that out of the Initial Base Price, the amount of €226,000,000 (equivalent to approximately HK\$2,386,560,000) shall be attributable to the Property Consideration (by reference to the carrying amount of the Property, being €226,000,000 (equivalent to approximately HK\$2,386,560,000), as at 31 December 2013) and the balance of €115,000,001 (equivalent to approximately HK\$1,214,400,011) be attributable to the Shares Consideration. The formula for the Final Purchase Price was determined by (i) adding the carrying amount of the non-fixed assets of HoldCo and OpCo as at the Completion Date to €115,000,000 (equivalent to approximately HK\$1,214,400,000); less (ii) the liabilities of HoldCo and OpCo as at the Completion Date; and (iii) the amount of €2,850,000 (equivalent to approximately HK\$30,096,000), being the amount of reserve that the Shares Vendor agree to retain in OpCo for future capital expenditure. The estimated capital expenditure of €2,850,000 (equivalent to approximately HK\$30,096,000) was made with reference to the technical due diligence conducted by the Group on the Hotel, which indicated certain renovation works that need to be carried out within the Hotel in a year.

In addition, the Group has taken into account the growing prospect of the tourism industry in Paris, which is more particularly described under the section headed “Reasons and benefits of the Acquisitions” of the letter from the Board as set out below. As set out in the valuation report on the Property contained in Appendix VII to this circular prepared by LCH (Asia-Pacific) Surveyors Limited, a firm of independent professional valuers, adopting the sales comparison approach, as well as the term and reversion method, the value of the Property as at 31 May 2014 amounted to €350,000,000 (equivalent to approximately HK\$3,696,000,000). Based on the aforesaid and the fact that the Hotel represents a trophy asset located in a prime tourist capital, the Board considers that the Consideration is fair and reasonable, and is in the interests of the Company and the Shareholders as a whole.

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The Consideration shall be funded by internal resources of the Group, bank borrowings and the Shareholder's Loan. As at the Latest Practicable Date, the Company had already obtained a legally binding offer from a financial institution in France for the advance of an amount of €175,000,000 (equivalent to approximately HK\$1,848,000,000) for payment of the Consideration. Such loan will be secured by mortgage of the Property in favour of the lender. Such loan is repayable on the fifth anniversary of the related facility agreement and shall bear interests equivalent to the aggregate of (i) 3-month EURIBOR; (ii) a margin of 220 bps per annum; and (iii) mandatory cost (if any). In addition, suitable hedging agreements will be contracted with the financial institution by the Group to cover interest rate risk until maturity of the loan at a maximum rate of 1.3% (before margin) on 100% of facility amount. Repayment of the principal amount shall be made in full on the maturity date while the interest payment date shall be adjustable depending on actual rental payment date as regards the Property.

SHAREHOLDER'S LOAN

On 3 June 2014, the Company also entered into the Loan Agreement with Most Honor, pursuant to which Most Honor agreed to provide a loan in the principal amount of US\$280,000,000 (equivalent to approximately HK\$2,170,000,000) to the Group to satisfy payment of part of the remaining Consideration, which shall be secured by a charge on the entire issued share capital of Crown Value, being the sole shareholder of Splendid Holdings as at the Latest Practicable Date. As at the Latest Practicable Date, both Crown Value and Splendid Holdings were investment holding companies. The major asset of Crown Value is its interests in Splendid Holdings and New PropCo and the major asset of Splendid Holdings is cash and cash equivalent. Crown Value does not hold interest in any other subsidiary of the Company other than Splendid Holdings and the New PropCo.

Pursuant to the Loan Agreement, the loan carries interest at the rate of 4% per annum, and is repayable on the second anniversary of drawdown (or such later date as may be agreed between the Company and Most Honor). The terms of the Loan Agreement were agreed after arm's length negotiations between the Company and Most Honour taking into account the terms of the binding offer obtained by the Company from the financial institution in France for the advance of €175,000,000 (equivalent to approximate HK\$1,848,000,000) as set out above. The Company has considered other financing alternative such as more bank borrowings or equity fund raising. However, given the Property will already have been mortgaged to the prospective lender pursuant to the aforesaid financing in France, other financial institutions are unlikely to provide borrowings of such significant amount at a competitive and reasonable rate. Also, given the current market sentiment and the significant amount that needs to be raised, the Board considered it very difficult to conduct equity fund raising to provide for payment of the remaining Consideration. In addition, Mr. Du Shuang Hua has separately indicated to the Group that should the Group require, he is willing to provide continuing financial support to the Group in relation to the Acquisitions, including but not limited to extending the Shareholder's Loan beyond the 2-year term as set out above. Based on the above, the Directors consider that the terms of the Shareholder's Loan are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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As at the Latest Practicable Date, Most Honor was wholly-owned by Mr. Du Shuang Hua. Mr. Du Shuang Hua is interested in 85% of the issued share capital of Happy Sino International Limited which in turn is interested in 708,000,000 Shares, representing approximately 5.54% of the issued share capital of the Company. As at the Latest Practicable Date, Mr. Du Shuang Hua was also interested in approximately 18.88% of the ultimate holding company of the joint venture partner of 日照型鋼有限公司 (Rizhao Medium Section Mill Co., Ltd.), 日照鋼鐵有限公司 (Rizhao Steel Co., Ltd.) and 日照鋼鐵軋鋼有限公司 (Rizhao Steel Wire Co., Limited), all being associated companies of the Group.

Mr. Du Shuang Hua has also informed the Company that he has committed to purchasing the Property and the Sale Shares on the same terms as the Agreements from the Property Vendor and the Shares Vendor in the event the transactions contemplated under the Agreements are not consummated.

INFORMATION ON THE PROPERTY AND HOTEL OPERATIONS

The Hotel is located on avenue des Champs-Élysées in the 8th arrondissement of Paris, France. The 8th arrondissement is one of Paris' most affluent areas and main business districts, being home to renowned landmarks such as the Arc de Triomphe, and a prestigious commercial and residential area. The vicinity of the hotel is home to the corporate offices of major international law firms, banks, the American and British embassies. It is also surrounded by high-end retail shops such as Louis Vuitton, Tiffany and Chanel, etc.

The Hotel is a 5-star hotel. The building in which the Hotel is located was constructed in 1914, occupying approximately 17,719 sq.m.. It has 192 rooms (including 32 suites) distributed over 7 floors, together with provision of meeting, fitness and 3 floors of underground car-parking facilities.

As set out in the valuation report on the Property prepared by LCH (Asia-Pacific) Surveyors Limited, a firm of independent professional valuers, as set out in Appendix VII to this circular, the valuation of the Property as at 31 May 2014, adopting the sales comparison approach, as well as the term and reversion method amounted to €350,000,000 (equivalent to approximately HK\$3,696,000,000). As at the Latest Practicable Date, the Property was leased to OpCo for operation of the Hotel. The rental income derived from the aforesaid lease amounted to approximately €12,888,000 (equivalent to approximately HK\$136,097,280) and €13,105,000 (equivalent to approximately HK\$138,388,800) for the year ended 31 December 2012 and 31 December 2013 respectively. Material amount of direct expenses of the Property were re-charged to OpCo.

HoldCo was entirely owned by the Shares Vendor, and OpCo was owned as to approximately 99.99% by HoldCo and approximately 0.01% by the Shares Vendor as at the Latest Practicable Date. HoldCo is an investment holding company and the principal business of OpCo is operating the Hotel. OpCo has entered into the Management Agreement with, among others, Marriott Hotels Manager France SAS, pursuant to which the latter is appointed to manage and supervise the operations of the Hotel.

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Set out below is the summary of the audited consolidated financial information of HoldCo for the three years ended 31 December 2013 and three months ended 31 March 2014 as extracted from the accountants' report of HoldCo set out in Appendix II to this circular:

	For the year ended 31 December			For the three months ended 31 March
	2011	2012	2013	2014
	€'000	€'000	€'000	€'000
Revenue	34,890	36,964	36,532	6,667
(Loss)/profit before taxation	514	875	(8)	(1,800)
(Loss)/profit after taxation	514	875	(8)	(1,800)

The majority of the revenue of HoldCo and OpCo was derived from rental of the Hotel guestrooms, which represented approximately 80%, 82%, 82% and 79% of the revenue of HoldCo and OpCo for the three years ended 31 December 2013 and three months ended 31 March 2014, respectively. HoldCo incurred loss of approximately €8,000 for the year ended 31 December 2013 due to decrease in revenue and an increase in the rental expenses incurred by OpCo under the lease of the Property, which was paid to the Property Vendor. The rental expenses amounted to approximately €13,105,000 for the year ended 31 December 2013, whereupon the rental expenses amounted to approximately €12,888,000 for the year ended 31 December 2012. For the three months ended 31 March 2014, HoldCo incurred loss of approximately €1,800,000, which is similar to that for the three months ended 31 March 2013 and represented the traditional low season for the hotel industry in France. Given the loss incurred by HoldCo for the year ended 31 December 2013 and the three months ended 31 March 2014 were primarily attributable to the effect of the inter-company lease between the Property Vendor and OpCo, as well as the seasonality of the hotel industry, the Directors are still optimistic about the prospect of the Hotel, and consider the terms of the Acquisitions are fair and reasonable, and in the interests of the Group and Shareholders as a whole.

Based on the accountants' report of HoldCo set out in Appendix II to this circular, the audited consolidated net assets of HoldCo amounted to approximately €19.6 million, €20.5 million and €20.5 million as at 31 December 2011, 31 December 2012 and 31 December 2013 respectively. The audited consolidated net assets of HoldCo was approximately €18.7 million as at 31 March 2014. The major assets of HoldCo and OpCo for the three years ended 31 December 2013 and three months ended 31 March 2014 mainly consisted of (i) property, plant and equipment; (ii) cash; and (iii) amount due from the Property Vendor. The major liabilities of HoldCo and OpCo for the three years ended 31 December 2013 and three months ended 31 March 2014 mainly consisted of the amount due to the Shares Vendor and bank overdraft.

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THE MANAGEMENT AGREEMENT

The Management Agreement, being the management agreement dated 16 June 1995 (as amended from time to time thereafter), and entered into, among others, between OpCo and Marriott Hotels Manager France SAS and the ancillary agreements concerning the Hotel and the Hotel Business, sets out the terms and conditions pursuant to which (i) Marriott Hotels Manager France SAS accepts to be appointed by OpCo to manage and supervise the operations of the Hotel; (ii) OpCo is allowed to use the Trademarks as described below; and (iii) Marriott group provides certain services outside of France in support of the Hotel.

Pursuant to the Management Agreement:

- (a) Marriott provides the following services:
 - (i) procedures and services necessary for the efficient management of the Hotel including but not limited to control procedures, management of inventories, bookkeeping of the Hotel activities, marketing and recruitment, training supervision and organisation of training programmes for and management of Hotel staff;
 - (ii) advertising, marketing, promotion and sales programs for the Hotel at an international level;
 - (iii) a number of corporate and regional support services support from Marriott International headquarters and regional offices and general expertise and technical/operational assistance in certain fields and including meetings with employees of the Hotel and Opco from time to time;
 - (iv) participation in Marriott's frequent traveler programme; and
 - (v) reservation systems and other systems;
- (b) OpCo was granted a non-exclusive right and licence within France to use the Trademarks only in connection with the operation of the Hotel;
- (c) OpCo shall pay the management fee, royalties, all costs and expenses incurred by Marriott in the performance of the aforesaid services outside of France provided; and
- (d) reimburse Marriott a number of direct and indirect costs.

The initial term of the Management Agreement signed between OpCo and Marriott Hotels Manager France SAS will expire in 2030, with a number of automatic renewal periods.

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Marriott Hotels Manager France SAS (and its related entities) shall be entitled to the following fees:

- (a) base fee calculated as a percentage of gross revenue; and
- (b) incentive fee calculated as a percentage of operating profit and capped under certain circumstances.

As at the Latest Practicable Date, taking into account the facts and circumstances subsisting thereat, the Directors did not foresee any difficulties in renewal of the Management Agreement. Unless there having been occurrence of an event of default (in which event the non-defaulting party shall be entitled to terminate the Management Agreement 60 days after it has given notice of its intention to terminate), the Marriott group is entitled to terminate its management of the Hotel only with an 11-month prior notice. The initial Management Agreement was signed in 1995 and there had been changes in ownership of the Property since then. Yet no termination of the Management Agreement has ever taken place. Given the Management Agreement have been in place since 1995 and the 11-month period for the Group to locate a replacement manager in the event of Marriott group's termination of the Management Agreement, the Directors are confident in the continuous operation of the Hotel, despite its reliance on the hotel manager under the Management Agreement.

REASONS AND BENEFITS OF THE ACQUISITIONS

The Group is principally engaged in manufacturing and trading of steel and steel product, supply of heat as well as operation of hotel. In order to implement the Group's expansion in and to optimise its business portfolios globally, the Board has been constantly reviewing its existing business portfolio and looking for new investment opportunities in order to broaden and strengthen its revenue stream. The Board takes an optimistic view in the prospect of the global tourism industry and after entering into agreements for the acquisition of the hotel business in Sheung Wan, Hong Kong, (being Butterfly on Waterfront Sheung Wan (formerly known as Hotel de EDGE)) in December 2013, the Group has been actively looking for further related investment opportunities.

According to UNWTO World Tourism Organisation, a specialised agency of the United Nations, international tourist arrivals reached 1.087 billion in 2013 worldwide, representing an increase of approximately 5% as compared to 2012. As the capital of the most visited country in the world, Paris has been benefiting from its importance as a global hub for business, culture and tourism. According to The Paris Convention and Visitors Bureau, Paris attracted approximately 16 million hotel arrivals and 37 million overnight stays in 2013 and achieved an average occupancy rate of 79% in hotel rooms. Over the past five years, Paris has witnessed stable levels of tourism demand with visitation and overnight stays showing an annual average growth rate of approximately 0.8% and 0.9% respectively. International visitors accounted for over 60% of overnight stays over the past five years, reflecting Paris' strong international exposure.

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In respect of the location of the Hotel, it is exceptionally located in the heart of Paris and the only 5-star hotel on avenue des Champs-Élysées. The Hotel directly overlooks the avenue des Champs-Élysées and is within walking distance of major city attractions including the Arc de Triomphe, as well as the Louvre.

The Acquisitions provide the Group with an excellent opportunity to expand on its new hotel operation segment. Being located in one of the most popular tourist destinations in the world, the Hotel had an occupancy rate of over 88% over the past three years which will provide a stable revenue stream to the Group. The Board also has high confidence in the management of the Hotel by the Marriott group. The initial term of the Management Agreement will only expire in 2030, with automatic renewal at the end of the initial term under the same terms and conditions for 3 successive periods of 10 fiscal years. The terms of the Management Agreement will remain the same upon Completion and the Board considers the terms of the Management Agreement are fair and reasonable.

According to information provided by the Shares Vendor, currently the Hotel mainly attracts customers from the North America, the Middle East and other European countries with a dominance of American, Saudi Arabian and French customers. The Group considers that upon Completion, more marketing effort would be focused on targeting the PRC market. The Group believes there is a potential to attract more Chinese customers and further improve the current occupancy rate of the Hotel. Taking into account the above factors, the Board considers that the terms of the Agreements are on normal commercial terms and are fair and reasonable so far as the Shareholders are concerned and the Acquisitions are in the interests of the Company and the Shareholders as a whole. The related expenses in connection with the Acquisitions is estimated to be approximately HK\$41.2 million. As at the Latest Practicable Date, it was the intention of the Company to continue other existing business of the Group and not to downsize the same or dispose of any material assets of the same. As set out above, the Board will continue to review its existing business portfolio and strive to maximize the returns to the Shareholders.

FINANCIAL EFFECTS OF THE ACQUISITIONS

Upon Completion, HoldCo and OpCo shall become wholly-owned subsidiaries of the Company, and the financial results, assets and liabilities of HoldCo and OpCo will be consolidated into the accounts of the Group.

Appendix IV to this circular presents the unaudited pro forma financial information of the Enlarged Group and describes the basis of preparation thereof.

Earnings

As stated in the unaudited pro forma consolidated statement of profit or loss of the Enlarged Group as set out in Appendix IV to this circular, the loss from continuing operation for the year ended 31 December 2013 would have been increased from approximately HK\$111.4 million to HK\$144.1 million as if the Acquisitions had taken place on 1 January 2013, primarily attributable to the finance costs paid by the Company in respect of bank borrowings and the Shareholder's Loan which offset against the net profit after eliminating the intra group rental expenses contributed by HoldCo and OpCo.

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However, given the historical financial performance of HoldCo and OpCo, the Acquisitions are expected to enhance the revenue base and earnings of the Enlarged Group, on this basis, in light of the potential future prospects of the Hotel, it is expected that, without considering the finance costs to be paid by the Company in respect of bank borrowings and the Shareholder's Loan, consolidating the financial results of HoldCo and OpCo into the Group would have a positive impact on the Enlarged Group's earnings upon Completion.

Assets and liabilities

As set out in Appendix IV to this circular, the unaudited pro forma consolidated statement of financial position of the Enlarged Group illustrates the effect of the completion of the Acquisitions on the Group, assuming that the Acquisitions had taken place on 31 December 2013. If the Acquisitions had been completed on 31 December 2013, the total assets of the Enlarged Group as at 31 December 2013 would have been increased from approximately HK\$3,806.6 million to approximately HK\$8,281.5 million primarily attributable to the consolidation of the Property. The total liabilities of the Enlarged Group as at 31 December 2013 would have been increased from approximately HK\$789.5 million to approximately HK\$5,440.5 million primarily attributable to the drawdown of bank borrowings and the Shareholder's Loan for the settlement of the Consideration. The Enlarged Group would have cash and cash equivalents of approximately HK\$659.8 million. It is not expected the Acquisitions will have any substantial adverse impact on the Company's cash-flow position or its business operations and the Acquisitions will not add immediate financial burden to the Company.

Gearing

The Group's gearing ratio on the basis of the Group's total liabilities as a percentage of total shareholders' equity was approximately 0.26 as at 31 December 2013. According to the unaudited pro forma consolidated statement of financial position of the Enlarged Group as set out in Appendix IV to this circular, the unaudited pro forma gearing ratio of the Enlarged Group would have been increased to approximately 1.92 as if the Acquisitions had been completed on 31 December 2013. This is primarily attributable to the increase in the Enlarged Group's non-current liabilities as the Consideration will be partly funded by bank borrowings and the Shareholder's Loan.

FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

According to UNWTO World Tourism Organisation, worldwide international tourism receipts increased from approximately US\$680 billion in 2005 to approximately US\$1,078 billion in 2012, representing a compound annual growth rate of approximately 6.8%. As the Board takes an optimistic view in the prospect of the global tourism industry, the Group started to diversify its business into hotel operation since 2013. In December 2013, the Group agreed to acquire a hotel business in Sheung Wan, Hong Kong. As disclosed in the annual report of the Company for the financial year ended 31 December 2013, the Group has been actively looking for further related investment opportunities and has entered into discussions on the possible Acquisitions.

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The Directors consider that the Acquisitions allow the Group to further expand its hotel operation segment, broaden the spectrum of its hotel operation into Paris, France and invest in income generating trophy asset with potential of capital appreciation of the Property in the long term. The Directors believe that through the Acquisitions, the Group will be able to diversify its business as well as to broaden and strengthen its stable revenue stream through rental income generated from hotels and its existing investment property in an office unit in Shanghai. This will also enhance the operation base of the Group.

Going forward, it is the present intention of the Company to continue existing business of the Group and not to downsize the same or dispose of any material assets of the same. The Enlarged Group will continue to be dedicated to constantly review, reinforce and if appropriate restructure its existing business segments with a view to enhancing and optimising return to the Shareholders. In order to implement the Group's expansion in and to optimise its business portfolios globally, the Enlarged Group will continuously seek for new investment opportunities either within or outside the Enlarged Group's business operations which can broaden and strengthen its revenue stream. In view of the above, the Directors believe that the prospect of the Enlarged Group is promising.

RISK FACTORS

Set out below are the risk factors which may be associated with the Acquisitions:

Risks relating to the Enlarged Group

The Acquisitions constitute an investment in a new geographical location for the Group

The Acquisitions have brought along a new geographical location for the Group in hotel operations in which the Group did not have any previous business presence. The existing management may not have adequate experience and the Group may not be able to control certain risks related to the expansion into this new location. Such risks include but are not limited to risks relating to conducting business in France and risks of reliance on key management personnel who are familiar with such geographical location. It is also difficult for the Group to ascertain the timing and amount of any return or benefits that may be received from the Acquisitions. The Company may not recover the funds and resources it has or will be utilized, and this may adversely affect the Company's financial position.

Risks relating to the Hotel business and operations

The occupancy rate of and revenue generated by the Hotel may be volatile

Although the Hotel recorded an occupancy rate of over 88% over the past three years, unlike other classes of real estate such as office buildings and retail premises, hotels by their nature generally do not have occupants who are committed to medium-term and long-term contractual rental payments, and there could be high variability in hotel occupancy rates at different times due to seasonal factors. There is no assurance that the Hotel will be able to maintain the occupancy rate at a level similar to the past three years

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in the future. If the Hotel experiences volatility in its occupancy rate and/or revenue, it could negatively impact the Hotel's results of operations.

The Hotel relies on the brand and reputation of Marriott and may be affected by adverse developments or negative publicity

The Hotel's ability to attract and retain guests depends, to an extent, upon external perceptions of the brand of the Hotel as well as the quality of the Hotel and its services. The Hotel is branded and marketed as "Marriott" branded hotel in accordance with and subject to the terms of the Management Agreement. OpCo has entered into the Management Agreement with, among others, Marriott Hotels Manager France SAS (the "Hotel Manager") pursuant to which the latter is appointed as the exclusive agent to manage and operate the Hotel, any degradation or adverse market developments relating to the "Marriott" brand name or any negative publicity affecting "Marriott" branded hotel could adversely affect the attractiveness of the Hotel and therefore have a material and adverse effect on the Hotel's business, financial condition and results of operations.

OpCo relies on the Hotel Manager to manage the day-to-day operations of the Hotel pursuant to the Management Agreement

Pursuant to the Management Agreement, the Hotel Manager manages the day-to-day operations and marketing of the Hotel. Please refer to section headed "Details of the Management Agreement" in this letter from the Board for further details on the key terms of the Management Agreement.

If the Management Agreement is terminated prior to its expiration, the Hotel may experience disruptions to its operations while OpCo seeks to replace the Hotel Manager. Moreover, OpCo may incur additional costs associated with finding and retaining a new hotel manager. A replacement hotel manager may charge fees which are not comparable in nature to, or are higher than, those charged by the existing Hotel Manager under the Management Agreement. In addition, the Hotel would need to be rebranded, which would likely involve substantial initial outlay for the marketing, refurbishment, branding and hospitality items and fixtures and furniture of the Hotel, and it may take several years for a successful operation to be re-established under the new branding. The disruption and costs associated with termination of the Management Agreement may be significant as the current Hotel Manager has managed the Hotel under the "Marriott" brand since 1995.

Since the day-to-day operations and marketing of the Hotel is managed by the Hotel Manager, OpCo is dependent on the Hotel Manager to manage such functions for the Hotel and is exposed to risks which are beyond its control, including the Hotel Manager or their parent companies suffering from financial difficulties. Any actions of the Hotel Manager considered to be improper by the public may lead to negative publicity and media attention, which may damage the reputation of the Hotel. In addition, the Hotel Manager enjoys certain benefits as a respected global brand in the hospitality industry, such as the ability to leverage the knowledge, expertise and networks of its group with regard to hotel management. There is no assurance that these benefits would continue should the Hotel change its hotel manager. The failure of the Hotel Manager to manage the Hotel in an efficient and effective manner could have a material and adverse effect on the Hotel's business, financial condition and results of operations.

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The Hotel relies on the supplies of personnel and quality of personnel supplied by the Hotel Manager

The Hotel currently obtains personnel supplied by the Hotel Manager. The operation of the Hotel depends on the ability of the Hotel Manager to attract, retain, train, manage and engage a sufficient number of qualified and skilled personnel. If the Hotel Manager is unable to attract, retain, train and engage a sufficient number of qualified and skilled personnel for the Hotel, the Hotel's ability to staff the Hotel adequately could be impaired.

The Hotel's performance depends, in part, upon the continual service and performance of the quality of such personnel supplied by the Hotel Manager, trainings provided to the personnel by the Hotel Manager, and on the Hotel Manager's ability to continue to attract, retain and motivate personnel for the Hotel. The operating performance of the Hotel will depend in part on the quality of services provided by these personnel. These personnel may leave the Hotel or the Hotel Manager in the future and may thereafter compete with the Hotel.

If the Hotel Manager is unable to replace any departing members in a timely manner or with individuals equally suited to perform the responsibilities of current members, the Hotel's business, financial condition and results of operations may be materially and adversely affected.

Fluctuations in foreign currency exchange rates may lead to volatility in the Hotel's results of operations

As the Hotel operates in France, substantial portion of its revenue and expenses are denominated in Euros. Nevertheless, a portion of the revenue and expenses from and to the Hotel Manager were paid in US dollars. Foreign currency-denominated transactions are exposed to fluctuations in the value of the Euros against such foreign currencies, and these fluctuations in currency exchange rates may significantly decrease the Euros amount received from foreign currency revenues and/or increase the Euros amount paid to foreign exchange expenses. For the year ended 31 December 2013, the HoldCo recorded a net exchange loss of approximately €230,000 (equivalent to approximately HK\$2,428,800). Currently, the HoldCo or OpCo has not entered into any transactions or applied any hedging policy against fluctuations in currency exchange rates, hence, it may cause volatility in the Group's results of operations.

Insurance coverage of the Property and the Hotel may be insufficient to protect it against potential losses and/or liabilities arising during the course of operations

The Property and the operations of the Hotel may be affected by a number of risks, including business interruption or potential damage to its facilities and equipment caused by fire, acts of God, inclement weather, human error, terrorist attack, pollution, labour disputes or war. In addition, the Hotel faces risks relating to public liability during its provision of services to customers, including damage to customers' property.

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Insurance coverage of the Property and the Hotel may be insufficient to protect it against potential losses and/or liabilities arising during the course of operations. Should an incident occur in relation to which the Hotel and/or the Property has inadequate insurance coverage, the Property owner and/or the Hotel could be required to pay compensation, hence, the Hotel's business, financial position and results of operation may be materially and adversely affected.

Any material increase in insurance rates or decrease in available coverage in the future could have a material and adverse effect on the Hotel's business, financial position and results of operations.

Risks relating to the industry

The hotel industry is subject to intense and growing competition

The hotel industry is highly competitive in Paris, France. The Hotel's competitors include hotels located in the vicinity of the Group's hotels, local hotel chains with multiple hotels, large international hotel chains operating multiple hotels under a variety of brand names. The competition to attract hotel guests is primarily based on the location of the hotel, price, property size, quality of rooms, amenities and facilities, hotel guest brand recognition and loyalty, geographic coverage, quality of services provided. Competing hotels and other venues may offer more facilities at their premises at similar or more competitive prices compared to the facilities offered at the Hotel. Competing hotels and other venues may also have significantly lower rates or offer greater convenience, or a wider range of services or amenities. Many of the competitors have operated in the industry for substantially longer periods of time and have accumulated operational, managerial, sales and marketing experience, brand recognition, human resources and financial resources. According to the Paris Tourism Office, there has been a strong growth in the number of four-star and five-star hotels between 2010 and 2012 of approximately 27.5% and 109.5%, respectively. These could lead to an over-supply of hotel rooms in Paris, which could adversely affect the occupancy rates and/or room rates of the Hotel. In addition, the development of new hotels or renovations of existing hotels can reduce the competitiveness of older or existing hotels.

There is no assurance that some or many of the competitors will not engage in hotel business in market in which the Hotel is operating, which will further increase the supply of available hotel rooms in the area and thereby increase competition and negatively impact the Hotel's occupancy and room rates. There is no assurance that the Hotel will be able to successfully compete against the current and future competitors. In particular, if competitors engage in significant price discount to attract hotel guests, the Hotel may be forced to substantially reduce the hotel room rates to maintain occupancy, and it would have a material adverse effect on the Hotel's revenue, profitability and results of operations.

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On the other hand, the Hotel's ability to remain competitive will require it to renovate and modernise the Hotel and future assets in order to preserve or expand demand for such assets, which may require significant investments. If the Hotel does not compete effectively or make significant investments to remain competitive, this would have a material adverse effect on the performance of the Hotel, the value of the Hotel and its business, results of operations, financial condition and prospects.

The outlook for financial markets and the world economy is uncertain and the hotel industry may be adversely affected by any economic slowdown

The Paris hotel industry has been, and will continue to be, significantly impacted by global or regional financial and economic conditions and is closely linked to the performance of the general economy. Consumer demand for the hotel accommodation and convention amenities which are provided by the Hotel are particularly sensitive to downturns in the economy. The global financial crisis that unfolded in 2008 resulted in a marked slowdown in world economic growth, economic contractions in certain markets, more commercial and consumer delinquencies, decline in consumer confidence and increased market volatility. Any global or regional economic slowdown or financial market turmoil in the future may adversely affect the willingness of consumers to travel, discretionary consumer spending and the consumers' demand for the hotel services, which may affect the business of the Hotel.

The outlook for financial markets and the world economy is uncertain. In the near term, economic downturns such as the European budgetary crisis may result in a reduction in business activity and income levels in France and could as a result adversely affect the demand for hotels and the facilities within hotels. In addition, since the Hotel's income is dependent on the revenue derived from rooms and restaurant facilities, any decrease in consumer spending could have a material adverse effect on its business, results of operations, financial condition and prospects.

LETTER FROM THE BOARD

INDUSTRY OVERVIEW

Hotel industry overview

FRANCE

According to UNWTO World Tourism Organisation, France was ranked as the most visited country in the world in the past five years. France registered stable growth in international visitor arrivals with a compounded average growth rate of 1.2% during 2008 to 2012.

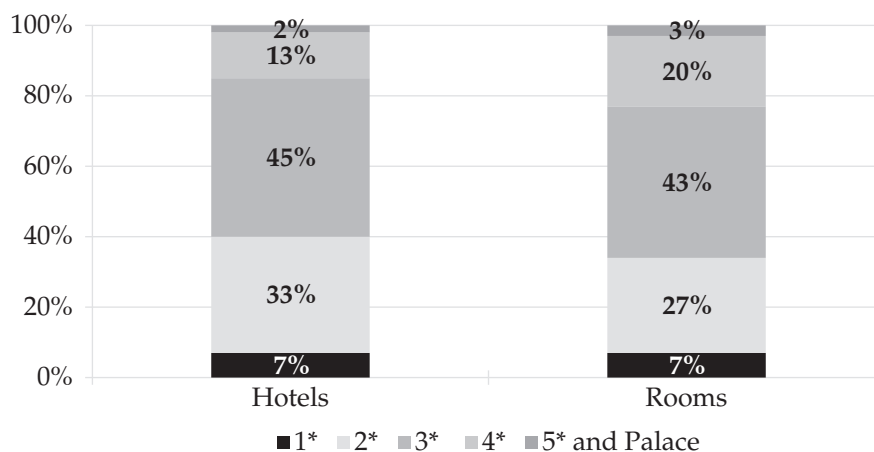
Year	International Tourist Arrivals (in Million)	Ranking
2008	79.2	1
2009	76.8	1
2010	77.6	1
2011	81.6	1
2012	83.0	1
2013	* still to be reported	
Growth 2008 – 2012	4.8%	
CAGR 2008 – 2012	1.2%	

Source: UNWTO

Hotel supply

As at 1 January 2014, France counts 17,750 hotels and 637,599 rooms. According to INSEE, the number of hotels and rooms in France has decreased by 1% and 17%, respectively, over the past five years.

French Hotel Supply by Rating as at 1 January 2014



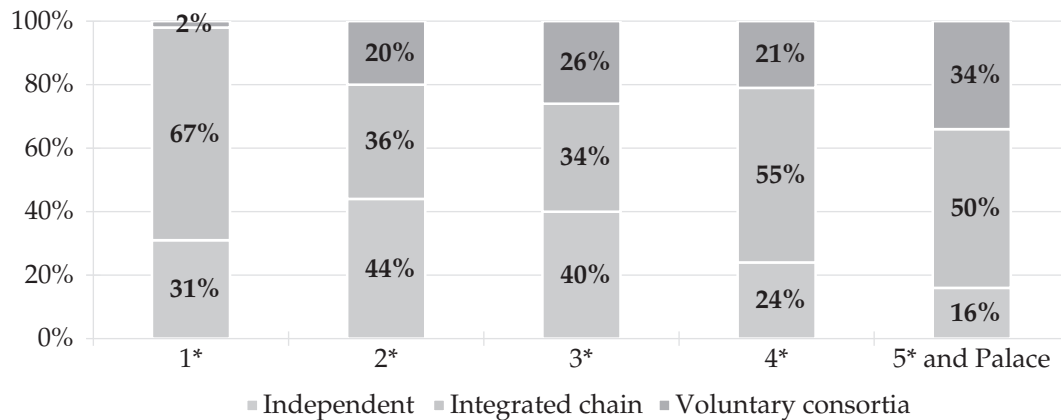
Source: In Extenso conseil en tourisme, hôtellerie et restauration

LETTER FROM THE BOARD

As at 1st January 2014, the 3 star segment accounts for the majority of hotel supply in France, representing 45% of hotel and 43% of room capacity. While the Luxury segment (5 star and Palace segment) accounts for just 2% of hotel and 3% of room capacity.

Main market players

**French Hotel Room Supply by Rating and Operating Structure
as at 1 January 2014**



Source: *In Extenso conseil en tourisme, hôtellerie et restauration*

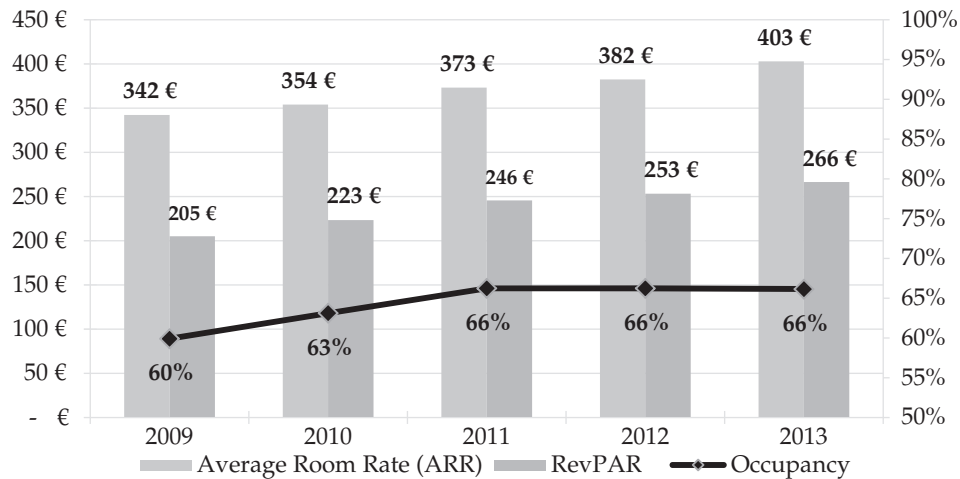
In terms of capacity, integrated chains are the key hotel market players in France operating 42% of total room supply. In particular, the Upscale and Luxury segments (4 star segment and 5 star and Palace segment) are dominated by integrated chains, representing 55% and 50% of room capacity, respectively.

Concerning the Upscale and Luxury segments in France, the main integrated hotel chain players include the Accor Group (representing 23% of total Upscale and Luxury integrated capacity), Marriott International (11%), Hyatt (9%), Rezidor (9%), Starwood (8%) and Lucien Barrière (8%). While the main voluntary consortia players include Châteaux & Hôtels Collection (representing 17% of total Upscale and Luxury voluntary consortia supply), Relais & Châteaux (17%), Hotels & Préférence (15%), Small Luxury Hotels of the World (10%) and The Leading Hotels of the World (9%).

LETTER FROM THE BOARD

Occupancy, ARR and RevPAR

Operating Performance of the Luxury Hotel Segment in France



Source: *In Extenso conseil en tourisme, hôtellerie et restauration*

Occupancy rate of the French Luxury hotel segment has remained stable at 66% since 2011, increased from 60% and 63% in 2009 and 2010, respectively. Average room rates (“ARR”) have consistently grown since 2009 at a CAGR of 4.2%. Growth in occupancy and ARR has led to an increase of 30% or €61 in revenue per available room (“RevPAR”) between 2009 and 2013.

Despite the recent economic crisis in Europe, France’s luxury hotels have managed to post solid trading performance.

PARIS

As the capital of the world most visited country, Paris attracted approximately 16 million hotel arrivals in 2013. Further to a decline in 2009, hotel arrivals recovered in 2010 and continued in this vein throughout 2011 to 2013.

Year	Hotel Arrivals (in Million)
2008	15.0
2009	14.4
2010	15.2
2011	15.7
2012	15.7
2013	15.6

Source: *Office du Tourisme et des Congrès de Paris*

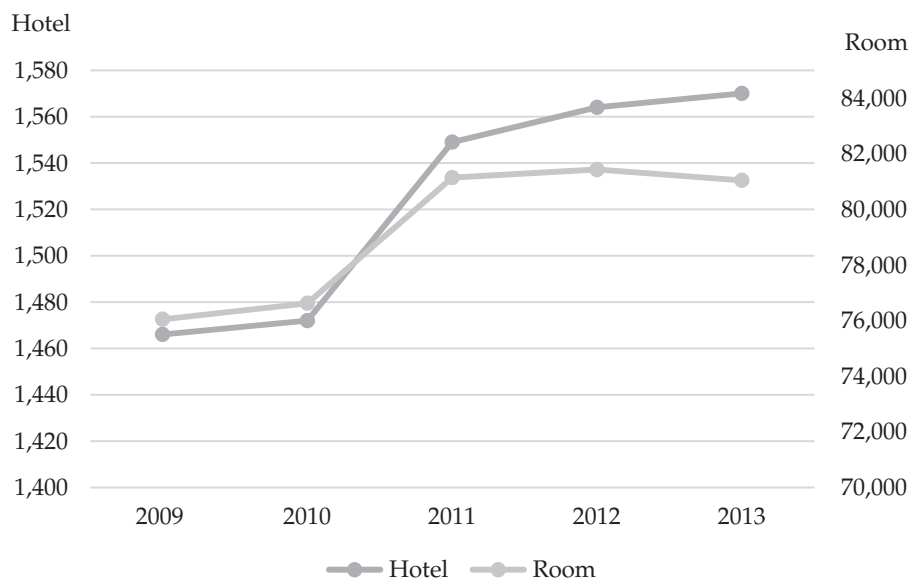
LETTER FROM THE BOARD

The capital is home to five out of the six most popular cultural sites in France and concentrates a wealth of internationally-renowned tourist attractions, with new ones regularly appearing (Fondation Pathé-Seydoux in 2012, the Manoir de Paris in 2011, the Cité de la Mode et du Design in 2010, etc.). In addition, Paris is one of the most popular congress destinations in Europe, hosting 1055 congresses in 2013 according to Office du Tourisme et des Congrès de Paris. Given the strength of the destination, the underlying trend on hotel demand remains positive.

Hotel supply

As at 1 January 2014, Paris counts 1,539 hotels and 79,443 rooms. According to Office du Tourisme et des Congrès de Paris, the number of hotels and rooms in Paris has increased approximately by 7% and 7%, respectively, over the past five years.

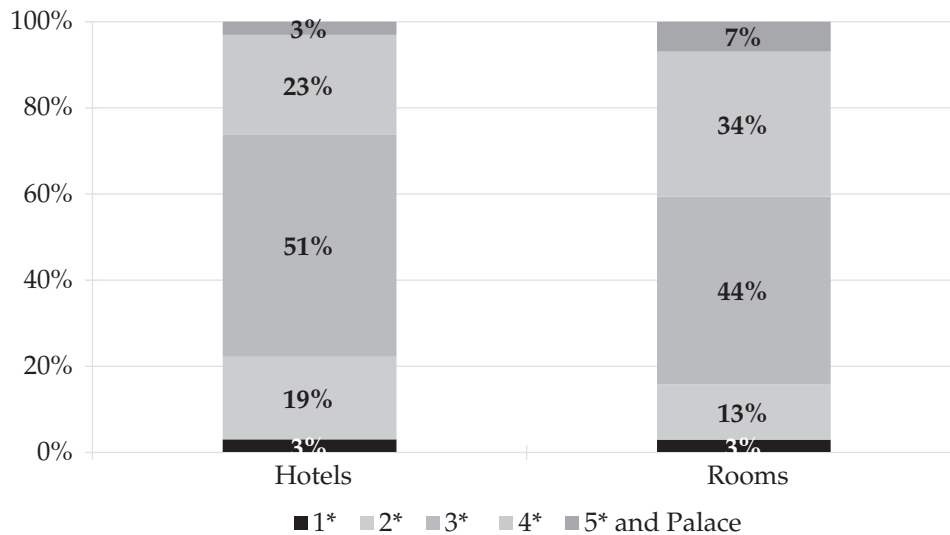
Average Hotel and Room Supply in Paris during 2009 – 2013



Source: Office du Tourisme et des Congrès de Paris

LETTER FROM THE BOARD

Parisian Hotel Supply by Rating as at 1 January 2014

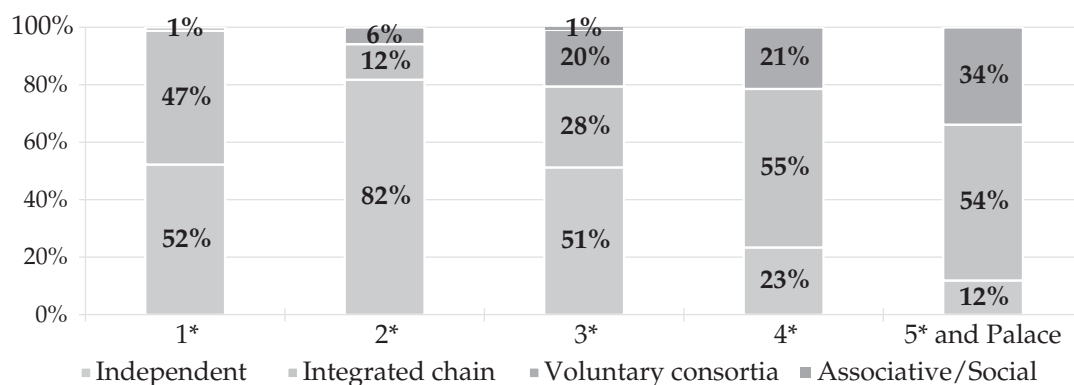


Source: *In Extenso conseil en tourisme, hôtellerie et restauration*

Parisian hotel supply is predominantly rated 3 star and 4 star, representing 44% and 34% of capacity, respectively, as at 1 January 2014. Given the high land and hotel development costs in the capital, budget supply remains limited while the Luxury segment (5 star and Palace segment) accounts for 7% of total room capacity.

Main market players

Parisian Hotel Room Supply by Rating and Operating Structure as at 1 January 2014



Source: *In Extenso conseil en tourisme, hôtellerie et restauration*

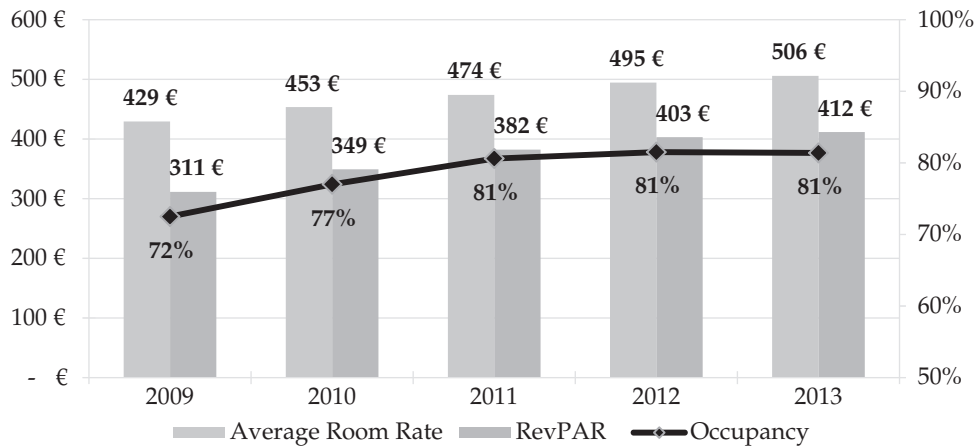
Independent players are the key hotel market players in Paris accounting for 63% of hotels and 43% of room capacity. Nevertheless, the Upscale and Luxury segments (4 star segment and 5 star and Palace segment) are dominated by integrated chains, representing 55% and 54% of capacity, respectively.

LETTER FROM THE BOARD

Concerning the Upscale and Luxury segments in Paris, the main integrated hotel chain players include the Accor Group (representing 22% of total Upscale and Luxury integrated capacity), Starwood (15%), Marriott International (14%) and Hyatt (12%). While the main voluntary consortia players include Hotels & Préférence (representing 15% of total Upscale and Luxury voluntary consortia supply), Preferred Hotels & Resorts (15%), Best Western/BW Premier (14%), The Leading Hotels of the World (13%) and Small Luxury Hotels of the World (8%).

Occupancy, ARR and RevPAR

Operating Performance of the Luxury Hotel Segment in Paris



Source: *In Extenso conseil en tourisme, hôtellerie et restauration*

The Parisian Luxury hotel segment benefitted from a relatively high occupancy levels of 81% since 2011, increased from 72% and 77% in 2009 and 2010, respectively. ARR have consistently grown over the past five years at a CAGR of 4.2%. Growth in occupancy and ARR has led to an increase of 32% or €101 in revenue per available room (“**RevPAR**”) between 2009 and 2013.

These solid trading performances and consistently high occupancy illustrates the good health of the Parisian Luxury hotel market. Far from negatively impacting trading performance, the recent increase in upper-end hotel supply further to the arrival of new market entrants (e.g. Shangri-La Hotel Paris opened in late 2010, Mandarin Oriental Paris opened in mid-2011, W Paris opened in early 2012, etc.) has been absorbed by the market, which in turn continues to progress.

Challenges and opportunities in the French hotel industry

Challenges

New Technologies and changing consumer behavior

Online travel agencies are playing an increasingly active role in hotel marketing. According to In Extenso THR, between 2008 and 2012, the proportion of commissions as a percentage of room revenue paid to online travel agencies rose from 3.7% to 4.6%. In addition, consumer behavior is also being modified by the rise in social networks. Hotels are increasingly having to devote resources to managing their e-reputation.

Alternative lodging products

Alternative lodging products such as serviced apartments, apartment rentals and hostels have emerged and gained industry recognition as an alternative preferred by guests seeking greater flexibility, convenience and social interaction. These alternative products are increasingly competing with hotels on price, particularly budget ones.

Barriers to entry in key markets

The scarcity of available real estate for development in key markets such as Paris and the Côte d'Azur, constitutes a significant barrier to entry.

Opportunities

As an aside, the French hotel market, in particular the Parisian market, presents several opportunities in terms of development.

While land remains scarce in Paris, an opportunity lies in the city's oversupply of office buildings. Developers seeking to introduce a significant number of guest rooms in the Parisian market are increasingly turning towards office building conversions.

Furthermore, given the overall health of the Parisian hotel industry, particularly at the upper end of the market, the City of Paris is committed to a Paris Hotel Action Plan, with objectives to:

- reinforce hotel capacity whilst preserving diversity of supply to cater to all guest segments;
- render architectural quality and respect for environmental norms a priority for each project;
- integrate hotel projects in developing districts with strong economic potential (trade events, etc.); and
- offer investors the possibility to build high-quality hotels on local authority land and in major development zones.

LETTER FROM THE BOARD

REGULATORY OVERVIEW

Laws and regulations relating to foreign investment in France

According to the French Monetary and Financial Code, there is a principle of freedom of foreign investments in France, a principle of freedom regulating financial international relations.

Some foreign investments are subject to a declaration to the French administration, or an authorisation prior to the investment. The French Monetary and Financial Code defines such foreign investments that are subject to declaration or authorisation to the French administration. An investment in real property located in France is not designated by these regulations. Therefore, in general, it is not subject to a declaration or authorisation prior to the investment.

However, pursuant to article R152-3 of the French Monetary and Financial Code, an acquisition of real property located in France by a non-French entity for more than €15 million is subject to a declaration to the "*Banque de France*". This declaration has a statistical purpose. It is a record on the foreign investment.

According to article L141-6 of the French Monetary and Financial Code and article 5 of the Decision n°2007-01 of the *Banque de France's* General Council Monetary Committee, this declaration contains the following information:

- (i) information on the foreign investor;
- (ii) information on the seller;
- (iii) information on the operation itself (date, nature, amount);
- (iv) information on the shareholders with at least 10% of the shares;
- (v) information on the financing of the operation; and
- (vi) other information.

This declaration must be done within 20 days after the operation is completed.

Pursuant to articles L165-1 of the French Monetary and Financial Code and 459 of the French Customs Code, if such regulations are not complied with, there is a prison sentence of 5 years, and the seizure and confiscation of the property.

LETTER FROM THE BOARD

Laws and regulations relating to real estate in France

Property title system

Property title in France is confirmed with the registration of the relevant agreement assigning the freehold or other real estate interest in a property with the Mortgage and Land Register. Pursuant to the Decree of 4 January 1955, a copy of the deed of sale must be given to the Mortgage and Land Register in order for the sale to be enforceable against third parties. If such registration does not occur, the transfer of the property will not be enforceable against third parties, but will still be effective between the parties.

In the event of a conflict between several buyers on the same property, it is the first buyer that registered his deed of sale that will prevail over the others.

French law requires that the root of title, establishing title for at least 30 years prior to the deed of sale, is provided. This root of title is necessary in order to prove the property right.

Transfer of property

In French Law, the transfer of the property occurs instantly on the date of the sale, which is when the parties agree on the property object of the sale, and the corresponding price. It occurs when the deed of sale is signed by the parties. As a consequence, the plot of land and the achieved buildings on the land are automatically transferred at the same time to the buyer. The ownership is absolute, exclusive and permanent in France, which has the following interpretation:

- (i) “absolute”: according to article 555 of the French Civil Code, the owner possesses everything that is above and below the land. The buyer owns everything on the property, including what is attached to the property (potential rights, securities);
- (ii) “exclusive”: the buyer is the only one to own the land. The state does not interfere at all; and
- (iii) “permanent”: the buyer owns the land permanently until he decides to donate or otherwise transfer the property to another entity.

According to article 1614 of the French Civil Code, the buyer will have the enjoyment of the premises as of the date of the property transfer, which is the signature date of the deed of sale as mentioned above. Therefore benefits of the rents are receivable as of this date.

Laws and regulations relating to the Hotel

Pursuant to article R123-3 of the French Residential and Construction Code, operators of buildings open to the public have to always be in accordance with safety regulations. To this end, an operating declaration (“*déclaration d’exploitation*”) has to be filed, for information purposes, to the Prefecture of Police for a Hotel operated in Paris.

LETTER FROM THE BOARD

Authorisation for opening of the Property as the Hotel

According to article R123-45 from the French Residential and Construction Code, before opening a building to the public, the operator asks the Prefecture of Police to issue an authorisation to open the building. In accordance with article R123-46, such authorisation will be issued after the visit and inspection of the building, of a special Security Commission.

In order to obtain this opening authorisation, the building must be compliant with safety regulations.

The Property is operated as a MARRIOTT hotel further to an authorisation issued by the Prefecture of Police dated 23 November 2005 n°3797.

This authorisation was issued for a hotel of 193 rooms and a capacity for reception of 386 persons.

The authorisation provides that in case of:

- (i) modification of the identity of the director/manager of the hotel currently running the hotel;
- (ii) cessation of activity; or
- (iii) modification of the number of rooms or the capacity,

such an authorisation shall be renewed.

Hotel open to the general public (“Etablissement Recevant du Public”) (“ERP”)

Buildings open to the general public are subject to periodical supervision visits by the competent safety commission. These visits will enable the administrative authority to verify the compliance with fire safety regulations and accessibility to disabled people standards. As part of these verifications, the administrative authorities may suggest improvements or modifications which should be made to the building.

The Property is classified as category 2 for ERP, meaning a capacity from 701 to 1500 persons for type N, L and X corresponding to the following activities: hotel/restaurant/offices/meeting room/sport complex.

Star-rating (Hotel) Order

The Star-rating (Hotel) Order, from one star to five stars with a “superior luxury” distinction, is not mandatory according to article L311-6 of the Tourism Code, it is at the sole discretion of the operator. The decision is issued by “Atout France” which is a tourism development agency, under the authority of the Tourist Minister.

LETTER FROM THE BOARD

In order to apply for the star-rating, the operator must ask a recognised control authority or body to visit the premises. This authority will deliver a visit certificate ("*certificat de visite*"). *Atout France* will then issue a star-rating order according to the result of the visit certificate, and an official ranking table approved by the Tourist Minister. By Order n° 2009-200-6 dated 17 July 2009, the Hotel is a 5 star-rating hotel for all the rooms.

License VI

Further to articles L.3331-1 and the French Public Health Code, a liquor licence is necessary for any establishment which sells or serves liquor, as a principal or accessory activity, in the premises.

In order to obtain the liquor licence, the operator must apply for an operating permit, and a declaration at the Town City Hall, after completing a special course on alcoholism, alcohol and minors, public drunkenness, liability.

On 17 November 2011, the "*Déclaration de mutation*" was obtained to sell alcoholic drinks in the restaurant of the Property.

HOTEL MANAGEMENT EXPERIENCE OF THE ENLARGED GROUP

Mr. Law Wing Chi, Stephen ("**Mr. Law**"), an executive Director and the chief financial officer of the Company, is responsible for overseeing the overall financial, strategic planning and development of the hotel business of the Enlarged Group. Mr. Law has extensive experience in financial management, professional accounting and company secretarial matters. He started his career as a professional accountant in Deloitte Touche Tohmatsu and has undertaken key financial management positions in companies engaged in a variety of industries.

As at the Latest Practicable Date, the Group owned and operated a hotel in Hong Kong, being Butterfly on Waterfront Sheung Wan. The Group has engaged Butterfly Hotel and Serviced Apartment Group Limited as its hotel manager. Butterfly Hotel and Serviced Apartment Group Limited is a well-known hotel management company in Hong Kong. Pursuant to engagement of Butterfly Hotel and Serviced Apartment Group Limited, the Group is given monthly report on the hotel's performance and operations. Mr. Law is responsible for overseeing the relationship with Butterfly Hotel and Serviced Apartment Group Limited as well as the financial performance of the hotel business.

As at the Latest Practicable Date, OpCo had engaged the Marriott group as its hotel manager pursuant to the Management Agreement to manage the Hotel business for over 10 years. The Group has no intention to terminate the Management Agreement upon Completion. As at the Latest Practicable Date, the Group had received no indication from any senior managers of the local staff relating to the Hotel business that they would leave their current positions upon Completion. It is envisaged that majority of the existing senior management of the Hotel, as employed by Marriott group, will continue their employment for operation of the Hotel upon Completion. Therefore, the Group does not envisage any material change to the local management of the Hotel upon Completion.

LETTER FROM THE BOARD

As at the Latest Practicable Date, the Property was owned by the Property Vendor and according to the Property Vendor, the Property was managed by a professional asset manager to carry out the day-to-day management of the Property on behalf of the Property Vendor. Upon Completion, the Group will become owner of the Property and will also engage a reputable professional asset manager in France to carry out the day-to-day management of the Property (which includes communication with the Hotel manager, managing the Property renovations etc.), provide strategic advisory, investment and financing advice etc. in order to protect the Group's interest as owner of the Property. Accordingly, the Group does not envisage any material change in the mode of management of the Property upon Completion.

The Board is of the view that via contracting with reputable property/asset/hotel manager, the Group is assured of quality management of its hotel business and property, whereas Mr. Law will be responsible for managing the Group's relationship with these external managers and the overall financial performance of the Group's hotel business. Upon Completion, the Group does not envisage any material change in the mode of operations regarding its hotel business. All the asset and hotel managers of the Group's hotel business will continue to report to Mr. Law.

IMPLICATIONS UNDER THE LISTING RULES

As the relevant percentage ratios (as defined in the Listing Rules) exceed 100%, the Acquisitions together constitute a very substantial acquisition for the Company pursuant to Rule 14.06(5) of the Listing Rules. The Agreements and the transactions contemplated thereunder are therefore subject to approval by the Shareholders at the SGM by poll.

As no Director has material interest in the Agreements, no Director had abstained from voting at the Board meeting approving the Agreements and the transactions contemplated thereunder.

Pursuant to Rule 14.69(4)(b)(i) of the Listing Rules, a profit and loss statement of the Property for the three financial years ended 31 December 2013 and the three months ended 31 March 2014 reviewed by the reporting accountants to ensure such information has been properly compiled and derived from the underlying books and records is required to be included in this circular. Despite the written and verbal requests from the Group, the Group is unable to gain full access to such underlying books and records for preparation of the financial information of the Property for the three financial years ended 31 December 2013 and the three months ended 31 March 2014 in compliance with the requirements of Rule 14.69(4)(b)(i) of the Listing Rules. The Company has therefore applied for, and was granted by the Stock Exchange, a waiver from strict compliance with Rule 14.69(4)(b)(i) of the Listing Rules. Please refer to Appendix III to this circular for details of the waiver and the alternative disclosure made as regards the Property.

LETTER FROM THE BOARD

The SGM will be convened and held for the Shareholders to consider and, if thought fit, approve the ordinary resolution in respect of the Agreements and the transactions contemplated thereunder. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as at the Latest Practicable Date, the Vendors and their respective associates did not hold any Shares. As at the Latest Practicable Date, Mr. Du Shuang Hua, by virtue of his 85% interest in the issued share capital of Happy Sino International Limited, was deemed to be interested in 708,000,000 Shares, representing approximately 5.54% of the issued share capital of the Company. Mr. Du Shuang Hua and his associates will abstain from voting at the SGM in view of his potential advance to the Company under the Loan Agreement and his interest in acquiring the Hotel in case the Acquisitions are not approved by the Shareholders at the SGM.

As set out in the circular of the Company dated 27 April 2009 in relation to, among other things, the acquisition of 日照型鋼有限公司(Rizhao Medium Section Mill Co., Ltd.), 日照鋼鐵有限公司(Rizhao Steel Co., Ltd.) and 日照鋼鐵軋鋼有限公司(Rizhao Steel Wire Co., Limited) ((the "3 Associated Companies") all of which have become associated companies of the Group), Mr. Du Shuang Hua was then a party acting in concert (as defined in the Hong Kong Code on Takeovers and Mergers) with Mr. Zhang He Yi and Mr. Qi Shi An, both being vendors of the 3 Associated Companies. As set out in the aforesaid circular, as at 24 April 2009, (i) Mr. Du Shuang Hua was interested in 85% and Mr. Zhang He Yi was interested in 15% respectively of the issued share capital of Happy Sino International Limited, which in turn was interested in approximately 9.95% of the then issued share capital of the Company; (ii) Mr. Du Shuang Hua was interested in 67.9% in the equity interests of the then holding company of the joint venture partner of the 3 Associated Companies; (iii) Mr. Du Shuang Hua was a director of the 3 Associated Companies as well as their joint venture partners; (iv) upon completion of acquisition of the 3 Associated Companies, Mr. Zhang He Yi and Mr. Qi Shi An, as vendors of the 3 Associated Companies, would be allotted and issued consideration shares amounting to approximately 21.93% of the then issued share capital of the Company as enlarged by such allotment and issue. As set out above, Happy Sino International Limited's shareholding in the Company had decreased to approximately 5.54% as at the Latest Practicable Date. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, as at the Latest Practicable Date, (i) Mr. Du Shuang Hua was only interested in approximately 18.88% of the ultimate holding company of joint venture partner of the 3 Associated Companies; (ii) Mr. Du Shuang Hua was no longer a director of the 3 Associated Companies; (iii) Mr. Zhang He Yi was interested in 15% of the issued share capital of Happy Sino International Limited; (iv) Mr. Zhang He Yi was also interested in 1,400,000,000 Shares, representing approximately 10.96% of the issued share capital of the Company; and (v) Mr. Qi Shi An was interested in 600,000,000 Shares, representing approximately 4.70% of the issued share capital of the Company. Although their interests in the Shares and their relationship with the 3 Associated Companies have significantly changed since 2009, to maintain sound corporate governance practice, Mr. Zhang He Yi and Mr. Qi Shi An will also abstain from voting at the SGM.

Save as disclosed, no other Shareholder will be required to abstain from voting at the SGM in respect of the ordinary resolution relating to the Agreements and the transactions contemplated thereunder.

LETTER FROM THE BOARD

SGM

A notice convening the SGM to be held at 1/F, Empire Room I, Empire Hotel Hong Kong Wanchai, 33 Hennessy Road, Wanchai, Hong Kong at 9:30 a.m. on Friday, 19 September 2014 or any adjournment is set out from pages SGM-1 to SGM-2 of this circular.

A form of proxy for use at the SGM is enclosed. If you are unable to attend the SGM in person, you are requested to complete and return the form of proxy to the Company's Hong Kong branch share registrar and transfer office, Tricor Tengis Limited at 22nd Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting at the SGM or any adjourned meeting thereof (as the case may be) should you so wish.

RECOMMENDATION

The Board considers that the terms of the Agreements and the respective transactions contemplated thereunder are on normal commercial terms, fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Agreements and the transactions contemplated thereunder.

ADDITIONAL INFORMATION

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

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

A. THREE-YEARS FINANCIAL INFORMATION

The consolidated financial statements of the Group (i) for the financial year ended 31 December 2013 is disclosed in the 2013 annual report of the Company (the "2013 Annual Report") published on 9 April 2014, from pages 27 to 112; (ii) for the financial year ended 31 December 2012 is disclosed in the 2012 annual report of the Company published on 12 April 2013, from pages 24 to 104; and (iii) for the financial year ended 31 December 2011 is disclosed in the 2011 annual report of the Company published on 13 April 2012, from pages 24 to 104, all of which have been published on the website of the Stock Exchange (www.hkex.com.hk) and the website of the Company (<http://www.kaiyuanholdings.com>).

B. INDEBTEDNESS STATEMENT**Borrowings and debts**

As at the close of business on 31 July 2014, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this Circular, the Enlarged Group had outstanding borrowings of approximately HK\$993,017,000, comprising (1) secured bank loan of HK\$166,000,000, which was secured by certain hotel properties; (2) unsecured bank overdraft of HK\$586,196,000; (3) unsecured loan from immediate holding company of HK\$122,169,000; and (4) unsecured loan of HK\$118,652,000 from a related company.

General

For the purpose of the above statement of indebtedness, foreign currency denominated amounts has been translated into Hong Kong dollar at the rates of exchange prevailing at the close of business on 31 July 2014.

Save as aforesaid and apart from intra-group liabilities and normal trade payables, the Enlarged 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 July 2014.

As at the Latest Practicable Date, the Directors confirmed that, there had been no material change in the indebtedness position of the Enlarged Group, except for those mentioned above and any contingent liabilities or any guarantees of the Enlarged Group.

C. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors confirmed that having taken into account of, among other things, the positive profit alert announcement of the Company dated 4 August 2014, there had been no material adverse change in the financial or trading position of the Group since 31 December 2013, the date to which the latest published audited financial statements of the Group were made up.

D. WORKING CAPITAL STATEMENT

The Directors, after due and carefully enquiry, are of the opinion that following Completion, after taking into account the financial resources available to the Enlarged 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 2013, being the date to which the latest audited consolidated accounts of the Company have been made up), including internally generated funds and the available banking facilities, the Enlarged 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 2013, being the date to which the latest audited consolidated accounts of the Company have been made up) has sufficient working capital for its present requirements for at least the next 12 months from the date of this circular, in the absence of unforeseeable circumstances.

The following is the text of a report, prepared for the purpose of incorporation, in this circular, received from the Company's reporting accountants, Deloitte Touche Tohmatsu, certified public accountants:



29 August 2014

The Directors
Kai Yuan Holdings Limited
28th Floor, Chinachem Century Tower,
178 Gloucester Road,
Wanchai,
Hong Kong

Dear Sirs,

We set out below our report on the financial information (the “**Financial Information**”) regarding MCE OpCo HoldCo (“**HoldCo**”) (formerly known as “**Stratégic Hotel Capital Champs Elysées**”) and its subsidiary (together with HoldCo collectively referred to as the “**MCE Group**”) for each of the three years ended 31 December 2013 and three months ended 31 March 2014 (the “**Relevant Periods**”) for inclusion in a circular issued by Kai Yuan Holdings Limited (the “**Company**”) dated 29 August 2014 (the “**Circular**”) in connection with the very substantial acquisition (the “**Acquisition**”) of the entire issued share capital of HoldCo by the Company.

HoldCo, which acts as an investment holding company, was incorporated in France as a joint-stock company on 23 June 1998. Since its incorporation to 5 April 2011, HoldCo's ultimate and immediate holding company was SHC Europe LLC, a company incorporated in United States of America. On 6 April 2011, the shares of HoldCo were sold to Tamweelview European Holdings SA, a company incorporated in Luxembourg which then became the ultimate and immediate holding company of HoldCo. The name of HoldCo was changed from Stratégic Hotel Capital Champs Elysées to MCE OpCo HoldCo on 6 April 2011. The address of its registered office is 70–72 avenue des Champs-Elysées, France.

The particulars of HoldCo's subsidiary are as follows:

Name of the company	Place of incorporation	Date of incorporation	Issued and fully paid share capital as at 31 March 2014	Principal activities
MCE OpCo (formerly known as "Hotel Paris Champs Elysées")	France	6 June 1997	Euro8,835,915	Hotel operations

The subsidiary is 99.99% owned by HoldCo at 31 December 2011, 2012 and 2013, 31 March 2014 and up to the date of this report.

All companies comprising the MCE Group have adopted 31 December as their financial year end date. The statutory financial statements of HoldCo and its subsidiary for each of the three years ended 31 December 2013 were prepared in accordance with the relevant accounting principles and financial regulations in the relevant place of incorporation and were audited by the following certified public accountants:

Name of the Company	Accounting principles and financial regulations	Financial year	Name of auditors
HoldCo	France Accounting Standards	For the year ended 31 December 2011	Ernst & Young
HoldCo	France Accounting Standards	For each of the two years ended 31 December 2013	Deloitte & Associates
MCE OpCo	France Accounting Standards	For the year ended 31 December 2011	Ernst & Young
MCE OpCo	France Accounting Standards	For each of the two years ended 31 December 2013	Deloitte & Associates

For the purpose of this report, the directors of HoldCo have prepared the consolidated management accounts of the MCE Group for the Relevant Periods in accordance with accounting policies which conform with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") (the "Underlying Financial Information"). We have performed independent audit procedures on the Underlying Financial Information in accordance with Hong Kong Standards on Auditing issued by the HKICPA and have examined the Underlying Financial Information in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Financial Information of the MCE Group for the Relevant Periods set out in this report has been prepared from the Underlying Financial Information. No adjustments were deemed necessary by us to the Underlying Financial Information in preparing our report for inclusion in the Circular.

The Underlying Financial Information are the responsibility of the directors of HoldCo who approved their issue. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Information, to form an independent opinion on the Financial Information and to report our opinion to you. In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the MCE Group and HoldCo as at 31 December 2011, 2012 and 2013 and 31 March 2014, and of the consolidated results and consolidated cash flows of the MCE Group for the Relevant Periods.

The comparative consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the MCE Group for the three months ended 31 March 2013 together with the notes thereon have been extracted from the MCE Group's unaudited consolidated financial information for the same period (the "**March 2013 Financial Information**") which was prepared by the directors of MCE solely for the purpose of this report. We have reviewed the March 2013 Financial Information in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. Our review of the March 2013 Financial Information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the March 2013 Financial Information. Based on our review, nothing has come to our attention that causes us to believe that the March 2013 Financial Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information which conform with Hong Kong Financial Reporting Standards.

(A) FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME

	NOTES	Year ended 31 December			Three months ended 31	
		2011	2012	2013	March	
		EUR'000	EUR'000	EUR'000	2013	2014
						(unaudited)
Revenue	7	34,890	36,964	36,532	6,870	6,667
Costs of operation		<u>(34,073)</u>	<u>(35,764)</u>	<u>(35,958)</u>	<u>(8,322)</u>	<u>(8,379)</u>
Gross profit (loss)		817	1,200	574	(1,452)	(1,712)
Other income, gains and losses	8	349	136	(177)	(18)	10
Administrative expenses		(229)	(69)	(82)	(56)	(14)
Finance costs	9	<u>(423)</u>	<u>(392)</u>	<u>(323)</u>	<u>(80)</u>	<u>(84)</u>
Profit (loss) before taxation		514	875	(8)	(1,606)	(1,800)
Taxation	10	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Profit (loss) and total comprehensive income (expense) for the year/period	11	<u>514</u>	<u>875</u>	<u>(8)</u>	<u>(1,606)</u>	<u>(1,800)</u>
Earnings (loss) per share Basic	13	<u>EUR1.05</u>	<u>EUR1.88</u>	<u>EUR(0.02)</u>	<u>EUR(3.45)</u>	<u>EUR(3.87)</u>

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	NOTES	As at 31 December			As at
		2011	2012	2013	31 March
		EUR'000	EUR'000	EUR'000	2014
				EUR'000	
Non-current assets					
Property, plant and equipment	15	4,474	3,698	2,645	2,447
Deposits paid	23	10,023	10,038	10,039	10,042
		<u>14,497</u>	<u>13,736</u>	<u>12,684</u>	<u>12,489</u>
Current assets					
Inventories	16	148	277	141	138
Trade and other receivables	17	3,765	3,638	4,148	2,639
Financial assets at fair value through profit or loss	18	883	883	883	883
Tax recoverable		1,098	–	–	–
Bank balances and cash	19	5,325	41,349	43,051	50,536
		<u>11,219</u>	<u>46,147</u>	<u>48,223</u>	<u>54,196</u>
Current liabilities					
Trade and other payables	20	5,584	3,591	3,021	3,487
Bank overdraft	19	95	33,805	34,929	43,362
Amount due to immediate holding company	21	326	718	1,063	1,170
Amount due to a fellow subsidiary	21	112	1,295	1,428	–
		<u>6,117</u>	<u>39,409</u>	<u>40,441</u>	<u>48,019</u>
Net current assets		<u>5,102</u>	<u>6,738</u>	<u>7,782</u>	<u>6,177</u>
Total assets less current liabilities		<u>19,599</u>	<u>20,474</u>	<u>20,466</u>	<u>18,666</u>

		As at 31 December			As at 31 March
	NOTES	2011	2012	2013	2014
		EUR'000	EUR'000	EUR'000	EUR'000
Capital and reserves					
Share capital	22	6,973	6,973	6,973	6,973
Reserves		<u>1,057</u>	<u>1,932</u>	<u>1,924</u>	<u>124</u>
Total equity		<u>8,030</u>	<u>8,905</u>	<u>8,897</u>	<u>7,097</u>
Non-current liability					
Loan from immediate holding company	21	<u>11,569</u>	<u>11,569</u>	<u>11,569</u>	<u>11,569</u>
		<u>19,599</u>	<u>20,474</u>	<u>20,466</u>	<u>18,666</u>

STATEMENTS OF FINANCIAL POSITION

	NOTES	As at 31 December			As at
		2011	2012	2013	31 March
		EUR'000	EUR'000	EUR'000	2014
				EUR'000	
Non-current asset					
Investment in a subsidiary, at cost		<u>8,883</u>	<u>8,883</u>	<u>8,883</u>	<u>8,883</u>
Current assets					
Tax recoverable		1,098	–	–	–
Amount due from a subsidiary	21	483	1,438	1,491	1,491
Bank balances and cash	19	–	<u>1,085</u>	<u>58</u>	<u>46</u>
		<u>1,581</u>	<u>2,523</u>	<u>1,549</u>	<u>1,537</u>
Current liabilities					
Other payables	20	1,632	28	40	46
Amount due to a subsidiary	21	<u>909</u>	<u>2,581</u>	<u>1,602</u>	<u>1,598</u>
		<u>2,541</u>	<u>2,609</u>	<u>1,642</u>	<u>1,644</u>
Net current liabilities		<u>(960)</u>	<u>(86)</u>	<u>(93)</u>	<u>(107)</u>
Total assets less current liabilities		<u><u>7,923</u></u>	<u><u>8,797</u></u>	<u><u>8,790</u></u>	<u><u>8,776</u></u>
Capital and reserves					
Share capital	22	6,973	6,973	6,973	6,973
Reserves		<u>950</u>	<u>1,824</u>	<u>1,817</u>	<u>1,803</u>
		<u><u>7,923</u></u>	<u><u>8,797</u></u>	<u><u>8,790</u></u>	<u><u>8,776</u></u>

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital EUR'000	Other reserve EUR'000 (Note)	Accumulated (loss) profits EUR'000	Total EUR'000
At 1 January 2011	8,573	967	(424)	9,116
Capital reduction	(1,600)	-	-	(1,600)
Profit and total comprehensive income for the year	-	-	514	514
At 31 December 2011	6,973	967	90	8,030
Profit and total comprehensive income for the year	-	-	875	875
At 31 December 2012	6,973	967	965	8,905
Loss and total comprehensive expense for the year	-	-	(8)	(8)
At 31 December 2013	6,973	967	957	8,897
Loss and total comprehensive expense for the period	-	-	(1,800)	(1,800)
At 31 March 2014	<u>6,973</u>	<u>967</u>	<u>(843)</u>	<u>7,097</u>
At 1 January 2013	6,973	967	957	8,897
Loss and total comprehensive expense for the period	-	-	(1,606)	(1,606)
At 31 March 2013 (unaudited)	<u>6,973</u>	<u>967</u>	<u>(649)</u>	<u>7,291</u>

Note: Other reserve represents the amount set aside by HoldCo and MCE OpCo upon their incorporation as required by the relevant regulation in France. Such amount will be utilised only when HoldCo and MCE OpCo are in liquidation.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December			Three months ended	
	2011	2012	2013	2013	2014
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
				(unaudited)	
Operating activities					
Profit (loss) before taxation	514	875	(8)	(1,606)	(1,800)
Adjustments for					
Depreciation of property, plant and equipment	1,364	1,382	1,439	340	356
Interest income	(90)	(23)	(9)	(2)	(5)
Finance costs	423	392	323	80	84
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Operating cash flows before					
movements in working capital	2,211	2,626	1,745	(1,188)	(1,365)
Decrease (increase) in deposits paid	840	(15)	(1)	(1)	(3)
(Increase) decrease in inventories	(31)	(129)	136	(3)	3
(Increase) decrease in trade and other receivables	(6)	127	(510)	(298)	1,509
Increase (decrease) in trade and other payables	823	(393)	(570)	2,590	466
Increase (decrease) in amount due to a fellow subsidiary	112	1,183	133	-	(1,428)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Cash generated from (used in) operations	3,949	3,399	933	1,100	(818)
Income tax refunded	597	1,098	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net cash from (used in) operating activities	<u>4,546</u>	<u>4,497</u>	<u>933</u>	<u>1,100</u>	<u>(818)</u>
Investing activities					
Interest received	90	23	9	2	5
Purchases of property, plant and equipment	(223)	(606)	(386)	(99)	(158)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net cash used in investing activities	<u>(133)</u>	<u>(583)</u>	<u>(377)</u>	<u>(97)</u>	<u>(153)</u>

	Year ended 31 December			Three months ended	
	2011	2012	2013	2013	2014
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
	(unaudited)				
Financing activities					
Repayment of loan from immediate holding company	(1,264)	-	-	-	-
Advance to immediate holding company	-	-	22	-	23
Interests paid	(105)	-	-	-	-
Payment for repurchase of share capital	-	(1,600)	-	-	-
	<u>-</u>	<u>(1,600)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net cash (used in) from financing activities	<u>(1,369)</u>	<u>(1,600)</u>	<u>22</u>	<u>-</u>	<u>23</u>
Net increase (decrease) in cash and cash equivalents	3,044	2,314	578	1,003	(948)
Cash and cash equivalents at the beginning of the year/period	<u>2,186</u>	<u>5,230</u>	<u>7,544</u>	<u>7,544</u>	<u>8,122</u>
Cash and cash equivalents at the end of the year/period	<u><u>5,230</u></u>	<u><u>7,544</u></u>	<u><u>8,122</u></u>	<u><u>8,547</u></u>	<u><u>7,174</u></u>
Represented by:					
Bank balances and cash	5,325	41,349	43,051	15,157	50,536
Bank overdraft	<u>(95)</u>	<u>(33,805)</u>	<u>(34,929)</u>	<u>(6,610)</u>	<u>(43,362)</u>
	<u><u>5,230</u></u>	<u><u>7,544</u></u>	<u><u>8,122</u></u>	<u><u>8,547</u></u>	<u><u>7,174</u></u>

NOTES TO FINANCIAL INFORMATION

1. GENERAL AND BASIS OF PREPARATION

HoldCo, which acts as an investment holding company, was incorporated in France as a joint-stock company on 23 June 1998. Since its incorporation to 5 April 2011, the ultimate and immediate holding company of HoldCo was SHC Europe LLC, a company incorporated in United States of America. On 6 April 2011, the shares of HoldCo were sold to Tamweelview European Holdings SA, a company incorporated in Luxembourg which then became the ultimate and immediate holding company of HoldCo. The name of HoldCo was changed from Stratégic Hotel Capital Champs Elysées to MCE OpCo HoldCo on 6 April 2011. The registered address of HoldCo is 70-72 avenue des Champs-Elysées, France.

The Financial Information is presented in Euro ("EUR") which is also the functional currency of HoldCo and its subsidiary.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued a number of new and revised Hong Kong Accounting Standards ("HKAS"), HKFRSs, amendments and related interpretations (hereinafter collectively referred to as the "new and revised HKFRSs") which are effective for the MCE Group's financial year beginning on 1 January 2014. For the purpose of preparing and presenting the Financial Information of the Relevant Periods, the MCE Group has consistently adopted all these new and revised HKFRSs through the Relevant Periods.

At the date of this report, the MCE Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective.

Amendments to HKFRSs	Annual improvements to HKFRSs 2010 – 2012 cycle ³
Amendments to HKFRSs	Annual improvements to HKFRSs 2011 – 2013 cycle ¹
HKFRS 9	Financial instruments ²
HKFRS 14	Regulatory deferral accounts ⁴
HKFRS 15	Revenue from contracts with customers ⁶
Amendments to HKFRS 9 and HKFRS 7	Mandatory effective date of HKFRS 9 and transition disclosures ²
Amendments to HKFRS 11	Accounting for acquisition of interests in joint operations ⁵
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable method of depreciation and amortisation ⁵
Amendments to HKAS 19	Defined benefit plans: Employee contributions ¹

¹ Effective for annual periods beginning on or after 1 July 2014

² Available for application – the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalised

³ Effective for annual periods beginning on or after 1 July 2014, with limited exceptions

⁴ Effective for first annual HKFRS financial statements beginning on or after 1 January 2016

⁵ Effective for annual periods beginning on or after 1 January 2016

⁶ Effective for annual periods beginning on or after 1 January 2017

The directors of HoldCo (the "Directors") anticipate that the application of the new and revised HKFRSs will have no material impact on the results and financial position and the disclosures of the Financial Information.

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The Financial Information has been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

For the purpose of this Financial Information, the Directors prepared the consolidated management accounts of the MCE Group for the three years ended 31 December 2013 and three months ended 31 March 2014 in accordance with the HKFRSs. The MCE Group prepared its statutory financial statements in France Accounting Standards ("France GAAP"). In the opinion of the Directors, there is no material difference between HKFRSs and France GAAP on the accounting policies applicable to the MCE Group.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the MCE Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the Financial Information is determined on such a basis, except for leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The Financial Information incorporates the financial statements of HoldCo and entity controlled by HoldCo. Control is achieved when HoldCo:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The MCE Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the MCE Group obtains control over the subsidiary and ceases when the MCE Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statements of profit or loss and other comprehensive income from the date the MCE Group gains control until the date when the MCE Group ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiary to bring their accounting policies into line with the MCE Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the MCE Group are eliminated in full on consolidation.

Investment in a subsidiary

Investment in a subsidiary is included in HoldCo's statements of financial position at cost less any identified impairment losses. The results of the subsidiary are accounted for on the basis for dividends received and receivable during the year.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services in the normal course of business, net of discounts and sales related taxes.

Hotel revenue from room rentals, food and beverage sale and other ancillary service is recognised when the relevant services are provided.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the MCE Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Property, plant and equipment

Property, plant and equipment are stated in the consolidated statements of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of asset less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Inventories

Inventories are stated at the lower of cost and net realised value. Cost of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all costs necessary to make the sale.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The MCE Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from amounts as reported in the consolidated statements of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The MCE Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investment in a subsidiary, except where the MCE Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investment is only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the asset is realised or the liability is settled, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the MCE Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss.

Impairment losses

At the end of the reporting period, the MCE Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the MCE Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The MCE Group's financial assets are classified into financial assets at fair value through profit or loss ("FVTPL") and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL, of which interest income is included in net gains or losses.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 "Financial instruments: Recognition and measurement" permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets and is included in the other income, gains and losses line item.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amount due from a subsidiary and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment loss on financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the financial assets have been affected. Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade and other receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the MCE Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial assets is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified either as financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by HoldCo are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities including trade and other payables, bank overdraft, amount due to immediate holding company, amount due to a fellow subsidiary, loan from immediate holding company and amount due to a subsidiary are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Interest expense is recognised on an effective interest basis.

Derecognition

The MCE Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

The MCE Group derecognises financial liabilities when, and only when, the MCE Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. CAPITAL RISK MANAGEMENT

The MCE Group manages its capital to ensure that the MCE Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The MCE Group's overall strategy remains unchanged throughout the Relevant Periods.

The capital structure of the MCE Group consists of debt, which includes loan from immediate holding company and bank overdraft, as disclosed in notes 21 and 19 respectively and equity attributable to owners at the MCE Group, comprising issued capital, other reserve and accumulated (loss) profits.

The Directors review the capital structure on an annual basis. As part of this review, the Directors consider the cost of capital and the risks associated with the capital. Based on recommendation of the Directors, the MCE Group will balance its overall capital structure through raising new debts and repayment of existing debts.

5. FINANCIAL INSTRUMENTS**Categories of financial instruments**

	As at 31 December			As at
	2011	2012	2013	31 March
	EUR'000	EUR'000	EUR'000	2014
				EUR'000
<i>The MCE Group</i>				
Financial assets				
Loans and receivables (including cash and cash equivalents)	8,078	43,890	46,173	52,091
Financial assets at FVTPL	883	883	883	883
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Financial liabilities				
Amortised cost	16,893	50,572	51,489	58,672
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

	As at 31 December			As at
	2011	2012	2013	31 March
	EUR'000	EUR'000	EUR'000	2014
<i>HoldCo</i>				
Financial assets				
Loans and receivables (including cash and cash equivalents)	483	2,523	1,549	1,537
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Financial liabilities				
Amortised cost	2,541	2,581	1,602	1,598
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Financial risk management objectives and policies

The MCE Group's and HoldCo's major financial instruments include trade and other receivables, financial assets at FVTPL, amount due from a subsidiary, bank balances and cash, trade and other payables, bank overdraft, amount due to a subsidiary, amount due to immediate holding company, amount due to a fellow subsidiary and loan from immediate holding company. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Interest rate risk

The MCE Group exposed to cash flow interest rate risk on a net bank loan position, which represent bank balances and cash exceed the bank overdraft or vice versa and loan from immediate holding company which carried at prevailing market interest rates. The MCE Group has not used any interest rate swaps to mitigate its exposure associated with fluctuations relating to interest cash flows.

The MCE Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section in this note. The MCE Group cash flow interest rate risk is mainly concentrated on the fluctuation of London Interbank Offered Rate ("LIBOR") arising from the MCE Group's loan from immediate holding company.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for its variable rate loan from an immediate holding company at the end of each reporting period. The analysis is prepared assuming the amount of outstanding balances at the end of each reporting period was outstanding for the whole year/period. A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis points higher or lower and all other variables were held constant, the MCE Group's profit for the years ended 31 December 2011 and 2012 would decrease/increase by EUR116,000 and EUR116,000 respectively, loss for the year ended 31 December 2013 and for the three months ended 31 March 2014 would increase/decrease by EUR116,000 and EUR29,000 respectively. This is mainly attributable to the MCE Group's exposure to interest rates on its variable rate loan from immediate holding company.

The Directors considered the MCE Group's exposure to interest rate risk relating to bank balances and cash exceed the bank overdraft which subject to variable interest rate is insignificant and no sensitivity analysis is presented.

Foreign currency risk

The MCE Group has certain foreign currency purchases, which expose the MCE Group to foreign currency risk. Certain trade and other payables are denominated in foreign currencies.

Sensitivity analysis

The carrying amounts of the MCE Group's major foreign currency denominated monetary liabilities at the end of each reporting periods are as follows:

	Liabilities			As at
	As at 31 December			31 March
	2011	2012	2013	2014
	<i>EUR'000</i>	<i>EUR'000</i>	<i>EUR'000</i>	<i>EUR'000</i>
United States dollar ("USD")	<u>217</u>	<u>214</u>	<u>205</u>	<u>206</u>

The MCE Group did not enter into any derivative contracts to hedge its foreign currency exposure and will consider hedging significant foreign currency exposure should the need arise.

The following table details the MCE Group's sensitivity to a 5% increase and decrease in EUR against USD and all other various were held contact. 5% was the sensitivity rate used by management in the assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts its translation at the end of the reporting period for a 5% change in foreign currency rates. A positive number below indicates an increase in the loss or decrease in profit for the year/period where USD strengthen 5% against EUR. For a 5% weakening of USD against EUR, there would be an opposite impact on the results for the year/period.

	USD impact			As at
	As at 31 December			31 March
	2011	2012	2013	2014
	<i>EUR'000</i>	<i>EUR'000</i>	<i>EUR'000</i>	<i>EUR'000</i>
Results for the year/period	<u>11</u>	<u>11</u>	<u>10</u>	<u>10</u>

Price risk

The MCE Group is exposed to price risk through its investment in the structured products issued by the bank. The Directors monitor the price risk and will consider hedging the risk exposure should the need arise.

Sensitivity analysis

The Directors considered the MCE Group's exposure to price risk relating to the investment in the structured products issued by the bank is insignificant. Accordingly, no sensitivity analysis is presented.

Credit risk

The MCE Group's credit risk is primarily attributable to trade and other receivables and bank balances. HoldCo's credit risk is primarily attributable to amount due from a subsidiary and bank balances.

The MCE Group's and HoldCo's maximum exposure to credit risk which will cause a financial loss to the MCE Group and HoldCo in the event of the counterparties failure to perform their obligations as at the end of the reporting period in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statements of financial position and statements of financial position.

In order to minimise credit risk, the Directors are responsible for the determination of credit limits, credit approvals and other monitoring procedures. The MCE Group reviews the recoverable amount of debt from travel agents and corporate customers at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors consider that the MCE Group's credit risk is significantly reduced. The credit risk on liquid funds is limited because the MCE Group's and HoldCo's bank balances are deposited with banks of high credit ratings.

HoldCo reviews the recoverable amount of amount due from a subsidiary at the end of the reporting period to ensure that adequate impairment loss is made for irrecoverable amount.

Liquidity risk

As at 31 March 2014, HoldCo had net current liabilities of EUR107,000. The major liabilities of HoldCo is amount due to a subsidiary and management of HoldCo considered no material liquidity problem as the creditor is a related company. The MCE Group and HoldCo monitor and maintain a level of cash and cash equivalents deemed adequate by the management to finance the MCE Group's and HoldCo's operations and mitigate the effect of fluctuations in cash flows.

The following table details the MCE Group's remaining contractual maturity for its financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the MCE Group can be required to pay. The table includes both interest and principal cash flows.

Liquidity and interest risk analyses

	Weighted average effective interest rate	Less than one year or on demand EUR'000	More than five years EUR'000	Total undiscounted cash flows EUR'000	Total carrying amounts EUR'000
As at 31 December 2011					
Trade and other payables	–	4,791	–	4,791	4,791
Bank overdraft	–	95	–	95	95
Amount due to immediate holding company	–	326	–	326	326
Amount due to a fellow subsidiary	–	112	–	112	112
Loan from immediate holding company – variable rate	4.07%	–	16,278	16,278	11,569
		<u>5,324</u>	<u>16,278</u>	<u>21,602</u>	<u>16,893</u>

	Weighted average effective interest rate	Less than one year or on demand EUR'000	More than five years EUR'000	Total undiscounted cash flows EUR'000	Total carrying amounts EUR'000
As at 31 December 2012					
Trade and other payables	–	3,185	–	3,185	3,185
Bank overdraft	–	33,805	–	33,805	33,805
Amount due to immediate holding company	–	718	–	718	718
Amount due to a fellow subsidiary	–	1,295	–	1,295	1,295
Loan from immediate holding company – variable rate	3.39%	–	15,492	15,492	11,569
		<u>39,003</u>	<u>15,492</u>	<u>54,495</u>	<u>50,572</u>
As at 31 December 2013					
Trade and other payables	–	2,500	–	2,500	2,500
Bank overdraft	–	34,929	–	34,929	34,929
Amount due to immediate holding company	–	1,063	–	1,063	1,063
Amount due to a fellow subsidiary	–	1,428	–	1,428	1,428
Loan from immediate holding company – variable rate	2.79%	–	14,797	14,797	11,569
		<u>39,920</u>	<u>14,797</u>	<u>54,717</u>	<u>51,489</u>
As at 31 March 2014					
Trade and other payables	–	2,571	–	2,571	2,571
Bank overdraft	–	43,362	–	43,362	43,362
Amount due to immediate holding company	–	1,170	–	1,170	1,170
Loan from immediate holding company – variable rate	2.94%	–	14,971	14,971	11,569
		<u>47,103</u>	<u>14,971</u>	<u>62,074</u>	<u>58,672</u>

All the financial liabilities of HoldCo are repayable on demand or within 3 months after the end of the reporting period.

Fair values

The financial assets at FVTPL are grouped as level 2. The fair values of financial assets at FVTPL are determined with reference to the fair value of the underlying investments and the expected returns of the underlying investment.

The fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using the relevant prevailing market rates.

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate their corresponding fair values.

6. CRITICAL ACCOUNTING JUDGEMENT

In the application of the MCE Group's accounting policies, which are described in note 3, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgement in applying accounting policies

The following is the critical judgement, apart from those involving estimations, that Directors have made in the process of applying the MCE Group's accounting policies and that have the most significant effect on the amounts recognised in the Financial Information.

Control over the hotel operation

The hotel operated by the MCE Group is managed by the hotel manager, Marriott Hotels Manager France SAS (the "**Hotel Manager**"). The Hotel Manager manages the day to day operation of the hotel and the Hotel Manager will charge the license and royalty fee, and marketing fee to the MCE Group with reference to certain percentage of the total gross revenue of hotel. In addition, the Hotel Manager will charge the incentive management fee of the lowest of certain percentage of the total gross revenue on net operating profit or EUR1,282,000 on yearly basis. Details are disclosed in note 24.

The Directors assessed whether or not the Hotel Manager is a principal or agent to the MCE Group. In making their judgement, the Directors considered the mode of operation of the Hotel Manager. After assessment, the Directors considered that the Hotel Manager's scope of decision-making authority is limited and the Directors have the power to direct the relevant activities of the hotel operations such as the right to appoint the general manager of the hotel, review and approve the yearly financial budget and decide the hotel's operation plan. In addition, the MCE Group has the right to remove the Hotel Manager in the situation when the hotel's performance cannot meet certain operating criteria as stated in the management agreement signed with the Hotel Manager. The Directors considered that the MCE Group holds substantive removal rights of the Hotel Manager. The Hotel Manager is compensated as stated above for managing the daily operation of the hotel. The Directors considered that the remuneration paid to the Hotel Manager is commensurate with their services provided and on an arm's length basis. Therefore, the Directors considered that the Hotel Manager is an agent of the MCE Group and the MCE Group has control on the Hotel Manager.

7. REVENUE AND SEGMENT INFORMATION

	Year ended 31 December			Three months ended	
	2011	2012	2013	31 March	
	EUR'000	EUR'000	EUR'000	2013	2014
				(unaudited)	
Revenue represents income from hotel operation comprising:					
Hotel rooms	27,818	30,271	30,071	5,557	5,283
Food and beverages	5,847	5,609	5,625	1,096	1,184
Other hotel service income	1,225	1,084	836	217	200
	<u>34,890</u>	<u>36,964</u>	<u>36,532</u>	<u>6,870</u>	<u>6,667</u>

Revenue represents the aggregate income from hotel operations, net of discounts and sales related tax during the Relevant Periods.

The Directors, being the chief operating decision maker, assess the performance and allocate the resources of the MCE Group as a whole because the MCE Group is mainly engaged in hotel operations. The Directors monitor the revenue, results, assets and liabilities of its business unit as a whole based on the monthly consolidated management account of the MCE Group and consider the segment assets and segment liabilities of the MCE Group have included all assets and liabilities as stated in the consolidated statements of financial position respectively, and considers the segment revenue and segment results of the MCE Group have represented all revenue and profit (loss) for the year/period as stated in the consolidated statements of profit or loss and other comprehensive income respectively. Therefore, management considers that the MCE Group only has one operating segment under the standard of HKFRS 8. In this regard, no segment information is presented.

Geographical information

The MCE Group's operations are located in France.

All of the MCE Group's revenue is generated from external customers in France. At 31 December 2011, 2012 and 2013 and 31 March 2014, the non-current assets were all located in France.

Information about major customer

There are no single customers contributing over 10% of the MCE Group's total revenue during the Relevant Periods.

8. OTHER INCOME, GAINS AND LOSSES

	Year ended 31 December			Three months ended	
	2011	2012	2013	31 March	
	EUR'000	EUR'000	EUR'000	2013	2014
				(unaudited)	
Bank interest income	90	23	9	2	5
Net foreign exchange (losses) gains	(14)	11	(230)	(32)	(12)
Others	273	102	44	12	17
	<u>349</u>	<u>136</u>	<u>(177)</u>	<u>(18)</u>	<u>10</u>

9. FINANCE COSTS

	Year ended 31 December			Three months ended	
	2011	2012	2013	2013	2014
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Interest on loan from former immediate holding company	105	-	-	-	-
Interest on loan from immediate holding company	<u>318</u>	<u>392</u>	<u>323</u>	<u>80</u>	<u>84</u>
	<u>423</u>	<u>392</u>	<u>323</u>	<u>80</u>	<u>84</u>

10. TAXATION

The corporate income tax rate in France is 33.33% during the Relevant Periods. No provision for France corporate income tax has been made as there was tax losses being generated or offset by the tax losses brought forward from previous years in the Relevant Periods. Taxation for the year/period can be reconciled to the profit (loss) before taxation per the consolidated statements of profit or loss and other comprehensive income as follows:

	Year ended 31 December			Three months ended	
	2011	2012	2013	2013	2014
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Profit (loss) before taxation	<u>514</u>	<u>875</u>	<u>(8)</u>	<u>(1,606)</u>	<u>(1,800)</u>
Taxation at France income tax rate of 33.33%	171	292	(3)	(535)	(600)
Tax effect of expenses not deductible for tax purpose	69	36	33	26	23
Tax effect of income not taxable for tax purpose	(31)	(28)	(33)	(13)	(4)
Utilisation of tax losses previously not recognised	(209)	(300)	-	-	-
Tax effect of tax losses not recognised	<u>-</u>	<u>-</u>	<u>3</u>	<u>522</u>	<u>581</u>
Taxation	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

At 31 December 2011, 2012 and 2013 and 31 March 2014, the MCE Group has estimated unused tax losses of approximately EUR1,153,000, EUR254,000, EUR263,000 and EUR2,006,000 available for offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the uncertainty of future profit steam. Losses may be carried forward indefinitely.

11. PROFIT (LOSS) FOR THE YEAR/PERIOD

Profit (loss) for the year/period has been arrived at after charging:

	Year ended 31 December			Three months ended	
	2011	2012	2013	31 March	2014
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
				(unaudited)	
Staff costs:					
Directors' remuneration (note 12)	-	-	-	-	-
Other staff costs	-	-	-	-	-
	-	-	-	-	-
Auditor's remuneration	91	29	64	16	13
Depreciation of property, plant and equipment	1,364	1,382	1,439	340	356
Operating lease payments					
– fixed rental	10,359	10,376	10,382	2,566	2,584
– contingent rental	2,271	2,638	2,855	686	736
	12,630	13,014	13,237	3,252	3,320
Insurance premium paid for hotel building	96	119	89	34	22
Cost of inventories recognised as an expense	1,553	1,509	1,741	565	332
Expenses reimbursed to the Hotel Manager					
– staff costs	7,257	7,973	7,907	1,942	1,972
– other operating costs	112	130	145	36	34
	7,369	8,103	8,052	1,978	2,006
License and royalty fee, marketing fee and incentive royal fee charged by the Hotel Manager	2,834	3,021	3,007	323	314

12. DIRECTORS' REMUNERATION AND EMPLOYEES' EMOLUMENTS

Directors' remuneration

During the Relevant Periods, no remuneration was paid to the Directors.

	Mr. Laurence S. Geller <i>EUR'000</i> <i>(Note 1)</i>	Mr. Marcus Jacobus Dijkerman <i>EUR'000</i> <i>(Note 2)</i>	Mr. Majed Salem Khalifa Rashed Al Romaihi <i>EUR'000</i> <i>(Note 2)</i>	Mr. Salem Khamis Saeed Khamis Al Darmaki <i>EUR'000</i> <i>(Note 2)</i>	Mr. Martinus Cornelis Johannes Weijermans <i>EUR'000</i> <i>(Note 2)</i>	Mr. Robert Van't Hoeft <i>EUR'000</i> <i>(Note 2)</i>	Total <i>EUR'000</i> <i>(Note 2)</i>
For the year ended 31 December 2011							
Fees	-	-	-	-	-	-	-
Salaries and allowances	-	-	-	-	-	-	-
Contributions to retirement benefit schemes	-	-	-	-	-	-	-
Total remuneration	-	-	-	-	-	-	-
For the year ended 31 December 2012							
Fees	-	-	-	-	-	-	-
Salaries and allowances	-	-	-	-	-	-	-
Contributions to retirement benefit schemes	-	-	-	-	-	-	-
Total remuneration	-	-	-	-	-	-	-
For the year ended 31 December 2013							
Fees	-	-	-	-	-	-	-
Salaries and allowances	-	-	-	-	-	-	-
Contributions to retirement benefit schemes	-	-	-	-	-	-	-
Total remuneration	-	-	-	-	-	-	-
For the three months ended 31 March 2013 (unaudited)							
Fees	-	-	-	-	-	-	-
Salaries and allowances	-	-	-	-	-	-	-
Contributions to retirement benefit schemes	-	-	-	-	-	-	-
Total remuneration	-	-	-	-	-	-	-
For the three months ended 31 March 2014							
Fees	-	-	-	-	-	-	-
Salaries and allowances	-	-	-	-	-	-	-
Contributions to retirement benefit schemes	-	-	-	-	-	-	-
Total remuneration	-	-	-	-	-	-	-

Notes:

- (1) Mr. Laurence S. Geller resigned on 6 April 2011.
- (2) Directors appointed on 6 April 2011.

During the Relevant Periods, no remuneration was paid by the MCE Group to the Directors as an inducement to join or upon joining the MCE Group or as compensation for loss of office. None of Directors has waived any remuneration during the Relevant Periods.

Employees' emoluments

All the key management personnel running the hotel in the MCE Group are employed by the subsidiaries under Marriott Group and the Hotel Manager charged the costs to the MCE Group on a total cost basis. Accordingly, information of emoluments to five highest paid individuals for the Relevant Periods is not presented. Directors are of the view that the key management personnel will remain employ by the subsidiaries under Marriott Group subsequent to Completion.

13. EARNINGS (LOSS) PER SHARE

The calculation of basic earnings (loss) per share attributable to the owners of HoldCo is based on the following data:

	Year ended 31 December			Three months ended	
	2011	2012	2013	31 March	
	EUR'000	EUR'000	EUR'000	2013	2014
				(unaudited)	
Earnings (loss)					
Earnings (loss) for the purpose of basic earnings (loss) per share	514	875	(8)	(1,606)	(1,800)
	<u>514</u>	<u>875</u>	<u>(8)</u>	<u>(1,606)</u>	<u>(1,800)</u>
	Number of shares				
	Year ended 31 December			Three months ended	
	2011	2012	2013	31 March	
	EUR'000	EUR'000	EUR'000	2013	2014
				(unaudited)	
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	490,594	464,877	464,877	464,877	464,877
	<u>490,594</u>	<u>464,877</u>	<u>464,877</u>	<u>464,877</u>	<u>464,877</u>

No diluted earnings (loss) per share has been presented during the Relevant Periods as there were no potential ordinary shares in issue.

14. DIVIDEND

No dividend was paid or proposed by HoldCo during the Relevant Periods, nor has any dividend been proposed since the end of the reporting period.

15. PROPERTY, PLANT AND EQUIPMENT

THE MCE GROUP

	Furniture, fixture and equipment <i>EUR'000</i>	Computer equipment and software <i>EUR'000</i>	Leasehold improve- ments <i>EUR'000</i>	Total <i>EUR'000</i>
COST				
At 1 January 2011	7,803	507	4,730	13,040
Addition	<u>86</u>	<u>8</u>	<u>129</u>	<u>223</u>
At 31 December 2011	7,889	515	4,859	13,263
Addition	<u>223</u>	<u>6</u>	<u>377</u>	<u>606</u>
At 31 December 2012	8,112	521	5,236	13,869
Addition	<u>33</u>	<u>69</u>	<u>284</u>	<u>386</u>
At 31 December 2013	8,145	590	5,520	14,255
Addition	<u>90</u>	<u>-</u>	<u>68</u>	<u>158</u>
At 31 March 2014	<u>8,235</u>	<u>590</u>	<u>5,588</u>	<u>14,413</u>
DEPRECIATION				
At 1 January 2011	4,752	412	2,261	7,425
Provided for the year	<u>930</u>	<u>38</u>	<u>396</u>	<u>1,364</u>
At 31 December 2011	5,682	450	2,657	8,789
Provided for the year	<u>922</u>	<u>31</u>	<u>429</u>	<u>1,382</u>
At 31 December 2012	6,604	481	3,086	10,171
Provided for the year	<u>904</u>	<u>25</u>	<u>510</u>	<u>1,439</u>
At 31 December 2013	7,508	506	3,596	11,610
Provided for the period	<u>226</u>	<u>5</u>	<u>125</u>	<u>356</u>
At 31 March 2014	<u>7,734</u>	<u>511</u>	<u>3,721</u>	<u>11,966</u>
CARRYING VALUES				
At 31 December 2011	<u>2,207</u>	<u>65</u>	<u>2,202</u>	<u>4,474</u>
At 31 December 2012	<u>1,508</u>	<u>40</u>	<u>2,150</u>	<u>3,698</u>
At 31 December 2013	<u>637</u>	<u>84</u>	<u>1,924</u>	<u>2,645</u>
At 31 March 2014	<u>501</u>	<u>79</u>	<u>1,867</u>	<u>2,447</u>

Depreciation is provided to write off the cost of items of property, plant and equipment, over their estimated useful lives and after taking into account of their estimated residual values, using the straight-line method.

The principal annual rates are as follows:

Leasehold improvements	10 – 20%
Furniture, fixtures and equipment	10 – 20%
Computer equipment and software	20 – 33⅓%

16. INVENTORIES

THE MCE GROUP

	As at 31 December			As at
	2011	2012	2013	31 March
	EUR'000	EUR'000	EUR'000	2014
				EUR'000
Food and beverages	83	182	73	136
Other consumables	65	95	68	2
	<u>148</u>	<u>277</u>	<u>141</u>	<u>138</u>

17. TRADE AND OTHER RECEIVABLES

THE MCE GROUP

	As at 31 December			As at
	2011	2012	2013	31 March
	EUR'000	EUR'000	EUR'000	2014
				EUR'000
Trade receivables	2,656	2,475	1,761	1,499
Other receivables, deposits and prepayments	1,109	1,163	2,387	1,140
Total trade and other receivables	<u>3,765</u>	<u>3,638</u>	<u>4,148</u>	<u>2,639</u>

Trade receivables mainly comprise of receivables from renting of hotel rooms and use of hotel facilities. No credit period is granted to the non-corporate customers or travel agents. Hotel rooms revenue is normally settled by cash or credit card. Credit period of 30 to 60 days are allowed to travel agents and corporate customers. The following is an aged analysis of trade receivables presented based on invoice date which approximate the respective revenue recognition date at the end of the reporting period.

	As at 31 December			As at
	2011	2012	2013	31 March
	EUR'000	EUR'000	EUR'000	2014
				EUR'000
Aged:				
0 – 30 days	2,372	2,128	1,625	1,247
31 – 60 days	214	242	120	144
61 – 90 days	70	105	16	108
	<u>2,656</u>	<u>2,475</u>	<u>1,761</u>	<u>1,499</u>

Before accepting any new travel agents and corporate customers, the MCE Group assesses the potential travel agents' and corporate customers' credit quality and defines credit limits by travel agents and corporate customers.

At 31 December 2011, 2012 and 2013 and 31 March 2014, included in the MCE Group's trade receivables are debtors with an aggregate carrying amount of approximately EUR177,000, EUR190,000, EUR43,000 and EUR146,000 which were past due at the end of the reporting period for which the Group did not provide for impairment loss respectively as these trade receivables were either settled subsequent to the end of the reporting period or the respective travel agents and corporate customers had good repayment history. The MCE Group does not hold any collateral over these balances. The average age of these receivables is 45 days, 44 days, 50 days and 52 days respectively.

Ageing of trade receivables which are past due but not impaired

	As at 31 December			As at
	2011	2012	2013	31 March
	EUR'000	EUR'000	EUR'000	2014
				EUR'000
31 – 60 days	107	85	27	38
61 – 90 days	70	105	16	108
	<u>177</u>	<u>190</u>	<u>43</u>	<u>146</u>

Other receivables, deposits and prepayments consist of refundable deposits and prepayment at the end of each reporting period.

18. FINANCIAL ASSETS AT FVTPL

Financial assets at FVTPL represent the structured products issued by a bank that comprised of government bonds and securities investments. The fair value of the structured products varies on the interest rates and market value of the securities investment. The change in fair value of financial assets at FVTPL during the Relevant Periods is insignificant.

19. BANK BALANCES AND CASH AND BANK OVERDRAFT

THE MCE GROUP

According to the agreement signed with bank, the Group allowed to draw bank overdraft amount up to the amount of bank balances placed in a particular account in the same bank. When the bank balances in that particular account exceed the bank overdraft, the net amount is carried interest at market rates. When the bank overdraft exceed the bank balances, the bank may allow a discretionary temporary overdraft to the MCE Group and the bank will charge interest on such temporary overdraft at market rate. At 31 December 2011, 2012 and 2013 and 31 March 2014, the bank balances exceed the bank overdraft and therefore the net bank balances carried the interest at average market rate of 0.01% per annum.

HOLDCO

The bank balances and cash held by the HoldCo are with original maturity of three months or less and carry interest at average market rates of 0.01% per annum as at 31 December 2011, 2012 and 2013 and 31 March 2014.

20. TRADE AND OTHER PAYABLES

THE MCE GROUP

	As at 31 December			As at
	2011	2012	2013	31 March
	EUR'000	EUR'000	EUR'000	2014
Trade payables	2,952	3,094	2,379	2,524
Other payables	2,632	497	642	963
	<u>5,584</u>	<u>3,591</u>	<u>3,021</u>	<u>3,487</u>

Trade payables were aged within 30 days at 31 December 2011, 2012 and 2013 and 31 March 2014.

The carrying amounts of trade and other payables that are denominated in USD other than the functional currency of the relevant group entities are as follows:

	As at 31 December			As at
	2011	2012	2013	31 March
	EUR'000	EUR'000	EUR'000	2014
USD	217	214	205	206

Other payables mainly comprise accruals for various operating costs. At 31 December 2011, other payables also comprised of EUR1,600,000 for the payable for repurchase of share capital as disclosed in note 22. Amount was paid during the year ended 31 December 2012.

21. AMOUNTS DUE FROM/TO RELATED COMPANIES

Amounts due to immediate holding company, a fellow subsidiary and a subsidiary are unsecured, interest free and repayable on demand.

Amount due from a subsidiary is unsecured, interest free and repayable on demand.

Loan from immediate holding company is unsecured, interest bearing at LIBOR per annum and capped at 6% per annum and repayable in whole after ten years from the loan drawn down date of 6 April 2011.

22. SHARE CAPITAL

	Number of shares	Share capital EUR'000
HoldCo		
Issued and fully paid shares of EUR 15 each		
At 1 January 2011	571,543	8,573
Capital reduction	(106,666)	(1,600)
	<u>464,877</u>	<u>6,973</u>
At 31 December 2011, 2012 and 2013 and 31 March 2014	<u>464,877</u>	<u>6,973</u>

On 30 March 2011, HoldCo reduced its share capital by repurchase of 106,666 shares for EUR 15 each. The amount of share capital decreased by approximately EUR1,600,000.

23. RELATED PARTY TRANSACTIONS

Other than balances with related parties disclosed in note 21 and the pledge of asset to a fellow subsidiary as disclosed in note 25, during the Relevant Periods, the MCE Group entered into the following significant transactions with related parties:

	Year ended 31 December			Three months ended	
	2011	2012	2013	2013	2014
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
				(unaudited)	
Operating lease payments to a fellow subsidiary	12,521	12,888	13,105	3,248	3,298
Property tax and other taxes paid to a fellow subsidiary	162	167	172	45	44
Interest on loan from immediate holding company	318	392	322	80	84
Interest on loan from former immediate holding company	105	-	-	-	-

Included in the deposits paid is rental deposits of EUR9,949,000 paid to its fellow subsidiary, MCE PropCo, at the end of each reporting period.

The expenses reimbursed, license and royalty fee, marketing fee and incentive management fee charged by the Hotel Manager, a key management personnel, during the Relevant Periods are disclosed in note 11.

24. COMMITMENTS

Operating lease commitment

At the end of respective reporting period, the MCE Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	As at 31 December			As at
	2011	2012	2013	31 March 2014
	EUR'000	EUR'000	EUR'000	EUR'000
Within one year	10,257	10,258	10,264	10,264
In the second to fifth years inclusive	41,019	41,013	41,023	41,019
Over five years	133,390	123,112	112,862	110,335
	<u>184,666</u>	<u>174,383</u>	<u>164,149</u>	<u>161,618</u>

At the time of inception of the lease, the rental is set at EUR10,250,000 per year which is considered as the base rent. In subsequent periods, variable rentals will be charged with reference to the percentage change for the construction price index (the "Index") issued by France's National Institute of Statistics and Economic Studies for each year to the Index in the immediate preceding year multiply by the rental charge in immediate preceding year. In addition, the MCE Group needs to pay additional variable rent of 10% for net operating profit for the hotel operation less the fixed rental charge as stated in the lease agreement.

Operating lease payments represent rental payable by the MCE Group for the hotel's main facilities, motor vehicles and photocopiers. Leases are negotiated for an term of 4 to 26 years.

Other commitment

The MCE OpCo entered the management agreement with the Hotel Manager dated 16 June 1995 and as amended from time to time thereafter, the Hotel Manager is appointed as the exclusive agent to manage and operate the hotel until 31 December 2029 and the MCE Group agreed to pay the license and royalty fee, and marketing fee to the Hotel Manager on monthly basis at 3.25% and 1.5% of the total gross revenue of the hotel respectively. In addition, the MCE Group agreed to pay the incentive management fee of the lowest of 30% for net operating profit, 4.25% of total gross revenue or EUR1,282,000 on yearly basis.

25. PLEDGE OF ASSET

HoldCo pledged the shares of the subsidiary, MCE OpCo, to the fellow subsidiary, MCE PropCo, to guarantee all sums due or which may become payable by MCE OpCo under the lease contract of hotel's main facilities.

(B) SUBSEQUENT EVENT

There is no subsequent event after the period ended 31 March 2014.

(C) SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the MCE Group and HoldCo in respect of any period subsequent to 31 March 2014.

Yours faithfully,

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

29 August 2014

Pursuant to Rule 14.69(4)(b)(i) of the Listing Rules, a profit and loss statement of the Property for the three financial years ended 31 December 2013 and the three months ended 31 March 2014 (the “**Relevant Financial Periods**”) reviewed by the reporting accountants to ensure such information has been properly compiled and derived from the underlying books and records is required to be included in this circular. Despite the written and verbal requests from the Group, the Group is unable to gain full access to such underlying books and records for preparation of the financial information of the Property for the Relevant Financial Periods in compliance with the requirements of Rule 14.69(4)(b)(i) of the Listing Rules because the Property Vendor took the view that the Property Acquisition was an asset transaction which involved a sale of the Property only, not a company which held the Property, and that no warranties had ever been given by the Property Vendor on the financials relating to the Property. The Company has therefore applied for, and was granted by the Stock Exchange, a waiver from strict compliance with Rule 14.69(4)(b)(i) of the Listing Rules, such that the following information be disclosed instead. Accordingly it may not give a true picture of the performance of the Property actually occurred during the Relevant Financial Periods.

Although the Company is unable to gain access to the underlying books and records of the Property, the Company is able to obtain the agreements relating to the current lease of the Property leased by OpCo (the “**Lease**”). The accountants’ report on HoldCo (being holding company of OpCo) for the Relevant Financial Periods, as set out in Appendix II to this circular, also contains certain financial information relating to the Property. The Company is also provided with some financial information of the Property Vendor (being its trial balance) for the three years ended 31 December 2013 (the “**Financial Information**”).

The Lease

Pursuant to the Lease, the Property is leased by the Property Vendor to OpCo to operate as a hotel for a fixed term commencing from 10 July 2003 until 31 December 2029. OpCo is required to pay an annual fixed rent and an annual variable rent. The initial fixed rent according to the Lease was €10,250,000 (excluding service charges and taxes), which is subject to automatic yearly adjustment based on the Cost Construction INSEE Index (*Indice du Cout de la Construction*). The variable rent is equivalent to 10% of the net operative profits after deduction of the annual fixed rent of the relevant year. The fixed rent is payable monthly whereas the variable rent is payable annually.

Pursuant to the Lease, the Property Vendor is responsible for:

- (a) costs of such major equipment replacement as set out in the Lease;
- (b) works dealing with the basic structure of the Property as stipulated in the relevant French law;
- (c) costs of works on the facade of the Property; and
- (d) payment of half of the premium for OpCo’s subscription of insurance relating to the risk of business disruption.

Based on (i) the Financial Information; (ii) the accountants' report on HoldCo as set out in Appendix II to this circular; (iii) the technical due diligence conducted by the Group on the Hotel; (iv) the financial due diligence work conducted by an international accounting firm engaged by the Company; and (v) discussions between the Company and the Property Vendor, the Company is not aware of any material amount of expenses relating to items (a) to (c) above incurred or any material construction work carried out during the three years ended 31 December 2013.

In respect of item (d) above, pursuant to the accountants' report on HoldCo as set out in Appendix II to this circular, the annual multi-risk insurance premium of approximately €96,000, €119,000 and €89,000 was charged to Holdco for the year ended 31 December 2011, 2012 and 2013 respectively. The Directors therefore consider that the amounts of half of the premium for insurance solely relating to risk of business disruption paid by the Property Vendor were immaterial to the Group. As at the Latest Practicable Date, the Company was engaged in negotiations with one of the world's leading risk management and insurance brokers in relation to entering into a new insurance plan for the Property upon Completion. Based on current quotation from the broker and subject to finalisation, the annual insurance premium for multi-risk insurance coverage on the Property would be approximately €63,000. The Directors consider the proposed insurance plan is sufficient as it covers, among other things, property damage, third party liability and business interruption. The aggregate amount of insurance coverage maintained on the Property is not less than the Consideration.

Pursuant to the Lease, OpCo is responsible for:

- (a) the value added tax payable on the Lease's rent;
- (b) all applicable and future taxes such as:
 - (1) *contribution economique territoriale* tax of OpCo;
 - (2) land tax (*taxe confiere*);
 - (3) office tax; and
 - (4) garbage collection tax (*taxe d'enlevement des ordures menageres*).
- (c) its part on the cost of common equipment of the Property;
- (d) usual operation and technical charges;
- (e) fees applicable for occupation of the public domain;
- (f) payment of the remaining half of the insurance premium as set out in paragraph (i)(e) above; and
- (g) costs of non-structural maintenance works.

The Lease has specifically stipulated that OpCo will pay all taxes related to the rent, the service charges and all sums due under the Lease. Based on the above, the Directors understand most of the expenses relating to the Property would need to be incurred by OpCo directly.

Accountants' report on HoldCo

As set out in the accountants' report on HoldCo in Appendix II to this circular, for the year ended 31 December 2011, 31 December 2012 and 31 December 2013, the rental expenses amounted to approximately €12,521,000, €12,888,000 and €13,105,000 respectively, which are the same as the rental income recorded in the Financial Information provided by the Property Vendor for the same period. As set out in the accountants' report on HoldCo in Appendix II to this circular, for the year ended 31 December 2011, 31 December 2012 and 31 December 2013, property ownership and other taxes in the amount of approximately €162,000, €167,000 and €172,000 were recorded, which are materially the same as the recoverable property ownership tax and other taxes recorded in the Financial Information provided by the Property Vendor.

Based on the accountants' report on HoldCo in Appendix II to this circular, for the three months ended 31 March 2014, rental expenses, as well as property ownership taxes paid by HoldCo amounted to approximately €3,298,000 and €44,000 respectively.

The Financial Information

Based on the Financial Information provided by the Property Vendor, the expenses and outgoings relating to the Property for the three years ended 31 December 2013 comprised mainly of recoverable taxes, other miscellaneous expenses and outgoings, and interest expenses.

As set out above, based on review of the Lease, the Financial Information, and the accountants' report on HoldCo as set out in Appendix II to this circular, the Directors noted (i) the amount of the Property Vendor's rental income as recorded in its Financial Information is the same as that recorded as rental expenses in the accountants' report on HoldCo as set out in Appendix II to this circular; (ii) the direct expenses relating to the Property were either recharged by the Property Vendor to OpCo, or were incurred directly by OpCo and thus reflected in the accountants' report on HoldCo as set out in Appendix II to this circular. The Directors consider that information relating to those Property expenses that were not reflected in the accountants' report on HoldCo as set out in Appendix II to this circular, namely interest expense, and other miscellaneous expenses and outgoings, should not be treated as direct expenses relating to the Property, and in any event they would be of little value to the Shareholders because (a) the Group will take out new financing in respect of the Property upon Completion and thus the interest expense incurred by the Property Vendor in the past will no longer apply; and (b) the miscellaneous expenses and outgoings are immaterial to the Group. Accordingly, the Directors are of the view that given (1) the valuation report on the Property is set out in Appendix VII to this circular; and (2) the accountants' report on HoldCo is set out in Appendix II to this circular, all significant relevant information relating to the Property has been disclosed to the Shareholders. The Directors consider that such disclosure is not materially misleading or incomplete or deceptive so far as the Property Acquisition is concerned.

A. BASIS OF PREPARATION OF THE PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The pro forma financial information (“Pro Forma Financial Information”) has been prepared in accordance with Rule 4.29 of the Listing Rules to illustrate the impact of a very significant acquisition (hereinafter referred to as the “Acquisitions”) by the Group, including proposed acquisition of the entire issued share capital of HoldCo (together with its subsidiary collectively referred to as the “Target Group”) and acquisition of the Property.

The Pro Forma Financial Information presented below is prepared to illustrate (a) the financial position of the Enlarged Group as if the Acquisitions has been completed on 31 December 2013; and (b) the results and cash flows of the Enlarged Group as if the Acquisitions had been completed on 1 January 2013.

The Pro Forma Financial Information has been prepared by the Directors for illustrative purpose only and because of its hypothetical nature, it may not give a true picture of the financial position, results of operations and cash flows of the Group had the Acquisitions been completed as at 31 December 2013 or 1 January 2013, where applicable, or any future dates.

The pro forma consolidated statement of financial position of the Enlarged Group is prepared based on the audited consolidated statement of financial position of the Group as at 31 December 2013 as extracted from the published 2013 annual report and the audited consolidated statement of financial position of the Target Group as at 31 March 2014 as extracted from the accountants’ report set out in Appendix II to this circular, after making pro forma adjustments resulting from the Acquisitions, as if the Acquisitions had been completed on 31 December 2013.

The pro forma consolidated statement of profit or loss, the pro forma consolidated statement of comprehensive income and the pro forma consolidated statement of cash flows of the Enlarged Group are prepared based on (i) the audited consolidated statement of profit or loss, the audited consolidated statement of comprehensive income and the audited consolidated statement of cash flows of the Group for the year ended 31 December 2013 as extracted from the published 2013 annual report of the Company; and (ii) the audited consolidated statement of profit or loss, the audited consolidated statement of comprehensive income and the audited consolidated statement of cash flows of the Target Group for the year ended 31 December 2013 as extracted from the accountants’ reports as set out in Appendix II to this circular, after making pro forma adjustments relating to the Acquisitions, as if the Acquisitions had been completed on 1 January 2013.

The Pro Forma Financial Information should be read in conjunction with the historical financial information of the Group as set out in the 2013 annual report of the Company and other financial information included elsewhere in this circular.

B. PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

Pro Forma Consolidated Statement of Financial Position of the Enlarged Group
As at 31 December 2013

	Audited consolidated statement of financial position of the Group as at 31 December 2013 HK\$'000 Note 1	Audited consolidated statement of financial position of the Target Group as at 31 March 2014 HK\$'000 Note 2	Pro forma adjustments			The Enlarged Group HK\$'000
			HK\$'000 Note 3	HK\$'000 Note 4	HK\$'000 Note 5	
NON CURRENT ASSETS						
Property, plant and equipment	1,292,607	25,840	3,670,160			4,988,607
Deposits paid	-	106,044		(105,061)		983
Available-for-sales investments	5,915	-				5,915
Investment in an associate	1,989,598	-				1,989,598
Goodwill	-	-	276,204			276,204
Prepaid land lease payments	39,478	-				39,478
Intangible assets	92,914	-				92,914
Other long-term assets	3,871	-				3,871
	<u>3,424,383</u>	<u>131,884</u>				<u>7,397,570</u>
TOTAL NON-CURRENT ASSETS						
CURRENT ASSETS						
Inventories	5,762	1,457				7,219
Trade receivable	1,798	27,868				29,666
Held for trading investments	-	9,324				9,324
Prepaid lease payments	3,907	-				3,907
Other receivables and prepayments	19,235	-				19,235
Amounts due from related companies	144,376	-				144,376
Pledged time deposits	10,366	-				10,366
Cash and cash equivalents	196,774	533,660		(29,463)	(41,184)	659,787
	<u>382,218</u>	<u>572,309</u>				<u>883,880</u>
TOTAL CURRENT ASSETS						
	<u>3,806,601</u>	<u>704,193</u>				<u>8,281,450</u>

	Audited consolidated statement of financial position of the Group as at 31 December 2013 HK\$'000 Note 1	Audited consolidated statement of financial position of the Target Group as at 31 March 2014 HK\$'000 Note 2	Pro forma adjustments		The Enlarged Group HK\$'000	
			HK\$'000 Note 3	HK\$'000 Note 4	HK\$'000 Note 5	
CURRENT LIABILITIES						
Bank overdrafts	-	457,903				457,903
Bills payable	20,733	-				20,733
Trade payables	38,766	36,822				75,588
Other payables and accruals	195,606	-				195,606
Receipt in advance	129,509	-				129,509
Amount due to an immediate holding company	-	12,355		(12,355)		-
Amount due to related companies	44,285	-				44,285
Loan from a related company	120,463	-				120,463
Interest-bearing bank and other borrowings	6,360	-				6,360
Tax Payable	41,349	-				41,349
TOTAL CURRENT LIABILITIES	597,071	507,080				1,091,796
NET CURRENT ASSETS/(LIABILITIES)	(214,853)	65,229				(207,916)
TOTAL ASSETS LESS CURRENT LIABILITIES	3,209,530	197,113				7,189,654
NON-CURRENT LIABILITIES						
Borrowings - due after one year	-	-	1,848,000			1,848,000
Loan from an immediate holding company	-	122,169		(122,169)		-
Loan from a shareholder	-	-	1,790,049		134,958	1,925,007
Deferred tax liabilities	192,427	-	383,259			575,686
TOTAL NON-CURRENT LIABILITIES	192,427	122,169				4,348,693
NET ASSETS	3,017,103	74,944				2,840,961
CAPITAL AND RESERVES						
Reserves	1,432,247	1,309	(1,309)		(176,142)	1,256,105
Issued capital	1,277,888	73,635	(73,635)			1,277,888
Non-controlling interests	306,968	-				306,968
TOTAL EQUITY	3,017,103	74,944				2,840,961

Pro Forma Consolidated Statement of Profit or Loss of the Enlarged Group
For the year ended 31 December 2013

	Audited consolidated statement of profit or loss of the Group for the year ended 31 December 2013 HK\$'000 Note 1	Audited consolidated statement of profit or loss of the Target Group for the year ended 31 December 2013 HK\$'000 Note 2	Pro forma adjustments			The Enlarged Group HK\$'000
			HK\$'000 Note 6	HK\$'000 Note 7	HK\$'000 Note 8	
CONTINUING OPERATIONS						
Revenue	757,490	385,778				1,143,268
Cost of sales	(685,804)	(379,716)	138,389		(29,361)	(956,492)
Gross profit	71,686	6,062				186,776
Other income and gains	16,788	-				16,788
Other expense	(67,908)	(1,869)				(69,777)
Administrative expense	(73,858)	(866)				(74,724)
Finance costs	(31,473)	(3,411)	3,411	(148,122)		(179,595)
Share of profits and losses of associates	(2,933)	-				(2,933)
LOSS BEFORE TAX FROM CONTINUING OPERATIONS	(87,698)	(84)				(123,465)
Income tax (expense)/credit	(23,699)	-			3,066	(20,633)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	(111,397)	(84)				(144,098)

Pro Forma Consolidated Statement of Comprehensive Income of the Enlarged Group
For the year ended 31 December 2013

	Audited consolidated statement of comprehensive income of the Group for the year ended 31 December 2013 HK\$'000 Note 1	Audited consolidated statement of comprehensive income of the Target Group for the year ended 31 December 2013 HK\$'000 Note 2	Pro forma adjustments			The Enlarged Group HK\$'000
			HK\$'000 Note 6	HK\$'000 Note 7	HK\$'000 Note 8	
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	<u>(111,397)</u>	<u>(84)</u>				<u>(144,098)</u>
DISCONTINUED OPERATION						
Profit for the year from a discontinued operation	<u>14,424</u>	<u>-</u>				<u>14,424</u>
LOSS FOR THE YEAR	<u>(96,973)</u>	<u>(84)</u>				<u>(129,674)</u>
OTHER COMPREHENSIVE INCOME						
Exchange differences on translation of foreign operations	<u>70,760</u>	<u>-</u>				<u>70,760</u>
Reclassification of translation reserve from other comprehensive income to statement of profit or loss upon disposal of a subsidiary	<u>(18,270)</u>	<u>-</u>				<u>(18,270)</u>
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	<u>52,490</u>	<u>-</u>				<u>52,490</u>
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	<u>52,490</u>	<u>-</u>				<u>52,490</u>
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	<u>(44,483)</u>	<u>(84)</u>				<u>(77,184)</u>
Attributable to:						
Owners of the Company	<u>(61,556)</u>	<u>(84)</u>				<u>(94,257)</u>
Non-controlling interests	<u>17,073</u>	<u>-</u>				<u>17,073</u>
	<u>(44,483)</u>	<u>(84)</u>				<u>(77,184)</u>

Pro Forma Consolidated Statement of Cash Flows of the Enlarged Group*For the year ended 31 December 2013*

	Audited consolidated statement of cash flows of the Group for the year ended 31 December 2013 HK\$'000 Note 1	Audited consolidated statement of cash flows of the Target Group for the year ended 31 December 2013 HK\$'000 Note 2	Pro forma adjustments			The Enlarged Group	
			HK\$'000 Note 4	HK\$'000 Note 6	HK\$'000 Note 7	HK\$'000 Note 8	HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES							
Loss before tax	(73,274)	(84)					(109,041)
From continuing operations	(87,698)	(84)		141,800	(148,122)	(29,361)	(123,465)
From discontinued operations	14,424	-					14,424
Adjustments for:							
Finance costs	31,473	3,411		(3,411)	148,122		179,595
Share of losses of a jointly-controlled entity	766	-					766
Share of losses of associates	2,933	-					2,933
Loss on disposal of items of property, plant and equipment	377	-					377
Loss on disposal of subsidiaries	2,735	-					2,735
Reclassification of transaction reserve from other comprehensive income to profit or loss upon disposal of subsidiaries	(18,270)	-					(18,270)
Impairment of investment in associates	59,845	-					59,845
Impairment of property, plant and equipment	6,185	-					6,185
Depreciation	51,354	15,196				29,361	95,911
Recognition of prepaid land lease payments	3,047	-					3,047
Recognition of other long-term assets	803	-					803
Amortisation of intangible assets	7,318	-					7,318
Interest income	-	(95)					(95)
	<u>75,292</u>	<u>18,428</u>					<u>232,109</u>

	Audited	Audited	Pro forma adjustments				The Enlarged
	consolidated	consolidated					Group
	statement of	statement of					Group
	cash flows of	cash flows of					Group
the Group for	the Target					Group	
the year ended	Group for the					Group	
31 December	year ended					Group	
2013	31 December					Group	
HK\$'000	2013	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Note 1	Note 2	Note 4	Note 6	Note 7	Note 8		
Decrease in inventories	313	1,436				1,749	
Increase in trade receivables	(1,081)	(5,386)				(6,467)	
(Increase)/decrease in deposits paid	-	(11)	11			-	
Increase in other receivables and prepayments	(1,037)	-				(1,037)	
Decrease in amount due to a fellow subsidiary	-	1,404	(1,404)			-	
(Decrease)/increase in trade and bills payables	31,800	(6,019)				25,781	
Decrease/(increase) in pledged bank deposits	(10,366)	-				(10,366)	
Increase in other payables and accruals	60,062	-				60,062	
Increase in receipt in advance	7,335	-				7,335	
	<u>162,318</u>	<u>9,852</u>				<u>309,166</u>	
Cash generated from operations activities							
	162,318	9,852				309,166	
Hong Kong profits tax paid	(2,183)	-				(2,183)	
Net cash flows generated from operating activities	<u>160,135</u>	<u>9,852</u>				<u>306,983</u>	
CASH FLOWS FROM INVESTING ACTIVITIES							
Purchases of items of property, plant and equipment	(53,361)	(4,076)				(57,437)	
Acquisition of subsidiaries	(486,545)	-				(486,545)	
Disposal of items of property, plant and equipment	2,251	-				2,251	
Return of investment from a jointly-controlled entity	128,655	-				128,655	
Interest received	-	95				95	
Increase in amounts due from related companies	(18,959)	-				(18,959)	
	<u>(427,959)</u>	<u>(3,981)</u>				<u>(431,940)</u>	
Net cash flows used in investing activities							

	Audited consolidated statement of cash flows of the Group for the year ended 31 December 2013	Audited consolidated statement of cash flows of the Target Group for the year ended 31 December 2013	Pro forma adjustments			The Enlarged Group	
	HK\$'000 Note 1	HK\$'000 Note 2	HK\$'000 Note 4	HK\$'000 Note 6	HK\$'000 Note 7	HK\$'000 Note 8	HK\$'000
CASH FLOWS FROM FINANCING ACTIVITIES							
Decrease in amounts due to related companies	(10,505)	-					(10,505)
Decrease in amount due to an associate	(18,872)	-					(18,872)
New bank loans	6,360	-					6,360
Repayment of bank loans	(33,958)	-					(33,958)
(Decrease)/increase in loan from an immediate holding company	-	232	(232)				-
Interest paid	(10,427)	-		3,411	(148,122)		(155,138)
Net cash flows generated from/(used in) financing activities	(67,402)	232					(212,113)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(335,226)	6,103					(337,070)
Cash and cash equivalents at beginning of year	530,475	436,645					967,120
Bank overdraft at beginning of year	-	(356,981)					(356,981)
Effect of foreign exchange rate changes, net	1,525	-					1,525
CASH AND CASH EQUIVALENTS AT END OF YEAR	196,774	85,767					274,594

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

1. The audited consolidated statement of financial position of the Group as at 31 December 2013, the audited consolidated statement of profit or loss, the audited consolidated statement of comprehensive income and the audited consolidated statement of cash flows of the Group for the year ended 31 December 2013 are extracted from the published 2013 annual report of the Company.
2. The audited consolidated statement of financial position of the Target Group as at 31 March 2014, the audited consolidated statement of profit or loss, the audited consolidated statement of comprehensive income and the audited consolidated statement of cash flows of the Target Group for the year ended 31 December 2013 are extracted from the accountants' report set out in Appendix II to this circular, in which an unqualified opinion was expressed by Deloitte Touche Tohmatsu, Certified Public Accountants, and converted to the presentation currency of the Group. The conversion of EUR into HK\$ for the consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of comprehensive income and consolidated statement of cash flows of the Target Group is based on the exchange rate of €1 to HK\$10.56, exchange rate applied in the circular. No representation is made that EUR amounts have been, could have been or could be converted into HK\$, or vice versa, at that rate or at any other rates or at all.
3. The recognition of provisional goodwill from the Acquisitions as if the Acquisitions were completed on 31 December 2013 is as follows:

	<i>HK\$'000</i>	<i>HK\$'000</i>
Consideration transferred:		
Bank borrowings (<i>Note (i)(a)</i>)	1,848,000	
Loan from a shareholder (<i>Note (i)(b)</i>)	1,790,049	
	<hr/>	
Total Consideration (<i>Note (i)</i>)	3,638,049	3,638,049
Less:		
Net assets of the Target Group as at 31 March 2014 (<i>Note (ii) (a)</i>)	74,944	
Fair value of Property (<i>Note (ii) (a)</i>)	3,670,160	
	<hr/>	
Deferred tax liabilities arising from fair value surplus of Property (<i>Note (ii) (b)</i>)	(383,259)	
	<hr/>	
Total fair value of identified assets acquired and liabilities assumed (<i>Note (ii)</i>)		<hr/> 3,361,845
Provisional goodwill (<i>Note (iii)</i>)		<hr/> <hr/> 276,204

- (i) Pursuant to the Share Purchase Agreement and Purchase Option Agreement entered on 3 June 2014, the Group had agreed to acquire the Target Group and the Property at the provisional consideration of €344,512,199 (equivalent to approximately HK\$3,638,048,821) (subject to final determination as set out in this Circular). The Consideration shall be funded by bank borrowings and the Shareholder's Loan as the followings:
- a) The Group had obtained a legally binding offer from a financial institution in France for the advance of an amount of €175,000,000 (equivalent to approximately HK\$1,848,000,000) for payment of the Consideration, which bears interest based on the 3-month EURIBOR plus margin of 220bps per annum and other mandatory cost (if any). In addition, suitable hedging agreements will be contracted with the financial institution by the group to cover interest rate risk till maturity of the loan at a maximum rate of 1.3% (before margin) on 100% of facility amount.
- b) On 3 June 2014, the Group had entered into the Loan Agreement with Most Honor, pursuant to which Most Honor agreed to provide a loan in the principal amount to the extent of US\$280,000,000 (equivalent to approximately HK\$2,170,000,000) to the Group to satisfy payment relevant to the Acquisitions, which shall be secured by a charge on the entire issued share capital of Crown Value, a subsidiary of the Company. The directors of the Company estimated that approximately HK\$1,790,048,821 consideration will be funded by the shareholder loan as at the Latest Practicable Date. This loan bears 4% interest rate per annum.
- (ii) Upon the Completion of the Acquisitions, the identifiable assets and liabilities of the Target Group will be accounted for in the Pro Forma Financial Information at fair value under the purchase method of accounting in accordance with HKFRS 3.
- a) For the purpose of the Pro Forma Financial Information, the directors of the Company have estimated the fair value of the Property as at 31 December 2013, based on valuation report on the Property issued by LCH (Asia-Pacific) Surveyors Limited stated on Appendix VII to this circular (the "Valuation Report"), as below:

	<i>HK\$'000</i>
Fair value per Valuation Report (1)	3,696,000
Less: Carrying amount of property, plant and equipment of the Target Group as at 31 March 2014 (2)	(25,840)
	<hr/>
Fair value of the Property	<u>3,670,160</u>

- (1) The fair value of €350,000,000 (equivalent to approximately HK\$3,696,000,000) are extracted from Valuation Report on the Property on Appendix VII to this circular;
 - (2) The fair value of the property, plant and equipment of the Target Group is assumed to be close to their carrying amounts as at 31 March 2014 of €2,447,000 (equivalent to approximately HK\$25,840,000).
- b) Related deferred tax liabilities arising from the fair value surplus on the Property are HK\$383,259,000 based on the applicable tax rate of 33.33% in France.
- (iii) For the purpose of this Pro Forma Financial Information, the directors of the Company have assessed whether there is any impairment on the provisional goodwill as at 31 December 2013 on a pro forma basis, in accordance with Hong Kong Accounting Standards 36 "Impairment of Assets" ("HKAS 36") and concluded that there is no impairment indication on the provisional goodwill arising from the Acquisitions as at 31 December 2013 on the assumption that the Acquisitions was completed on the same date.

The directors of the Company will apply consistent accounting policies and principal assumptions to assess impairment of the provisional goodwill in subsequent reporting periods in accordance with the requirement of HKAS 36.

Even though the impairment assessment will be carried out in the accounting periods in the future in view of the date of the Circular and the balance sheet date of the first set of the financial statements of the Group after the completion of the Acquisition, any significant changes in the assessment of goodwill impairment is not expected. Accordingly, the directors of the Company considered that no significant goodwill impairment is expected in the first set of financial statements after the completion of the Acquisition.

Specifically, in the absence of a formal valuation, the Directors have not (i) recognised any intangible assets, (ii) necessary fair value adjustments to the Target Group's identifiable assets and liabilities, and (iii) the related tax effect. The Company is in the process of identifying and determining the fair values of the identifiable assets (including intangible assets) and liabilities of the Target Group and the Property.

Since the fair value of the identifiable assets and liabilities of the Target Group and the Property used in the preparation of this Pro Forma Financial Information may be substantially different from the final amounts of identifiable assets (including intangible assets) and liabilities and the goodwill to be recognised in connection with the Acquisitions at the completion date could be materially different from the estimated amounts stated herein. In addition, there may be additional amortisation and depreciation expenses and other effect on the financial performance of the Group resulting from recognition of intangible assets and fair value adjustments on other identifiable assets and liabilities.

4. Upon the Completion of the Acquisitions, the Group will collect back rental deposits of €9,949,000 (equivalent to approximately HK\$105,061,000) from Property Vendor and repay amounts due to Shares Vendor of €1,170,000 (equivalent to approximately HK\$12,355,000) and loan from Shares Vendor of €11,569,000 (equivalent to approximately HK\$122,169,000) by the cash and cash equivalents.
5. The adjustment represents the estimated transaction costs of approximately HK\$41,184,000 and the estimated transaction taxes of approximately HK\$134,958,000 payable by the Group in connection with the Acquisitions. The transaction costs will be paid by the cash owned by the Group and the transaction taxes will be paid by loan from a shareholder mentioned in note 3b. This adjustment is not expected to have continuing effect on the Enlarged Group's consolidated statement of profit or loss, consolidated statement of comprehensive income and consolidated statements of cash flows.

For the purposes of the pro forma consolidated statement of financial position, the transaction cost is assumed to be settled by cash as at 31 December 2013.

6. The adjustment represents elimination of the rental revenue from the leasing of the Property by Property Vendor to OpCo. The rental income derived from the aforesaid lease amounted to €13,105,000 (equivalent to approximately HK\$138,389,000) for the year ended 31 December 2013, which is extracted from Appendix III – Unaudited Financial Information of the Property to this circular.

In addition, for the purpose of the pro forma consolidated statement of profit or loss, finance costs of the Target Group arising from loan from immediate holding company, the Shares Vendor, are eliminated by assuming the loan have been repaid by 1 January 2013.

7. The adjustment represents the annual imputed interest expenses of bank borrowings as mentioned in Note (i)(a) and loan from a shareholder as mentioned in Note (i)(b), calculated by multiplying the outstanding principal amount as at 1 January 2013 by the effective interest rate of 3.85% and 4.0% p.a., respectively. The adjustments are expected to have continuing effect on the Enlarged Group's consolidated statement of profit or loss, consolidated statement of comprehensive income, and consolidated statements of cash flows.
8. The additional depreciation of the Property of approximately HK\$29,361,000 and the related deferred tax credit of approximately HK\$3,066,000 was derived from the recognition of the fair value of the Property and deferred tax liabilities as mentioned in Note 4 above. The adjustments are expected to have continuing effect on the Enlarged Group's consolidated statement of profit or loss, consolidated statement of comprehensive income and consolidated statements of cash flows.

For the preparation of the pro forma consolidated statement of profit or loss, the directors of the Company allocates the fair value of the Property of approximately HK\$3,670,160,000 as mentioned in Note 3 (ii)(a) between freehold land component and building component by adopting 60% and 40% ratio. In addition, the director of the Company adopts the policy that the freehold land is not depreciated and depreciation of building is calculated on the straight-line basis within the estimated useful life of 50 years. The fair value allocation ratio and useful life of building may be substantially different from the final assessment in connection with the Acquisitions at the completion date.

The following is the text of a report received from Ernst & Young, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular:



**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 2013, and the pro forma consolidated statement of profit or loss, the pro forma consolidated statement of comprehensive income and the pro forma consolidated statement of cash flows for the year ended 31 December 2013 and related notes as set out on pages IV-2 to IV-8 of the circular dated 29 August 2014 (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 IV to the Circular.

The Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of a very significant acquisition (hereinafter referred to as the “Acquisitions”) by the Group, including proposed acquisition of the entire issued share capital of MCE OpCo HoldCo (“HoldCo”, together with its subsidiary collectively referred to as the “Target Group”) and acquisition of property being used by the Target Group (the “Property”), on the Group’s financial position as at 31 December 2013 and the Group’s financial performance and cash flows for the year ended 31 December 2013 as if the Acquisitions had taken place at 31 December 2013 and 1 January 2013 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 2013, on which audit report has published. Information about the Target Group’s financial position, financial performance and cash flows have been extruded by the Directors from the Target Group’s consolidated financial statements for the years ended 31 December 2013 and three months ended 31 March 2014, on which an accountants’ report 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 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” (“AG 7”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

Reporting Accountant's 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 accountant 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 AG7 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 Acquisitions on unadjusted financial information of the Group as if the Acquisitions 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 Acquisitions 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 transaction, 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 accountant's judgment, having regard to the reporting accountant's understanding of the nature of the Group, the Acquisitions 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.

Ernst & Young*Certified Public Accountants*

Hong Kong

29 August 2014

A. MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

Set out below are the management discussion and analysis of the Group as extracted from the annual reports of the Company for each of the three financial years ended 31 December 2013 (the “**Management Discussion and Analysis**”). Terms used below shall have the same meanings as those defined in the Management Discussion and Analysis. Furthermore, all pages/sections/appendices mentioned in the below text are referred to in those of the Management Discussion and Analysis.

(a) For the year ended 31 December 2013*Business Review*

The revenue of the Group for the year amounted to HK\$757.5 million, representing an increase of 14.9% from approximately HK\$659.0 million for the preceding year. The increase in revenue was mainly attributable to increase in revenue contributed from heat energy supply segment, and trading in iron ore and materials related to steel manufacturing (the “**Iron Ore and Other Materials**”). The Group recorded a loss for the year of HK\$97.0 million, as compared to the loss of HK\$1,079.9 million in the preceding year. The loss for the year was principally attributable to (i) impairment of investments in associates engaging in steel manufacturing and trading (the “**Associates**”); and (ii) the share of operating loss from the Associates in view of the unstable steel industry in the PRC. Net loss attributable to owners of the Company for the year amounted to HK\$104.9 million, representing a decrease of 90.2% from HK\$1,066.8 million in the preceding year. The basic and diluted loss per Share for the year was HK\$1 cent as compared to the basic and diluted loss per Share of HK\$10 cents in the preceding year.

Segmental review of the Group’s operations during the year is as follows:

Steel Manufacturing and Trading

Overview

With continuing structural problems such as overcapacity in the PRC’s steel industry, combined with weak demand of steel products under modest economic growth, the Group’s associates engaged in steel manufacturing and trading, namely Rizhao Steel Co., Limited, Rizhao Medium Section Mill Co., Limited, and Rizhao Steel Wire Co., Limited, continued to struggle for performance in 2013. During the year, the Group shared the loss of HK\$2.9 million from the Associates, as compared to the loss of HK\$654.4 million in the preceding year.

Provision for impairment

As at 31 December 2013, the Group's investments in the Associates were tested for impairment as China's steel industry remained unstable. Details of the impairment are disclosed in note 21 to the notes to the financial statements of 2013 Annual Report.

Changes in Accounting Estimates of Certain Fixed Assets

With reference to the announcement made by the Company on 6 December 2013, following a review of the actual conditions, Rizhao Steel Holding had reassessed and revised the estimated useful lives of certain fixed assets of the Associates that had been effective from 1 July 2013 and were accounted for as changes in accounting estimates and applied prospectively. As a result, depreciation expenses of the Associates for the six months ended 31 December 2013 had been reduced.

Trading in Iron Ore and Other Materials

The Group recorded revenue of HK\$432.6 million from trading in Iron Ore and Other Materials, representing an increase of 4.6% as compared to HK\$413.7 million recorded in the preceding year. During the year, the Group remained vigilant and conducted trading in Iron Ore and Other Materials under a cautious approach. As a result of unpredictable global market conditions and unsatisfactory profit margin from trading in Iron Ore and Other Materials, the Group had ceased such trading activities since the fourth quarter of the year, and aimed to reallocate resources on better business opportunities to enhance returns to shareholders. In December 2013, the Group acquired a hotel in Sheung Wan, Hong Kong, details of the acquisition are disclosed in the Hotel Operation segment below.

Heat Energy Supply

The Group's heat energy supply subsidiaries in Tianjin, PRC operated heat energy supply projects located in the Meijiang district, Jinxia Xindu district and Xiqing Nanhe district (the "Three Districts"), which continued to contribute steady heat energy supply revenue to the Group. During the year, the Group recorded revenue of HK\$323.6 million from the heat energy supply segment as compared to HK\$245.3 million in the preceding year. The increase in revenue was mainly attributable to increase in heat connection fee and heat supply fee resulting from increased heat energy usage from new development projects launched in the Three Districts. Despite the increased revenue, the Group's heat energy supply facilities had yet to be utilized at efficient levels to achieve economies of scale. During the year, the Group recorded segmental profit of approximately HK\$30.4 million as compared to the loss of approximately HK\$47.1 million in the preceding year.

Property Investment

The Group had disposed of its entire interests in Goalreach (the “**Disposal**”), Goalreach holds the entire share capital of BCIL which is a foreign shareholder in Shanghai Underground Centre Company Limited (“**SUCCL**”). The Disposal was completed on 26 June 2013, the Group recorded the loss of approximately HK\$2.7 million. After the Disposal, the translation reserve of HK\$18.3 million was reclassified from other comprehensive income to statement of profit or loss for the year. Net profit for the year from the discontinued operations was HK\$14.4 million. The Disposal enabled the Group to realise investment in SUCCL and enhanced the working capital and liquidity. Thus, the Disposal was in the interest of the Company and its shareholders as a whole. Further details of the Disposal are disclosed in note 13 to the notes to the financial statements of the 2013 Annual Report.

Hotel Operation

The Group has been constantly seeking to expand its business portfolios with a view to expanding revenue source. With the strong performance of Hong Kong’s tourism industry, the Group considered that acquisition of a hotel in Hong Kong should broaden income stream of the Group. On 20 December 2013, the Group completed the acquisition of the entire issued share capital of A6 Limited, Hotel de EDGE Management Limited and Hotel de EDGE Limited (the “**Hotel Group**”). The Hotel Group owns and operates the Butterfly on Waterfront (formerly known as Hotel de EDGE), a 90-room boutique hotel situated at Sheung Wan, Hong Kong. With the opening of new stations from the Mass Transit Railway island line western extension in 2014, the Group considered that Butterfly on Waterfront shall benefit from continuous development in the Sheung Wan district. Further details of the acquisition are disclosed in note 39 to the notes to the financial statements of the 2013 Annual Report. During the year, the Group recorded revenue of HK\$1.3 million from the hotel operation (31 December 2012: Nil).

Money Lenders Licence

Kai Yuan Capital Limited (formerly known as Shinning Profit Limited), an indirect wholly-owned subsidiary of the Company, was granted a money lenders licence to carry out money lending business in Hong Kong with effect from 7 November 2013. The Group considered that diversification into money lending business would provide another stream of income to maximise returns to shareholders of the Company. Subsequent to the application of money lenders licence, money lending market landscape had changed quickly, the Group will remain vigilant when conducting money lending business. As at the Latest Practicable Date, the Group had not commenced money lending business.

Prospects

Steel Manufacturing and Trading

The PRC's steel industry remains highly competitive and participants are relatively fragmented. It is expected that the problem of overcapacity shall continue to suppress overall profit margin of the industry. On the bright side, global iron ore prices have shown a downward trend since December 2013, coupled with continuation of the PRC's new urbanization strategy, may boost up demand of steel in 2014. In the long run, the PRC's steel industry calls for research and development, the Group's Associates are committed to new product development in order to remain competitive in the industry.

Heat Energy Supply

The Group's heat energy supply segment is positively related to new property development projects launched in the area. After Tianjin city had achieved a remarkable GDP growth in 2013, it is expected that revenue from the Group's heat energy supply operations of the Three Districts will be benefit when new property development projects are launched.

Hotel Operation

The Group takes an optimistic view in the prospect of the Hong Kong and global tourism industry, and the new hotel operation segment would form a solid foundation of the Group's further development in revenue base. After the acquisition of Butterfly on Waterfront, the Group has been looking for further related investment opportunities in areas including but not limited to Asia and Europe.

Looking ahead

It is expected that the China economy shall continue to be filled with uncertainties and slow down in growth in 2014. The Group shall remain dedicated to constantly review, reinforce and if appropriate restructure its existing business segments with a view to enhancing and optimising return to our stakeholders. In the meantime, the Group will continue seeking for expansion in its business portfolios globally in order to broaden and strengthen its revenue stream.

Liquidity and Financial Resources

As at 31 December 2013, total assets and net assets of the Group were approximately HK\$3,806.6 million and HK\$3,017.1 million respectively, as compared to approximately HK\$3,679.8 million and HK\$2,766.0 million as at 31 December 2012. The cash and bank balance of the Group as at 31 December 2013 were approximately HK\$196.8 million (31 December 2012: HK\$530.4 million), representing a decrease of 62.9% from the preceding year. The total current assets decreased by 53.0% to approximately HK\$382.2 million during the year (31

December 2012: HK\$813.1 million). As at 31 December 2013, the Group's outstanding bank and other borrowings amounted to approximately HK\$6.4 million (31 December 2012: HK\$34.0 million), all of which were due within one year. As at 31 December 2013, the net current liabilities of the Group were approximately HK\$214.9 million (31 December 2012: Net current assets HK\$12.1 million). As at 31 December 2013, the Group's gearing ratio (total borrowings/total assets) continued to remain at a low level of 3.3% (31 December 2012: 4.0%). With reference to the announcement made by the Company on 18 December 2013, Ga Leung Investment Company Limited (the "**Subscriber**"), the sole holder of the HK\$280.0 million convertible bonds (the "**Convertible Bonds**"), served a conversion notice to the Company to fully convert the Convertible Bonds into conversion shares at the conversion price of HK\$0.15 per conversion share. On 20 December 2013, the Company allotted and issued 1,866,666,666 conversion shares, representing approximately 14.61% of the enlarged issued share capital of the Company, to the Subscriber. Thereafter, the Subscriber became the largest shareholder of the Company.

Acquisitions and Disposals

During the year, the Company had disposed of its entire interest in Goalreach to a third party at a consideration of HK\$130.0 million. Goalreach held the entire issued share capital of BCIL, which was a foreign shareholder in SUCCL. Details on the disposal of Goalreach are disclosed in note 13 to the notes to the financial statements of the 2013 Annual Report.

Foreign Exchange Exposure

The operations of the Group are located in the PRC. Loans and borrowings taken in relation to such operations are mostly denominated in the local currency to match with their relevant local expenditures, thus mitigating risks arising from foreign exchange fluctuations. However, exchange risks may arise as a result of fluctuations in the value of Renminbi when translations and exchanges are made between Renminbi and Hong Kong dollar, as the Group's head office operating expenses are incurred in Hong Kong dollars. Furthermore, a small portion of the Group's borrowings incurred by one of the subsidiaries of Tianjin Heating Development Company Limited was denominated in US dollars and exchange risks may arise as a result of fluctuations in the value of Renminbi against the US dollar. However, as Renminbi is not freely convertible into other foreign currencies and cost effective hedging instruments are not widely available, no further hedging was provided and no financial instrument for hedging was employed by the Group during the year.

The Group shall from time to time review and monitor the exchange risks, and consider employing foreign exchange hedging arrangements when appropriate and necessary.

Contingent Liabilities

The Group provided a guarantee, with no charge, to a bank for a loan with the amount of HK\$50,877,000 granted to Tianjin Jinre Logistics Company Limited, in which the Group holds a 16% equity interest. No contingent liabilities were provided for in the financial statements as the Directors believe it is not probable that an outflow will be required to settle the obligation.

Pledge on the Group's Assets

As at 31 December 2013, time deposits amounting to HK\$10.4 million were pledged to secure certain bills payables (31 December 2012: Nil).

Employees and Remuneration

The Group had 209 employees as at 31 December 2013 (31 December 2012: 187). Remuneration policies are reviewed regularly to ensure that compensation and benefit packages are in line with the market level. In addition to basic remuneration, the Group also provides other employee benefits including bonuses, mandatory provident fund scheme and medical scheme. At the discretion of the Board, the Group may grant share options to eligible employees and participants.

(b) For the year ended 31 December 2012*Business Review*

The revenue of the Group amounted to HK\$659.0 million, representing an increase of 99.1% from approximately HK\$331.0 million for the preceding year, which was mainly attributable to the increase in revenue from trading of iron ore. The Group recorded a loss for the year of HK\$1,079.9 million, representing an increase of 169.6% as compared with the loss of HK\$400.5 million for the preceding year. The loss for the year was principally attributable to (i) the impairment on the Group's investments in Associates as the result of the persisting downturn of the steel industry in the PRC; (ii) the share of operating loss from the Associates, which mainly resulted from the continuing squeezed gross profit margin of steel products in the PRC; (iii) the impairment recognized as the Group reclassified the carrying amount of interests in a jointly-controlled entity located in Shanghai as held for sale to fair value; and (iv) the operating loss of the Group's heat energy supply segment as a result of increase in production as well as operating costs. Net loss attributable to shareholders of the Group amounted to HK\$1,066.8 million, representing an increase of 174.3% from HK\$388.9 million for the preceding year. The basic and diluted loss per share for the year were HK\$10 cents, as compared with the basic and diluted loss per share of HK\$4 cents for the preceding year.

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

Steel Manufacturing and Trading

The PRC's economic environment was difficult in 2012 in particular in the steel trading market. The ongoing measures adopted by the Chinese government to control the purchase of residential property as well as property prices diminished the demand of steel products at the downstream. In addition, the continuing increase in prices of raw materials such as iron ore had squeezed gross profit margin of the Associates in the PRC. Despite cost saving measures and production process enhancements taken to counteract cost inflation pressure, losses were recorded from the Associates for the year. The losses shared by the Group from Associates amounted to HK\$654.4 million, representing an increase of 98.3% as compared with HK\$330.0 million in the preceding year. The attitude of the Chinese government towards China's property market was a continuing concern of Chinese property developers, such concern depressed steel consumption in private sector in 2012. The persisting downturn of PRC's steel industry and operating losses from Associates were indicators to the Group that investments in Associates were to be tested for impairment, as the carrying amounts on investments in Associates may not be recoverable. With reference to the announcement made by the Company dated 28 December 2012, the Company received a notice from Rizhao Steel Holding Group Company Limited (being the controlling shareholder of the Associates) informing the Company that it may undergo a proposed production adjustment programme to adjust its annual production capacity (which is largely undertaken by the Associates). Further details of the impairment and the proposed production adjustment programme are disclosed in note 22 to the notes to the financial statements of the 2012 Annual Report.

The Group is keen to expand our revenue stream. The Group had commenced trading in iron ore since 2011, the revenue recorded by the Company from trading of iron ore for the year ended 31 December 2011 was HK\$149.0 million. During the year, revenue from trading of iron ore amounted to HK\$413.7 million, representing an increase of 177.7% from the preceding year. The Group shall endeavour to look into opportunities to strength commodity trading as a recurring revenue stream.

Heat Energy Supply

Heat energy supply is an essential public utility service in northern China, the Group's heat energy supply segment operates heat energy supply projects at the southwest fringe of Tianjin city. During the year, the heat energy supply projects located in Three Districts of Tianjin city continued to contribute stable heat supply revenue to the Group. The Group recorded revenue of HK\$245.3 million from the heat energy supply segment for the year, representing an increase of 34.8% as compared with the HK\$182.0 million from the preceding year. The increase in revenue was mainly attributable to increase in heat connection fee as new property projects were launched in districts managed by the Group's heat energy supply subsidiaries. Despite the increase in revenue, the Group's heat energy supply segment had been challenged by increase in operating costs and costs of constituent

raw materials such as coal. Besides, the heat energy supply facilities had yet to be utilized to reach economies of scale. As a result, the Group recorded a segmental loss of HK\$47.1 million from the heat energy supply segment for the year, representing an increase of 119.1% as compared with a segmental loss of HK\$21.5 million in the preceding year.

Property Investment

SUCCL operates The Shanghai Underground Shopping Mall in Shanghai, China. Despite the severe competition on rental amongst other shopping centers in nearby area, SUCCL managed to achieve near full capacity in 2012. During the year, revenue recorded by SUCCL was HK\$59.1 million, representing an increase of 0.17% as compared with HK\$59.0 million in the preceding year. Net profit share by the Group for the year was HK\$0.094 million, representing a decrease of 94.1% as compared with HK\$1.6 million in the preceding year. With reference to the announcement made by the Company on 25 January 2013, the Group has the intention to dispose of its entire interests in the SUCCL. As a result, the Group's investment in SUCCL had been classified as a disposal group held for sale, and was separately presented in the consolidated statement of financial position. The Group recorded an impairment of HK\$44.4 million against the disposal group held for sale for the year (31 December 2011: Nil).

Prospects

Steel Manufacturing and Trading

It is expected that China's stringent stance on the property market shall restrain demand of steel products. The Group notices that steel product prices have bottomed out since fourth quarter of 2012, but the steel product prices trend in 2013 is uncertain and remains to be seen. The disparity between supply and demand of steel will continue to influence steel product prices. Meanwhile, the gross profit margin of the Group's Associates shall continue to be tackled by high raw materials price, but yet low margin of sales. The Associates of the Group shall observe strict cost reduction measures and efficiency enhancement processes to maintain competitiveness in the industry. The result of the Group's iron ore trading business is remarkable over last two years. While global demand on iron ore remains uncertain, the iron ore prices outlook shall demonstrate unpredictable trend. The Company will continue to focus on this business segment to create sustainable development of the Group.

Heat Energy Supply

The Group's heat energy supply segment is dependent on new property development projects launched in the area to generate heat supply revenue. Adjacent to Beijing, Tianjin city is economically vibrant and on the forefront of quality property development. Leveraging on close proximity to the capital, it is expected that the Group's heat energy supply segment shall be benefited as and when Tianjin city's property development market booms. In the meantime, the real

estate market in Tianjin may still be in a difficult condition for an extended period, performance of the Group's heat energy segment shall continue to be confronted with inflation in prices of raw materials and operating costs.

Property Investment

While the Chinese government has been implementing new measures to suppress speculative investment activities in China's residential property markets, the investment prospects of China's commercial property market remain robust. The Group shall constantly monitor the outlook of China's commercial property market, and adopt a prudent approach towards all potential property investment opportunities.

Liquidity and Financial Resources

As at 31 December 2012, total assets and net assets of the Group were approximately HK\$3,679.8 million and HK\$2,766.0 million respectively, as compared with HK\$4,751.3 million and HK\$3,853.7 million as at 31 December 2011. The cash and bank balance of the Group as at 31 December 2012 were approximately HK\$530.4 million (31 December 2011: HK\$459.8 million), representing an increase of 15.4% from the preceding year. The total current assets increased by 3.8% to approximately HK\$813.1 million during the year (31 December 2011: HK\$783.3 million). As at 31 December 2012, the Group's outstanding bank and other borrowings amounted to approximately HK\$34.0 million (31 December 2011: HK\$21.7 million), all of which were due within one year. As at 31 December 2012, the net current assets of the Group were approximately HK\$12.1 million. (31 December 2011: Net current assets HK\$279.3 million). As at 31 December 2012, the Group's gearing ratio (total borrowings/total assets) continued to remain at a low level of 4.0% (31 December 2011: 2.9%).

Acquisitions and Disposals

During the year, the Group had no material acquisition or disposal of subsidiaries or associated companies.

Foreign Exchange Exposure

The operations of the Group are located in the PRC. Loans and borrowings taken in relation to such operations are mostly denominated in the local currency to match with their relevant local expenditures, thus mitigating risks arising from foreign exchange fluctuations. However, exchange risks may arise as a result of fluctuations in the value of Renminbi when translations and exchanges are made between Renminbi and Hong Kong dollar, as the Group's head office operating expenses are incurred in Hong Kong dollars. Furthermore, a small portion of the Group's borrowings incurred by one of the subsidiaries of Tianjin Heating Development Company Limited was denominated in US dollars and exchange risks may arise as a result of fluctuations in the value of Renminbi against the US dollar. However, as Renminbi is not freely convertible into other foreign currencies and

cost effective hedging instruments are not widely available, no further hedging was provided and no financial instrument for hedging was employed by the Group during the year. The Group shall from time to time review and monitor the exchange risks, and consider employing foreign exchange hedging arrangements when appropriate and necessary.

Contingent Liabilities

The Group provided a guarantee, with no charge, to a bank for a loan with the amount of HK\$49,333,000 granted to Tianjin Jinre Logistics Company Limited, in which the Group holds a 16% equity interest. No contingent liabilities were provided for in the financial statements as the Directors believe it is not probable that an outflow will be required to settle the obligation.

Pledge on the Group's Assets

As at 31 December 2012, no assets were pledged by the Group (31 December 2011: Nil).

Employees and Remuneration

The Group had 187 employees as at 31 December 2012 (31 December 2011: 161). Remuneration policies are reviewed regularly to ensure that compensation and benefit packages are in line with the market level. In addition to basic remuneration, the Group also provides other employee benefits including bonuses, mandatory provident fund scheme and medical scheme. At the discretion of the Board, the Group may grant share options to eligible employees and participants.

(c) For the year ended 31 December 2011

Business Review

The revenue of the Group for the year amounted to HK\$331.0 million, representing an increase of approximately HK\$210.9 million from approximately HK\$120.1 million for the preceding year. The increase in revenues was mainly derived from trading of iron ores commenced during the year and the Group's heat energy supply operations in Tianjin, PRC. During the year, the Group recorded a loss of approximately HK\$400.5 million, as compared with a loss of approximately HK\$23.0 million for the preceding year, which was principally attributable to share of loss from the Group's Associates and increase in prices of raw materials as well as other production costs, in particular in the fourth quarter of 2011. The Group's heat energy supply operations were continued to be affected by continuous cooling down of real estate development in the Tianjin city, PRC. Loss attributable to owners of the Company for the year amounted to HK\$388.9 million, as compared with a profit of HK\$101.2 million in preceding year. The basic and diluted loss per share was HK\$4 cents, as compared with the basic and diluted earnings per share of HK\$1 cent for the preceding year.

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

Steel Manufacturing and Trading

The downturn of PRC's steel trading market, in particular in the fourth quarter of 2011 had adversely affected the Group's Associates. Profit margin of the Associates were squeezed by increase in raw materials as well as production costs and sluggish demand of steel products. During the year, output of the Associates remained at optimal levels. A net loss of HK\$330.0 million was resulted from the Associates for the year as compared with a profit of approximately HK\$293.5 million contributed to the Group in the preceding year. In the Company's 2011 interim report, it was disclosed that the Group shall explore opportunities to expand into the business of involved in steel manufacturing. During the year, the Group recorded a revenue of HK\$149.0 million from trading of iron ore fines (31 December 2010: Nil), the Group shall continue to leverage on this business line to strengthen our customer base.

Heat Energy Supply

The Group's heat energy supply subsidiaries in Tianjin, PRC have three heat energy supply projects located at the southwest fringe of the Three Districts. Despite the restrictive property purchase policy together with credit tightening policy launched by the PRC government had dampened market sentiment on property market, the heat energy supply operations of the Group achieved a revenue of approximately HK\$182.0 million as compared with approximately HK\$120.1 million in the preceding year. Despite the increased revenue, the Group's heat energy supply facilities has yet to be utilized at efficient levels relative to the inelastic fixed cost structure of heat energy generation. During the year, the segmental loss of the Group's heat energy supply subsidiaries was approximately HK\$21.5 million, decreased by HK\$165.4 million, as compared with the segmental loss of HK\$186.9 million of the preceding year.

Property Investment

During the year, the Group completed the disposal of External Fame Limited, a wholly-owned subsidiary of the Company, details of the disposal are disclosed in note 12 the notes to the financial statements of the 2011 Annual Report. In Shanghai, operations of SUCCL remained stable, recording revenue of approximately HK\$59 million for the year (31 December 2010: approximately HK\$55 million). As a result of cost control measures, SUCCL contributed a profit of approximately HK\$1.6 million for the year, as compared with a profit of HK\$0.6 million for the preceding year.

Prospects

Steel Manufacturing and Trading

The price of steel products in China continues to face challenges with sluggish demand and slower economic growth. The price of raw materials, energy and other production costs of steel manufacturing are continued to remain at high level, while such costs may not be completely shifted to consumers. The Group's Associates shall exercise caution and adopt a prudent approach in conducting its business, greater effort would be placed on inventory control, energy saving and recycling, in order to maintain competitiveness against rivals. Trial run on business of trading in iron ores has commenced in the second half of 2011, the Group is pleased with the outcomes. Despite recent fluctuation in global iron ore prices due to, expectation on expansion of global iron ores production capacity and uncertainty on demands, we have confidence in the business of iron ores trading. The Group shall continue to explore the iron ores trading business in 2012 with caution and discipline.

Heat Energy Supply

It is expected that the Group's operations in Tianjin city continue to be challenged by restrictive property purchase policy and credit tightening policy launched by the PRC government. The Group's operations in Tianjin city remain to be affected by increasing operating costs. However, heat energy supply is a crucial public utility service, which will contribute a constant revenue stream to the Group. The Group wishes to capture opportunities bought forward by robust growth of the Tianjin city when the economy revives.

Property Investment

China's property market is filled with uncertainty. The Group shall continue to monitor market situation and review its property investment portfolio from time to time in order to capture market opportunities and maximise returns.

Liquidity and Financial Resources

As at 31 December 2011, total assets and net assets of the Group were approximately HK\$4,751.3 million and HK\$3,853.7 million respectively, as compared with HK\$4,674.9 million and HK\$3,791.3 million as at 31 December 2010. Cash and bank balance and pledged bank deposits of the Group as at 31 December 2011 totaled approximately HK\$459.8 million (31 December 2010: HK\$225.8 million), representing an increase of 103.6%, which was largely due to issuance of convertible bonds. Correspondingly, current assets increased by 78.1% to approximately HK\$783.3 million during the year (31 December 2010: HK\$439.8 million). As at 31 December 2011, the Group's outstanding bank and other borrowings amounted to approximately HK\$21.7 million (31 December 2010: HK\$80.0 million), approximately HK\$19.1 million of which was due within one year. Net current assets as at 31 December 2011 was approximately HK\$279.3 million. (31 December 2010: Net current liabilities HK\$268.2 million). As at 31

December 2011, the Group's gearing ratio (total borrowings/total assets) continued to remain at a low level of 2.9% (31 December 2010: 4.0%).

Acquisitions and Disposals

- (a) During the year, Global Strategy International Limited, a wholly-owned subsidiary of the Company, had disposed of its entire interest in its wholly-owned subsidiary, Kai Yuan Securities Limited, to Sheng Yuan Financial Services Group Limited ("SYFSGL") at a consideration of HK\$17.7 million. SYFSGL is a wholly owned subsidiary of Sheng Yuan Holdings Limited ("SYHL"), the issued shares of which are listed on the Stock Exchange, in which a director of the Company held 62.39% equity interest as at the Latest Practicable Date.
- (b) During the year, Eland Success Limited, a wholly-owned subsidiary of the Company, had disposed of its entire interest in its wholly owned subsidiary, External Fame Limited, to an independent third party for a total consideration of HK\$72 million.

Foreign Exchange Exposure

The operations of the Group are located in the PRC. Loans and borrowings taken in relation to such operations are mostly denominated in the local currency to match with their relevant local expenditures, thus mitigating risks arising from foreign exchange fluctuations. However, exchange risks may arise as a result of fluctuations in the value of Renminbi when translations and exchanges are made between Renminbi and Hong Kong dollar, as the Group's head office operating expenses are incurred in Hong Kong dollars. Furthermore, a small portion of the Group's borrowings incurred by one of the subsidiaries of Tianjin Heating was denominated in US dollars and exchange risks may arise as a result of fluctuations in the value of Renminbi against the US dollar. However, as Renminbi is not freely convertible into other foreign currencies and cost effective hedging instruments are not widely available, no further hedging was provided and no financial instrument for hedging was employed by the Group during the year. The Group shall from time to time review and monitor the exchange risks, and consider employing foreign exchange hedging arrangements when appropriate and necessary.

Contingent Liabilities

The Group provided a guarantee, with no charge, to a bank for a loan with the amount of HK\$61,675,000 granted to Tianjin Jinre Logistics Company Limited, in which the Group holds a 16% equity interest. No contingent liabilities were provided for in the financial statements as the directors believe it is not probable that an outflow will be required to settle the obligation.

Pledge on the Group's Assets

As at 31 December 2011, no assets were pledged by the Group to secure any banking facilities (31 December 2010: HK\$17,647,000).

Employees and Remuneration

The Group had approximately 161 employees as at 31 December 2011 (31 December 2010: 226). Apart from basic remuneration, the Group also provides other employee benefits including medical scheme and provident fund schemes. In addition, the Group has a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

B. MANAGEMENT DISCUSSION AND ANALYSIS OF THE HOLDCO AND OPCO

Set out below is the management discussion and analysis of the HoldCo and OpCo (the "MCE Group") for each of the three years ended 31 December 2013 and three months ended 31 March 2014:

For the year ended 31 December 2011*Review of operations*

During the year ended 31 December 2011, the MCE Group achieved a turnover of approximately €34.9 million, a gross profit of approximately €817,000 and a net profit of approximately €514,000. MCE Group's turnover, comprising accommodation revenue, food and beverages, and other hotel service charges, experienced mild increment of approximately 3% compared to 2010. Accommodation revenue contributed to approximately 79.7% of the total turnover for the year. The average occupancy rate of the Hotel was approximately 88.2% and the average room rate was approximately €450 per night in 2011 as compared to approximately 85.5% and €449 per night in 2010, respectively. Cost of sales amounted to approximately €34.1 million, which comprised primarily hotel operating lease payments of approximately €12.6 million, expenses reimbursed to the Hotel Manager of approximately €7.4 million, management, royalty and marketing fees charged by the Hotel Manager of approximately €2.8 million, depreciation of approximately €1.4 million and other expenses of approximately €9.9 million. It represents an increase of approximately €728,000 or approximately 2.2% from approximately €33.3 million of the previous year.

Material acquisitions and disposals

The MCE Group did not have any material acquisitions and disposals during the year.

Liquidity and financial resources

Total borrowings of the MCE Group as at 31 December 2011 were approximately €11.7 million which consisted of a bank overdraft of approximately €0.1 million and a loan of approximately €11.6 million granted by the Shares Vendor. The bank overdraft is non-interest bearing and repayable on demand. The loan from the Shares Vendor bore an interest rate at London Interbank Offered Rate ("LIBOR")

per annum and capped at 6% per annum and repayable in ten years from the loan drawdown date. On the same day, the MCE Group had cash and bank balance of approximately €5.3 million and the gearing ratio (based on long-term debt to equity) and current ratio was approximately 1.44 times and 1.83 times, respectively.

Charges of assets

HoldCo pledged the shares of the subsidiary, OpCo, to the fellow subsidiary, the Property Vendor, to guarantee all sums due or which might become payable by OpCo under the lease contract of the Hotel's main facilities as at 31 December 2011.

Contingent liabilities

The MCE Group had no material contingent liabilities as at 31 December 2011.

Employees

The MCE Group did not have any employees as at 31 December 2011. Pursuant to the Management Agreement, Marriott Hotels Manager France SAS (and its related entities) undertook to provide the staff necessary for the efficient management of the Hotel.

Foreign currency exposure

Fluctuations in exchange rate did not impose significant risk to the MCE Group as the majority of the transactions and most assets and liabilities were denominated in Euros. Nevertheless, a portion of the revenue and expenses from and to the Hotel manager were paid in US dollars. For the year ended 31 December 2011, MCE Group recorded a net exchange loss of approximately €14,000.

For the year ended 31 December 2012

Review of operations

The MCE Group achieved a turnover of approximately €37.0 million (2011: approximately €34.9 million), representing an increase of approximately 6.0% from that of 2011, and a gross profit of approximately €1.2 million (2011: approximately €817,000) for the year. The increase in turnover was mainly attributable to the increase in the average occupancy rate and the average room rate for the Hotel in 2012 of approximately 88.7% (2011: approximately 88.2%) and €486 (2011: approximately €450) per night, respectively. Cost of sales amounted to approximately €35.8 million (2011: approximately €34.1 million), representing an increase of approximately 5.0% as compared to the previous year, mainly comprising hotel operating lease payments of approximately €13.0 million (2011: approximately €12.6 million), expenses reimbursed to the Hotel Manager of approximately €8.1 million (2011: approximately €7.4 million), management royalty and marketing fees charged by the Hotel Manager of approximately €3.0

million (2011: approximately €2.8 million), depreciation of approximately €1.4 million (2011: approximately €1.4 million) and other expenses of approximately €10.3 million (2011: approximately €9.9 million). Profit for the year increased to approximately €0.9 million (2011: approximately €0.5 million) which was mainly driven by the increase in average room rate.

Material acquisitions and disposals

The MCE Group did not have any material acquisitions and disposals during the year.

Liquidity and financial resources

Total borrowings of the MCE Group as at 31 December 2012 were approximately €45.4 million which consisted of a bank overdraft of approximately €33.8 million and a loan of approximately €11.6 million granted by the Shares Vendor. The bank overdraft is non-interest bearing and repayable on demand. The loan from Shares Vendor bears an interest rate at LIBOR per annum and capped at 6% per annum and repayable in ten years from the loan drawn down date. On the same day, the MCE Group had cash and bank balance of approximately €41.3 million and the gearing ratio (based on long-term debt to equity) and current ratio was approximately 1.30 times and 1.17 times, respectively (2011: approximately 1.44 times and 1.83 times, respectively).

Charges of assets

HoldCo pledged the shares of the subsidiary, OpCo, to the fellow subsidiary, the Property Vendor, to guarantee all sums due or which might become payable by OpCo under the lease contract of the Hotel's main facilities as at 31 December 2012.

Contingent liabilities

The MCE Group had no material contingent liabilities as at 31 December 2012.

Employees

The MCE Group did not have any employees as at 31 December 2012. Pursuant to the Management Agreement, Marriott Hotels Manager France SAS (and its related entities) undertook to provide the staff necessary for the efficient management of the Hotel.

Foreign currency exposure

Fluctuations in exchange rate did not impose significant risk to the MCE Group as the majority of the transactions and most assets and liabilities were denominated in Euros. Nevertheless, a portion of the revenue and expenses from and to the Hotel manager were paid in US dollars. For the year ended 31 December 2012, MCE Group recorded a net exchange gain of approximately €11,000.

For the year ended 31 December 2013*Review of operations*

The MCE Group achieved a turnover of approximately €36.5 million (2012: approximately €37.0 million), representing a slight decrease of approximately 1.4% from that of 2012, and a gross profit of approximately €574,000 (2012: approximately €1.2 million) for the year. Costs of sales amounted to approximately €36.0 million (2012: approximately €35.8 million), mainly comprised of operating lease payments of approximately €13.2 million (2012: approximately €13.0 million), expenses reimbursed to the Hotel Manager of approximately €8.1 million (2012: approximately €8.1 million), management, royalty and marketing fees charged by the Hotel Manager of approximately €3.0 million (2012: approximately €3.0), depreciation charge of approximately €1.4 million (2012: approximately €1.4 million) and other expenses of approximately €10.3 million (2012: approximately €10.3 million). For the year ended 31 December 2013, MCE Group incurred loss of approximately €8,000 (2012: profit for the year of approximately €0.9 million). The average occupancy rate and the average room rate for the Hotel in the year 2013 were approximately 89.3% (2012: approximately 88.7%) and approximately €480 (2012: approximately €486) per night, respectively. The loss for the year in 2013 was mainly due to the decrease in average room rate as a result of aggressive pricing strategy imposed by several competitors after completion of their refurbishment work in 2013 and the decrease in gross profit margin as compared to the previous year.

Material acquisitions and disposals

The MCE Group did not have any material acquisitions and disposals during the year.

Liquidity and financial resources

Total borrowings of the MCE Group as at 31 December 2013 were approximately €46.5 million which consisted of a bank overdraft of approximately €34.9 million and a loan of approximately €11.6 million granted by the Shares Vendor. The bank overdraft was non-interest bearing and repayable on demand. The loan from Shares Vendor bore an interest rate at LIBOR per annum and capped at 6% per annum and repayable in ten years from the loan drawdown date. On the same day, the MCE Group had cash and bank balance of approximately €43.1 million and the gearing ratio (based on long-term debt to equity) and current ratio was approximately 1.30 times and 1.19 times, respectively (2012: approximately 1.30 times and 1.17 times, respectively).

Charges of assets

HoldCo pledged the shares of the subsidiary, OpCo, to the fellow subsidiary, the Property Vendor, to guarantee all sums due or which might become payable by OpCo under the lease contract of the Hotel's main facilities as at 31 December 2013.

Contingent liabilities

The MCE Group had no material contingent liabilities as at 31 December 2013.

Employees

The MCE Group did not have any employees as at 31 December 2013. Pursuant to the Management Agreement, Marriott Hotels Manager France SAS (and its related entities) undertook to provide the staff necessary for the efficient management of the Hotel.

Foreign currency exposure

Fluctuations in exchange rate did not impose significant risk to the MCE Group as the majority of the transactions and most assets and liabilities were denominated in Euros. Nevertheless, a portion of the revenue and expenses from and to the Hotel Manager were paid in US dollars. For the year ended 31 December 2013, MCE Group recorded a net exchange loss of approximately €230,000.

For the three months ended 31 March 2014*Review of operations*

The MCE Group achieved a turnover of approximately €6.7 million (three months ended 31 March 2013: approximately €6.9 million), representing a drop of approximately 2.9% from that of the corresponding period of 2013. The MCE Group recorded a gross loss of approximately €1.7 million for the three months ended 31 March 2014 (three months ended 31 March 2013: gross loss of approximately €1.5 million). Costs of sales amounted to approximately €8.4 million (three months ended 31 March 2013: approximately €8.3 million), mainly comprised of operating lease payments of approximately €3.3 million (three months ended 31 March 2013: approximately €3.3 million), expenses reimbursed to the Hotel Manager of approximately €2.0 million (three months ended 31 March 2013: approximately €2.0 million), management, royalty and marketing fees charged by the Hotel Manager of approximately €314,000 (three months ended 31 March 2013: approximately €323,000), depreciation charge of approximately €356,000 (three months ended 31 March 2013: approximately €340,000) and other expenses of approximately €2.4 million (three months ended 31 March 2013: €2.3 million). The gross loss was mainly due to low average occupancy rate of approximately 79.7% for the three months ended 31 March 2014 (three months ended 31 March 2013: approximately 82.5%) and the relative low average room rate of approximately €384 per night for the three months ended 31 March 2014 (three months ended 31 March 2013: approximately €390 per night) as January and February are normally the slack season for hotel business in Paris. Loss for the period was approximately €1.8 million (three months ended 31 March 2013: loss for the period of approximately €1.6 million).

Material acquisitions and disposals

MCE Group did not have any material acquisitions and disposals during the period.

Liquidity and financial resources

Total borrowings of the MCE Group as at 31 March 2014 was approximately €55.0 million which consisted of a bank overdraft of approximately €43.4 million and a loan of approximately €11.6 million granted by the Shares Vendor. The bank overdraft was non-interest bearing and repayable on demand. The loan from the Shares Vendor bore an interest rate at LIBOR per annum and capped at 6% per annum and repayable in ten years from the loan drawdown date. On the same day, the MCE Group had cash and bank balance of approximately €50.5 million and the gearing ratio (based on long-term debt to equity) and current ratio was approximately 1.63 times and 1.13 times, respectively (31 March 2013: approximately 1.59 times and 1.36 times, respectively).

Charges of assets

HoldCo pledged the shares of the subsidiary, OpCo, to the fellow subsidiary, the Property Vendor, to guarantee all sums due or which may become payable by OpCo under the lease contract of the Hotel's main facilities as at 31 March 2014.

Contingent liabilities

The MCE Group had no material contingent liabilities as at 31 March 2014.

Employees

The MCE Group did not have any employees as at 31 December 2014. Pursuant to the Management Agreement, Marriott Hotels Manager France SAS (and its related entities) undertook to provide the staff necessary for the efficient management of the Hotel.

Foreign currency exposure

Fluctuations in exchange rate did not impose significant risk to the MCE Group as the majority of the transactions and most assets and liabilities were denominated in Euros. Nevertheless, a portion of the revenue and expenses from and to the Hotel Manager were paid in US dollars. For the three months period ended 31 March 2014, MCE Group recorded a net exchange loss of approximately €12,000.

The following is the text of a letter, a summary of values and valuation certificate prepared for the purpose of incorporation in this circular received from LCH (Asia-Pacific) Surveyors Limited, an independent professional surveyor, in connection with its valuation as at 31 May 2014 of the real property interests held by the Group.



利駿行測量師有限公司

LCH (Asia-Pacific) Surveyors Limited

PROFESSIONAL SURVEYOR
PLANT AND MACHINERY VALUER
BUSINESS & FINANCIAL ASSETS VALUER

The readers are reminded that the report which follows has been prepared in accordance with the reporting guidelines set by the International Valuation Standards 2013 (“IVS”) and published by the International Valuation Standards Council which followed by the HKIS Valuation Standards 2012 Edition (the “HKIS Standards”) and published by the Hong Kong Institute of Surveyors (the “HKIS”). The standards entitle the valuer to make assumptions which may on further investigation, for instance by the readers’ legal representative, prove to be inaccurate. Any exception is clearly stated below. Headings are inserted for convenient reference only and have no effect in limiting or extending the language of the paragraphs to which they refer. Translations of terms in English or in Chinese are for reader’s identification purpose only and have no legal status or implication in this report. This report was prepared and signed off in English format, translation of this report in language other than English shall only be used as a reference and should not be regarded as a substitute for this report. Piecemeal reference to this report is considered to be inappropriate and no responsibility is assumed from our part for such piecemeal reference. It is emphasised that the findings and conclusion presented below are based on the documents and facts known to the valuer at the Latest Practicable Date. If additional documents and facts are made available, the valuer reserves the right to amend this report and its conclusions.

17th Floor
Champion Building
Nos. 287-291 Des Voeux Road
Central
Hong Kong

29 August 2014

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

Dear Sirs,

In accordance with the instructions given by the present management of Kai Yuan Holdings Limited (hereinafter referred to as the “**Instructing Party**”) to us to conduct a

valuation of certain *real properties* (same as the word *properties* in this report) in which Kai Yuan Holdings Limited (hereinafter referred to as the “**Company**”) and its subsidiaries (collectively, together with the Company hereinafter referred to as the “**Group**”) have interests in Hong Kong and in the mainland of the People’s Republic of China (hereinafter referred to as the “**PRC**” or “**China**”), and to report the existing status of certain property interests rented and occupied by the Group in Hong Kong and in the PRC, we confirm that we have conducted physical inspections, made relevant enquiries and obtained such further information as we consider necessary to support our findings and our opinion of values of the properties of the Group as at 31 May 2014 (hereinafter referred to as the “**Valuation Date**”) for the Instructing Party’s internal management reference purpose.

We understand that the use of our work product (regardless of form of presentation) will form part of the Instructing Party’s due diligence but we have not been engaged to make specific sales or purchase recommendations, or to give opinion for any financing arrangement. We further understand that the use of our work product will not supplant other due diligence which the Instructing Party should conduct in reaching its business decision regarding the properties valued. Our work is designed solely to provide information that will give the Instructing Party a reference in its due diligence process, and our work should not be the only factor to be referenced by the Instructing Party. Our findings and conclusion of value of the property interests are documented in a narrative valuation report and submitted to the Instructing Party at today’s date.

At the request of the Instructing Party, we prepared this report (including this letter, a summary of values and the valuation certificate) to summarise our findings and conclusions of value as documented in the valuation report for the purpose of inclusion in this circular at today’s date for the Company’s shareholders’ reference. Terms herein used without definition shall have the same meanings as in the valuation report, and the assumptions and caveats adopted in the valuation report also applied to this summary report.

VALUATION OF PROPERTIES IN GROUPS I, II AND IV

Basis of Valuation and Assumptions

According to the IVS which the HKIS Standards also follows, there are two valuation bases, namely market value basis and valuation bases other than market value. According to the IVS Framework, which is followed by the HKIS Standards, “market value basis” indicates the most probable price that would be achieved in a hypothetical exchange in a free and open market. Market value basis is commonly adopted for valuing properties for acquisition and public disclosure purposes. This is also in line with the requirement stipulated in Chapter 5 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong to disclose the market value of the property interests. The valuation bases other than market value include fair value, investment value, special value, synergistic value or value for sale under repossession. These valuation bases are generally used for purposes such as accounts reporting, litigation or liquidation, and not appropriate for the subject purpose of valuations.

In view of the above, we have provided our opinion of values of the properties on market value basis.

The term “Market Value” is defined by the IVS and the HKIS Standards 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”.

Unless otherwise stated, our valuations of the properties have been made on the assumptions, that, as at the Valuation Date:

1. the legally interested party in each of the properties has absolute title to its relevant property interests;
2. the legally interested party in each of the properties has free and uninterrupted rights to assign its relevant property interest for the whole of the unexpired term as granted, and any premiums payable have already been fully paid;
3. the legally interested party in each of the properties sells its relevant property interest in the market in its existing states without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any other similar arrangement which would serve to increase the value of the property interest;
4. each of the properties has obtained relevant government’s approvals for the sale of the property and is able to be disposed of and transferred free of all encumbrances (including but not limited to the cost of transaction) in the market; and
5. the properties can be freely disposed and transferred free of all encumbrances at the Valuation Date for their existing uses in the market to both local and overseas purchasers without payment of any premium to the government.

Should any of the above not be the case, it will have adverse impact to our valuations.

Approach to Value

There are three generally accepted approaches in arriving at the market value of a property on an absolute title basis i.e. free to assign, transfer, let and mortgage, namely the sales comparison approach (or known as the market approach), the cost approach and the income approach.

Properties in Group I

In valuing the properties in Group I, we have attributed no market value to the properties as the land use rights of these properties are administratively allocated in nature and/or transferability of such properties are restricted.

Property 3 in Group II

In valuing this property which was subject to a tenancy agreement as at the Valuation Date, we have adopted the investment method of the income approach (also known as the term and revision method or sometimes referred to as a method of the market approach for the reversionary interests and the rate of return are market-derived) by taking into account of the current rent receivable from the existing tenancy agreements (a third party tenancy) and the reversionary potential of the property interests.

Property 5 in Group IV

In valuing this property, we have adopted the comparable sales method of the market approach (also called sales comparison approach) on the assumption that the property was sold with the benefit of vacant possession. The comparable sales method considers the sales, listings or offering of similar or substitute properties and related market data and establishes a value of a real property that a reasonable investor would have to pay for a similar real property of comparable utility and with an absolute title.

Our valuations of the properties in Groups II and IV have been made on the assumption that the owner sells each of the properties on the open market in its existing states without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any other similar arrangement which would serve to increase the value of the properties.

We have not carried out a valuation on a redevelopment basis and the study of possible alternative development options and the related economics do not come within the scope of our work.

REPORTING OF RENTED PROPERTY INTERESTS IN GROUPS III AND V

Properties in Groups III and Group V are subject to various leasehold arrangements, and we have assigned no commercial values to such property interests due mainly to the short-term nature of the tenancy agreements or prohibition against assignment or sub-letting or lack of substantial profit rents.

MATTERS THAT MIGHT AFFECT THE VALUE REPORTED

For the sake of valuation, we have adopted the areas as appeared in the copies of the documents as provided, and no further verification work has been conducted. Should it be established subsequently that the adopted areas were not the latest approved, we reserve the right to revise our report and the valuations accordingly.

No allowance has been made in our valuations for any charges, mortgages, outstanding premium or amounts owing on the properties valued nor any expenses or taxation which may be incurred in affecting a sale for each property in Groups II and IV. Unless otherwise stated, it is assumed that the properties in Groups II and IV are free from all encumbrances, restrictions, and outgoings of an onerous nature which could affect their values.

In our valuations for properties in Groups II and IV, we have assumed that the properties are able to be sold and purchased in the market without any legal impediment (especially from the regulators). Should this not be the case, it will affect the reported values significantly. The readers are reminded to have their own legal due diligence work on such issues. No responsibility or liability is assumed.

As at the Latest Practicable Date of this circular, we are unable to identify any adverse news against the properties which may affect the reported findings or values in our work product. Thus, we are not in the position to report and comment on its impact (if any) to the properties. However, should it be established subsequently that such news did exist at the Valuation Date, we reserve the right to adjust the findings or values reported herein.

ESTABLISHMENT OF TITLES

Due to the purpose of this engagement and the market value basis of valuation, the appointed personnel of the Company provided us the necessary documents to support that the legally interested parties in the properties in Groups II and IV have free and uninterrupted rights to assign, to transfer, to mortgage or to let the properties at their existing use (in this instance, an absolute title) for the whole of the unexpired terms as granted free of all encumbrances, and any premiums payable have already been paid in full or outstanding procedures have been completed (if any). However, we have not examined the amendments which may not appear on the copies handed to us. All documents disclosed (if any) are for reference only and no responsibility is assumed for any legal matters concerning the legal titles and the rights (if any) to the properties valued. Any responsibility for our misinterpretation of the documents cannot be accepted.

The land registration system of China forbids us to search the original documents of the properties in Groups I, II and III from the relevant authorities, and to verify legal title or any material encumbrances which may not appear on the copies handed to us. We need to state that we are not legal professional and are not qualified to ascertain the title and to report any encumbrances that may be registered against the properties. However, we have complied with the requirements as stated in Practice Note No. 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, and relied solely on the copies of document and the copy of the PRC legal opinions provided by the appointed personnel of the Company with regard to the legal titles of the properties. We are given to understand that the PRC legal opinions was prepared by a qualified PRC legal adviser – Global Law Office dated 29 August 2014. No responsibility or liability from our part is assumed in relation to those legal opinions.

We have not been provided with title documents regarding the properties in Groups IV and V, however, we have conducted title search of the properties in the Land Registry of Hong Kong. We have not examined the original documents to verify the ownership and encumbrances or to ascertain the existence of any lease amendments, which may not appear on the copies handed to us. All documents disclosed (if any) are for reference only and no responsibility is assumed for any legal matters concerning the legal title and the rights (if any) to the properties. Any responsibility for our misinterpretation of the documents cannot be accepted.

Unless otherwise stated, we have assumed that the Group has obtained all the approval and/or endorsement from the relevant authorities to have the right to own or to use the properties, and that there would be no legal impediment (especially from the regulators) for the Group to continue such rights to the properties. Should this not be the case, it will affect our findings or conclusion of values reported in this report significantly. The readers are reminded to have their own legal due diligence work on such issues. No responsibility or liability is assumed.

Our procedures to value, as agreed with the Instructing Party, did not require us to conduct legal due diligence on the legality and formality on the way that the legally interested parties obtained the properties from the relevant authorities. We agreed with the Instructing Party that this should be the responsibility of the legal advisor to the Instructing Party. Thus, no responsibility or liability is assumed from our part to the origin and continuity of the titles to the properties.

INSPECTIONS AND INVESTIGATIONS OF THE PROPERTIES

The properties were inspected either by Sr Elsa Ng (a Registered Professional Surveyor in Hong Kong and a Registered Real Estate Appraiser in the PRC) or our graduate surveyors Mr Ivan Mak and Mr Sam Ngai in June 2014. We have inspected the exterior, and where possible, the interior of the properties in respect of which we have been provided with such information as we have requested for the purpose of our valuations. We have not inspected those parts of the properties which were covered, unexposed or inaccessible and such parts have been assumed to be in reasonable condition. We cannot express an opinion about or advise upon the condition of uninspected parts and the attached summary of value and valuation certificate should not be taken as making any implied representation or statement about such parts. No structural survey, investigation or examination has been made, but in the course of our inspections we did not note any serious defects in the properties valued. We are not, however, able to report that the properties are free from rot, infestation or any other structural defects. No tests were carried out to the services (if any) and we are unable to identify those services either covered, unexposed or inaccessible.

We have not carried out on-site measurements to verify the correctness of the floor areas of the properties, but have assumed that the floor areas shown on the documents and official floor plans handed to us are correct. All dimensions, measurements and areas are approximations.

Our engagement and the agreed procedures to value the properties did not include an independent land survey to verify the legal boundaries of the properties. We need to state that we are not in the land survey profession, therefore, we are not in the position to verify or ascertain the correctness of the legal boundaries of the properties that appeared on the documents handed to us. No responsibility from our part is assumed. The Instructing Party or interested party in the properties should conduct their own legal boundaries due diligence work.

We have not arranged for any investigation to be carried out to determine whether or not any deleterious or hazardous materials have been used in the construction of the properties, or have since been incorporated into the properties, and we are therefore unable to report that the properties is free from risk in this respect. For the purpose of this valuation, we have assumed that such investigation would not disclose the presence of any such materials to any significant extent.

We are not aware of the content of any environmental audit or other environmental investigation or soil survey which may have been carried out on the properties and which may draw attention to any contamination or the possibility of any such contamination. In undertaking our work, we have assumed that no contaminative or potentially contaminative uses have ever been carried out in the properties. We have not carried out any investigation into past or present uses, either of the properties or of any neighbouring land, to establish whether there is any contamination or potential for contamination to the properties from these uses or sites, and have therefore assumed that none exists. However, should it be established subsequently that contamination, seepage or pollution exists at the properties or on any neighbouring land, or that the premises have been or are being put to a contaminative use, this might reduce the values now reported.

SOURCES OF INFORMATION AND ITS VERIFICATION

In the course of our works, we have provided with copies of the documents regarding the properties, and these copies have been referenced without further verifying with the relevant bodies and/or authorities. Our procedures to value did not require us to conduct any searches or inspect the original documents to verify ownership or to verify any amendment which may not appear on the copies handed to us. We need to state we are not legal professional, therefore, we are not in the position to advise and comment on the legality and effectiveness of the documents provided by the appointed personnel of the Instructing Party or the Company.

We have relied solely on the information provided by the appointed personnel of the Instructing Party or the Company without further verification and have fully accepted advice given to us on such matters as planning approvals or statutory notices, locations, titles, easements, tenure, letting, occupation, site and floor areas and all other relevant matters.

Information furnished by others, upon which all or portions of our work product are based, is believed to be reliable but has not been verified in all cases. Our procedures to value or work do not constitute an audit, review, or compilation of the information

provided. Thus, no warranty is made nor liability assumed for the accuracy of any data, advice, opinions, or estimates identified as being furnished by others which have been used in formulating our work product.

Our valuations have been made only based on the advice and information made available to us. While a limited scope of general inquiries have been made to the local property market practitioners, we are not in a position to verify and ascertain the correctness of the advice given by the relevant personnel. No responsibility or liability is assumed.

When we adopted the work products from other professions, external data providers and the appointed personnel of the Instructing Party or the Company in our valuations, the assumptions and caveats that adopted by them in arriving at their figures also applied in our valuation. The procedures we have taken do not provide all the evidence that would be required in an audit and, as we have not performed an audit, accordingly, we do not express an audit opinion.

We are unable to accept any responsibility for the information that has not been supplied to us by the appointed personnel of the Instructing Party or the Company. Also, we have sought and received confirmation from the appointed personnel of the Instructing Party or the Company that no material factors have been omitted from the information supplied. Our analysis and valuations are based upon full disclosure between us and the appointed personnel of the Instructing Party or the Company of material and latent facts that may affect the valuations.

We have had no reason to doubt the truth and accuracy of the information provided to us by the appointed of the Instructing Party or the Company. We consider that we have been provided with sufficient information to reach an informed view, and have had no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary amounts are in Hong Kong Dollars (“HK\$”). In valuing the property in Group II, the adopted exchange rate was the prevailing rate as at the Valuation Date, being Renminbi Yuan (“RMB”) 0.803 per HK\$1 and no significant fluctuation in exchange rate has been found between that date and the date of this report.

LIMITING CONDITIONS IN THIS SUMMARY REPORT

Our findings or conclusion of value of the properties in this summary report are valid only for the stated purpose and at the Valuation Date, and for the sole use of the Instructing Party. We or our personnel shall not be required to give testimony or attendance in court or to any government agency by reason of this summary report, and the valuer accepts no responsibility whatsoever to any other person.

Our valuations have been made on the assumption that no unauthorised alteration, extension or addition has been made in the properties, and that the inspection and the use of this report do not purport to be a building survey of the properties. We have assumed that the properties are free of rot and inherent danger or unsuitable materials and techniques.

No responsibility is taken for changes in market conditions and local government policy, and no obligation is assumed to revise this summary report to reflect events or conditions, which occur or make known to us subsequent to the date hereof.

Neither the whole nor any part of this summary report or any reference made hereto may be included in any published documents, circular or statement, or published in any way, without our written approval of the form and context in which it may appear. Nonetheless, we consent to the publication of this report in this circular for the Company's shareholders' reference.

Our liability for loss or damage shall be limited to such sum as we ought reasonably to pay having regard to our responsibility for the same on the basis that all other consultants and specialists, shall where appointed, be deemed to have provided to the Instructing Party contractual undertakings in respect of their services and shall be deemed to have paid to the Instructing Party such contribution as may be appropriate having regard to the extent of their responsibility for such loss or damage.

Our liability for any loss or damage arising out of the action or proceedings aforesaid shall, notwithstanding the preceding provisions, in any event be limited to a sum not exceeding the charges paid to us for the portion of services or work products giving rise to liability. In no event shall we be liable for consequential, special, incidental or punitive loss, damage or expense (including without limitation, loss of profits, opportunity cost etc.), even if it has been advised of their possible existence. For the avoidance of doubt our liability shall never exceed the lower of the sum calculated in accordance with the preceding provisions and the sum provided for in this clause.

The Instructing Party and the Company are required to indemnify and hold us and our personnel harmless from any claims, liabilities, costs and expenses (including, without limitation, attorney's fees and the time of our personnel involved) brought against, paid or incurred by us at a time and in any way based on the information made available in connection with our engagement except to the extent that any such losses, expenses, damages or liabilities are ultimately determined to be the result of gross negligence, misconduct, willful default or fraud of our engagement team in conducting its work. This provision shall survive even after the termination of this engagement for any reason.

STATEMENTS

Our report including this summary report are prepared in line with the requirements contained in Chapter 5 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited as well as the reporting guidelines contained in various applicable standards such as the IVS and HKIS Standards. The valuations have been undertaken by valuer (see End Note), acting as external valuer, qualified for the purpose of the valuations.

We retain a copy of this report together with the data from which it was prepared, and these data and documents will, according to the Laws of Hong Kong, keep for a period of 6 years from the date of this report and to be destroyed thereafter. We considered these records confidential, and we do not permit access to them by anyone, with the exception for law enforcement authorities or court order, without the Instructing Party's authorisation and prior arrangement made with us. Moreover, we will add the Company's information into our client list for our future reference.

The analysis or valuation of the properties depends solely on the assumptions made in this report and not all of which can be easily quantified or ascertained exactly. Should some or all of the assumptions prove to be inaccurate at a later date, it will affect the reported findings or conclusion of value significantly.

We hereby certify that the fee for this service is not contingent upon our conclusion of value and we have no significant interest in the properties, the Group or the values reported.

The summary of values and the valuation certificate are attached.

Yours faithfully,
For and on behalf of
LCH (Asia-Pacific) Surveyors Limited

Elsa Ng Hung Mui
B.Sc. M.Sc. RPS (GP)
Director

Contributing valuers:

Ivan Mak Kin Hong *BSc*

Sam Ngai Yat Lun *BSc*

Sr Elsa Ng Hung Mui has been conducting valuation of real properties in Hong Kong, Macau and mainland China since 1994. She is a Member of The HKIS and a valuer on the List of Property Valuers for Undertaking Valuation for Incorporation or Reference in Listing Particulars and Circulars and Valuation in Connection with Takeovers and Mergers published by The HKIS.

SUMMARY OF VALUES

Group I — Properties held and occupied by the Group in the PRC with restricted titles

Property	Amount of valuation in its existing state as at 31 May 2014	Percentage of Interest attributable to the Group %	Amount of valuation in its existing state attributable to the Group as at 31 May 2014
1 Meijiang Area Heat Transfer Station located at No.5 Hejiang Road Hexi District Tianjin The PRC 300221	No Commercial Value	25.98	No Commercial Value
2. A parcel of land with various industrial buildings and structures used as a heat transfer station and located at Lot No. 10-07-07 Xin Yuan Village Liqizhuang Street Xiqing District Tianjin The PRC 300381	No Commercial Value	49	No Commercial Value
		Sub-total:	Nil

Group II — Property held by the Group for investment in the PRC

Property	Amount of valuation in its existing state as at 31 May 2014 <i>HK\$</i>	Percentage of Interest attributable to the Group %	Amount of valuation in its existing state attributable to the Group as at 31 May 2014 <i>HK\$</i>
3. Unit 4001 The Exchange SOHO No.1486 Nanjing Road West Jingan District Shanghai The PRC 200040	63,500,000	100	63,500,000
		Sub-total:	63,500,000

Group III — Property occupied by the Group under an operating lease in the PRC

Property	Amount of valuation in its existing state attributable to the Group as at 31 May 2014
4. A parcel of land located at North Yard of Tianjin No. 2 Towel Factory Nanhe Town Xiqing District Tianjin The PRC 300382	No Commercial Value
	Sub-total:
	Nil

Group IV — Property held by the Group for investment in Hong Kong

Property	Amount of valuation in its existing state as at 31 May 2014 HK\$	Percentage of Interest attributable to the Group %	Amount of valuation in its existing state attributable to the Group as at 31 May 2014 HK\$
5. A boutique hotel known as Butterfly on Waterfront (previously known as Hotel de EDGE) 95 Connaught Road West Western District Hong Kong	490,000,000	100	490,000,000
		Sub-total:	<u>490,000,000</u>

Group V — Properties occupied by the Group under various operating leases in Hong Kong

Property	Amount of valuation in its existing state attributable to the Group as at 31 May 2014
6. The whole of 28th Floor Chinachem Century Tower 178 Gloucester Road Wanchai Hong Kong	No Commercial Value
7. Flat/Room 2503 on 25th Floor (formerly known as 22nd Floor) Chinaweal Centre 414/424 Jaffe Road Wanchai Hong Kong	No Commercial Value

Property	Amount of valuation in its existing state attributable to the Group as at 31 May 2014
8. Room 5009 in Units E-F, 29th Floor, Block 2 Vigor Industrial Building Nos. 49-53 Ta Chuen Ping Street Kwai Chung New Territories Hong Kong	No Commercial Value
9. Room 502 in Units E-F, 29th Floor, Block 2 Vigor Industrial Building Nos. 49-53 Ta Chuen Ping Street Kwai Chung New Territories Hong Kong	No Commercial Value
	Sub-total: _____ Nil
	Grand total*: <u>HK\$553,500,000</u>

* *Hong Kong Dollars Five Hundred Fifty Three Million and Five Hundred Thousand Only*

VALUATION CERTIFICATE

Group I — Properties held and occupied by the Group in the PRC with restricted titles

Property	Description and tenure	Particulars of occupancy	Amount of valuation in its existing state attributable to the Group as at 31 May 2014
1. Meijiang Area Heat Transfer Station located at No.5 Heajiang Road Hexi District Tianjin The PRC 300221	<p>The property comprises a parcel of land having a site area of approximately 4,038.7 sq.m. together with a single three-storey building and two guardhouses erected thereon. The building was completed in 2002.</p> <p>The property is located at a residential area in an urban area of Hexi District and surrounded by various residential developments.</p> <p>Together, the building and the guardhouses have a total gross floor area of approximately 3,130 sq.m. (See Note 4)</p> <p>There are ancillary structures such as boundary walls, paved ground and carport found in the property.</p> <p>The land use rights of the property is administratively allocated by the relevant government office without a definite term. (See Note 1)</p>	The property is occupied by Tianjin Meijiang Heating Co., Ltd. (“Meijiang Heating”) for office purpose. At the time of inspection, there were construction works in progress in the property. (See Note 2)	No Commercial Value (See Note 5)

Notes:

1. Pursuant to a copy of Land Use Rights Agreement (the “**Agreement**”) dated 30 September 2002 and entered between 天津市津熱建設發展有限公司 (translated as Tianjin City Jinre Construction Development Co., Ltd. and hereinafter referred to as “**Tianjin Jinre**”) and Meijiang Heating, a 25.98% interest subsidiary of the Company, the land of the property was transferred to Meijiang Heating at the instruction from the Tianjin City Heating Office. According to the Agreement, Meijiang Heating only allowed to use the land free of charges during its operating term as a heat supplier. The Agreement further stated that Tianjin Jinre has the right to resume the operating right of the land if Meijiang Heating is in breach of the Agreement. Also, Meijiang Heating is required to be responsible to the cost incurred on the land during its operating term.
2. Pursuant to a copy of an Enterprise Legal Person Business Licence dated 25 April 2012, Meijiang Heating is a domestic liability company established in the PRC for an operational period commencing from 29 September 2002 to 1 January 2022.
3. We are advised that there are modification works in the single three-storey building commenced at the end of 2013. It is anticipated that the modification works would be completed soon. As at the Valuation Date, the cost incurred for the modification works in progress was RMB4,235,090, as advised.
4. The breakdown of the gross floor area of the office building and the guardhouses are as follow:

No.	Building*	Gross Floor Area (sq.m.)
1.	The single three-storey building	3,118
2.	A guardhouse	6
3.	A guardhouse	6
	Total	<u>3,130</u>

* *the above building and structures did not possess any title certificate.*

5. We have attributed no commercial value to the property because the property has not obtained long term title certificates or the like to the Group. However, for information purpose, the depreciated replacement cost of the single three-storey building and the guardhouses was approximately RMB9,230,000 as at the Valuation Date.
6. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal advisers – Global Law Office, which contains, inter alia, the following:
 - (i) assuming Tianjin Jinre has obtained the relevant land use rights of the property legally and is entitled to transfer the land use rights to a third party on a charge-free basis, then the Agreement mentioned in Note 1 will be legally binding; and
 - (ii) assuming Meijiang Heating built the buildings and structures at its own costs, then Meijiang Heating is the legally interested party in the buildings and structures.

			Amount of valuation in its existing state attributable to the Group as at 31 May 2014
Property	Description and tenure	Particulars of occupancy	
2. A parcel of land with various industrial buildings and structures used as a heat transfer station and located at Lot No. 10-07-07 Xin Yuan Village Liqizhuang Street Xiqing District Tianjin The PRC 300381	<p>The property comprises a parcel of land having a site area of approximately 57,120 sq.m. together with 10 various buildings and structures erected thereon. The buildings and structures were completed in 2007.</p> <p>The property is located at an industrial area in a suburban area of Xiqing District and surrounded by various industrial complexes.</p> <p>The buildings comprise 9 various industrial buildings and a guardhouse.</p> <p>The structures mainly comprise boundary walls, water pools, main gate, greenery and paved ground.</p> <p>Together, the buildings and structures have a total gross floor area of approximately 15,836.35 sq.m. (See Note 3)</p> <p>The property is subject to an administratively allocated land use rights for public facility usage. (See Note 1)</p>	The property is occupied by Tianjin Heating Development Co., Ltd., (“ Tianjin Heating ”) for manufacturing public heating use purpose.	No Commercial Value (See Note 4)

Notes:

- Pursuant to a copy of State-owned Land Use Rights Certificate known as Xi Qing Dan Guo Yong (2007) No. 090 dated 9 July 2007, the land use rights of the property with a site area of approximately 57,120 sq.m. was administratively allocated to Tianjin Heating for public facility usage.
- Pursuant to a copy of an Enterprise Legal Person Business Licence dated 30 May 2013, Tianjin Heating is a Sino-foreign equity joint venture company with limited liability established in the PRC for an operational period commencing from 12 October 2005 to 19 June 2027.
- The breakdown of the gross floor area of the buildings and the guardhouse are as follow:

No.	Building*	Gross Floor Area (sq.m.)
1	Boiler and Water Treatment Workshop (鍋爐房及水處理車間)	7,947.32
2	Comprehensive Building (綜合樓)	2,589.30
3.	Slag Removal System (除渣系統)	449.00
4.	Fragmentized Coal Machine Room (碎煤機室)	839.00
5.	Induced Air Machine Room (引風機室)	814.23
6.	Dry-Coal Shed (干煤棚)	1,980.00
7.	Weighting Room (地磅房)	30.00
8.	Electricity Station (變電站)	1,000.00
9.	Guardhouse (傳達室)	67.50
10.	Pumping Room (泵房)	120.00
	Total	15,836.35

* *the above building and structures did not possess any title certificate.*

- We have attributed no commercial value to the property because the property has not obtained long term title certificates or the like to the Group. However, for information purpose, the depreciated replacement cost of the existing buildings and the structures was approximately RMB31,600,000 as at the Valuation Date.
- We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers – Global Law Office, which contains, inter alia, the following:
 - Tianjin Heating is the legally interested party in the property by way of administrative allocated and is entitled to occupy and utilize the parcel of land according to the usage stated in the Stated-owned Land Use Rights Certificate;
 - on the premise of compliance with relevant PRC laws and regulations, after obtaining approval from the authorized authority and fulfilling various legal procedures, Tianjin Heating is entitled to transfer, let and mortgage the land use rights and the buildings erected thereon; and
 - on the assumption that Tianjin Heating built the buildings and structures at its own costs, Tianjin Heating is the legally interested party in the buildings and structures. However, should Tianjin Heating not to register its titles to the buildings and structures, its rights of disposition (including mortgage) would be restricted.

Group II — Property held by the Group for investment in the PRC

Property	Description and tenure	Particulars of occupancy	Amount of valuation in its existing state attributable to the Group as at 31 May 2014
3. Unit 4001 The Exchange SOHO No.1486 Nanjing Road West Jingan District Shanghai The PRC 200040	<p>The property comprises an office unit of a 50-storey composite (office/commercial) building (with a 3-storey basement) which was completed in about 2008.</p> <p>The Exchange SOHO is situated in the core area of Shanghai Nanjing Road West CBD. Developments in this area including five-star hotels and high-end shopping facilities. Two subway lines, and Yan'an Elevated Road are within walking distance. The Portman Ritz-Carlton, Plaza 66, Kerry Center and Jing An Shangri-la are just footsteps away.</p> <p>The property has a gross floor area of approximately 709.75 sq.m.</p> <p>The property is subject to a land use rights from 25 July 1996 to 24 July 2046 for office usage. (See Note 1)</p>	<p>The property is subject to a tenancy agreement from 17 February 2014 to 16 April 2017 at a monthly rental of RMB179,182.30 exclusive of management fee and for office purpose.</p>	<p>HK\$63,500,000</p> <p>100 per cent. interest</p>

Notes:

- Pursuant to a copy of Shanghai Certificate of Real Estate Ownership – Hu Fang Di Jing Zi (2010) Di 003448 Hao (滬房地靜字(2010)第003448號) dated 12 June 2010 and issued by Shanghai Housing Security and Administration Bureau (上海市住房保障和房屋管理局) and Shanghai Planning, Land and Resources Administration Bureau (上海市規劃和國土資源管理局), 上海綿旺投資諮詢有限公司 (translated as Shanghai Mianwang Investment Consulting Co., Ltd. and referred to as “Mianwang” or “Lessor”) has a right to use the land having a site area of 10,501 sq.m. (in which the property forms part) for a term commencing from 25 July 1996 to 24 July 2046 for office usage. The property has a gross floor area of 709.75 sq.m. and was acquired by Mianwang in 2010 at a consideration of RMB48,924,487.

2. Pursuant to a copy of an Enterprise Legal Person Business Licence dated 28 November 2011, Mianwang is a wholly foreign owned enterprise established in the PRC with limited liability for an operational period commencing from 17 August 2007 to 16 August 2037. Mianwang is a wholly owned subsidiary of the Company.
3. The property is leased to 望洲財富投資管理有限公司 (translated as Wang Zhou Wealth Investment Management Co., Ltd. and referred to as the "Lessee") from 17 February 2014 to 16 April 2017 at a monthly rental of RMB179,182.30 exclusive of management fee. The Lessee has the pre-exempt right to renew the tenancy agreement, and the Lessee also has the right to sub-let the property subject to prior written consent from the Lessor. We were advised that the Lessee is a party independent to the Group.
4. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers – Global Law Office, which contains, inter alia, the following:
 - (i) Mianwang is the legally interested party in the property (both land use rights and the building) and its rights are protected by the PRC laws;
 - (ii) the subject lease is legally binding to both the Lessor and Lessee; and
 - (iii) the Lessor has the right to dispose and right to receive income from the property, but the right to occupy and right to use are transferred to the Lessee during the leased term.

Group III — Property occupied by the Group under an operating lease in the PRC

Property	Description and occupation	Amount of valuation in its existing state attributable to the Group as at 31 May 2014
4. A parcel of land located at North Yard of Tianjin No. 2 Towel Factory Nanhe Town Xiqing District Tianjin The PRC 300382	<p>The property comprises a parcel of land having a site area of approximately 22,001 sq.m. and used for heat transfer station purpose.</p> <p>The property is located at an industrial area in a suburban area of Xiqing District and surrounded by various industrial complexes.</p> <p>There is a boiler house and its related structures erected on the property and they were completed in 2009. Together, they have a total gross floor area of approximately 8,636 sq.m. (no title certificates).</p> <p>The property is occupied by Tianjin Baosheng Heating Investment Co., Ltd. (“Tianjin Baosheng”) for manufacturing heat energy use purpose and under a tenancy agreement for a term of 10 years from 15 September 2009 to 14 September 2019 at an annual rental of RMB 500,000 exclusive. According to the lease, Tianjin Baosheng is not allowed to construct additional buildings or structure other than the existing buildings and structures, and Tianjin Baosheng is not allowed to assign the property to other party.</p>	No Commercial Value

Notes:

1. The Lessor of the property is Tianjin Di Er Mao Tiao Factory, an independent party to the Group.
2. The Lessee of the property is Tianjin Baosheng, a 26.95% interest subsidiary of the Company.
3. We were instructed to give the depreciated replacement cost of the existing buildings and the structures as at the Valuation Date for the Company’s reference, and it was estimated to approximately RMB22,540,000.
4. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal advisers – Global Law Office, which contains, inter alia, the following:
 - (i) on the assumption that Tianjin Di Er Mao Tiao Factory has the legal rights to lease the land use rights to Tianjin Baosheng after obtaining the approval from the relevant governmental departments, the subject lease is legally binding to both Lessor and the Lessee, and that Tianjin Baosheng has the right to use the property in accordance with the subject lease; and
 - (ii) on the assumption that Tianjin Baosheng built the buildings and structures at its own costs, Tianjin Baosheng is the legally interested party in the buildings and structures.

Group IV — Property held by the Group for investment in Hong Kong

	Property	Description and tenure	Particulars of occupancy	Amount of valuation in its existing state attributable to the Group as at 31 May 2014
5.	A boutique hotel known as Butterfly on Waterfront (previously known as Hotel de EDGE) 95 Connaught Road West Western District Hong Kong The whole of Section A of Marine Lot No. 401 and the Remaining Portion of Marine Lot No. 402 (the "Lot")	<p>The property is an operating boutique hotel of 29 storeys in height with 90 guest rooms and a restaurant erected on a parcel of land having a site area of approximately 235.2 sq.m. The property was completed in about 2010.</p> <p>The Ground Floor to 3rd Floor of the property is used for concierge, loading/unloading areas, lobby, hotel hall, restaurant and ancillary facilities. The remaining floors are used for guest room purposes save except the 15th Floor is for refuge floor. Most of the guest rooms enjoy harbour view and the remaining guest rooms enjoy city view.</p> <p>According to the latest approved building plans, the property has a total gross floor area of approximately 3,524.66 sq.m. (See Note 5)</p> <p>The property is located in a mixed developments area intermingled with medium rise composite (residential/commercial) buildings, composite (office/commercial) buildings, hotels and communal facilities. Public transport facilities are available in the locality.</p> <p>The property is a licenced hotel with the Office of the Licensing Authority under the Home Affairs Department with 90 nos. of room provided. (See Note 6)</p> <p>The Lot is subject to two various Government Leases and both for a term of 999 years commencing from 25 April 1899 at a total annual Government Rent of HK\$49.</p>	<p>The property is subject to an inter- company lease (see Note 3) and operating as a boutique hotel with an average occupancy rate of approximately 92% in May 2014.</p>	<p>HK\$ 490,000,000</p> <p>100 per cent. interest</p>

Notes:

- The registered owner of the property is A6 Limited, a wholly-owned subsidiary of the Company.
- The property is subject to a mortgage to secure “all moneys” in respect of general banking facilities and interest in favour of Hongkong and Shanghai Banking Corporation Limited.
- We are advised that A6 Limited and Hotel de EDGE Limited, a wholly owned subsidiary of the Company, entered into a rental agreement on 31 October 2013 from 1 November 2013 to 31 October 2014 at a monthly rental of HK\$450,000. According to the HKIS Valuation Standards 2012 Valuation Standard 9.6 – Any real property occupied by a company under an inter-company leasing arrangement within a group account should be valued as owner- occupied real property. Thus, we have valued the property with the benefit of vacant possession.
- As advised, Hotel de EDGE Limited entered into a Hotel Management Agreement with Butterfly Hotel and Serviced Apartment Group Limited, an independent party to the Group, on 23 January 2014.
- According to the information contained in the latest approved building plans, the breakdown of the gross floor area of the property is as follow:

Floor	Usage	Gross Floor Area (sq.m.)
Ground	Entrance lobby, loading/unloading bay and ancillary accommodation for non-domestic use	70.369
1st	Hotel hall, restaurant & lounge and ancillary accommodation for non-domestic use	234.672
2nd	Back of house facilities and ancillary accommodation for non-domestic use	N/A
3rd	Mechanical for non-domestic use	N/A
5th and 6th	Guest rooms for domestic use	276.964
15th	Refuge floor for non-domestic use	N/A
7th to 32nd	Guest rooms for domestic use	2,942.654
Total*		<u>3,524.659[#]</u>

* *The designations of 4th, 13th, 14th and 24th are omitted*

this area did not include the upper ground, roof, back office, mechanical and refuge floors area according to the latest approved building plans.

6. According to the information provided by the appointed personnel of the Company, there are 3 guest rooms per each 5th, 6th, 25th to 28th Floors, and 4 guest rooms per each 7th to 12th, 16th to 23rd, and 29th to 32nd Floors. The 4th, 13th, 14th and 24th Floors are omitted. Each floor is served by two passenger lifts and two pairs of common staircases. The rooms configuration are as follow:

Room Type	Respective Floor	Approximate Room Size (sq.m.)	Nos. of Room
Superior Room	5th to 12th	13.9	13
Deluxe Room	16th to 32nd	15.8	16
Harbour View Room	8th to 12th	15.8	15
Deluxe Harbour View Room	16th to 32nd	17.65	16
Business Harbour View Room	16th to 32nd	20.44	24
Superior Harbour View Room	25th to 28th	32.51	4
Family Room with Harbour View	5th and 6th	32.51	2
		Total	<u>90</u>

The property is subject to a Licence Granted Under the Hotel and Guesthouse Accommodation Ordinance No. H/4428 for a period from 3 May 2013 to 2 May 2020 with the Licensee of Hotel de EDGE Management Limited, a wholly owned subsidiary of the Company, and issued by the Hotel and Guesthouse Accommodation Authority.

7. The food and beverage facilities are provided on the 1st Floor (portion) and traded as “Glo Restaurant + lounge”. According to the information provided by the appointed personnel of the Company, the facilities and portion on the 2nd Floor are subject to a Tenancy Agreement entered between Hotel de EDGE Limited, a wholly owned subsidiary of the Company and A6 Limited as an agent, with Pacific Alliance Inc Limited, an independent party to the Group, for a term of 2 years from 1 May 2014 to 30 April 2016 at a monthly rental of HK\$20,000 plus turnover rental and inclusive of Government Rent and Management Charges.

Group V — Properties occupied by the Group under various operating leases in Hong Kong

Property	Description and occupation	Amount of valuation in its existing state attributable to the Group as at 31 May 2014
6. The whole of 28th Floor Chinachem Century Tower 178 Gloucester Road Wanchai Hong Kong	<p>The property comprises the whole of the 28th Floor of a 31-storey office building. Carparks and ancillary accommodation are provided from 1st to 4th Floors and the remaining floors are for office use. The building was completed in 1995.</p> <p>The property is located in a mixed developments area intermingled with hotels, composite (residential/commercial) buildings, composite (office/commercial) buildings and communal facilities. Public transport facilities are available in the locality.</p> <p>According to the information made available to us, the property has a gross floor area of approximately 3,500 sq.ft. (325 sq.m.).</p> <p>The property is rented to the Group for office purpose for a term of 3 years from 1 May 2013 to 30 April 2016 at a monthly rental of HK\$112,000 exclusive of Government rent, rates, management fee and all other outgoings, if any.</p>	No Commercial Value

Notes:

1. The Lessor of the property is Cheong Ming Investment Co., Ltd., an independent party to the Group.
2. The Lessee of the property is Ever Profit Management Limited, a wholly-owned subsidiary of the Company.

	Property	Description and occupation	Amount of valuation in its existing state attributable to the Group as at 31 May 2014
7.	Flat/Room 2503 on 25th Floor (formerly known as 22nd Floor) Chinaweal Centre 414/424 Jaffe Road Wanchai Hong Kong	<p>The property comprises an office unit on the 25th Floor of a 25-storey office building with retail shops provided on the ground floor. The building was completed in 1991.</p> <p>The property is located in a mixed developments area intermingled with hotels, composite (residential/commercial) buildings, composite (office/commercial) buildings and communal facilities. Public transport facilities are available in the locality.</p> <p>According to the information made available to us, the property has a carpet area of approximately 290 sq.ft. (26.9 sq.m.).</p> <p>The property is rented to the Group for office purpose for a term of 2 years from 22 July 2013 to 21 July 2015 at a monthly rental of HK\$14,500 inclusive of Government rent, rates, management fee and air-conditioning charges.</p>	No Commercial Value

Notes:

1. The Lessor of the property is Texfine Development Limited, an independent party to the Group.
2. The Lessee of the property is Kai Yuan Capital Limited, a wholly-owned subsidiary of the Company.

Property	Description and occupation	Amount of valuation in its existing state attributable to the Group as at 31 May 2014
8. Room 5009 in Units E-F, 29th Floor Block 2 Vigor Industrial Building Nos. 49-53 Ta Chuen Ping Street Kwai Chung New Territories Hong Kong	<p>The property comprises a store room in an industrial unit on the 29th Floor of a 33-storey industrial building with carparking facilities provided on the ground floor. The building was completed in 1982.</p> <p>The property is located in an industrial area. Public transport facilities are available in the locality.</p> <p>According to the information made available to us, the property has a lettable area of approximately 77 sq.ft. (7.2 sq.m.).</p> <p>The property is subject to a self storage licence agreement to the Group for storage purpose for a term of 1 year from 16 October 2013 to 15 October 2014 at an annual storage fee of HK\$18,972 inclusive of Government rent, rates, management fee and air-conditioning charges.</p>	No Commercial Value

Notes:

1. The Lessor of the property is Store Four Seasons Ltd., an independent party to the Group.
2. The Lessee of the property is Ever Profit Management Limited, a wholly-owned subsidiary of the Company.

9.	Property	Description and occupation	Amount of valuation in its existing state attributable to the Group as at 31 May 2014
	Room 502 in Units E-F, 29th Floor Block 2 Vigor Industrial Building Nos. 49-53 Ta Chuen Ping Street Kwai Chung New Territories Hong Kong	<p>The property comprises a store room in an industrial unit on the 29th Floor of a 33-storey industrial building with carparking facilities provided on the ground floor. The building was completed in 1982.</p> <p>The property is located in an industrial area. Public transport facilities are available in the locality.</p> <p>According to the information made available to us, the property has a lettable area of approximately 78 sq.ft. (7.3 sq.m.).</p> <p>The property is subject to a self storage licence agreement to the Group for storage purpose for a term of 1 year from 19 May 2014 to 18 May 2015 at a monthly storage fee of HK\$1,572.5 inclusive of Government rent, rates, management fee and air-conditioning charges.</p>	No Commercial Value

Notes:

1. The Lessor of the property is Store Four Seasons Ltd., an independent party to the Group.
2. The Lessee of the property is Hotel de EDGE Limited, a wholly-owned subsidiary of the Company.

The following is the text of a report prepared for the purpose of incorporation in this circular received from LCH (Asia-Pacific) Surveyors Limited, an independent professional surveyor, in connection with its valuation as at 31 May 2014 of the real property interest to be acquired by the Group.



利駿行測量師有限公司

LCH (Asia-Pacific) Surveyors Limited

PROFESSIONAL SURVEYOR
PLANT AND MACHINERY VALUER
BUSINESS & FINANCIAL ASSETS VALUER

The readers are reminded that the report which follows has been prepared in accordance with the reporting guidelines set by the International Valuation Standards 2013 (“IVS”) and published by the International Valuation Standards Council which followed by the HKIS Valuation Standards 2012 Edition (the “HKIS Standards”) and published by the Hong Kong Institute of Surveyors (the “HKIS”). The standards entitle the valuer to make assumptions which may on further investigation, for instance by the readers’ legal representative, prove to be inaccurate. Any exception is clearly stated below. Headings are inserted for convenient reference only and have no effect in limiting or extending the language of the paragraphs to which they refer. Translations of terms in English or in French are for reader’s identification purpose only and have no legal status or implication in this report. This report was prepared and signed off in English format, translation of this report in language other than English shall only be used as a reference and should not be regarded as a substitute for this report. Piecemeal reference to this report is considered to be inappropriate and no responsibility is assumed from our part for such piecemeal reference. It is emphasised that the findings and conclusion presented below are based on the documents and facts known to the valuer at the Latest Practicable Date. If additional documents and facts are made available, the valuer reserves the right to amend this report and its conclusions.

17th Floor
Champion Building
Nos. 287-291 Des Voeux Road
Central
Hong Kong

29 August 2014

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

Dear Sirs,

In accordance with the instructions given by the present management of Kai Yuan Holdings Limited (hereinafter referred to as the “**Instructing Party**”) to us to conduct a valuation of a real property interest – an operating hotel situated in the City of Paris of

France (hereinafter referred to as the “**Property**”) in which Kai Yuan Holdings Limited (hereinafter referred to as the “**Company**”) and its subsidiaries (collectively, together with the Company hereinafter referred to as the “**Group**”) intended to acquire for investment purpose, we confirm that we have conducted physical inspections, made relevant enquiries and obtained such further information as we consider necessary to support our findings and our opinion of value of the Property as at 31 May 2014 (hereinafter referred to as the “**Valuation Date**”) for the Instructing Party’s internal management reference purpose.

We understand that the use of our work product (regardless of form of presentation) will form part of the Instructing Party’s due diligence but we have not been engaged to make specific sales or purchase recommendations, or to give opinion for any financing arrangement. We further understand that the use of our work product will not supplant other due diligence which the Instructing Party should conduct in reaching its business decision regarding the Property. Our work is designed solely to provide information that will give the Instructing Party a reference in its due diligence process, and our work should not be the only factor to be referenced by the Instructing Party. Our findings and conclusion of value of the Property are documented in a narrative valuation report and submitted to the Instructing Party at today’s date.

At the request of the Instructing Party, we prepared this report to incorporate our findings and conclusion of value for the purpose of inclusion in this circular at today’s date for the Company’s shareholders’ reference. Terms herein used without definition shall have the same meanings as in the valuation report, and the assumptions and caveats adopted in the valuation report also applied to this report.

OVERVIEW OF PARISIAN HOTEL MARKET (SEE NOTE)

Tourism in Paris

France is a developed country and Paris continues to be one of the leading tourism destinations in the world. According to Paris Convention and Visitors Bureau (Tourist Office), the overnight visitors in the hotels in Paris was 36.7 million in 2013, experiencing a slightly drop of 0.5% compared to 2012. The amount of tax revenue from tourist tax was 39.9 million Euros, which was 1% higher than that in 2012. The number of passengers in the airports of Paris-Orly and Paris-Charles-de-Gaulle reached a historic high record of 90.3 million in 2013.

Note: The information provided in this section relating to the Parisian hotel market is derived in part or extracted or referred to from various official and unofficial sources. The official sources include various quasi-governmental or world organization websites (such as www.worldbank.org and the Paris Convention and Visitors Bureau). The unofficial sources include information provided by the Company and its appointed personnel, various websites (including Bloomberg.com, restreets.org, hotelnewsnow.com and tradingeconomics.com), newspapers, research reports and journals from various market practitioners or analysts (such as KPMG, HVS, Jones Lang LaSalle and Deloitte Touche Tohmatsu). We need to state that such official and unofficial information have not been prepared or independently verified by us, and may not be consistent with other information compiled within or outside Paris, France. None of our staff involved in preparing this report has made any representation as to the correctness or accuracy of such information and accordingly such information should not be unduly relied upon. The readers should conduct his/her due diligence with regard to the correctness and accuracy of such information for his/her own use. Unless otherwise stated, the copyright of the quoted information belongs to the relevant owners.

The foreign arrival accounts for more than two-third of the overnight stays in Paris. There were 2.9% increase in the foreign arrivals and 7.1% decrease in the local arrivals in Paris compared to 2012. There are strong demand from the United States (U.S.) and the United Kingdom which account for around 18% and 12% of the foreign arrival, respectively. There are noting increase from new market sources including China, Australia and Near and Middle East with an annual growth rate of over 20% in 2013.

The average length of stay also had a slightly decline from 2.76% in 2012 to 2.72% in 2013. Yet, there was an increase of 4.6% in the hotel overnights in the 3, 4 and 5-star hotels. The business overnights in the hotels of Paris was 39%, which was 4.1% drop compared to 2012.

The Hotel Market in Paris

The hotel industry in France is a very dynamic sector, which represents nearly 7% of France GDP (Gross Domestic Product) in 2013 according to a market research report. Historically, Paris had few upscale hotels. According to Tourist Office, Paris has nowadays 50 various 5-star hotels with rooms supplied at 5,225. Among 44% of the 5-star hotels were equipped with over 100 rooms account for around 70% of the rooms in the 5-star hotels. According to a market survey, it is estimated the supply of Parisian hotels would increase 5% between 2013 and 2015. It is expected that the upscale and luxury segments of the hotel would experience a greater increase in the supply.

In the light of another market research report, the average receipt per rented room for superior 5-star hotels in Paris is 515 € for Jan –July 2013 period. The Room Revenue per Available Room (RevPAR) attained on average 414 € in Paris for superior 5-star hotels, whereas the median was 420.1 €. The Property has a RevPAR of 429 € in 2013.

Moreover, the occupancy rate in 2013 reached an average of 80% for upscale hotels in Paris and her inner suburbs according to the same survey. The occupancy rate of the Property is of 89% in 2013.

Especially in the Champs-Élysées Louvre area where the Property located, the occupancy rate had an annual increase of 1.1% to 81.6%, which accompanied by an annual increase of 2.5% to an average rate of 319.2 € in 2013. Both occupancy rate and the average rate were the highest among other tourist areas in Paris.

It is forecasted by another market research report that the occupancy rate of upscale Parisian hotels will have a stable growth rate of within 1% in the coming two years, while the Average Daily Rate (ADR) and the RevPAR will have a growth rate in a range of 2.1% to 3.8% in 2014 and 2015.

The Hotel Investment Market in Paris

In 2012, the French market recorded its best performance since 2007 where it was hard hit by the economic crisis in 2008 (only 700 million€ were invested). The French hotel investment market is well positioned with estimated transactions volumes of over 2.5 billion€ in 2012 (+40% as compared to 2011). In 2013, France secured the second highest

share of total Europe, Middle East and Africa transaction volume at 18% or US\$2.3 billion, it remains a dynamic market for hotel investors with strong deal activity.

With the arrival of new investors to the French hotel industry, especially sovereign funds from the middle-East and Asia, the landscape of the Parisian market has recently changed. The entrance of those investors led to the renovation and improvement works of many “Trophy” hotels such as the George V Hotel, the Ritz hotel, the Plaza Athénée, le Prince de Galles and Hôtel de Crillon. This was combined with modifications in the official hotel classification in 2012. As a consequence of those new elements, some hotels upgraded to become 4 and 5-star hotels.

According to a market survey, the hotel values per room in Paris is the highest among other European cities. In 2013, the hotel values per room reached the historic high of around 680,000€, a 1.7% increase from 2012. And it is believed to remain its top position in the future 5 years.

Paris, as the French capital, centrally located in Europe, is particularly attractive for several reasons. They are:

- A strong demand from investors though a little seasonal fluctuation,
 - The rising of foreign investors in the hotel market in Europe from the Middle East and Asia as the U.S. real estate is becoming more expensive.
 - Interest of new kind of investors: property companies, sovereign wealth funds and institutional investors looking to the hotel sector as part of a well-diversified real estate portfolio.
- The increasing pricing pressure across all real estate asset classes, resulting in hardening yields. Thus, investors are increasingly attracted to hotels for their higher returns.
- The uncertainty in the financial market results in difficulty in raising fund for new hotel projects. Investors are keener on the existing hotels in Paris.
- High resistance to the economic downturn from the Paris hotel industry can ensure a stable return for the investors.
- Sales and management buy back from hotel operators such as Mandarin Oriental for they want to entering into the European market. Paris is chosen as the stepping stone for their expansion.
- Paris remains to be one of the world’s leading travel destinations with standing occupancy rates and increasing ADR.
- The stagnation in the number of hotels, and the fact that land for new building is very scarce in supply.

Avenue des Champs-Élysées

Known as “the world’s most beautiful avenue”, the Avenue des Champs-Élysées is world famous. It is situated in the 8th arrondissement and links the Place de la Concorde to the Place Charles de Gaulle. It is a 1.2-mile long and 230-foot wide dual 5 lanes major road. The avenue offers a long perspective that takes in the Arc de Triomphe, the Obelisk in Place de la Concorde, the Tuileries Gardens, and the Carrousel du Louvre.

Once an area of uninhabited marsh land, the Avenue des Champs-Élysées originated under the reign of Louis XIV with the sketch by André Le Nôtre, the landscape architect of the Palace of Versailles. The place had a poor reputation during the 17th century and it was not until the period of the French Revolution that the Champs-Élysées became popular with the public.

In the 19th century, the architect Jacques Hittorff, who was also responsible for relaying out the Place de la Concorde, made the avenue more urbanized. It was finally under the Second Empire that the avenue became an important place for Parisian life with the construction of luxurious residences and mansions.

In 1994, redevelopment (estimated at 250 million Euros) under the aegis of the urban planner Bernard Huet, Jean-Michel Wilmotte and Norman Foster gave new life to this emblematic avenue.

The main elements of the redevelopment of Champs Élysées included:

- Enhancing the perspective of the avenue by removing curbside car-parking and creating a new 850-space underground car park.
- Widening the sidewalks.
- Planting a second row of trees.
- Reducing and realigning the street furniture, such as streetlamps and bus stops.
- Upgrading the shop frontages by new regulations governing publicity, signs and terraces.
- Changing the land use zoning (plan d’occupation des sols) to encourage the return and development of such functions as hotels and cinemas that generate some of the activity for which the avenue was previously known.

The Avenue consists of two different sectors: the intensely developed northern part, from the Rond-Point to the Place de l’Étoile, and the well-landscaped southern part, from the Place de la Concorde to the Rond-Point. This grand boulevard has approximately 70-foot wide sidewalks (which sometimes include 22-foot wide access roads) and double rows of street trees to buffer pedestrians from traffic. The average daily traffic volume is about 84,000 (1994), and an estimated daily visitors of 500,000 (2007). The section of the Avenue of which the property situated at captured a heavy pedestrian traffic.

Today, restaurants, cinemas, the stores of big brands and major companies are located there, where the price per square metre is considered to be one of the most expensive in the world.

BASIS OF VALUATION AND ASSUMPTIONS

According to the IVS which the HKIS Standards also follows, there are two valuation bases, namely market value basis and valuation bases other than market value. According to the IVS Framework, which is followed by the HKIS Standards, “market value basis” indicates the most probable price that would be achieved in a hypothetical exchange in a free and open market. Market value basis is commonly adopted for valuing properties for acquisition and public disclosure purposes. This is also in line with the requirement stipulated in Chapter 5 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong to disclose the market value of the property interests. The valuation bases other than market value include fair value, investment value, special value, synergistic value or value for sale under repossession. These valuation bases are generally used for purposes such as accounts reporting, litigation or liquidation, and not appropriate for the subject purpose of valuation.

In view of the above, and considering the nature of the proposed transaction and purpose of valuation, we have provided our opinion of value of the Property on market value basis.

The term “Market Value” is defined by the IVS and the HKIS Standards 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”.

Unless otherwise stated, our valuation of the Property has been made on the assumptions, that, as at the Valuation Date:

1. the legally interested party in the Property has absolute title to its relevant property interest;
2. the legally interested party in the Property has free and uninterrupted rights to assign its relevant property interest for the whole of the unexpired term as granted, and any premiums payable have already been fully paid;
3. the legally interested party in the Property sells the Property in the market in its existing states without the benefit of a deferred terms contract, leaseback, joint venture or any other similar arrangement which would serve to increase the value of the Property;
4. the Property has obtained relevant government’s approvals for the sales of the Property and is able to be disposed of and transferred free of all encumbrances (including but not limited to the cost of transaction) in the market; and
5. the Property can be freely disposed and transferred free of all encumbrances at the Valuation Date for its existing use in the market to both local and overseas purchasers without payment of any premium to the government.

Should any of the above not be the case, it will have adverse impact to the value reported.

APPROACH TO THE VALUE

There are three generally accepted approaches in arriving at the market value of a property on an absolute title basis i.e. free to assign, transfer, let and mortgage, namely the sales comparison approach, the cost approach and the income approach.

In valuing the Property, we have adopted the sales comparison approach (or called the comparable sales method of the market approach) on the assumption that the Property was sold with the benefit of vacant possession at the Valuation Date. This approach considers the sales, listings or offering of similar or substitute properties and related market data and establishes a value of a property that a reasonable investor would have to pay for a similar property of comparable utility and with an absolute title. The use of this approach depends on the existence of an active market and the transparency of the transactions to the public.

It is a best practice to conduct a sanity check of the resultant value by using an alternative approach to value. In the course of valuation, we noted that there exists an inter-company lease arrangement to the Property. According to the HKIS Valuation Standards 2012 *Valuation Standard 9.6 – Any real property occupied by a company under an inter-company leasing arrangement within a group account should be valued as owner-occupied real property.* Though it is not appropriate to value the Property subject to the existing inter-company lease, we noticed that the existing rental is closed to the market rental, we then used the investment approach (or called the term and revision method) to conduct the sanity check. For information purpose, the investment approach (or sometimes referred to as a method of the market approach for the reversionary interests and the rate of return are market-derived) is used by taking into the account of the passing rent and the reversionary potential of the property interest.

We have not carried out a valuation on a redevelopment basis and the study of possible alternative development options and the related economics do not come within the scope of our work.

PROPERTY PROFILES

1. The Property : Marriott Champs Elysées, a 5-star hotel, located on 70 Avenue des Champs Elysées and 55/55 bis, rue de Ponthieu, in the 8th District, the City of Paris, Île-de-France region, 75008 Paris, France.

2. Lot Number and Site Area : The Property forms part of a building that occupying 3 plots of land registered in section BG number 12, 13 and 15 for approximately 2,822 sq.m. at the Cadaster for Paris. Such plots are subdivided into volumes. The Ground Floor, 72, Avenue des Champs Elysées which is occupied by Sephora and used for retail purpose is not included in the Property.

3. Registered Owner : SPPICAV MCE PROPCO, a real estate investment company with variable capital in the process of creation.
4. Town Planning : The Property is located in the General Urban Area of the current local town planning document, in a dwelling protected sector.
5. Land Use : The Property is a freehold interest based on copies of title deeds provided.

The original construction was built in 1914 by the famous luggage manufacturer Louis VUITTON and named after him. The building was the manufacture's headquarter at that time. The old building was totally restructured and transformed into a hotel according to two building permits dated 19 July 1996 and 7 May 1997. The certificate of compliance to the building permits was delivered on 10 December 1997.

The Property is classified as a "public-access building". All the necessary authorizations were given in 1997, 1999 and 2002.

The hotel operation license was given on 12 June 1997.

A concession contract was signed with the City of Paris on 1 February 1993, which enables the owner of the Property to use the Public Park Champs-Élysées's ramp and a deep tunnel which belongs to the City of Paris to access to the basement of the building. Fees were paid for this service in 1993 and 2008. The annual fee was 3,186€ for 2013.

A separate concession contract had been duly signed with the City of Paris for the use of the terrace on Avenue des Champs-Élysées.

6. Location Description : The Property is located at 70, Avenue des Champs-Élysées and 55/55 bis, rue de Ponthieu, in the 8th District, the City of Paris, Île-de-France region, Paris of France. As the capital of France, Paris is located in northern central France and in the heart of Europe.

Paris is split into twenty unequally proportioned districts in the shape of a snail. The Property is situated in the 8th District of the city at the boundary of the 16th and 17th Districts.

The Avenue des Champs-Élysées runs through the 8th District from Place de la Concorde to the East and to the place Charles de Gaulle to the West. It is a worldwide famous avenue, and is one of the most renowned locations for retail shops and offices. It remains crowded with tourists from all over the world, all year long. Its wide and straight shape provided wonderful views to the Arc de Triomphe which lies at the top of it.

The rue de Ponthieu is parallel to the Avenue des Champs-Élysées and situated at the rear part of the Property, it runs from Avenue de Matignon to the east and to rue de Berri to the west. Restaurants and shops are on the ground floor of the dwelling buildings along this street. The street is linked to the Avenue des Champs-Élysées by various shopping arcades.

Access to the Property is either via the Avenue des Champs-Élysées, where the main entrance is or through rue de Ponthieu, where the loading/unloading bay lies. On the Avenue des Champs-Élysées, about 15 meters to the left of the Property entrance, there is an exclusive ramp to access 2 parking lots. The access entrance tunnel splits two ways, one to the left leading to a public parking, one to the right leading to the basement parking of the Property and. The exit of the Property's parking is to rue de Ponthieu.

The Property is accessible by public transports along the Avenue des Champs-Élysées or nearby streets, they are:

The << Métro >> line 1: stations : Georges V, Charles-de-Gaulle-Etoile

The << Métro >> line 2 : station: Charles-de-Gaulle-Etoile

The << RER A >> station: Charles-de-Gaulle-Etoile

Bus lines 22, 28, 32, 42, 52, 72, 73, 80, 92, 93 and 94.

7. Construction : The construction was built in 1914 and known as VUITTON Building. The building was restructured in 1997 to become a 4-star hotel, with 4 basements levels, a ground floor and 7 upper floors. The building façade, which is listed as a historical monument was kept, while the rest of the building was newly constructed.

The building is made of reinforced concrete construction with a mansard roof and dormer windows. All windows are double glazed PVC framed casements.

Following renovation works by soft refurbishment on all the guest rooms, the lobby area and the historic façade in November 2009, the Property has been restored to its original architectural design. The hotel was classified as a 5-star hotel on 17 July 2009 by the government offices.

Additional expenditures were made for regular property maintenance, general equipment replacement and maintenance in 2010, 2011 and 2012.

The Property is now having a total gross floor area of approximately 17,719 sq.m. and has 192 guest rooms (or called keys) in total. (See Note 1 in Appendix)

The Property is registered as Volume 6 with ancillary premises corresponding to an entitlement of 885/1,000 undivided part of Volumes 3, 4, 5 and 7. According to the information made available to us, the following descriptions are noted:

- (a) Under a descriptive schedule of Volume 6 division, a building with the following descriptions is erected on the subject land plots:

Under ground Level-4: Parking space
 Level-3: Parking space, taxi areas
 Level-2: Parking space
 Level-1: Meeting room; fitness center, Annex kitchen, service premises

Upper ground Ground floor/garden level: entrance of de hotel, business center, cour-Gabriel and garden, delivery and bus parking area
 1st Floor: Lobby, atrium bar, lounge, business center, meeting room, restaurant with a terrace, main kitchen, administrative offices
 2nd Floor: Guest rooms and suites
 3rd Floor: Guest rooms and suites
 4th Floor: Guest rooms and suites
 5th Floor: Guest rooms and suites
 6th Floor: Guest rooms and suites
 7th Floor: Guest rooms and suites

The building equipped with 63 parking places (65, as advised on-site), wiring closets, a 192 rooms hotel, cellars, gardens, a terrace at the lobby level.

- (b) 885/1,000 undivided part of Volumes 3, 4, 5 and 7 division could not be sold separately from Volume 6 division save except to an undivided co-owner.
- (c) The right to access a parking area which lies beneath the building described in Volume 6 division through the Public Park Champs-Élysées's ramp and a deep tunnel which belongs to the City of Paris.

8. Interior of the Building : The hotel is designed with a central atrium that has a glass roof-top window.

Basement levels are used as parking purpose with 65 spaces and for storage. The 7 upper floors comprise 192 keys.

The hotel offers a total 559 sq.m. of meeting space over 9 conference/meeting rooms. They are situated on the lower ground, the ground floor and the lobby level (the first level).

The hotel has 2 restaurants (a main restaurant Le Restaurant and an outdoor café) and a bar. The atrium bar and the main restaurant are located on the lobby level while the outdoor café Marriott Square is located on a terrace on the Avenue des Champs-Élysées in front of the hotel's main entrance. According to the information received (Licence IV n°1904), the operator is duly registered on a spirit license.

In addition to those facilities, the hotel has a fitness center, a sauna and a full service business center.

The building is served by 8 guests lifts and three services lifts.

The hotel keys are spread out in various types of guest rooms including 192 standard rooms, upper class rooms and suites. Standard rooms are approximately 32 sq.m. each. On demand, keys are combined to form various types of suite. Keys are configured according to market request and the hotel occupancy. (See Note 2 in Appendix)

9. Guestroom : The building uses the public urban CPCU as a heating system, and climespace as a cooling system.

A typical guestroom includes a bed, a large desk, wired and wireless internet, 2-lines telephone, a mini bar, a flat screen TV, a marble bathroom with separate bathtub and shower, bathrobe, hair dryer, iron and ironing board.

All guestrooms are fitted with smoke detectors and sprinklers.

10. Hotel Manager : Marriott Hotels Manager France SAS for a term of 30 years from 1 January 2000. Operator option to renew for three consecutive periods of 10 years if renewal standard is met. The package including base fee calculated as a percentage of gross revenue and incentive fee calculated as a percentage of operating profit (with fee cap).

11. Comments : The Marriott Champs-Elysées benefits from an exceptional location, Avenue des Champs-Elysées, which remains one of the most famous avenues in the world. Moreover, the Property is the only hotel on the Avenue des Champs-Elysées.

The Property directly overlooks the Avenue des Champs-Elysées, and is within walking distance of major city attractions including Arc de Triomphe and Eiffel Towers.

The main façade and the roof of the building are listed on the French Historic Society. Hence, any construction project to the Property has to be submitted to the City Architect. As advised, the historic passage way from rue de Ponthieu to the open yard of the Property on the Ground Floor and the small 3-storey house that forms part of the functional rooms on the 1st Floor of the Property also could not be demolished.

12. Market Value : THREE HUNDRED FIFTY MILLION EURO WITHOUT REGARD TO TRANSFER COSTS (350,000,000€).

13. Remark : We were provided with a lease between DIFA (UNION INVESTMENT) and HOTEL PARIS CHAMPS-ELYSÉES SNC dated 23th of June 2004. On a succession basis, the landlord became MCE PROPCO and the tenant is MCE OPCO (an inter-company lease arrangement). The fixed term of the lease started on the 10 July 2003 and will expire on 31 December 2029. It will be automatically renewed for at least 3 fixed term periods of 10 years at the tenant's request. Conditions will be the same as in the original lease, including the amount of the rent. The current monthly rent payable is 1,099,446€ excl VAT and variable rent.

MATTERS THAT MIGHT AFFECT THE VALUE REPORTED

For the sake of valuation, we have adopted the areas as appeared in the copies of the documents as provided, and no further verification work has been conducted. Should it be established subsequently that the adopted areas were not the latest approved, we reserve the right to revise our report and the valuations accordingly.

No allowance has been made in our valuations for any charges, mortgages, outstanding premium or amounts owing on the Property valued nor any expenses or taxation which may be incurred in affecting a sale of the Property. Unless otherwise stated, it is assumed that the Property is free from all encumbrances, restrictions, and outgoing of an onerous nature which could affect its value.

In our valuation of the Property, we have assumed that the Property is able to be sold and purchased in the market without any legal impediment (especially from the regulators). Should this not be the case, it will affect the reported value significantly. The readers are reminded to have their own legal due diligence work on such issues. No responsibility or liability is assumed.

As at the Latest Practicable Date of this circular, we are unable to identify any adverse news against the Property which may affect the reported findings or value in our work product. Thus, we are not in the position to report and comment on its impact (if any) to the Property. However, should it be established subsequently that such news did exist at the Valuation Date, we reserve the right to adjust the findings or value reported herein.

ESTABLISHMENT OF TITLES

Due to the purpose of this engagement and the market value basis of valuation, the appointed personnel of the Company provided us the necessary documents to support that the legally interested party in the Property has free and uninterrupted rights to assign, to transfer, to mortgage or to let the Property at its existing use (in this instance, an absolute title) for the whole of the unexpired terms as granted free of all encumbrances, and any premiums payable have already been paid in full or outstanding procedures have been completed (if any). However, we have not examined the amendments which may not appear on the copies handed to us. All documents disclosed (if any) are for reference only and no responsibility is assumed for any legal matters concerning the legal titles and the rights (if any) to the Property valued. Any responsibility for our misinterpretation of the documents cannot be accepted.

We have not examined the original documents to verify the ownership and encumbrances or to ascertain the existence of any lease amendments, which may not appear on the copies handed to us. All documents disclosed (if any) are for reference only and no responsibility is assumed for any legal matters concerning the legal title and the rights (if any) to the Property. Any responsibility for our misinterpretation of the documents cannot be accepted.

Unless otherwise stated, we have assumed that the legally interested party in the Property has obtained all the approval and/or endorsement from the relevant authorities to have the right to own or to use the Property, and that there would be no legal impediment (especially from the regulators) for the legally interested party to continue such rights in the Property. Should this not be the case, it will affect our findings or conclusion of value reported in this report significantly. The readers are reminded to have their own legal due diligence work on such issues. No responsibility or liability is assumed.

Our procedures to value, as agreed with the Instructing Party, did not require us to conduct legal due diligence on the legality and formality on the way that the legally interested party obtained the Property from the relevant authorities. We agreed with the Instructing Party that this should be the responsibility of the legal advisor to the Instructing Party. Thus, no responsibility or liability is assumed from our part to the origin and continuity of the titles to the Property.

INSPECTIONS AND INVESTIGATIONS OF THE PROPERTY

The Property was inspected by Sr Joseph Ho, a Registered Professional Surveyor in Hong Kong, and Mrs Catherine DARGENT-AHLQVIST, a MRICS and an associate member of the National Association of Court Appointed Experts in Real Estate Valuation in France, on 6 May 2014. We have inspected the exterior, and where possible, the interior of the Property in respect of which we have been provided with such information as we have requested for the purpose of our valuation. We have not inspected those parts of the Property which were covered, unexposed or inaccessible and such parts have been assumed to be in reasonable condition. We cannot express an opinion about or advise upon the condition of uninspected parts and our work should not be taken as making any implied representation or statement about such parts. No structural survey, investigation or examination has been made, but in the course of our inspections we did not note any serious defects in the Property valued. We are not, however, able to report that the Property is free from rot, infestation or any other structural defects. No tests were carried out to the services (if any) and we are unable to identify those services either covered, unexposed or inaccessible.

We have not carried out on-site measurements to verify the correctness of the floor areas of the Property, but have assumed that the floor areas shown on the documents and official floor plans handed to us are correct. All dimensions, measurements and areas are approximations.

Our engagement and the agreed procedures to value the Property did not include an independent land survey to verify the legal boundaries of the Property. We need to state that we are not in the land survey profession, therefore, we are not in the position to verify or ascertain the correctness of the legal boundaries of the Property that appeared on the documents handed to us. No responsibility from our part is assumed. The Instructing Party or interested party in the Property should conduct their own legal boundaries due diligence work.

We have not arranged for any investigation to be carried out to determine whether or not any deleterious or hazardous materials have been used in the construction of the Property, or have since been incorporated into the Property, and 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 such investigation would not disclose the presence of any such materials to any significant extent.

We are not aware of the content of any environmental audit or other environmental investigation or soil survey which may have been carried out on the Property and which may draw attention to any contamination or the possibility of any such contamination. In undertaking our work, we have assumed that no contaminative or potentially contaminative uses have ever been carried out in the Property. We have not carried out any investigation into past or present uses, either of the Property or of any neighbouring land, to establish whether there is any contamination or potential for contamination to the Property from these uses or sites, and have therefore assumed that none exists. However, should it be established subsequently that contamination, seepage or pollution exists at the Property or on any neighbouring land, or that the premises have been or are being put to a contaminative use, this might reduce the value now reported.

SOURCES OF INFORMATION AND ITS VERIFICATION

In the course of our works, we have provided with copies of the documents regarding the Property, and these copies have been referenced without further verifying with the relevant bodies and/or authorities. Our procedures to value did not require us to conduct any searches or inspect the original documents to verify ownership or to verify any amendment which may not appear on the copies handed to us. We need to state we are not legal professional, therefore, we are not in the position to advise and comment on the legality and effectiveness of the documents provided by the appointed personnel of the Instructing Party or the Company.

We have relied solely on the information provided by the appointed personnel of the Instructing Party or the Company without further verification and have fully accepted advice given to us on such matters as planning approvals or statutory notices, locations, titles, easements, tenure, letting, occupation, site and floor areas and all other relevant matters.

Information furnished by others, upon which all or portions of our work product are based, is believed to be reliable but has not been verified in all cases. Our procedures to value or work do not constitute an audit, review, or compilation of the information provided. Thus, no warranty is made nor liability assumed for the accuracy of any data, advice, opinions, or estimates identified as being furnished by others which have been used in formulating our work product.

Our valuation has been made only based on the advice and information made available to us. While a limited scope of general inquiries have been made to the local property market practitioners, we are not in a position to verify and ascertain the correctness of the advice given by the relevant personnel. No responsibility or liability is assumed.

When we adopted the work products from other professions, external data providers and the appointed personnel of the Instructing Party or the Company in our valuation, the assumptions and caveats that adopted by them in arriving at their figures also applied in our valuation. The procedures we have taken do not provide all the evidence that would be required in an audit and, as we have not performed an audit, accordingly, we do not express an audit opinion.

We are unable to accept any responsibility for the information that has not been supplied to us by the appointed personnel of the Instructing Party or the Company. Also, we have sought and received confirmation from the appointed personnel of the Instructing Party or the Company that no material factors have been omitted from the information supplied. Our analysis and valuation are based upon full disclosure between us and the appointed personnel of the Instructing Party or the Company of material and latent facts that may affect the valuation.

We have had no reason to doubt the truth and accuracy of the information provided to us by the appointed of the Instructing Party or the Company. We consider that we have been provided with sufficient information to reach an informed view, and have had no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary amounts are in EUROS ("€").

LIMITING CONDITIONS IN THIS REPORT

Our findings or conclusion of value of the Property in this report are valid only for the stated purpose and at the Valuation Date, and for the sole use of the Instructing Party. We or our personnel shall not be required to give testimony or attendance in court or to any government agency by reason of this report, and the valuer accepts no responsibility whatsoever to any other person.

Our valuation has been made on the assumption that no unauthorised alteration, extension or addition has been made in the Property, and that the inspection and the use of this report do not purport to be a building survey of the Property. We have assumed that the Property is free of rot and inherent danger or unsuitable materials and techniques.

No responsibility is taken for changes in market conditions and local government policy, and no obligation is assumed to revise this report to reflect events or conditions, which occur or make known to us subsequent to the date hereof.

Neither the whole nor any part of this report or any reference made hereto may be included in any published documents, circular or statement, or published in any way, without our written approval of the form and context in which it may appear. Nonetheless, we consent to the publication of this report in this circular for the Company's shareholders' reference.

Our liability for loss or damage shall be limited to such sum as we ought reasonably to pay having regard to our responsibility for the same on the basis that all other consultants and specialists, shall where appointed, be deemed to have provided to the Instructing Party contractual undertakings in respect of their services and shall be deemed to have paid to the Instructing Party such contribution as may be appropriate having regard to the extent of their responsibility for such loss or damage.

Our liability for any loss or damage arising out of the action or proceedings aforesaid shall, notwithstanding the preceding provisions, in any event be limited to a sum not exceeding the charges paid to us for the portion of services or work products giving rise to liability. In no event shall we be liable for consequential, special, incidental or punitive loss, damage or expense (including without limitation, loss of profits, opportunity cost etc.), even if it has been advised of their possible existence. For the avoidance of doubt our liability shall never exceed the lower of the sum calculated in accordance with the preceding provisions and the sum provided for in this clause.

The Instructing Party and the Company are required to indemnify and hold us and our personnel harmless from any claims, liabilities, costs and expenses (including, without limitation, attorney's fees and the time of our personnel involved) brought against, paid or incurred by us at a time and in any way based on the information made available in connection with our engagement except to the extent that any such losses, expenses, damages or liabilities are ultimately determined to be the result of gross negligence, misconduct, willful default or fraud of our engagement team in conducting its work. This provision shall survive even after the termination of this engagement for any reason.

STATEMENTS

For the purpose of this engagement, the report is prepared in line with the requirements contained in Chapter 5 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited as well as the reporting guidelines contained in various applicable standards such as the IVS and HKIS Standards. The valuation has been undertaken by valuer (see End Note), acting as external valuer, qualified for the purpose of the valuation.

We retain a copy of this report together with the data from which it was prepared, and these data and documents will, according to the Laws of Hong Kong, keep for a period of 6 years from the date of this report and to be destroyed thereafter. We considered these records confidential, and we do not permit access to them by anyone, with the exception for law enforcement authorities or court order, without the Instructing Party's authorisation and prior arrangement made with us. Moreover, we will add the Company's information into our client list for our future reference.

The analysis or valuation of the Property depends solely on the assumptions made in this report and not all of which can be easily quantified or ascertained exactly. Should some or all of the assumptions prove to be inaccurate at a later date, it will affect the reported findings or conclusion of value significantly.

We hereby certify that the fee for this service is not contingent upon our conclusion of value and we have no significant interest in the Property, the Group or the value reported.

Yours faithfully,
For and on behalf of
LCH (Asia-Pacific) Surveyors Limited

Joseph Ho Chin Choi
B.Sc. M.Sc. RPS (GP)
Managing Director

Sr Joseph Ho Chin Choi has been conducting asset valuations and/or advisory work in Hong Kong, Macau, Taiwan, mainland China, the Philippines, Vietnam, Mongolia, Malaysia, Singapore, Thailand, Bangladesh, Japan, Australia, Kazakhstan, Madagascar, Scotland, Finland, France, Germany, Switzerland, Poland, Brazil, Argentina, Guyana, Venezuela, Canada and the United States of America for various purposes since 1988. He has extensive experience in the valuation of various types of assets including hotels and resorts for the listed companies in Hong Kong, Taiwan, mainland China, Singapore, Malaysia, Canada, the United Kingdom and the United States of America. At present, he is a Fellow of the HKIS and a valuer on the List of Property Valuers for Undertaking Valuation for Incorporation or Reference in Listing Particulars and Circulars and Valuations in Connection with Takeovers and Mergers published by the HKIS.

Contributing valuer:

Mrs. Catherine DARGENT-AHLQVIST BA MA, a MRICS, a member of the RICS national board (France), an associate member of the National Association of Court Appointed Experts in Real Estate Valuation (France), and a part-time lecturer in Property Valuation at Université Paris 1 Panthéon-Sorbonne (France). Catherine has over 14 years experience in property valuation of all kinds (including hotels and châteaux) and strategic consultancy, and over 7 years experience in asset management, investments and transfers in commercial real estate in France.

APPENDIX – GROSS FLOOR AREAS AND ROOMS CONFIGURATION

1. According to the information provided by the appointed personnel of the Company, the breakdown of the gross floor area of the Property is as follow:

Floor	Usage	Gross Floor Area (sq.m.)
Level -4	: Parking space	1,981
Level -3	: Parking space, taxi areas	1,841
Level -2	: Parking space	1,571
Level -1	: Meeting room; fitness center, Annex kitchen, service premises	1,480
Ground floor/ garden level	: Entrance of de hotel, business center, cour- Gabriel and garden, delivery and bus parking area	804
Lobby	: Lobby	1,845
1st	: Atrium bar, lounge, business center, meeting room, restaurant with a terrace, main kitchen, administrative offices	1,348
2nd	: Guest rooms and suites	1,402
3rd	: Guest rooms and suites	1,313
4th	: Guest rooms and suites	1,070
5th	: Guest rooms and suites	1,249
6th	: Guest rooms and suites	947
7th	: Guest rooms and suites	868
	Total*	17,719

* *excluding roof area*

2. According to the information provided by the appointed personnel of the Company, the rooms configuration of the Property are as follows:

Room Type	Approximate Room Size (sq.m.)	Nos. of Room
Deluxe	30 – 37	105
Superior	40 – 49	55
Juniors Suites	65 – 70	8
Champs-Elysées View rooms and Junior Suites	40 – 50	6
Vice-President Suites (Champs-Elysées)	75	15
Vice-President Suites (Arc de Triomphe)	120	1
President Suite	170	2
	Total	192

1. 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.

2. DISCLOSURE OF INTERESTS

(a) Interests of Directors and chief executive of the Company

As at the Latest Practicable Date, the interests and short positions of the Directors or chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (i) 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 they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) contained in the Listing Rules, were as follows:

Name	Capacity	Number of Shares (Long position)	Appropriate percentage of shareholding
Hu Yishi	Beneficial owner	1,300,000,000	10.17%

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor chief executive of the Company had any interests or short positions 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 (i) 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 they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

(b) Persons with 5% or more shareholding

As at the Latest Practicable Date, so far as was known to the Directors or chief executive of the Company, the following persons, other than a Director or chief executive of the Company, had an interest or a short position in the Shares and 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 was, directly or

indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Enlarged 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 2013, being the date to which the latest audited consolidated accounts of the Company have been made up) or had options in respect of such capital:

Name	Capacity	Name of company	Number of shares (Long position)	Approximate percentage of shareholding
Du Shuang Hua	Interest of controlled corporation	The Company	708,000,000	5.54%
Happy Sino International Limited (Note 1)	Beneficial owner	The Company	708,000,000	5.54%
Zhang He Yi	Beneficial owner	The Company	1,400,000,000	10.96%
Qi Shi An	Beneficial owner	The Company	600,000,000	4.70%
Lu Xiao Mei	Interest of controlled corporation	The Company	753,190,000	5.89%
Sincere Profit Group Limited (Note 2)	Beneficial owner	The Company	753,190,000	5.89%
Ga Leung Investment Company Limited (Note 3)	Beneficial owner	The Company	1,866,666,666	14.61%
Sun Yong Feng	Interest of controlled corporation	The Company	1,866,666,666	14.61%
	Beneficial owner	The Company	133,000,000	1.04%
Meng Ya (Note 4)	Interest of spouse	The Company	1,999,666,666	15.65%
The Shares Vendor	Beneficial owner	HoldCo	464,877	100%
HoldCo	Beneficial owner	OpCo	589,060	99.99%

Notes:

1. Du Shuang Hua and Zhang He Yi beneficially own 85% and 15% interests in the issued share capital of Happy Sino International Limited respectively. Du Shuang Hua is deemed to be interested in the 708,000,000 Shares held by Happy Sino International Limited under the SFO.
2. Lu Xiao Mei beneficially owns 100% interest in the issued share capital of Sincere Profit Group Limited. Lu Xiao Mei is deemed to be interested in the 753,190,000 Shares held by Sincere Profit Group Limited under the SFO.
3. Sun Yong Feng beneficially own 100% interest in the issued share capital of Ga Leung Investment Company Limited. Sun Yong Feng is deemed to be interested in the 1,866,666,666 Shares held by Ga Leung Investment Company Limited under the SFO.
4. Meng Ya is the spouse of Sun Yong Feng. Meng Ya is deemed to be interested in the 1,999,666,666 Shares under the SFO.

Save as disclosed above, as at the Latest Practicable Date, so far as was known to the Directors or chief executive of the Company, no other person (other than a Director or chief executive of the Company) had any interest or short position in the Shares or 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, was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Enlarged 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 2013, being the date to which the latest audited consolidated accounts of the Company have been made up).

3. DIRECTORS' INTERESTS IN THE ENLARGED GROUP'S ASSETS OR CONTRACTS OR ARRANGEMENTS SIGNIFICANT TO THE ENLARGED GROUP

As at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any assets which had been acquired or disposed of by or leased to any member of the Enlarged 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 2013, 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 Enlarged 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 2013, being the date to which the latest audited consolidated accounts of the Company have been made up) since 31 December 2013, the date to which the latest published audited financial statements of the Group were made up.

There was no contract or arrangement entered into by any member of the Enlarged 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 2013, being the date to which the latest audited consolidated accounts of the Company have been made up), subsisting as at the Latest Practicable Date, in which any of the Directors was materially interested and which was significant in relation to the business of the Enlarged 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 2013, being the date to which the latest audited consolidated accounts of the Company have been made up) as a whole.

4. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or their respective associates had an interest in any business apart from the Enlarged Group's business, which competes or is likely to compete, either directly or indirectly, with the Enlarged Group's business that needs to be disclosed pursuant to Rule 8.10 of the Listing Rules.

5. QUALIFICATIONS AND CONSENT OF EXPERTS

The following are the qualifications of the experts who have given opinion or advice which are contained in this circular:

Name	Qualification
Deloitte Touche Tohmatsu	Certified public accountants
Ernst & Young	Certified public accountants
LCH (Asia-Pacific) Surveyors Limited	Professional Surveyor

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and/or reference to its name or opinion in the form and context in which it appears.

As at the Latest Practicable Date, all the experts above were not beneficially interested in the share capital of any member of the Enlarged 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 2013, being the date to which the latest audited consolidated accounts of the Company have been made up) nor did they have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Enlarged 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 2013, being the date to which the latest audited consolidated accounts of the Company have been made up).

As at the Latest Practicable Date, all the experts above did not, directly or indirectly, had any interest in any assets which had since 31 December 2013 (being the date to which the latest published audited financial statements of the Group were made up) been acquired or disposed of by or leased to any member of the Enlarged 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 2013, being the date to which the latest audited consolidated accounts of the Company have been made up), or are proposed to be acquired or disposed of by or leased to any member of the Enlarged 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 2013, being the date to which the latest audited consolidated accounts of the Company have been made up).

6. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into any service contract with the Company or any other member of the Enlarged 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 2013, being the date to which the latest audited consolidated accounts of the Company have been made up), excluding contracts expiring or which may be terminated by the employer within a year without payment of any compensation (other than statutory compensation).

7. LITIGATION

As at the Latest Practicable Date, none of the members of the Enlarged 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 2013, being the date to which the latest audited consolidated accounts of the Company have been made up) was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened against the Enlarged 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 2013, being the date to which the latest audited consolidated accounts of the Company have been made up).

8. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by members of the Enlarged 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 2013, 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 and were or might be material:

- (a) the disposal agreement entered into between the Company as vendor, Hong Sheng Global Limited as purchaser and Satoshi Inoue as guarantor on 17 June 2013 in relation to the disposal of entire issued share capital of Goalreach Investments Limited at a consideration of HK\$130 million;
- (b) the acquisition agreement entered into between Leading Prospect Limited, a wholly-owned subsidiary of the Company, as purchaser and Mr. Mohinani Hassomal Bulchand (“**Mr. MHB**”), Mr. Mohinani Harry Hassomal and Mr. Mohinani Vijay Harish as vendors on 14 December 2013 in relation to the sale and purchase of (i) the entire issued share capital of A6 Limited, Hotel de EDGE Management Limited and Hotel de EDGE Limited; and (ii) the loan made by Mr. MHB to A6 Limited and Hotel de EDGE Limited at the aggregate consideration of HK\$488 million;
- (c) the Purchase Option Agreement;
- (d) the Share Purchase Agreement; and
- (e) the representation and warranties agreement dated 3 June 2014 entered into between the Shares Vendor and Splendid Holdings ancillary to the Share Purchase Agreement with nil consideration.

9. MISCELLANEOUS

- (a) The registered address of the Company is Canon's Court, 22 Victoria Street, Hamilton, HM 12, Bermuda. The head office and principal place of business of the Company is situated 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 22nd Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (c) The company secretary of the Company is Mr. Law Wing Chi, Stephen. He is an associate member of The Hong Kong Institute of Chartered Public Accountants.
- (d) In the event of any inconsistency, the English text of this circular shall prevail over the Chinese text.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the principal place of business of the Company in Hong Kong at 28th Floor, Chinachem Century Tower, 178 Gloucester Road, Wanchai, Hong Kong on any Business Day 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 annual reports of the Company for the three financial years ended 31 December 2013;
- (c) the written consents referred to in the paragraph under the heading "Qualifications and consents of experts" in this Appendix;
- (d) the material contracts referred to in the paragraph under the heading "Material contracts" in this Appendix;
- (e) the accountants' report of Holdco as set out in Appendix II to this circular;
- (f) the report on unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV to this circular;
- (g) the valuation report on the properties of the Group as set out in Appendix VI to this circular;
- (h) the valuation report on the Property as set out in Appendix VII to this circular; and
- (i) this circular.

NOTICE OF SGM



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 the special general meeting (the “SGM”) of Kai Yuan Holdings Limited (the “Company”) will be held at 1/F, Empire Room I, Empire Hotel Hong Kong Wanchai, 33 Hennessy Road, Wanchai, Hong Kong at 9:30 a.m. on Friday, 19 September 2014 for the purpose of considering and, if thought fit, passing, with or without modification, the following resolution as ordinary resolution of the Company:

ORDINARY RESOLUTION

“THAT

- (a) the purchase option agreement dated 3 June 2014 entered into between Splendid Holdings S.À.R.L. (“**Splendid Holdings**”), an indirect wholly-owned subsidiary of Kai Yuan Holdings Limited (the “Company”), and MCE PropCo, as amended from time to time prior to the date of special general meeting of the Company approving the resolution hereof (together, the “**Purchase Option Agreement**”, a copy of which has been produced to this meeting marked “A” and initialled by the chairman of the meeting for the purpose of identification) and the draft deed of sale to be executed by Splendid Holdings and MCE PropCo at completion of the Purchase Option Agreement (a copy of which has been produced to this meeting marked “AB” and initialled by the chairman of the meeting for the purpose of identification) in relation to the sale and purchase of the 7 floors and 3 basement levels of the building located at 70-72, avenue des Champs-Élysées, Paris, France at the consideration of €226,000,000 and the transactions contemplated thereunder be and are hereby approved, confirmed and rectified;
- (b) the share purchase agreement dated 3 June 2014 entered into between Splendid Holdings and Tamweelview European Holdings S.A. , as amended from time to time prior to the date of special general meeting of the Company approving the resolution hereof (together, the “**Share Purchase Agreement**”, a copy of which has been produced to this meeting marked “B” and initialled by the chairman of the meeting for the purpose of identification) in relation to the sale and purchase of (i) the 464,877 shares of MCE OpCo HoldCo; and (ii) one share of MCE OpCo, at the aggregate provisional consideration of €118,512,199 (subject to final determination of consideration as set out in the Share Purchase Agreement) and the transactions contemplated thereunder be and are hereby approved, confirmed and rectified; and
- (c) the directors of the Company (the “**Directors**”) be and are hereby generally and unconditionally authorised to do all such acts and things and to sign and execute all such documents and to take all such steps which, in the opinion of the Directors, may be necessary, desirable or expedient to give effect to the

NOTICE OF SGM

terms of, or the transactions contemplated by, the Purchase Option Agreement and the Share Purchase Agreement and to agree to such variation, amendments or waiver or matters relating thereto as are, in the opinion of the Directors, in the interests of the Company and its shareholders as a whole.”

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

Hong Kong, 29 August 2014

Head office and principal place of business in Hong Kong:
28th Floor, Chinachem Century Tower
178 Gloucester Road
Wanchai
Hong Kong

Notes:

1. A proxy form to be used for the SGM is enclosed with the circular dated 29 August 2014 issued by the Company.
2. Any member of the Company entitled to attend and vote at the SGM is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares of HK\$0.10 each (each, a “Share”) in the Company may appoint more than one proxy to represent him and vote on his behalf at the SGM. A proxy need not be a member of the Company.
3. To be valid, the instrument appointing a proxy must be in writing under the hand of the appointer or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorised.
4. The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of that power or authority, shall be deposited at the office of the branch share registrar and transfer office of the Company in Hong Kong, Tricor Tengis Limited at 22nd Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof, and in default the instrument of proxy shall not be treated as valid.
5. Where there are joint registered holders of any Share, any one of such persons may vote at the SGM, either personally or by proxy, in respect of such Share as if he were solely entitled thereto but if more than one of such joint holders be present at the SGM personally or by proxy, that one of the said persons so present whose name stands first on the register in respect of such Share shall alone be entitled to vote in respect thereof.
6. The above ordinary resolution will be put to vote at the SGM by way of poll.

As at the date of this notice, the Directors are as follows:

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

Non-executive Director:

Mr. Hu Yishi