THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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 or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **Orient Victory Travel Group Company Limited**, you should at once hand this Circular and the accompanying form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

東勝旅遊
ORIENT VICTORY TRAVEL

ORIENT VICTORY TRAVEL GROUP COMPANY LIMITED
東 勝 旅 遊 集 團 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 265)

VERY SUBSTANTIAL DISPOSAL
AND
CONNECTED TRANSACTION
IN RELATION TO
THE PROPOSED DISPOSAL OF
49% EQUITY INTEREST IN THE TARGET COMPANY; AND
NOTICE OF EXTRAORDINARY GENERAL MEETING

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

PELICAN FINANCIAL
百 利 勤 金 融

Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed "Definitions" in this Circular.

A letter from the Board is set out on pages 4 to 13 of this Circular.

A notice convening an extraordinary general meeting of the Company to be held at conference room of R3 & R4, United Conference Centre, 10/F, United Centre, 95 Queensway, Admiralty, Hong Kong, on Wednesday, 15 July 2020 at 11:00 a.m. is set out on pages EGM-1 to EGM-2 of this circular.

A form of proxy for use at the extraordinary general meeting is enclosed with this Circular. Whether or not you plan to attend the EGM or any adjournment thereof, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Company's share registrar and transfer office in Hong Kong, Union Registrars Limited at Suites 3301–04, 33/F, Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding of the EGM or any adjournment thereof. Such form of proxy is also published on The Stock Exchange of Hong Kong Limited's HKExnews website at www.hkexnews.hk and the Company's website at www.orientvictory.com.hk. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish and in such event, the form of proxy will be deemed to have been revoked.

PRECAUTIONARY MEASURES FOR THE EXTRAORDINARY GENERAL MEETING

To safeguard the health and safety of Shareholders (as defined in the section headed "Definition") and to prevent the spreading of the COVID-19 pandemic, the following precautionary measures will be implemented at the EGM (as defined in the section headed "Definition"):

(1) Compulsory temperature screening/checks
(2) Submission of Health Declaration Form
(3) Wearing of surgical face mask
(4) No provision of refreshments or drinks

Attendees who do not comply with the precautionary measures referred to in (1) to (3) above may be denied entry to the EGM venue, at the absolute discretion of the Company as permitted by law.

For the health and safety of Shareholders, the Company would like to encourage Shareholders to exercise their right to vote at the EGM by appointing the chairman of the EGM as their proxy and to return their form of proxy by the time specified above, instead of attending the EGM in person.

24 June 2020

CONTENTS

Pages

In this Circular, unless the context otherwise requires, the following words and expressions have the meanings as respectively ascribed below:

"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Beijing Tourism Group"	Beijing Tourism Group Company Limited* (北京首都旅遊集團有限責任公司), a state-owned enterprise and a company established in the PRC which holds 51% equity interest in the Target Company as at the Latest Practicable Date
"Board"	the board of Directors
"Business Day(s)"	a day (excluding Saturday and other general holidays in Hong Kong and any day on which a tropical cyclone warning no. 8 or above is hoisted or remains hoisted between 9:00 a.m. and 12:00 noon and is not lowered at or before 12:00 noon or on which a "black" rainstorm warning is hoisted or remains in effect between 9:00 a.m. and 12:00 noon and is not discontinued at or before 12:00 noon) on which licensed banks in Hong Kong are generally open for business
"Circular"	this circular of the Company in relation to the Disposal and the EGM
"close associate(s)"	has the meaning ascribed to it under the Listing Rules
"Company"	Orient Victory Travel Group Company Limited (東勝旅遊集團有限公司), a company incorporated in the Cayman Islands, the shares of which are listed on the Stock Exchange
"Completion"	Completion of the Disposal in accordance with the terms and conditions of the Equity Transfer Agreement
"Completion Date"	as soon as practicable after completion of the registration update in respect of the Disposal but in any event not later than the Long Stop Date
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Consideration"	consideration for the sum of RMB320,000,000 (equivalent to approximately HK$358,400,000) payable by OVCT to the Vendor for the acquisition of 49% equity interest in the Target Company pursuant to the Equity Transfer Agreement
"controlling shareholder"	has the meaning ascribed to it under the Listing Rules
"Director(s)"	the directors of the Company
"Disposal"	the disposal of 49% equity interest in the Target Company

"EGM"	an extraordinary general meeting of the Company to be convened and held at conference room of R3 & R4, United Conference Centre, 10/F, United Centre, 95 Queensway, Admiralty, Hong Kong, on Wednesday, 15 July 2020 at 11:00 a.m., or any adjournment thereof, for the Independent Shareholders to consider and, if thought fit, approve the Equity Transfer Agreement and the transactions contemplated thereunder
"Equity Transfer Agreement"	the equity transfer agreement entered into between the Vendor as vendor and OVCT as purchaser on 26 March 2020 in relation to the Disposal
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	the independent board committee of the Board comprising all of the three independent non-executive Directors, namely, Mr. DONG Xiaojie, Mr. HE Qi and Mr. SUEI Feng-jih, to advise the Independent Shareholders on the Equity Transfer Agreement and the transactions contemplated thereunder
"Independent Financial Adviser"	Pelican Financial Limited, a corporation licensed to carry out type 6 regulated activity under the SFO, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Equity Transfer Agreement and the transactions contemplated thereunder
"Independent Shareholders"	Shareholders other than the Vendor and its associates
"Independent Third Party(ies)"	a third party independent of, and not connected with, the Company and the connected persons of the Company
"Latest Practicable Date"	22 June 2020, being the latest practicable date prior to the printing of this Circular for the purpose of ascertaining certain information contained herein
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Long Stop Date"	31 July 2020 (or such other later date as agreed between the Vendor and OVCT)
"Mr. Shi"	Mr. Shi Baodong (石保棟), the chairman, the chief executive officer and an executive Director as well as a controlling shareholder of the Company

"OVCT"	Orient Victory Cultural Tourism Group Co., Limited* (東勝文化旅遊集團有限公司), a company incorporated in the PRC and is owned as to 98% by Mr. Shi
"OVRE"	Orient Victory Real Estate Group Holdings Limited (東勝置業集團控股有限公司), a company incorporated in the British Virgin Islands and wholly-owned by Mr. Shi
"PRC"	the People's Republic of China which, for the purpose of this Circular, does not include Hong Kong, Macao Special Administrative Region and Taiwan
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance
"Share(s)"	ordinary share(s) of HK$0.005 each in the share capital of the Company
"Shareholders"	holder(s) of the share(s) of the Company from time to time
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Target Company"	China Comfort Tourism Group Company Limited* (中國康輝旅遊集團有限責任公司), a company established in the PRC and its equity interest is owned as to 51% and 49% by Beijing Tourism Group and the Vendor respectively, as at the Latest Practicable Date
"Target Group"	the Target Company and its subsidiaries
"Vendor"	Shenzhen Dongsheng Huamei Cultural Travel Company Limited* (深圳東勝華美文化旅遊有限公司), a company established in the PRC and an indirect wholly-owned subsidiary of the Company which holds 49% equity interest in the Target Company as at the Latest Practicable Date
"%"	per cent

* *for identification purpose only*

ORIENT VICTORY TRAVEL GROUP COMPANY LIMITED
東勝旅遊集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 265)

Executive Directors:	*Registered office:*
Mr. SHI Baodong *(Chairman and Chief Executive Officer)*	P.O. Box 31119
Mr. ZHAO Huining	Grand Pavilion
Mr. MO Yueming	Hibiscus Way
	802 West Bay Road
Non-executive Director:	Grand Cayman
Ms. SONG Sining	KY1-1205
	Cayman Islands
Independent non-executive Directors:	
Mr. DONG Xiaojie	*Principal place of business in Hong Kong:*
Mr. HE Qi	
Mr. SUEI Feng-jih	1201B, 12/F, Tower 1
	Admiralty Centre
	18 Harcourt Road
	Admiralty
	Hong Kong
	24 June 2020

To the Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION IN RELATION TO THE PROPOSED DISPOSAL OF 49% EQUITY INTEREST IN THE TARGET COMPANY; AND NOTICE OF EXTRAORDINARY GENERAL MEETING

INTRODUCTION

Reference is made to the announcement of the Company dated 26 March 2020 in relation to the proposed disposal of 49% equity interest in the Target Company by the Vendor, an indirect wholly-owned subsidiary of the Company, which constitutes a very substantial disposal and connected transaction of the Company and is subject to the reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules.

The purpose of this Circular is to provide you with (i) further information on the details of the Disposal; (ii) the letter of advice from the Independent Board Committee to the Independent Shareholders; (iii) the letter of advice from Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; (iv) the notice of the EGM; and (v) other information as required under the Listing Rules.

VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION

On 26 March 2020 (after trading hours), the Vendor (as vendor), an indirect wholly-owned subsidiary of the Company, entered into the Equity Transfer Agreement with OVCT (as purchaser), pursuant to which the Vendor conditionally agreed to sell, and OVCT conditionally agreed to acquire, 49% equity interest in the Target Company at the Consideration of RMB320,000,000 (equivalent to approximately HK$358,400,000) subject to the terms of the Equity Transfer Agreement. Upon Completion, the Target Company will be owned as to 51% by Beijing Tourism Group and 49% by OVCT.

OVCT is a company incorporated in the PRC and is principally engaged in real estate, tourism and leisure-related businesses, and is owned as to 98% by Mr. Shi, the chairman of the Board, the chief executive officer and an executive Director, and the remaining 2% is owned by Mr. Song Shaofeng (an Independent Third Party).

Completion is conditional upon the satisfaction of the conditions set out in the section headed "The Equity Transfer Agreement – Conditions Precedent" in this Circular, including the approval of the Equity Transfer Agreement and the Disposal contemplated thereunder by Independent Shareholders at the EGM. Accordingly, the Disposal may or may not proceed. Shareholders and potential investors are therefore advised to exercise caution when dealing in the Shares of the Company.

THE EQUITY TRANSFER AGREEMENT

Date : 26 March 2020

Parties : (1) Shenzhen Dongsheng Huamei Cultural Travel Company Limited* (深圳東勝華美文化旅遊有限公司) (i.e. the Vendor) as vendor; and

(2) Orient Victory Cultural Tourism Group Co., Limited* (東勝文化旅遊集團有限公司) (i.e. OVCT) as purchaser.

Assets to be disposed of

Pursuant to the Equity Transfer Agreement, the Vendor conditionally agreed to sell, and OVCT conditionally agreed to acquire, 49% equity interest in the Target Company. As at the Latest Practicable Date, the Target Company is owned as to 51% by Beijing Tourism Group and 49% by the Vendor. Upon Completion, the Target Company will be owned as to 51% by Beijing Tourism Group and 49% by OVCT.

Consideration and payment terms

The Consideration for the Disposal, pursuant to the Equity Transfer Agreement, is RMB320,000,000 (equivalent to approximately HK$358,400,000), which is to be settled in cash in the following manner:

(1) a deposit in the sum of RMB32,000,000 (equivalent to approximately HK$35,840,000) shall be paid within 5 Business Days from the date of the Equity Transfer Agreement;

(2) a further deposit in the sum of RMB192,000,000 (equivalent to approximately HK$215,040,000) shall be paid within 5 Business Days from the date of fulfilment of all the conditions precedent; and

(3) the balance of the Consideration in the sum of RMB96,000,000 (equivalent to approximately HK$107,520,000) shall be paid within 5 Business Days after Completion.

Settlement of shareholder's loans

OVCT shall within 5 Business Days after Completion, by way of cash, settle the outstanding shareholder's loans owing by the Target Company to the Vendor in the aggregate sum of RMB32,340,000 (equivalent to approximately HK$36,220,800) as at 26 March 2020 on behalf of the Target Company.

Basis of the Consideration

The Consideration was determined after arm's length negotiations between the Vendor and OVCT after taking into account (i) the historical financial performance and position of the business of the Target Group for the financial years ended 31 December 2017, 2018 and 2019; (ii) the prospect of the business of the Target Group; and (iii) the consolidated net assets attributable to the 49% equity interest in the Target Company recognised in the audited consolidated financial statements of the Company for the year ended 31 December 2019 ("**FS2019**") in the sum of approximately RMB308,000,000 (equivalent to approximately HK$343,518,000).

For the three years ended 31 December 2017, 2018 and 2019, the Target Group recorded consolidated net losses of approximately HK$27.6 million, HK$34.9 million and HK$19.9 million respectively. Attributable to the outbreak of the novel coronavirus (COVID-19) and taking into consideration the business nature of the Target Group, the performance of the Target Group for the year ending 31 December 2020 would be inevitably affected. As such, the Board is of the view that it is in the best interest of the Company to determine the Consideration substantially based on the consolidated net assets of the Target Company recognised in FS2019. Besides, given the Target Group is owned as to 51% by a state-owned enterprise (i.e. Beijing Tourism Group) and is a leading traditional travel agency in the PRC, after several rounds of negotiation with OVCT, OVCT is willing to take up the 49% equity interest in the Target Company at such consideration as slightly higher than the consolidated net assets of the Target Company recognised in FS2019.

Conditions Precedent

Completion of the Disposal is conditional upon:

(1) the passing of the requisite resolutions by the Independent Shareholders at the EGM for the approval of the Equity Transfer Agreement and the transactions contemplated thereunder;

(2) all necessary valid consents, approvals, waivers or necessary notice from the relevant parties, government or authorities having been obtained; and

(3) for the purposes of the Equity Transfer Agreement and the transactions contemplated thereunder, all necessary requirements under the Listing Rules having been complied with.

Completion

Within 5 Business Days after the fulfilment of all the conditions precedent, the Vendor and OVCT shall procure the Target Company to apply to the Administration for Industry and Commerce for registration update.

Completion of the registration update shall be the Completion Date, which shall take place as soon as practicable but in any event not later than the Long Stop Date.

INFORMATION OF THE TARGET COMPANY

The Target Company was established in the PRC in 1987 and has been an associate of the Company since 2015. As at the Latest Practicable Date, the Target Company is owned as to 51% by Beijing Tourism Group and 49% by the Vendor, and its total registered capital is RMB70,000,000 (equivalent to approximately HK$78,400,000). The principal activities of the Target Company are provision of travel agent services in the PRC, including domestic travel, outbound travel and inbound travel, and provision of brand name for the franchisees.

Set out below is a summary of the financial information of the Target Group as extracted from the audited consolidated financial statements of the Group for each of the three years ended 31 December 2019, 2018 and 2017:

	For the year ended 31 December 2019	**For the year ended 31 December 2018**	**For the year ended 31 December 2017**
	HK$'000	*HK$'000*	*HK$'000*
	(note)	*(note)*	*(note)*
Net loss attributable to the equity owners of the Target Company	(19,886)	(34,918)	(27,587)
Total assets	1,250,414	1,322,983	1,375,568
Net assets attributable to the equity owners of the Target Company	701,057	735,580	814,837

Note:

These figures are derived from the consolidated financial statements of the Group for the three years ended 31 December 2019 as set out in the published annual reports of the Company for the three years ended 31 December 2019. The Target Company was acquired by the Group as an associate on 22 September 2015. In accordance with the accounting policy of the Group, fair value adjustments were made at the date of acquisition on property, plant and equipment, intangible assets and deferred tax liabilities at the amount of RMB138,783,000, RMB1,025,267,000 and RMB291,013,000, respectively, and subsequent depreciation, impairment and tax effects were adjusted when preparing the consolidated financial information of the Group for the years ended 31 December 2017, 2018 and 2019.

In particular, the fair value adjustment on property, plant and equipment at the date of acquisition refers to the asset valuation appreciation on the office buildings located in Beijing, the PRC owned by the Target Group with an average remaining useful life of 30 years. The fair value adjustment on intangible assets refers to the recognition of the Target Company's trademark and distribution network. The economic useful lives of the trademark and the distribution network have been estimated as indefinite, and is tested annually for impairment. Apart from the impairment made on intangible assets at the amount of RMB331,785,000 during the year ended 31 December 2016, changes over the fair value adjustments during the years ended 31 December 2017, 2018 and 2019 represent the depreciation on the valuation appreciation of property, plant and equipment and related tax effects.

The Consideration was determined mainly based on 49% (representing the entire interest held by the Group in the Target Company) of the net assets attributable to the equity owners of the Target Company for the year ended 31 December 2019 as shown above, i.e. approximately HK$343.5 million (representing 49% of HK$701.1 million).

Details of the financial information of the Target Group is set out in Appendix II – Financial Information of the Target Group of the Circular. Set out below is the details of the investment properties, other property, plant and equipment and other long-term assets of the Target Group as extracted from Appendix II-4 of the Circular:

	As at 31 December 2019	**As at 31 December 2018**	**As at 31 December 2017**
	RMB'000	*RMB'000*	*RMB'000*
Investment properties *(Note 1)*	47,215	–	–
Properties under other property, plant and equipment *(Notes 1 and 2)*	26,691	29,640	32,807
Others items under other property, plant and equipment *(Note 3)*	2,002	2,120	6,216
Other long-term assets *(Note 4)*	64,240	64,791	67,777

Notes:

1. Investment properties represented an office located in 11th Floor, Jingchao Building, No. 5 South Agriculture Exhibition Centre Road, Chaoyang District, Beijing, the PRC* (中國北京市朝陽區農展館南路5號京朝大廈11層) with an useful life of 30 years, which was under owner-occupation and classified as other property, plant and equipment in the consolidated statement of financial position of the Target Group as at 31 December 2018 and 2017 at carrying amounts of RMB438,000 and RMB1,094,000 respectively. The office was classified as investment properties in the consolidated statement of financial position of the Target Group as at 31 December 2019 upon the commencement of an operating lease to an independent third party during the year ended 31 December 2019.

2. Apart from the office as detailed in note 1 of the above, properties under other property, plant and equipment represented a building located in Ruichen International Centre, No. 13 South Agriculture Exhibition Centre Road, Chaoyang District, Beijing, the PRC* (中國北京市朝陽區農展館南路13號瑞辰國際中心) with an useful life of 30 years, which was under owner occupation and classified as other property, plant and equipment in the consolidated statement of financial position of the Target Group as at 31 December 2019, 2018 and 2017 with carrying amounts of RMB26,691,000, RMB29,202,000 and RMB31,713,000 respectively.

3. Others items under other property, plant and equipment mainly represented office equipment of the Target Group.

4. Other long-term assets mainly represented contributions in the form as paid-in capital to companies (i.e. travel agents) under franchise arrangements of RMB64,240,000, RMB64,776,000 and RMB67,762,000 as at 31 December 2019, 2018 and 2017 respectively, details of which are set out in "3. Critical Accounting Judgement" in Appendix II-12 of the Circular.

INFORMATION OF THE COMPANY

The Company is an investment holding company and its subsidiaries are principally engaged in the provision of diversified tourism products and services, the provision of integrated development and other investment holding.

INFORMATION OF OVCT

OVCT is a company incorporated in the PRC and is principally engaged in real estate, tourism and leisure-related businesses, and is owned as to 98% by Mr. Shi, the chairman of the Board, the chief executive officer and an executive Director, and the remaining 2% is owned by Mr. Song Shaofeng (an Independent Third Party). Mr. Shi is also a controlling shareholder of the Company holding, including through Orient Victory Real Estate Group Holdings Limited (東勝置業集團控股有限公司), 7,943,422,025 Shares (representing approximately 61.47% of the entire issued share capital of the Company) as at the Latest Practicable Date.

FINANCIAL IMPACT OF THE DISPOSAL AND USE OF PROCEEDS

Upon completion of the Disposal, the Group will cease to hold any equity interest in the Target Company and the Target Company will cease to be an associate of the Company. The Company estimates to record an investment gain of approximately HK$13 million (before tax and based on the consolidated net assets attributable to the 49% equity interest in the Target Company recognised in the FS2019 and the estimated professional costs directly attributable to the Disposal) upon completion of the Disposal, and the cash flow of the Company will be increased by approximately HK$393 million.

The above financial impact is shown for illustrative purpose only and the actual gain or loss as a result of the Disposal to be recorded by the Company is subject to the actual carrying amount of the Group's interest in the Target Group on the date of Completion and the actual professional costs directly attributable to the Disposal.

The Directors currently intend to apply the net proceeds from the Disposal (after deducting relevant costs and expenses in connection with the Disposal) as general working capital of the Group.

However, when the opportunity comes, the Company may use part of the net proceeds for investment in and/or acquisition of business in relation to the diversified tourism products and services and the integrated development. In the event of any material change in the use of the net proceeds, a formal announcement will be made.

REASONS FOR AND BENEFITS OF THE DISPOSAL

The Target Group recorded consolidated net losses for the four years ended 31 December 2016, 2017, 2018 and 2019 and that, during the year ended 31 December 2016, the Target Group had recorded a significant impairment on intangible assets in the sum of approximately RMB331.79 million. The impairment was determined based on the value in use of the Target Company, which is the then present value of the future cash flows expected to be derived from an asset or cash-generating unit for impairment assessment with the adoption of income approach. The reasons for the decrease in the value in use of the Target Company were mainly attributable to (a) the keen competition from mainly online travel agents in the travel industry in the PRC; and (b) the changes in travel-related policies such as the increase in the number of visa-free countries and the simplification of visa application, resulting a reduction in revenue of the Target Company for the year ended 31 December 2016 by 26.5% as compared to that of 2015. Having considered the above, it was resolved by the Board to proceed with the Disposal with a view to improving the Group's financial status and reducing the risk of having further losses and impairment derived from the Target Company. In addition, the Company is of the view that through the Disposal, the Company will be able to optimise and adjust its asset structure to increase the liquidity of assets, improve the efficiency of the use of the Company's assets and gain certain benefits therefrom. As such, the Board considers that the Disposal is in the interest of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As the highest applicable percentage ratio in respect of the Disposal under the Equity Transfer Agreement exceeds 75%, the Disposal constitutes a very substantial disposal for the Company pursuant to Rule 14.06(4) of the Listing Rules and is therefore subject to reporting, announcement, circular and Shareholders' approval requirement under Chapter 14 of the Listing Rules.

Besides, as at the Latest Practicable Date, OVCT is owned as to 98% by Mr. Shi, the chairman of the Board, the chief executive officer and an executive Director, and the remaining 2% is owned by Mr. Song Shaofeng (an Independent Third Party). As OVCT is owned as to 98% by Mr. Shi, OVCT is an associate of Mr. Shi and thus a connected person of the Company. Therefore, the Disposal under the Equity Transfer Agreement also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to Independent Shareholders' approval at the EGM.

THE EGM

A resolution approving the Disposal shall be proposed at the EGM.

In view of Mr. Shi's interests in the Disposal, Mr. Shi and his associates are required to abstain and shall abstain from voting on the resolution to be proposed at the EGM to approve the Equity Transfer Agreement and the transactions contemplated thereunder.

A form of proxy for use at the EGM is enclosed with this Circular. Whether or not you are able to attend the EGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Company's share registrar and transfer office in Hong Kong, Union Registrars Limited at Suites 3301–04, 33/F, Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish. Voting on the proposed resolution at the EGM will be taken by poll.

Any shareholder with a material interest in the Equity Transfer Agreement, and its/his associates will abstain from voting on the resolution approving the Equity Transfer Agreement and the transactions contemplated thereunder at the EGM. As at the Latest Practicable Date, OVCT is owned as to 98% by Mr. Shi, the chairman, the chief executive officer and an executive Director. Mr. Shi is also a controlling shareholder of the Company holding, including through OVRE, 7,943,422,025 Shares (representing approximately 61.47% of the entire issued share capital of the Company) and has a material interest in the Equity Transfer Agreement. Therefore, OVRE and Mr. Shi will abstain from voting in respect of the resolution approving the Equity Transfer Agreement and the transactions contemplated thereunder at the EGM.

To the best knowledge, information and belief of the Directors, no Shareholder (other than OVRE and Mr. Shi) is required to abstain from voting on the ordinary resolution approving the Equity Transfer Agreement and the transactions contemplated thereunder at the EGM.

VOTING

In order to be entitled to attend and vote at the EGM, all shares transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar and transfer office in Hong Kong, Union Registrars Limited at Suites 3301–04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong for registration not later than 4:00 p.m. on Thursday, 9 July 2020.

RECOMMENDATIONS

The Directors (including the independent non-executive Directors) consider that the Disposal is entered into by the Group in its ordinary and usual course of business, on normal commercial terms, is fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Directors therefore recommend the Independent Shareholders to vote in favour of the relevant resolution set out in the notice of the EGM.

FURTHER INFORMATION

The Independent Board Committee comprising three independent non-executive Directors has been formed to advise the Independent Shareholders on the Equity Transfer Agreement and the transaction contemplated thereunder, i.e. the Disposal. Pelican Financial Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard. Accordingly, your attention is drawn to the letter from the Independent Board Committee set out on page 14 of this Circular, which contains its advice to the Independent Shareholders and the letter from the Independent Financial Adviser set out on pages 15 to 36 of this Circular, which contains its advice to the Independent Board Committee and the Independent Shareholders.

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

Yours faithfully,
By order of the Board
Orient Victory Travel Group Company Limited
SHI Baodong
Chairman, Chief Executive Officer and Executive Director

ORIENT VICTORY TRAVEL GROUP COMPANY LIMITED
東勝旅遊集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 265)

24 June 2020

To the Independent Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION IN RELATION TO THE DISPOSAL OF 49% EQUITY INTEREST IN THE TARGET COMPANY

We refer to the circular of the Company dated 24 June 2020 (the "**Circular**") to the Shareholders, of which this letter forms part. Terms defined in the Circular have the same meanings in this letter unless the context otherwise requires.

In compliance with the Listing Rules, we have been appointed to advise the Independent Shareholders as to whether, in our opinion, the terms of the Equity Transfer Agreement and the transactions contemplated thereunder are entered into by the Group (i) on normal commercial terms or better; and (ii) in the interests of the Company and the Shareholders as a whole and are fair and reasonable. In this connection, Pelican Financial Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the Equity Transfer Agreement and the transaction contemplated thereunder, i.e. the Disposal.

We wish to draw your attention to the letter from the Board set out on pages 4 to 13 of the Circular, and the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders set out on pages 15 to 36 of the Circular.

Having taken into account the advice of the Independent Financial Adviser and its recommendation in relation thereto, despite the entering into of the Equity Transfer Agreement is not in the ordinary and usual course of business of the Group, we consider that the terms of the Equity Transfer Agreement and the transactions contemplated thereunder are entered into by the Group (i) on normal commercial terms or better; and (ii) in the interests of the Company and the Shareholders as a whole and are fair and reasonable. Accordingly, we recommend that you vote in favour of the relevant resolution set out in the notice of the EGM.

Yours faithfully,
Independent Board Committee of
Orient Victory Travel Group Company Limited
DONG Xiaojie, HE Qi and SUEI Feng-jih

PELICAN FINANCIAL
百利勤金融

PELICAN FINANCIAL LIMITED

15/F, East Exchange Tower, 38–40 Leighton Road, Causeway Bay, Hong Kong

24 June 2020

To the Independent Board Committee and the Independent Shareholders of Orient Victory Travel Group Company Limited

Dear Sirs,

VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION IN RELATION TO THE PROPOSED DISPOSAL OF 49% EQUITY INTEREST IN THE TARGET COMPANY

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Equity Transfer Agreement and the transactions contemplated thereunder, details of which are set out in the letter from the Board (the "**Board Letter**") contained in the circular of the Company dated 24 June 2020 (the **"Circular"**), of which this letter forms a part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

As stated in the announcement of the Company dated 26 March 2020, on 26 March 2020 (after trading hours), the Vendor (as vendor), an indirect wholly-owned subsidiary of the Company, entered into the Equity Transfer Agreement with OVCT (as purchaser), pursuant to which the Vendor conditionally agreed to sell, and OVCT conditionally agreed to acquire, 49% equity interest in the Target Company at the Consideration of RMB320 million (equivalent to approximately HK$358.4 million) subject to the terms of the Equity Transfer Agreement. Upon Completion, the Target Company will be owned as to 51% by Beijing Tourism Group and 49% by OVCT.

As at the Latest Practicable Date, OVCT is owned as to 98% by Mr. Shi, the chairman of the Board, the chief executive officer and an executive Director, and the remaining 2% is owned by Mr. Song Shaofeng (an Independent Third Party). As OVCT is owned as to 98% by Mr. Shi, OVCT is an associate of Mr. Shi and thus a connected person of the Company. Therefore, the Disposal under the Equity Transfer Agreement constitutes a connected transaction of the Company and is subject to Independent Shareholders' approval under Chapter 14A of the Listing Rules.

As one of the applicable percentage ratios calculated under Rule 14.07 of the Listing Rules in respect of the Disposal exceeds 75%, the Disposal also constitutes a very substantial disposal for the Company pursuant to Rule 14.06(4) of the Listing Rules and is therefore subject to reporting, announcement, circular and Shareholders' approval requirement under Chapter 14 of the Listing Rules. The EGM will be convened and held for the Independent Shareholders to consider and, if thought fit, to approve the Equity Transfer Agreement and the transactions contemplated thereunder.

Meanwhile, in view of Mr. Shi's interests in the Disposal, Mr. Shi and his associates are required to abstain and shall abstain from voting on the resolution to be proposed at the EGM to approve the Equity Transfer Agreement and the transactions contemplated thereunder.

The Board currently comprises three executive Directors, one non-executive Director and three independent non-executive Directors. Accordingly, the Independent Board Committee, comprising Mr. Dong Xiaojie, Mr. He Qi and Mr. Suei Feng-jih, being all the independent non-executive Directors, has been established to advise the Independent Shareholders in respect of the Equity Transfer Agreement and the transactions contemplated thereunder. We have been appointed by the Company as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this respect and such appointment has been approved by the Independent Board Committee.

We are not connected with the Directors, chief executive or substantial Shareholders of the Company or any of their respective associates and we are not aware of any relationships or interests between us and the Group, the Vendor, OVCT or any of their respective substantial shareholders, directors or chief executives, or of their respective associates that could reasonably be regarded as relevant to our independence. In the last two years, except for acting as the independent financial adviser to the Company in relation to the discloseable and connected transactions as disclosed in the Company's circular dated 10 October 2018, there was no other engagement between the Company and us. Apart from normal professional fees payable to us in connection with this appointment of us as independent financial adviser, no arrangement exists whereby Pelican Financial Limited will receive any fees or benefits from the Company or the Directors, chief executive or substantial Shareholders of the Company or any of their respective associates, and we are not aware of the existence of or change in any circumstances that would affect our independence. Accordingly, we consider that we are eligible to give independent advice on the Equity Transfer Agreement and the transactions contemplated thereunder.

Our role is to provide you with our independent opinion and recommendation as to (i) whether the Equity Transfer Agreement and the transactions contemplated thereunder are entered into in the ordinary and usual course of business and on normal commercial terms or better; (ii) whether the terms of the Equity Transfer Agreement and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole and are fair and reasonable so far as the Independent Shareholders are concerned; and (iii) how the Independent Shareholders should vote in respect of the relevant resolution on the Equity Transfer Agreement and the transactions contemplated thereunder at the EGM.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have performed relevant procedures and those steps which we deemed necessary in forming our opinions which include, among other things, review of relevant agreements, documents as well as information provided by the Company and verified them, to an extent, to the relevant public information, statistics and market data, the relevant industry guidelines and rules and regulations as well as information, facts and representations provided, and the opinions expressed, by the Company and/or the Directors and/or the management of the Group. The documents reviewed include, but are not limited to, the Equity Transfer Agreement, the announcement of the Company dated 26 March 2020 in relation to the Disposal, the annual report of the Company for the financial year ended 31 December 2019 (the "**2019 Annual Report**"), the unaudited financial information of the Target Group for the years ended 31 December 2017, 2018 and 2019 as contained in Appendix II to the Circular and the Circular. We have assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its management and/or the Directors, which have been provided to us.

The Directors collectively and individually accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief the information contained in the 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 therein or the Circular misleading.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent verification of the information included in the Circular and provided to us by the Directors and the management of the Group nor have we conducted any form of an in-depth investigation into the business and affairs or the future prospects of the Group.

PRINCIPAL FACTORS TAKEN INTO CONSIDERATION

In formulating our opinion in respect of the Equity Transfer Agreement and the transactions contemplated thereunder, we have considered the following principal factors and reasons.

1. Information of the Company

The Company is an investment holding company and its subsidiaries are principally engaged in the provision of diversified tourism products and services, the provision of integrated development and investment holding.

Set out below is a summary of the financial information of the Group for the two financial years ended 31 December 2019 as extracted from the 2019 Annual Report.

Table 1: Summarised financial results of the Group

	For the financial year ended 31 December	
	2019	**2018**
	HK$'000	*HK$'000*
	(Audited)	*(Audited and restated)*
Revenue by segments		
(i) Diversified tourism products and services	395,828	248,342
(ii) Integrated development and investment holding	80,171	–
Total revenue	**475,999**	**248,342**
Loss before taxation*	**17,361**	**57,060**
Loss for the year	**23,982**	**57,893**

* *Share of losses of associates amounted to approximately HK$11.0 million and approximately HK$17.3 million for the two financial year ended 31 December 2019, respectively. As shown in "Table 3: Summarised unaudited consolidated financial information of the Target Group" in the below section headed "Information of the Target Group" of this letter, such losses were primarily attributable to the 49% equity interest in the Target Company.*

According to the 2019 Annual Report, for the year ended 31 December 2019, diversified tourism products and services business had remained the core business of the Group. Revenue from this segment increased by approximately 59.4% from approximately HK$248.3 million in 2018 to approximately HK$395.8 million in 2019, mainly as a result of the increase in revenue from Dongsheng Beijing, a subsidiary of the Group acquired in 2018, which was principally engaged in the tourism business in the PRC and owns an outbound travel licence during the year. Meanwhile, revenue from the Group's integrated development and investment holding businesses increased from nil to approximately HK$80.2 million for the two years ended 31 December 2019, which was mainly contributed by the revenue generated by the new businesses the Group acquired and entered into between the end of 2018 and 2019. These businesses included the operation and management of tourist attractions and culture spots, and the developments of tourism-related accommodation facilities in the PRC, as well as the provision of marketing, event planning and consultancy services.

For the two years ended 31 December 2019, loss for the year decreased by approximately 58.6% from approximately HK$57.9 million to approximately HK$24.0 million, which was mainly as a result of (i) the aforementioned improvements in the Group's revenue; (ii) the decrease in share of losses of associates of the Group by approximately HK$6.3 million for the two years ended 31 December 2019 from approximately HK$17.3 million to approximately HK$11.0 million, primarily as a result of the shrinkage in the operating scale of the Target Company; and (iii) the recognition of valuation gains on investment properties located in the PRC and New Zealand of approximately HK$28.0 million based on valuations performed by independent professionally qualified valuers.

Meanwhile, the audited consolidated assets and liabilities of the Group as at 31 December 2019 as extracted from the 2019 Annual Report, are summarised as follows:

Table 2: Summarised financial position of the Group

	As at 31 December	
	2019	**2018**
	HK$'000	*HK$'000*
	(Audited)	*(Audited and restated)*
Total assets		
Non-current assets	**660,553**	**624,698**
– Investment properties	159,358	–
– Other property, plant and equipment	132,170	103,576
– Interests in associates	343,518	391,253
– Others	25,507	129,869
Current assets	**530,372**	**377,911**
– Inventories	193,362	69,986
– Trade receivables, prepayments, deposits and other receivables	216,080	107,258
– Restricted bank deposits	3,123	11,794
– Cash and cash equivalents	117,807	188,873
Total liabilities		
Non-current liabilities	**128,190**	**6,790**
Current liabilities	**356,573**	**211,359**
Net current assets	**173,799**	**166,552**
Net assets	**706,162**	**784,460**
Equity attributable to owners of the Company	**606,591**	**743,600**

For the two years ended 31 December 2019, the net assets of the Group decreased by approximately 10.0% from approximately HK$784.5 million to approximately HK$706.2 million. In particular, interests in associates decreased from approximately HK$391.3 million to approximately HK$343.5 million by approximately 12.2% for the two years ended 31 December 2019. According to the 2019 Annual Report, interests in associates were mainly attributable to the intangible assets, including trademark and distribution network, owned by the Target Company. As at 31 December 2019, cash and cash equivalents of the Group amounted to approximately HK$117.8 million, compared to HK$188.9 million as at 31 December 2018.

2. Information of the purchaser

The purchaser, OVCT, is a company incorporated in the PRC and is principally engaged in real estate, tourism and leisure-related businesses, and is owned as to 98% by Mr. Shi, the chairman of the Board, the chief executive officer and an executive Director, and the remaining 2% is owned by Mr. Song Shaofeng (an Independent Third Party). Mr. Shi is also a controlling shareholder of the Company holding, including through Orient Victory Real Estate Group Holdings Limited (東勝置業集團控股有限公司), 7,943,422,025 Shares, representing approximately 61.47% of the entire issued share capital of the Company as at the Latest Practicable Date.

3. Information of the Target Group

The Target Company was established in the PRC in 1987 and has been an associate of the Company since 2015, it is principally engaged in the provision of travel agent services in the PRC, including domestic travel, outbound travel and inbound travel, and provision of brand name for the franchisees. As at the Latest Practicable Date, the Target Company is owned as to 49% by the Vendor and 51% by Beijing Tourism Group, and its total registered capital is RMB70,000,000 (equivalent to approximately HK$78,400,000).

As stated in the Board Letter, the Target Company was acquired by the Group as an associate on 22 September 2015. In accordance with the accounting policy of the Group, fair value adjustments were made at the date of acquisition on property, plant and equipment, intangible assets and deferred tax liabilities in the amount of RMB138,783,000, RMB1,025,267,000 and RMB291,013,000, respectively, and subsequent depreciation, impairment and tax effects were adjusted when preparing the consolidated financial information of the Group for the years ended 31 December 2017, 2018 and 2019, as disclosed in the annual report of the Company for the financial year ended 31 December 2018 (the "**2018 Annual Report**") and the 2019 Annual Report. In particular, the fair value adjustment on property, plant and equipment at the date of acquisition refers to the asset valuation appreciation on the office buildings located in Beijing, the PRC owned by the Target Group with an average remaining useful life of 30 years. The fair value adjustment on intangible assets refers to the recognition of the Target Company's trademark and distribution network. The economic useful lives of the trademark and the distribution network have been estimated as indefinite, and is tested annually for impairment. Apart from the impairment made on intangible assets at the amount of RMB331,785,000 during the year ended 31 December 2016, changes over the fair value adjustments during the years ended 31 December 2017, 2018 and 2019 represent the depreciation on the valuation appreciation of property, plant and equipment and related tax effects. The fair value adjustments as detailed above are only applicable to the Company's perspective as the owner of the associate in accordance with the accounting policy of the Group, and accordingly, such adjustments have not been made in the Target Group's individual consolidated financial information.

Given that the unaudited financial information of the Target Group as contained in Appendix II to the Circular was prepared without the aforementioned fair value adjustments, it is different from the financial information as disclosed in the 2018 Annual Report and the 2019 Annual Report. Meanwhile, given that the actual gain or loss as a result of the Disposal to be recorded by the Company is subject to, among others, the actual carrying amount of the Group's interest in the Target Group on the date of Completion, the consolidated net assets attributable to the 49% equity interest in the Target Company recognised in the audited consolidated financial statements of the Company for the year ended 31 December 2019 (the "**Recognised Carrying Amount**") is a more appropriate basis for determining the fairness and reasonableness of the Consideration. Accordingly, our analysis focuses on assessing the Consideration based on the Recognised Carrying Amount as well as other factors as discussed in the next section.

Set out below is a summary of the financial information of the Target Group for each of the three financial years ended 31 December 2019 as extracted from the 2018 Annual Report and the 2019 Annual Report. The financial results of the Target Company as disclosed in the 2018 Annual Report and the 2019 Annual Report were recognised in the consolidated financial statements of the Company as interests in associates based on the Group's 49% equity interest in the Target Company.

Table 3: Summarised financial information of the Target Group

	For the years ended 31 December		
	2019	**2018**	**2017**
	HK$'000	*HK$'000*	*HK$'000*
	(Note)	*(Note)*	*(Note)*
Net loss attributable to the equity owners of the Target Company	19,886	34,918	27,587
Total assets	1,250,414	1,322,983	1,375,568
Net assets attributable to the equity owners of the Target Company	701,057	735,580	814,837

Notes: These figures are derived from the 2018 Annual Report and 2019 Annual Report.

According to the 2019 Annual Report, the Recognised Carrying Amount amounted to approximately RMB308 million (equivalent to approximately HK$343.5 million) as at 31 December 2019. The Consideration was determined mainly based on the Recognised Carrying Amount. Further details of the financial information of the Target Group is set out in Appendix II – Financial Information of the Target Group of the Circular.

4. Reasons for and benefits of the Disposal

As stated in the Board Letter, the Target Group has been loss making for the four financial years ended 31 December 2019 and that during the year ended 31 December 2016, the Target Group had recorded a significant impairment on intangible assets in the sum of RMB331.79 million. The impairment was determined based on the value in use of the Target Company, which is the then present value of the future cash flows expected to be derived from an asset or cash-generating unit for impairment assessment with the adoption of income approach. The reasons for the decrease in the value in use of the Target Company were mainly attributable to (a) the keen competition from mainly online travel agents in the travel industry in the PRC; and (b) the changes in travel-related policies such as the increase in the number of visa-free countries and the simplification of visa application, resulting in a reduction in revenue of the Target Company for the year ended 31 December 2016 by 26.5% as compared to that of 2015. Having considered above, it was resolved by the Board to proceed with the Disposal with a view to improving the Group's financial status and reducing the risk of having further losses and impairment derived from the Target Company.

We have conducted an independent research on the travel agency industry in the PRC in understanding the Target Company's industry performance. According to the latest data released by the Ministry of Culture and Tourism of China, as at 30 September 2019, there were 38,433 travel agencies in the PRC, representing an annual growth rate of approximately 9.2% as compared to 27,621 travel agencies in the PRC in the end of 2015.[1]

Furthermore, the global outbreak of COVID-19 had significantly impacted the business of the Target Group as well as its industry for the first quarter of 2020 as strict travel restrictions, airport closures and a range of quarantine and "social distancing" measures have been taken by governments globally. It was reported by People's Daily Online on 7 April 2020 that, it is estimated that in the first quarter of 2020 and the whole year of 2020, the number of domestic tourist arrivals in the PRC will decrease by approximately 56% and 15.5% respectively as compared with the previous year, and that domestic tourism income will also decrease by approximately 69% and 20.6% respectively as compared with the previous year.[2] As a result of the COVID-19 epidemic, the Ministry of Culture and Tourism of the PRC also issued the "Notice on Prevention and Control of the Scenic Spot Outbreak and Safe and Orderly Opening Work"* (《關於做好旅遊景區疫情防控和安全有序開放工作的通知》) on 13 April 2020, which stipulated that the number of tourists received by tourist scenic spots shall not exceed 30% of the maximum carrying capacity.[3] Given the current situation and the fact that the Target Group had been loss-making in the last four years, the Directors are of the view that the Disposal will allow the Company to optimise and adjust its asset structure and to increase the liquidity of its assets, as well as allow the Company to improve the efficiency of the use of its assets and gain certain benefits therefrom. In addition, since the Directors currently intend to apply the net proceeds from the Disposal (after deducting relevant costs and expenses), which will be settled in cash in three separate payments and no later than 5 Business Days after Completion as illustrated in the below section headed "Consideration" of this letter, as general working capital of the Group, and when the opportunity comes, apply part of the net proceeds for investment purposes and/or acquisition(s) of related business(es), we are of the view that the Disposal will not only improve the Group's financial position, but also provide flexibility for its operations and potential business expansions.

Having considered that (i) the Target Group had been loss-making and demonstrating deteriorating financial performance in the last four years; (ii) the business prospect of the Target Group may not be optimistic due to increasingly intense competition in the travel agency industry in the PRC and the current global market condition, especially aggravated by the material adverse impact caused by COVID-19; and (iii) the Disposal will improve the Group's financial position and provide flexibility for its operations and potential business expansions, we concur with the Directors that the Disposal is fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

1 Please refer to http://zwgk.mct.gov.cn/auto255/202001/t20200102_850061.html?keywords=

2 Please refer to http://yuqing.people.com.cn/n1/2020/0407/c209043-31663116.html

3 Please refer to http://www.scio.gov.cn/xwfbh/xwbfbh/wqfbh/42311/42960/xgzc42966/Document/1678270/1678270.htm

5. The Equity Transfer Agreement

On 26 March 2020 (after trading hours), the Vendor (as vendor), an indirect wholly-owned subsidiary of the Company, entered into the Equity Transfer Agreement with OVCT (as purchaser), pursuant to which the Vendor conditionally agreed to sell, and OVCT conditionally agreed to acquire, 49% equity interest in the Target Company at the Consideration of RMB320 million (equivalent to approximately HK$358.4 million) subject to the terms of the Equity Transfer Agreement.

As at the Latest Practicable Date, the Target Company is owned as to 49% by the Vendor and 51% by Beijing Tourism Group. Upon Completion, the Target Company will be owned as to 49% by OVCT and 51% by Beijing Tourism Group. Accordingly, the Group will cease to hold any equity interest in the Target Company and the Target Company will cease to be an associate of the Company.

The principal terms of the Equity Transfer Agreement are as follow:

a) Consideration and payment terms

Pursuant to the Equity Transfer Agreement, the Consideration for the Disposal of RMB320 million (equivalent to approximately HK$358.4 million) will be payable by OVCT to the Vendor in the following manner:

(1) a deposit in the sum of RMB32 million (equivalent to approximately HK$35.8 million) shall be paid within 5 Business Days from the date of the Equity Transfer Agreement;

(2) a further deposit in the sum of RMB192 million (equivalent to approximately HK$215 million) shall be paid within 5 Business Days from the date of fulfilment of all the conditions precedent; and

(3) the balance of the Consideration in the sum of RMB96 million (equivalent to approximately HK$107.5 million) shall be paid within 5 Business Days after Completion.

b) Settlement of shareholder's loans

OVCT shall within 5 Business Days after Completion, by way of cash, settle the outstanding shareholder's loans owed by the Target Company to the Vendor in the aggregate sum of approximately RMB32.3 million (equivalent to approximately HK$36.2 million) as at 26 March 2020 on behalf of the Target Company.

c) Conditions Precedent

Completion is conditional upon:

(1) the passing of the requisite resolutions by the Independent Shareholders at EGM for the approval of the Equity Transfer Agreement and the transactions contemplated thereunder;

(2) all necessary valid consents, approvals, waivers or necessary notice from the relevant parties, government or authorities having been obtained; and

(3) for the purposes of the Equity Transfer Agreement and the transactions contemplated thereunder, all necessary requirements under the Listing Rules having been complied with.

d) Completion

Within 5 Business Days after the fulfilment of all the conditions precedent, the Vendor and OVCT shall procure the Target Company to apply to the Administration for Industry and Commerce for registration update.

Completion of the registration update shall be the Completion Date, which shall take place as soon as practicable but in any event not later than the Long Stop Date.

In assessing the above principal terms of the Equity Transfer Agreement, we have reviewed the agreement and considered the factors discussed in the next section of this letter.

6. Assessment of the principal terms of the Equity Transfer Agreement

a) Consideration

According to the Board Letter, the Consideration was determined after arm's length negotiations between the Vendor and OVCT after taking into account (i) the historical financial performance and position of the business of the Target Group for the financial years ended 31 December 2017, 2018 and 2019; (ii) the prospect of the business of the Target Group; and (iii) the Recognised Carrying Amount of approximately RMB308 million (equivalent to approximately HK$343.5 million).

For the three years ended 31 December 2017, 2018 and 2019, the Target Group recorded consolidated net losses of approximately HK$27.6 million, HK$34.9 million and HK$19.9 million, respectively. Attributable to the outbreak of COVID-19 and taking into consideration the business nature of the Target Group, the performance of the Target Group for the year ending 31 December 2020 would inevitably be affected. As such, the Board is of the view that it is in the best interest of the Company to determine the Consideration substantially based on the Recognised Carrying Amount. Besides, given the Target Group is owned as to 51% by a state-owned enterprise (i.e. Beijing Tourism Group) and is a leading traditional travel agency in the PRC, after several rounds of negotiation with the Purchaser, the Purchaser was willing to take up the 49% equity interest in the Target Company at such consideration that is slightly higher than the Recognised Carrying Amount.

(i) The Recognised Carrying Amount

The Consideration of RMB320 million (equivalent to approximately HK$358.4 million) represents a premium of approximately 3.9% over the Recognised Carrying Amount of approximately RMB308 million (equivalent to approximately HK$343.5 million).

In considering whether the premium represented by the Consideration is fair and reasonable, we have taken into consideration (i) the historical and current loss-making position of the Target Group; (ii) the prospect of the business of the Target Group; and (iii) the components of the net asset value of Target Company.

As mentioned in the above sectioned headed "Reasons for and benefits of the Disposal" of this letter and according to our discussion with the Directors, the Target Company has been loss-making for the last four financial years and there is no sign of improvement. Further, given the strict travel restrictions, airport closures as well as a range of quarantine and "social distancing" measures that have been taken by governments globally since the outbreak of COVID-19, it is expected that the PRC and global travel agency industry will continue to be severely hit in the coming one to two years. Accordingly, it is expected that the results of the Target Group will deteriorate even further rather than showing signs of improvement. In addition, as the net asset value of the Target Group substantially comprised of intangible assets, it is expected that there will be a reduction in such value due to shrinking cash flows from its operations. Therefore, we believe that the net asset value of the Target Group will reduce quickly in future, and hence, in our view, the Consideration, which is set at a premium over the Recognised Carrying Amount, is in the interests of the Company and the Shareholders as a whole.

(ii) Market comparable companies analysis

As stated in above section headed "Information of the Target Group" in this letter, the Target Group is principally engaged in the provision of travel agent services in the PRC, including domestic travel, outbound travel and inbound travel, and provision of brand name for the franchisees. In further understanding the reasonableness and fairness of the Consideration, we have compared the implied price-multiples of the Target Group under the Equity Transfer Agreement against those of the Target Group's peer companies in the travel industry. In this regard, we have conducted a search of companies listed on the Main Board of the Stock Exchange which (i) are principally engaged in similar businesses as the Target Group in travel agent services, travel products and services and/or package tours businesses, with such businesses contributing over 70% to their total revenue for the latest audited financial year; (ii) have a market capitalisation of between HK$100 million and HK$1 billion as at the date of the Equity Transfer Agreement in view that the Consideration of the Target Group was approximately HK$358.4 million.

We have identified four comparable listed companies which met the aforementioned criteria (the "**Comparable Companies**") and we consider them to be fair and exhaustive samples. Nevertheless, it should be noted that the operations and prospects of the Comparable Companies are not the same as the Target Group and we have not conducted any investigation into the businesses, operations and prospects of the Comparable Companies, and hence the Comparable Companies are included only for cross-checking purposes.

We have considered the price-to-earnings ratio ("**P/E Ratio**") and price-to-book ratio ("**P/B Ratio**"), which are the two most commonly adopted valuation benchmarks in determining the valuation of a company's shares, of the Comparable Companies for comparison purposes. However, since the Target Group has been loss-making in the last financial year, we consider that the P/E Ratio is not applicable in assessing the value of the Target Group. In determining the implied P/B Ratio of the Target Group under the Equity Transfer Agreement (the "**Implied P/B Ratio**"), we have divided the Consideration of approximately HK$358.4 million by the Recognised Carrying Amount of approximately HK$343.5 million and have obtained the Implied P/B Ratio of approximately 1.04 times.

The following table sets out (i) the P/B Ratio of the Comparable Companies based on their closing share prices as at the date of the Equity Transfer Agreement and their latest published financial information; and (ii) the Implied P/B Ratio of the Target Group based on the Consideration and the Recognised Carrying Amount.

Table 4: Analysis of the Target Group's and Comparable Companies' P/B Ratios

Company name (stock code)	**Principal businesses**	**Market capitalisation** *(Note 1)* *(HK$ million)*	**P/B Ratio** *(Note 2)* *(times)*
Success Universe Group Limited (487)	Principally engaged in travel and lottery businesses.	763.6	0.67
Travel Expert (Asia) Enterprises Limited (1235)	Principal activities are provision of services relating to sales of air-tickets, hotel accommodation and other travel/wedding related products, sales of package tours, property investment and investment in treasury activities.	106.1	0.74
Feiyang International Holdings Group Limited (1901) *(Note 3)*	A China-based travel service provider.	440.0	2.08

Company name (stock code)	Principal businesses	Market capitalisation *(Note 1)* *(HK$ million)*	P/B Ratio *(Note 2)* *(times)*
EGL Holdings Company Limited (6882)	Principally engaged in the provision of package tours, free independent travelers (FIT) package, individual travel elements and ancillary travel related products and services.	140.7	0.40
	Minimum	**106.1**	**0.40**
	Maximum	**763.6**	**2.08**
	Average	**362.6**	**0.97**
	Median	**290.3**	**0.70**
The Target Group (implied under the Equity Transfer Agreement)	**Principally engaged in the provision of travel agent services in the PRC.**	**358.4**	**1.04**

Source:

The website of the Stock Exchange

Notes:

1. The market capitalisations of the Comparable Companies are derived by multiplying the total number of shares of the Comparable Companies (as disclosed in the respective monthly return or relevant disclosures) with their respective closing share price quoted on the Stock Exchange as at the date of the Equity Transfer Agreement.

2. The P/B Ratio is derived from dividing the respective market capitalisation by the respective consolidated net assets of the Comparable Companies as extracted from their latest published financial statements.

3. An exchange rate of HK$1:RMB0.923 was adopted as the company's reporting currency was RMB.

As shown in the above table, the P/B Ratios of the Comparable Companies ranged from approximately 0.40 times to 2.08 times, with a median and an average of approximately 0.70 times and 0.97 times, respectively. Accordingly, the Implied P/B Ratio of approximately 1.04 times is within the range of the P/B Ratios of the Comparable Companies and above the median and average P/B Ratio thereof, and hence we are of the view that the Consideration, which determined the Implied P/B Ratio, is fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

(iii) Market comparable transactions analysis

In understanding whether it is common for considerations of recent acquisitions/disposals in the market to represent a premium over the net asset value of the target group and if so, the range of such premium, we have conducted a research on the website of the Stock Exchange for companies which (i) are currently listed on the Main Board of Stock Exchange; (ii) have conducted acquisition/disposal transactions of related business between 26 December 2019 and 26 March 2020, being three months period immediately prior the date of the Equity Transfer Agreement (the "**Comparison Period**") which constitute a notifiable transaction; (iii) determined their considerations with reference to the net asset value of the target group; and (iv) are not in trading suspension. Since we have not been able to identify comparable transactions of companies that are also engaged in the travel agency industry as does the Target Group, we have focused on identifying transactions of the which the considerations are determined with reference to the net asset value of the target group, and we are of the view that such selection of comparable transactions without further filtering would reveal a more general overview of the prevailing market practices regarding acquisition/disposal transactions and provide a meaningful reference on the recent acquisition/disposal transactions whose considerations are determined using a similar basis during the Comparison Period. We also consider that the sampling period of three months is adequate as it would provide a sufficient amount of samples for our analysis and reflect the more recent market practice of acquiring/disposing related business with reference to the net asset value of the target group under similar market conditions.

We have, on a best effort basis, identified 17 comparable transactions (the "**Comparable Transactions**") which we consider as exhaustive and representative based on the above criteria. Nevertheless, it should be noted that the business, operation and prospects of the Company are not the same as those of the companies of the Comparable Transactions and we have not conducted any in-depth investigation into their businesses, operations and prospects. Since (i) the business nature, financial performance, financial position and scale of each target company/group in the Comparable Transactions vary; (ii) some consideration basis and pricing aspects may be industry-specific; and (iii) in five out of the total 17 Comparable Transactions, the considerations of target companies/groups were determined solely based on the (adjusted) net asset value of the respective target company/group, our analysis below serves merely as an additional reference for the Independent Shareholders when considering the Equity Transfer Agreement and the transactions contemplated thereunder and is for illustrative purpose only. Set out below is a summary of the nature of the Comparable Transactions and the bases for determining their considerations.

Table 5: Summary of the nature of the Comparable Transactions and the bases for determining their considerations

Company name	Date of announcement	Nature of transaction	Basis of consideration (whether the consideration was solely determined based on (adjusted) net asset value of the target company/group)	Premium/ (discount) of consideration over/(to) the (adjusted) net asset value *(%)*
Ground International Development Limited (Stock code: 989)	26/3/2020	Disposal of a subsidiary which was principally engaged in the provision of guarantee services	With reference to the reasons for the disposal, the current financial position and operating conditions, the exit multiples of comparable market transactions and the consolidated net asset value of the target group (No)	(0.2)
Time Interconnect Technology Limited (Stock code: 1729)	24/3/2020	Acquisition of the target company which carried out manufacturing and sales of networking cables business and held properties in the PRC	With reference to the net asset value of the target group and the fair value gain of the properties held by the target group (No)	(5)
Times Neighborhood Holdings Limited (Stock code: 9928)	24/3/2020	Acquisition of the target company which was principally engaged in property management business	With reference to the net asset value of the target group, the book value of the shareholder loan of the target group and the reasons and benefits of the acquisition (No)	150.2

Company name	Date of announcement	Nature of transaction	Basis of consideration (whether the consideration was solely determined based on (adjusted) net asset value of the target company/group)	Premium/ (discount) of consideration over/(to) the (adjusted) net asset value *(%)*
Prosperity International Holdings (H.K.) Limited (Stock code: 803)	24/3/2020	Disposal of a subsidiary which is principally engaged in investment holding	With reference to the net asset value and the net liabilities value excluding the property development project of the target subsidiary, the total assets and liabilities of the target subsidiary, the net liabilities valuation of the target subsidiary including the property development project and the reasons for and benefits of the disposal (No)	146.3
King Stone Energy Group Limited (Stock code: 663)	24/3/2020	Disposal of an associate which was principally engaged in the business of marine engineering and the research and development of marine engineering equipment and technology in the PRC	With reference to the paid-up registered capital of the target company attributable to the group and the net asset value of the target company (No)	122.2
Sunshine 100 China Holdings Ltd (Stock code: 2608)	16/3/2020	Disposal of a subsidiary which was principally engaged in the business of real estate development	With reference to the unaudited net asset value of the target company, the valuation of the properties held by target company and the adjusted net asset value of the target company (No)	4.0

Company name	Date of announcement	Nature of transaction	Basis of consideration (whether the consideration was solely determined based on (adjusted) net asset value of the target company/group)	Premium/ (discount) of consideration over/(to) the (adjusted) net asset value *(%)*
China Jinmao Holdings Group Limited (Stock code: 817)	12/3/2020	Acquisition of the target company which was principally engaged in real estate information consulting and investment in the PRC	With reference to the adjusted net assets value of the target company (Yes)	(10)
Hao Tian Development Group Limited (Stock code: 474)	5/3/2020	Acquisition of the target company which was principally engaged in multimedia animation entertainment business, with primary focus on the development of licencing business	With reference to the net asset value and the business and prospects of the target (Yes)	0.3
CA Cultural Technology Group Limited (Stock code: 1566)	5/3/2020	Disposal of a subsidiary which was principally engaged in multimedia animation entertainment business, with primary focus on the development of licencing business	With reference to the net asset value of the target company and the business and prospects of the target company (Yes)	0.3
Kingbo Strike Limited (Stock code: 1421)	28/2/2020	Disposal of a subsidiary which was principally engaged in electrical works and general building engineering services	With reference to the net asset value of the disposal company and the business prospects of the disposal company (Yes)	0
Sino Gas Holdings Group Limited (Stock code: 1759)	27/2/2020	Acquisition of the target company which was principally engaged in natural gas transmission and sale of natural gas	With reference to the net asset value of the target (Yes)	15.2

Company name	Date of announcement	Nature of transaction	Basis of consideration (whether the consideration was solely determined based on (adjusted) net asset value of the target company/group)	Premium/(discount) of consideration over/(to) the (adjusted) net asset value *(%)*
Redco Properties Group Limited (Stock code: 1622)	18/2/2020	Acquisition of the target company which was principally engaged in real estate development and infrastructure projects in Philippines	With reference to the unaudited net asset value of the target company, the business prospects of the target company and the reasons for the acquisition (No)	510.7
Lamtex Holdings Limited (Stock code: 1041)	18/2/2020	Acquisition of the target company which operated the trading of metals (including import and export) in the PRC	With reference to the consolidated net asset value and total assets of the target group, the valuation of target company and the development and prospects of the target group (No)	323.2
Bison Finance Group Limited (Stock code: 888)	18/2/2020	Disposal of a subsidiary which was principally engaged in the insurance business relating to sports	With reference to the unaudited consolidated net asset value of the target company, the carrying value of the goodwill attributable to the target company and the vendor's undertaking to the purchaser about the net asset value of the target company (No)	48.3
Tianjin Tianbao Energy Co., Limited *(Note 2)* (Stock code: 1671)	17/2/2020	Acquisition of the target company which was principally engaged in the production and supply of steam in Tianjin, the PRC	With reference to the equity valuation, net asset value and the business prospects of the target group (No)	61.5

Company name	Date of announcement	Nature of transaction	Basis of consideration (whether the consideration was solely determined based on (adjusted) net asset value of the target company/group)	Premium/ (discount) of consideration over/(to) the (adjusted) net asset value *(%)*
GTI Holdings Limited (Stock code: 3344)	6/2/2020	Acquisition of the target company which was principally engaged in the business of industrial hazardous waste disposal	With reference to the net asset value and the valuation of the target company (No)	1,135.8
Star Properties Group (Cayman Islands) Limited (Stock code: 1560)	24/1/2020	Acquisition of the target company which held certain properties and various interests of business under the "Metropolitan" brand	With reference to the valuation of the properties and the net asset value of the target group (No)	(6.9)
			Minimum *(Note 3)*	**(10.0)**
			Maximum *(Note 3)*	**61.5**
			Average *(Note 3)*	**9.8**
			Median *(Note 3)*	**0.3**
The Company (Stock code: 265)	**26/3/2020**	**Disposal of 49% equity interest in the Target Company which is principally engaged in the provision of travel agent services in the PRC**	**With reference to the historical financial performance and position and prospect of the business of the Target Group, and the Recognised Carrying Amount**	**3.9**

Source: The website of the Stock Exchange

Notes:

1. We have excluded the announcement of the Company dated 26 March 2020 in relation to the Disposal to ensure the list of Comparable Transactions represents the market sentiment.

2. The English name is for identification purposes only.

3. We have excluded the Comparable Transactions of Times Neighborhood Holdings Limited (Stock code: 9928), Prosperity International Holdings (H.K.) Limited (Stock code: 803), King Stone Energy Group Limited (Stock code: 663), Redco Properties Group Limited (Stock code: 1622), Lamtex Holdings Limited (Stock code: 1041) and GTI Holdings Limited (Stock code: 3344) when arriving to these figures as we are of the view that they are outliers.

As shown in the above table, the considerations of the target companies/groups of five out of the total 17 Comparable Transactions were determined solely based on the (adjusted) net asset value of the respective target company/group, reflecting that it is a common market practice to determine the consideration of an acquisition/disposal transaction by referring to the (adjusted) net asset value of the target company/group. However, as shown above, the differences between the considerations of the Comparable Transactions and the respective (adjusted) net asset value of the target company/group are also very wide and may not offer a meaningful reference for the purpose of our analysis. In this regard, we are of the view that Comparable Transactions which represent a difference/premium of over 100% should be regarded as outliers as they are exceptional high compared to those of the other Comparable Transactions. As such, in order to avoid skewing our figures, we have excluded the Comparable Transactions of Times Neighborhood Holdings Limited (Stock code: 9928), Prosperity International Holdings (H.K.) Limited (Stock code: 803), King Stone Energy Group Limited (Stock code: 663), Redco Properties Group Limited (Stock code: 1622), Lamtex Holdings Limited (Stock code: 1041) and GTI Holdings Limited (Stock code: 3344) when determining the maximum, minimum, median and average figures of the Comparable Transactions.

After excluding the outliers, we noted that the considerations of the Comparable Transactions ranged from a discount of approximately 10.0% to a premium of approximately 61.5% to/over the respective (adjusted) net asset value of the target company/group, with the average and median premiums being approximately 9.8% and 0.3% respectively. The premium of approximately 3.9% represented by the Consideration over the Recognised Carrying Amount therefore falls within the range of the Comparable Transactions and is higher than the median and close to the average thereof.

In light of the above and given that the Consideration was determined after arm's length negotiations between the Vendor and OVCT, we consider that the Consideration is fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

b) Other terms of the Equity Transfer Agreement

In addition to the above, we have reviewed other principal terms of the Equity Transfer Agreement including but not limited to the terms of payment and the conditions precedent thereto as set out in the previous section of this letter, and we are not aware of any terms being unusual. In view of the above, we are of the view that the Equity Transfer Agreement and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

7. Possible financial impact of the Disposal

Upon Completion, the Group will cease to hold any equity interest in the Target Company and the Target Company will cease to be an associate of the Company.

The financial effects of the Disposal on the Group's earnings, working capital and net asset value are set out below. However, it should be noted that the analysis below is for illustrative purposes only and does not purport to represent how the financial position of the Group would be upon Completion. The actual gain or loss as a result of the Disposal to be recorded by the Company is subject to the actual carrying amount of the Group's interest in the Target Group on the date of Completion and the actual professional costs directly attributable to the Disposal.

a) Earnings

According to the unaudited pro forma financial information of the Group set out in Appendix III to the Circular, assuming the Disposal had been completed on 31 December 2019, the loss for the year ended 31 December 2019 would have decreased by approximately HK$13.1 million from approximately HK$24.0 million to HK$10.9 million.

b) Working capital

Since the Consideration of RMB320 million (equivalent to approximately HK$358.4 million) will be settled in cash by the purchaser to the Company, the Group shall have an immediate cash inflow of the same amount and hence its working capital position is expected to improve upon Completion.

c) Net asset value

The Consideration of RMB320 million (equivalent to approximately HK$358.4 million), which will immediately increase the Group's cash position upon Completion as discussed above, is expected to allow the Group to recognise an immediate gain on disposal of an associate of approximately HK$13 million (before tax and based on the Recognised Carrying Amount and the estimated professional costs directly attributable to the Disposal) upon Completion and hence improve the Group's net assets value.

Based on the above analysis, we noted that while the Disposal would have a positive effect on the Group's earnings, working capital position and net asset value.

RECOMMENDATION

Having considered the principal factors and reasons referred to above, our views are summarised below:

(i) the Group had been sharing the losses of the Target Group for the last four financial years because of the latter's loss-making position and deteriorating financial performance;

(ii) the business prospects of the Target Group may not be optimistic due to increasingly intense competition in the travel agency industry in the PRC and the current global market condition, especially aggravated by the material adverse impact caused by COVID-19;

(iii) the Disposal will improve the Group's financial position and provide flexibility for its operations and potential business expansions;

(iv) the net asset value of the Target Group is expected to continue to decrease due to shrinking cash flows from its operations given the current global market condition;

(v) the Implied P/B Ratio of approximately 1.04 times is within the range of the P/B Ratios of the Comparable Companies and above the median and average P/B Ratio thereof;

(vi) the premium represented by the Consideration over the Recognised Carrying Amount falls within the range of the Comparable Transactions and is higher than the median and close to the average thereof;

(vii) the Consideration was determined after arm's length negotiations between the Vendor and OVCT;

(viii) we have reviewed other principal terms of the Equity Transfer Agreement including but not limited to the terms of payment and the conditions precedent thereto, and are not aware of any terms being unusual; and

(ix) the Disposal would have a positive effect on the Group's earnings, working capital position and net asset value.

Having taken into consideration the factors and reasons as stated above, we are of the opinion that, despite the entering into of the Equity Transfer Agreement is not in the ordinary and usual course of business of the Group, the terms of the Equity Transfer Agreement and the transactions contemplated thereunder are on normal commercial terms or better, and are fair and reasonable so far as the Independent Shareholders are concerned, and that the Disposal is in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the resolution approving the Equity Transfer Agreement and the transactions contemplated thereunder at the EGM. We also recommend the Independent Shareholders to vote in favour of the resolution relating to the Equity Transfer Agreement and the transactions contemplated thereunder at the EGM.

Yours faithfully,
For and on behalf of
Pelican Financial Limited
Charles Li*
Managing Director

* *Charles Li is a responsible person registered under the SFO to carry out Type 6 (advising on corporate finance) regulated activity for Pelican Financial Limited and has over 30 years of experience in the accounting and financial services industry.*

1. FINANCIAL INFORMATION OF THE GROUP

The audited consolidated financial statements of the Group for each of the three years ended 31 December 2019, 2018 and 2017 are disclosed in the following documents which have been published on both the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.orientvictory.com.hk), and can be accessed by the links as follows:

– annual report of the Company for the year ended 31 December 2019 ("**FY2019**") published on 28 April 2020 (pages 50 to 133)

https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0428/2020042801398.pdf

– annual report of the Company for the year ended 31 December 2018 ("**FY2018**") published on 26 April 2019 (pages 102 to 242)

https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0426/ltn201904261175.pdf

– annual report of the Company for the year ended 31 December 2017 ("**FY2017**") published on 25 April 2018 (pages 90 to 190)

https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0425/ltn20180425787.pdf

2. STATEMENT OF INDEBTEDNESS

Borrowings

As at the close of business on 30 April 2020, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this Circular, the Group had outstanding borrowings of approximately HK$162,441,000, including secured bank borrowings of approximately HK$22,439,000 and unsecured other borrowings from non-controlling shareholders of subsidiaries and other related parties of approximately HK$140,002,000. Bank borrowings of HK$22,439,000 were secured by the Group's land and properties under development located in New Zealand, and guaranteed by Mr. Shi, a controlling shareholder of the Company, and the Group's subsidiary in New Zealand. In addition, the Group, as a lessee, had lease liabilities for the remainder of the relevant lease term amounting to HK$1,590,000. As at the Latest Practicable Date, the Group had unutilised banking facilities of HK$2,734,000.

Save as disclosed above or as otherwise mentioned herein, and apart from intragroup liabilities and normal accounts payables in the ordinary course of business as at 30 April 2020, the Group did not have any debt securities issued and outstanding, and authorised or otherwise created but unissued, and term loans, distinguishing between guaranteed, unguaranteed, secured (whether the security is provided by the issuer or by third parties) and unsecured, and other borrowings or indebtedness in the nature of borrowing of the Group including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits debentures, mortgages, charges, finance leases, hire purchase commitments, guarantees or other material contingent liabilities.

3. WORKING CAPITAL

The Directors are of the opinion that taking into account the Group's internal resources, cash flow from operations, the effect of the Disposal and the continuing availability of financing facilities available to the Group, the Group will have sufficient working capital for a period of at least 12 months from the date of this Circular.

4. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Group will continue to develop and expand its diversified tourism products and services businesses and the integrated development businesses, and continuously promote products and services upgrades so as to gradually form a competitive product portfolio to enhance the Group's overall competitiveness. The Disposal will release a large amount of capital to enable the Group to better allocate its resources to develop and expand these businesses, and contribute to its cash flow and financial position as well as to reduce the risk of having further losses and impairment derived from the Target Company. The Group will continue to seek for investing opportunities in relation to the diversified tourism products and services businesses and the integrated development businesses which have synergies with the current businesses of the Group. Looking ahead, the Group will continue to promote its products and services, as well as the integration of its products and services, with a view to creating a sustainable business model and striving for business growth in order to bring in largest returns for the Shareholders.

For the year ending 31 December 2020, it is expected by the Group that the "Travel +" (Travel + Integrated Development) will be the main revenue driver of the Group and the Group will develop "Travel +" business focusing on investment and/or acquisition in tourism-related resources and travel-related property development projects with a view to increasing its market share in the tourism market and integrated development, aiming to turn the Group into a comprehensive tourism-related service provider.

As far as the Group's businesses are concerned, the coronavirus outbreak may cause decline in tourism-related sales as travelling is restricted and the business of some tourism attractions is suspended. Management of the Company consider that such impact is temporary and could be reduced as the Group's tourism-related operations are expected to be gradually resumed upon cessation of the coronavirus outbreak. Based on the information currently available, the management estimated that the coronavirus outbreak may impact the procurement willingness and payment abilities of certain small and medium-sized customers, mainly travel agents, and as a result, may lead to impairment losses on trade receivables and sales reduction from these customers in future periods.

5. CAPITAL MANAGEMENT

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise Shareholders' value. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to Shareholders, return capital to Shareholders or issue new Shares.

6. MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

Set out below is the management discussion and analysis of the Group for the three years ended 31 December 2019 (the "**Reporting Periods**"). The financial data in respect of the Group, for the purpose of this Circular, is derived from the consolidated financial statements of the Company for the Reporting Periods.

(a) Business and financial review for FY2019

Business Review

Diversified Tourism Products and Services Business

Diversified tourism products and services business remains the core business of the Group. Despite the slowdown of global economic growth and the intense competition resulting from the rise of on-line travel agencies, the Group recorded a significant growth of revenue in the diversified tourism products and services business. The driver of the growth of revenue mainly came from Dongsheng (Beijing) International Travel Co., Limited* (東勝(北京)國際旅行社有限公司) ("**Dongsheng Beijing**"), a subsidiary of the Group acquired in 2018, which is principally engaged in the tourism business in the PRC and owns an outbound travel licence. Besides, during FY2019, the Group acquired Beijing Jinlv Shidai Tourism Co., Limited* (北京金旅時代旅行社有限公司) ("**Jinlv Shidai**"), a non-wholly owned subsidiary of the Company, which is principally engaged in the sales of air tickets and provision of tourism-related services in the PRC. As a result, the source of revenue in the diversified tourism products and services business, geographically, has been further expanded to both Hong Kong and the PRC during FY2019.

Revenue of the diversified tourism products and services business increased sharply by approximately HK$147.49 million from approximately HK$248.34 million for FY2018 to approximately HK$395.83 million for FY2019. The loss of the diversified tourism products and services business increased by approximately HK$5.32 million from approximately HK$5.29 million for FY2018 to approximately HK$10.61 million for FY2019. The increase in loss was mainly due to the increase in staff costs under the selling, general and administrative expenses incurred by the existing subsidiaries which have expanded their scale of operations in the PRC, and the increase in impairment losses on certain trade receivables and prepayments, deposits and other receivables.

Integrated Development Businesses

The Group has been operating in the integrated development businesses since the acquisition of the entire interest in a piece of land located at corner Miller Rise, Bankside Road, Millwater Parkway, Silverdale, Auckland, New Zealand with an aggregate area of approximately 15,742 sq.m. in 2017. The Group plans to develop the piece of land in certain phases and the first phase as self-serviced and residential units was completed and its demonstration unit has been available for potential buyers since the fourth quarter of 2019. Several units were sold during the first quarter of 2020. It is expected that development of the second phase would be commenced after the sale of the first phase of residential zone. On the other hand, the Group acquired certain companies in the PRC, namely Zhangjiakou Dakun Zhifang Real Estate Development Co., Limited* (張家口大坤直方房地產開發有限公司) ("**Dakun Zhifang**"), Hebei Tu Men Travel Development Limited* (河北土門旅遊開發有限公司) ("**Tu Men Travel**"), Hebei Yidao Town Real Estate Development Limited* (河北驛道小鎮房地產開發有限公司) ("**Yidao Town Real Estate**") and Zhangjiakou Wan Long Real Estate Tourism Company Limited* (張家口萬龍置業旅遊有限公司) ("**Wan Long**") between December 2018 and March 2019, which are principally engaged in the operation and management of tourist attractions and culture spots, and the developments of tourism-related accommodation facilities in the PRC. During FY2019, Tu Men Travel, for the first time, contributed revenue of approximately HK$49.39 million to the Group, while Dakun Zhifang, Yidao Town Real Estate and Wan Long are under planning and development stage. In addition, the Group entered into the business of providing marketing, event planning and consultancy services during FY2019, which contributed revenue of approximately HK$30.78 million to the Group during FY2019.

The profit of the integrated development businesses increased by approximately HK$28.56 million from the loss of approximately HK$0.06 million for FY2018 to a profit of approximately HK$28.50 million for FY2019. The increase in profit was mainly due to the commencement of operations of the above-mentioned business, and the recognition of valuation gains on investment properties located in the PRC and New Zealand.

Investment Holding Business

Investment holding business of the Group mainly represented the equity interest in the Target Company, an associate of the Group. The Target Company engages in the provision of travel agent services in the PRC, including domestic travel, outbound travel and inbound travel, and provision of brand name for the franchisees. In the view that the Target Company recorded consolidated net losses for the four years ended 31 December 2016, 2017, 2018 and 2019 and that, during the year ended 31 December 2016, the Target Company had recorded a significant impairment on intangible assets, it was resolved by the Board on 26 March 2020 to proceed with the disposal of the Target Company with a view to improving the Group's financial status and reducing the risk of having further losses and impairment derived from the Target Company. In addition, the Company is of the view that through the disposal, the Company will be able to optimise and adjust its asset structure to increase the liquidity of assets, improve the efficiency of the use of the Company's assets and gain certain benefits therefrom.

Financial Services Business

The Group had disposed of all of its interests in licensed corporations which carry the Type 4 (Advising on Securities), Type 6 (Advising on Corporate Finance) and Type 9 (Asset Management) regulated activities under the SFO during FY2019. The Board had put effort to improve its sources of revenue and operating performance in the past years, but the outcome did not meet the Board's expectation. In addition, the financial services business was not a core business of the Group. In order to allocate resources for the better interests to the Shareholders, the Group ceased to engage in the financial services business since May 2019.

No revenue was generated from the financial services business for FY2019.

Financial Analysis

Operating Performance

a. Continuing operations

The continuing operations of the Group are the provision of diversified tourism products and services, the provision of integrated development businesses and the investing holding.

Analysis by nature of revenue:

	2019	
	HK$'000	*%*
Sales of air tickets	311,157	65.37
Sales of diversified tourism products, provision of travel and other related services and commission income	84,671	17.79
Sales of products and service income from tourism attractions	49,388	10.38
Marketing, event planning and consulting services	30,783	6.46
	475,999	100.00

The Group recorded revenue of approximately HK$476.00 million for FY2019, representing an increase of approximately 91.67% as compared to approximately HK$248.34 million (restated) for FY2018.

The revenue of the Group for FY2019 increased sharply as compared with FY2018. The increase in the Group's revenue was mainly attributable to the increase in revenue from both of the diversified tourism products and services segment and the integrated development segment.

Revenue generated from the diversified tourism products and services segment accounted for approximately 83.16% of total revenue of the Group for FY2019. Under the diversified tourism products and services segment, revenue increased by approximately 59.39% from approximately HK$248.34 million for FY2018 to approximately HK$395.83 million for FY2019. In particular, Dongsheng Beijing, a subsidiary acquired during FY2018, contributed revenue of approximately HK$166.94 million to the Group for FY2019.

Revenue from the integrated development segment accounted for approximately 16.84% of total revenue of the Group for FY2019. Tu Men Travel, a subsidiary acquired by the Group in December 2018, which engages in the operation and management of tourist attractions and culture spots in the PRC, contributed to the Group a full year operating revenue of approximately HK$49.39 million for FY2019. In addition, the Group entered into the business of providing marketing, event planning and consultancy services during FY2019, which contributed revenue of approximately HK$30.78 million to the Group for FY2019.

Gross profit

The Group recorded a gross profit of approximately HK$49.13 million for FY2019, representing an increase of approximately 176.17% as compared to FY2018. The increase in gross profit was mainly attributable to (i) the increase in revenue for FY2019; and (ii) a higher gross profit percentage generated from the businesses of Tu Men Travel and provision of marketing, event planning and consultancy services during FY2019 as compared to the diversified tourism products and service segment of the Group.

The gross profit margin was approximately 10.32% for FY2019. The increase in gross profit margin was mainly attributable to the higher gross profit margin of the integrated development segment which commenced operations during FY2019.

Loss for the year

Loss from continuing operations of approximately HK$22.92 million was recorded for FY2019, representing a decrease of approximately 59.83% as compared to FY2018. The decrease was primarily attributable to the net effect of the following:

i. the increase in revenue and gross profit during FY2019;

ii. the decrease in share of losses of associates of the Group by approximately HK$6.34 million from approximately HK$17.31 million for FY2018 to approximately HK$10.97 million for FY2019 due to the shrinkage in the operating scale of the Target Company;

iii. the recognition of valuation gains on investment properties located in the PRC and New Zealand of approximately HK$28.03 million based on valuations performed by independent professionally qualified valuers; and

iv. the increase in selling, general and administrative expenses by approximately HK$18.53 million from approximately HK$60.74 million (restated) for FY2018 to approximately HK$79.27 million for FY2019 mainly due to the net effect of the increases in depreciation of other property, plant and equipment and right-of-use assets, staff costs and impairment losses on the trade receivables and prepayments, deposits and other receivables by approximately HK$7.41 million, HK$12.23 million and HK$7.81 million respectively for FY2019 and the decrease in total minimum lease payments for leases previously classified as operating leases under HKAS 17 of approximately HK$6.37 million for FY2019.

b. Discontinued operations

The Group discontinued the operations of financial services segment in May 2019.

Revenue

There was no revenue generated from the financial services segment for FY2019.

There was no gross profit generated from the financial services segment for FY2019.

Loss for the year

The loss of the financial services business for FY2019 was approximately HK$1.06 million. The decrease in loss was mainly due to the decrease in selling, general and administrative expenses during FY2019.

Asset Structure

As at 31 December 2019, assets of the Group included other property, plant and equipment, investment properties, intangible assets, lease prepayments, goodwill, interests in associates, other financial assets, inventories, trade receivables, prepayments, deposits and other receivables, and restricted bank deposits and cash and cash equivalents, details of which are set out below:

i. Other property, plant and equipment of approximately HK$132.17 million as at 31 December 2019 mainly represented properties and other equipment of the tourist attractions and culture spots owned by Tu Men Travel, a subsidiary of the Group, with a net carrying amount of approximately HK$125.21 million. The increase was attributable to the transfer of land use rights of Tu Men Travel from lease prepayments as at 31 December 2018 to property plant and equipment upon the adoption of HKFRS 16.

ii. Investment properties of approximately HK$159.36 million as at 31 December 2019 represented fair values of land under development located in the PRC and New Zealand owned by the Group.

iii. Intangible assets were approximately HK$7.81 million as at 31 December 2019, which consisted of travel licences, software and other intangible assets. The decrease in intangible assets were mainly attributable to the net effect of (i) the disposal of securities licences with a net carrying amount of approximately HK$16.39 million through the disposal of financial services business; and (ii) the acquisition of a travel licence and other intangible assets of approximately HK$6.10 million through the acquisition of Jinlv Shidai.

iv. Goodwill was approximately HK$15.30 million as at 31 December 2019, which were derived from the acquisition of Tu Men Travel and Jinlv Shidai.

v. Interests in associates were approximately HK$343.52 million as at 31 December 2019, which were mainly attributable to the intangible assets, including trademark and distribution network, owned by the Target Company. The decrease in the interests in associates was mainly due to the change of Dakun Zhifang becoming a subsidiary of the Group.

vi. There was no other financial assets as at 31 December 2019. As at 31 December 2018, other financial assets represented a loan to Dakun Zhifang, a then associate of the Group. Upon the change of Dakun Zhifang becoming a subsidiary of the Group, the loan was eliminated on the Group's consolidated accounts.

vii. Inventories were approximately HK$193.36 million as at 31 December 2019, which mainly represented the properties and certain pieces of land under development in New Zealand and the PRC of approximately HK$51.83 million and approximately HK$141.22 million respectively. The increase in inventories was mainly due to the payment for acquisition of a piece of land in the PRC during FY2019.

viii. Trade receivables were approximately HK$53.88 million as at 31 December 2019, which were mainly attributable to the diversified tourism products and services segment with an aggregate amount of approximately HK$43.08 million.

ix. Prepayments, deposits and other receivables were approximately HK$162.21 million as at 31 December 2019, which mainly represented a loan to the Target Company of approximately HK$36.07 million, prepayments for development of tourism attraction projects of approximately HK$34.88 million and prepayment on a piece of land in the PRC of approximately HK$61.66 million. The increase in prepayments, deposits and other receivables was mainly due to the above-mentioned prepayment on a piece of land in the PRC.

x. The aggregated amount of restricted bank deposits and cash and cash equivalents were approximately HK$120.93 million, of which approximately HK$96.93 million, approximately HK$0.72 million and approximately HK$8.54 million were denominated in Renminbi ("**RMB**"), New Zealand dollars ("**NZD**") and the United States dollars ("**USD**"), respectively.

Liability Structure

As at 31 December 2019, liabilities of the Group mainly included trade payables, other payables and accruals and borrowings, details of which are set out below:

i. Trade payables were approximately HK$40.34 million as at 31 December 2019, which were mainly attributable to the diversified tourism products and services segment with an aggregate amount of approximately HK$26.71 million.

ii. Other payables and accruals were approximately HK$278.18 million as at 31 December 2019, which mainly represented amounts due to related parties of approximately HK$125.47 million, consideration payable regarding the acquisition of Tu Men Travel of approximately HK$40.87 million and land and construction costs payable of approximately HK$39.50 million.

iii. Short-term borrowings were approximately HK$17.94 million as at 31 December 2019.

iv. Long-term borrowings were approximately HK$109.39 million as at 31 December 2019.

Liquidity and Financial Resources

During FY2019, the Group's operations and investments have continued to be mainly supported by internal resources and borrowings. In addition, proceeds raised from the disposal of subsidiaries and top-up placing provided extra funding to the Group. Other than the funding assigned to the specific projects, the usages of funding are monitored by the Company. As at 31 December 2019, the aggregated amount of cash and cash equivalents and restricted bank deposit of the Group were approximately HK$120.93 million, representing a decrease of approximately 39.74% as compared to FY2018.

The decrease in cash and cash equivalents and restricted bank deposit was mainly attributable to the payment for acquisition of certain pieces of land in the PRC of approximately HK$128.32 million.

As at 31 December 2019, short-term borrowings of the Group of approximately HK$17.94 million were denominated in NZD and secured borrowings from a bank in New Zealand, bearing interest at a rate of 3.99% per annum and repayable within a year.

Long-term borrowings of the Group of approximately HK$109.39 million were denominated in RMB and borrowings from non-controlling shareholders of a subsidiary of the Group, which were unsecured, interest-free and repayable after one year.

As at 31 December 2019, the Group had a current ratio of approximately 1.49, and the gearing ratio was approximately 1.35% (calculated by dividing net debt (defined as short-term borrowings and long-term borrowings, net of cash and cash equivalents) by total equity).

Foreign Exchange Exposure

Majority of the subsidiaries of the Company operate in the PRC with most of the transactions denominated and settled in RMB. Fluctuations of exchange rates would impact the Group's net asset value due to currency translation in the preparation of the Group's consolidated accounts. If RMB appreciates/depreciates against HK$, the Group would record a(n) increase/decrease in the Group's net asset value. During FY2019, the Group has not used derivative financial instruments to hedge against its foreign currency risk.

Capital Commitments

As at 31 December 2019, the Group had capital commitments relating to the investments in equity securities and developments of investment properties of approximately HK$536.39 million in aggregate.

Material Acquisition, Investments and Disposal

a. Change of Dakun Zhifang from an associate to a subsidiary of the Group

Reference is made to the announcements of the Company dated 12 June 2018 and 7 August 2018 in relation to, inter alia, the acquisition of 40% equity interest in Dakun Zhifang.

Pursuant to a shareholders' resolution of Dakun Zhifang passed on and the revised articles of association dated 29 March 2019, the composition of the board of directors of Dakun Zhifang has been amended (the "**Amendment**"). Pursuant to the Amendment, the directors of the Company consider that the Group has obtained the power to control Dakun Zhifang through its power to control the board of directors of Dakun Zhifang from that date onwards. 40% equity interest of Dakun Zhifang was acquired by the Group on 7 August 2018 and before the Amendment, Dakun Zhifang was accounted for using the equity method in the Group's consolidated financial statements.

The operating results and financial performance of Dakun Zhifang have been consolidated into the Group's financial statements as a subsidiary since 29 March 2019 (the date of becoming a subsidiary of the Group).

b. Acquisition of 51% equity interest in Jinlv Shidai

Reference is made to the announcements of the Company dated 18 November 2019 and 4 February 2020 in relation to, inter alia, the acquisition of 51% equity interest in Jinlv Shidai.

Pursuant to an agreement dated 18 November 2019 entered into between, among others, certain independent third parties of the Group and Beijing Huayu Tourism Development Co., Limited* (北京華譽旅遊開發有限公司) ("**Huayu**"), an indirect wholly-owned subsidiary of the Company, Huayu acquired 51% equity interest in Jinlv Shidai from the third parties for cash consideration of approximately RMB0.41 million (equivalent to approximately HK$0.46 million). The transaction was completed in November 2019 and Jinlv Shidai became a subsidiary of the Group since then. Jinlv Shidai engages in sales of air tickets and provision of other tourism-related services.

c. *Disposal of 100% equity interest in Orient Victory International Financial Company Limited ("**OVIF**")*

Reference is made to the announcement of the Company dated 18 April 2019 in relation to the disposal of 100% equity interest in OVIF.

Pursuant to an agreement dated 18 April 2019 entered into between Broad Vantage Limited ("**Board Vantage**"), an indirect wholly-owned subsidiary of the Company, and Mr. Shi, a controlling shareholder of the Company, Broad Vantage transferred 100% equity interest in OVIF to Mr. Shi for cash consideration of HK$15.90 million. The principal activities of OVIF and its subsidiaries are the provision of financial services through the licensed corporations which carry the Type 4 (Advising on Securities), Type 6 (Advising on Corporate Finance) and Type 9 (Asset Management) regulated activities under the SFO. Completion of the disposal of 100% equity interest in OVIF took place on 15 May 2019 in accordance with the terms and conditions of the agreement.

The consolidated results of the OVIF and its subsidiaries for the period from 1 January 2019 to 15 May 2019 have been presented as discontinued operation in the Group's consolidated financial statements and the comparative figures of the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, and corresponding notes have been restated to show the discontinued operation separately from continuing operations.

Pledge of Assets

As at 31 December 2019, the Group pledged the entire equity interest in Shenzhen Dong Sheng Hua Yu Commercial Management Company Limited* (深圳東勝華譽商業管理有限公司) ("**Shenzhen Dong Sheng Hua Yu**"), an indirect wholly-owned subsidiary of the Company, and the entire issued share capital of Donghui Hong Kong Holdings Limited ("**Donghui HK**"), an indirect wholly-owned subsidiary of the Company, to secure the issue of the perpetual convertible securities issued on 30 March 2016 in an aggregate principal amount of approximately HK$70.00 million. Please refer to the Company's announcement dated 30 March 2016 and the Company's circular dated 29 January 2016 for details. In addition, the Group's bank loans were secured by the Group's lands and properties under development located in New Zealand, and guaranteed by the controlling shareholder of the Company, Mr. Shi and the Group's subsidiary in New Zealand.

Material Contingent Liabilities

As at 31 December 2019, the Group had no material contingent liabilities.

Number and Remuneration of Employees

As at 31 December 2019, the total number of employees of the Group was approximately 270. Staff costs (including Directors' emoluments) amounted to approximately HK$41.91 million was incurred for FY2019.

In addition to salary, other fringe benefits such as medical insurance and mandatory provident fund schemes for employees, are offered to all employees of the Group. Performance of the employees is normally reviewed on an annual basis with adjustment to their salaries comparable to that of the market. Individual employees may also receive a discretionary bonus at the end of each year based on their individual performance.

(b) Business and financial review for FY2018

Business Review

Diversified Tourism Products and Services Business

Diversified tourism products and services business continued to be the main stream of the Group's revenue. In 2018, despite facing all challenges from slowing down economic growth, decline in demand of high cabin corporate travel and intense competition from on-line travel agencies, the Group kept on making progress in diversified tourism products and services business with a slightly increase in turnover of approximately 5.10% from approximately HK$236.29 million for FY2017 to approximately HK$248.34 million for FY2018. The loss of the diversified tourism products and services business increased from approximately HK$2.14 million for FY2017 to approximately HK$5.29 million for FY2018. The increase in loss was mainly due to the acquisition of a subsidiary, Dongsheng Beijing, which engage in the provision of the travel-related services in the PRC during FY2018. As this subsidiary is in the initial development stage, there was an operating loss for FY2018. This led to the negative effect on the results of the diversified tourism products and services business.

The competition in diversified tourism products and services business was still keen and the prices of the air-tickets and other services were facing pressure. The stability in turnover is mainly due to the experienced sales and marketing staff who capture of many new customers who are not only the individual but also the corporate clients, in relation to certain high profitable tourism products, including MICE (Meeting, Incentives, Conferences and Exhibitions) services, cruise services and hotel booking services.

In order to promote diversified tourism products and services business, the Group has worked with various global business partners to establish the travel management solutions which will provide effective and efficient scheme tailor-made to the needs of the Group's corporate clients. In addition, the Group has also sponsored its staff to attend tourism-related courses operated by well-known institutes in order to enhance their knowledge, service quality and service standards tourism and travel-related business.

Integrated Development Business

The Group started to operate the integrated development business since the completion of the acquisition of a piece of land in New Zealand since 2017. The Group planned to develop this piece of land in certain phases and the first phase is self-serviced units and residential units. During FY2018, the Group expanded its market shares by completing the acquisition of certain companies in the PRC, namely Dakun Zhifang, Tu Men Travel and Yidao Town Real Estate. As the integrated development project in New Zealand is under progress and the acquisition of companies in the PRC, Tu Men Travel and Yidao Town Real Estate, was only completed in the second half of FY2018, there was no revenue recorded for FY2018. The loss of integrated development business was slightly decreased from approximately HK$0.08 million for FY2017 to approximately HK$0.06 million for FY2018.

Given (i) the first phase of New Zealand project is expected to be completed in the second half of 2019; and (ii) the acquisition of Dakun Zhifang, Tu Men Travel and Yidao Town Real Estate having been completed, the Board believes that additional revenue would be brought to the Group for FY2019 and the operating performance will be improved accordingly.

Financial Services Business

The Group owns the licensed corporations which carry on Type 4 (Advising on Securities), Type 6 (Advising on Corporate Finance) and Type 9 (Asset Management) regulated activities under the Securities Future Ordinances (Chapter 571 of the Laws of Hong Kong). In 2018, the uncertainty due to the on-going Sino-US Trade War has brought negative effect to the global capital market. The turnover of the financial services business suffered from a deteriorate impact. The turnover of financial services business decreased significantly from approximately HK$1.74 million for FY2017 to approximately HK$0.33 million for FY2018, representing a decrease of approximately 81.03%. The loss of financial services business was narrowed from the loss of approximately HK$2.80 million for FY2017 to the profit of approximately HK$0.49 million for FY2018. The decrease in loss was mainly due to the disposal of a subsidiary named MAAM Limited at gain and reduction in administration expenses during FY2018.

As the capital market is characterised by turbulence and intranquility, in order to get survival in the industry, the Group has put effort to resharp the financial platform and services to the Group's ultra high net worth individual and institutional clients. The Group expects the effect in the financial and equity market from the on-going Sino-US Trade War will be minimised its importance gradually. The Board will keep caution on the market situation and alter the business strategy along with the market conditions.

Investment Holding Business

Investment holdings business of the Group mainly represents the interests in associates of the Group. The Target Company, one of the Group's associates engages in the provision of tourism-related and ticket-sales-related services and provision of brand name used by the franchisees in the PRC. As the economy growth in the PRC was not as rapid as few years ago and the demand of tourism in local and in overseas has been slowing down gradually. Despite this associate adopts cost control policies strictly, it still suffered from loss for FY2018, which were mainly due to the losses on disposal of a subsidiary and an associate recorded by this associate. As a result, the share of losses of associates were recorded a significant increase of approximately 28.03% from approximately HK$13.52 million for FY2017 to approximately HK$17.31 million for FY2018.

Jewellery Business

The Group ceased to engage in the jewellery business since September 2018. The jewellery business was not a core business of the Group and the Board did not expect that this business will be the meaningful driver of or contributor to the operating results of the Group with reference to its performance in previous years.

The turnover of jewellery business was slightly increased from approximately HK$26.54 million for FY2017 to approximately HK$26.98 million for FY2018, representing an increase of approximately 1.66%. The loss of jewellery business was improved from the loss of approximately HK$3.13 million for FY2017 to the profit of approximately HK$2.10 million for FY2018. The decrease in loss was mainly due to the gain on disposal of jewellery business of approximately HK$2.85 million and eight months results was recorded in FY2018 while twelve months results was recorded for FY2017.

Financial Analysis

a. *Operating Performance*

Continuing operations

The continuing operations of the Group are the provision of diversified tourism products and services, the provision of integrated development business, the provision of financial services and investment holding business.

Turnover

Revenue was approximately HK$248.67 million for FY2018 while it was approximately HK$238.03 million (restated) for FY2017, representing an increase of approximately 4.47%.

	2018	
	HK$'000	*%*
Diversified tourism products and services	248,342	99.87
Financial services	330	0.13
Total	248,672	100.00

The turnover of the Group increased slightly as compared with 2017. The increase in the Group's turnover was primarily contributed from the increase in turnover from the diversified tourism products and services segment.

The turnover generated from the diversified tourism products and services segment represented approximately 99.87% of total turnover of the Group in FY2018, while it represented approximately 99.27% of total turnover of the Group in 2017. Under the diversified tourism products and services segment, the turnover was increased by approximately 5.10%, which amounted from approximately HK$236.29 million in 2017 to approximately HK$248.34 million in FY2018.

The turnover generated from the financial services segment represented approximately 0.13% of total turnover of the Group in FY2018, while it represented approximately 0.73% of total turnover of the Group in 2017. The turnover was decreased by approximately 81.03%, which amounted from approximately HK$1.74 million in 2017 to approximately HK$0.33 million in FY2018. The decrease in turnover is mainly due to the facts that the uncertainty of the on-going Sino-US Trade War which has brought the negative effect to the global capital market.

Gross profit

The gross profit margin (excluding the financial service income) was approximately 7.16% for FY2018 as compared with approximately 7.18% for FY2017. The decrease in gross profit margin was mainly attributed to the increase in cost of sales in diversified tourism products and services business such as costs of tickets, but the increase in cost of sales cannot be shifted to customers.

Loss for the year

A loss from continuing operations of approximately HK$59.99 million was recorded for FY2018 as compared with a loss of approximately HK$52.90 million for FY2017, representing an increase of approximately 13.40%. The increase in loss were primarily attributable to:

i. the increase in the share of losses of associates of the Group by approximately HK$3.79 million from approximately HK$13.52 million for FY2017 to approximately HK$17.31 million for FY2018 due to the losses on disposal of a subsidiary and an associate in aggregate of approximately HK$13.64 million recorded by an associate;

ii. the increase in finance costs by approximately HK$4.72 million from net exchange gain of approximately HK$2.55 million for FY2017 to net exchange loss of approximately HK$2.17 million arising from RMB saving deposits for FY2018 due to the depreciation of RMB during FY2018;

iii. the increase in other income by approximately HK$1.03 million from approximately HK$4.37 million for FY2017 to approximately HK$5.40 million for FY2018 mainly due to the interest income from a loan due from an associate calculated at an effective interest rate; and

iv. the increase in gain on disposal of a subsidiary from HK$Nil for FY2017 to approximately HK$0.49 million for FY2018 due to the disposal of an inactive company incorporated in the Cayman Islands at a cash consideration of US$1 (equivalent to approximately HK$8) during FY2018.

Geographical information

The principal source of turnover from continuing operations of the Group was derived from the diversified tourism products and services segment and the turnover of this segment which accounted for approximately 98.67% of the Group's total turnover were generated from Hong Kong for FY2018.

Discontinued operation

The discontinued operation of the Group was the jewellery business.

The turnover generated from the jewellery business was increased by approximately 1.66%, which amounted from approximately HK$26.54 million for FY2017 to approximately HK$26.98 million in FY2018. The increase in turnover is mainly due to the facts that the negative effect of the blocked fences along the road in front of the flagship store in Nanjing has been removed gradually.

The gross profit margin of the trading and retail of jewellery segment was approximately 22.18% for FY2018 as compared with approximately 23.06% for FY2017. The decrease in gross profit margin was mainly due to the increase in cost of jewellery and other direct costs, but the increase in cost of sales cannot be shifted to customers.

The profit of the jewellery business for FY2018 was approximately HK$2.10 million as compared with a loss of approximately HK$3.13 million for FY2017, representing an increase of approximately 167.09%. The increase in profits were attributable to the gain on disposal of the jewellery business of approximately HK$2.85 million and the decrease in operating loss by approximately HK$2.15 million for FY2018.

b. Asset Quality

On 31 December 2018, the assets of the Group mainly included cash and cash equivalents, restricted bank deposits, trade receivables, prepayments, deposits and other receivables, inventories, interests in associates, other financial assets, intangible assets, lease prepayments and property, plant and equipment. The aggregated amount of cash and cash equivalents and restricted bank deposits were approximately HK$200.67 million, of which approximately HK$34.41 million, approximately HK$0.73 million and approximately HK$0.95 million were denominated in RMB, NZD and USD, respectively.

On 31 December 2018, the amount of trade receivables of approximately HK$25.58 million were mainly due from the customers of a subsidiary of the Company, named Four Seas Tours Limited, which is one of the mostly well-known and large travel related enterprises in Hong Kong. The amount of its trade receivables with age below 90 days was approximately HK$23.06 million, which represented approximately 90.16% of total trade receivables on 31 December 2018.

On 31 December 2018, the amount of prepayments, deposits and other receivables were approximately HK$81.68 million, which mainly represented the loans to associates of approximately HK$62.90 million, prepayments on a carnival tourism project of approximately HK$6.76 million and prepayments on an acquisition cost of approximately HK$4.63 million.

On 31 December 2018, the amount of inventories was approximately HK$69.99 million, which mainly represented a piece of land in New Zealand of approximately HK$59.65 million.

On 31 December 2018, interests in associates amounted to approximately HK$391.25 million, which was mainly attributable to the intangible assets, including trademark and distribution network, owned by an associate. The decrease in the interests in associates were due to the losses on disposal of a subsidiary and an associate in aggregate of approximately HK$13.64 million recorded by an associate during FY2018.

On 31 December 2018, other financial assets was approximately HK$71.06 million, which representing a loan to an associate, Dakun Zhifang, with principle amount of approximately RMB71.10 million (equivalent to approximately HK$80.95 million) which is unsecured, non-interest-bearing and repayable on 21 October 2021.

On 31 December 2018, intangible assets was approximately HK$18.13 million. Intangible assets includes securities licence, travel licence and software. The increased in intangible assets which mainly represented the travel licence of approximately HK$1.77 million acquired through the acquisition of a subsidiary, Dongsheng Beijing, during FY2018.

On 31 December 2018, lease prepayments were approximately HK$27.68 million, which represented the land use rights of approximately HK$27.68 million acquired through the acquisition of a subsidiary, Tu Men Travel, during FY2018.

On 31 December 2018, property, plant and equipment was approximately HK$103.58 million, which mainly represented the buildings and other equipment of approximately HK$102.21 million acquired through the acquisition of a subsidiary, Tu Men Travel, during FY2018.

c. Liability Structure

On 31 December 2018, the liabilities of the Group mainly included trade payables, other payables and accruals and short-term borrowings. The amount of trade payables amounted to approximately HK$26.70 million. The amount of the trade payables with age below 90 days was approximately HK$26.70 million, which represented approximately 100.00% of the total trade payables on 31 December 2018.

On 31 December 2018, other payables and accruals was approximately HK$170.21 million, which mainly represented amounts due to related parties of approximately HK$51.00 million, consideration payable regarding the acquisition of Tu Men Travel and Yidao Town Real Estate of approximately HK$42.24 million and land and construction costs payable of approximately HK$45.84 million.

Liquidity and Financial Resources

During FY2018, the Group's operations and investments continued to be mainly financed by internal resources and short-term borrowings. In addition, proceeds raised from the disposal of subsidiaries was an extra funding to the Group. Other than the funding assigned to the specific projects, the usage of funding are monitored by the Company. On 31 December 2018, the aggregated amount of the cash and cash equivalent and the restricted bank deposit of the Group were to approximately HK$200.67 million, representing a decrease of approximately 49.98% as compared to FY2017.

The decrease of cash and cash equivalent and the restricted bank deposit was mainly attributable to (i) the payment of approximately HK$61.61 million as the acquisition costs of companies, Dakun Zhifang, Tu Men Travel and Yidao Town Real Estate, in the PRC; (ii) an interest-free loan of approximately HK$80.95 million lend to an associate, Dakun Zhifang; and (iii) the payment of the distribution of PCS of approximately HK$26.08 million issued in March 2016 and October 2016.

On 31 December 2018, the short-term borrowings of the Group was approximately HK$13.23 million, all of which were denominated in RMB, representing the borrowing from related parties of approximately HK$13.23 million, which is unsecured, bearing interest at a rate of 4.35% per annum and repayable within one year.

On 31 December 2018, the Group had a current ratio of approximately 1.79. The gearing ratio was not applicable as the Group had net cash and cash equivalents of HK$175.65 million on 31 December 2018.

Foreign Exchange Exposure

Since the transactions of the Group were mainly denominated in HK$, RMB and NZD, the Group is exposed to foreign currency risk on the cash and cash equivalents which are denominated in RMB and NZD whose functional currency is HK$. During FY2018, the Group had reviewed the hedged product in respect of foreign currency exposure of NZD but no hedging action was performed by the Group. The Directors will monitor the related foreign currency exposure and are prepared to take appropriate hedging action as and when necessary.

Capital Commitments

On 31 December 2018, the Group had capital commitments relating to investment in equity securities of approximately HK$82.66 million (equivalent to approximately RMB72.60 million).

Material Acquisition, Investments and Disposal

a) Acquisition of 100% Interest in Dongsheng Beijing

Pursuant to an agreement dated 3 January 2018 entered into between OVCT and Huayu, an indirect wholly-owned subsidiary of the Company, OVCT transferred 100% interest in Dongsheng Beijing to Huayu at a cash consideration of approximately HK$1.20 million. All conditions precedent set out in the agreement have been fulfilled and completion of the acquisition of 100% interest in Dongsheng Beijing took place on 14 May 2018 in accordance with the terms and conditions of the agreement.

b) *Acquisition of 40% Interest in Great Ascent Limited ("**Great Ascent**") and Jiangsu Yiersam Real Estate Development Co., Limited* (江蘇一二三房地產開發有限公司) ("**Yiersan**")*

Reference is made to the circular of the Company dated 10 October 2018 in relation to the acquisitions of 40% interest in each of Great Ascent and Yiersan (collectively the "**Hongshan Acquisition**"), the Hongshan Acquisition was approved by the independent Shareholders of the Company in the extraordinary general meeting held on 30 October 2018.

Pursuant to the agreements for the acquisition of Great Ascent and Yiersan (collectively the "**Hongshan Acquisition Agreement**"), the vendors will transfer 40% interest in each of Great Ascent and Yiersan to the Company at an aggregate cash consideration of approximately HK$65.80 million (equivalents to approximately RMB53.6 million).

c) *Acquisition of 40% Interest in Dakun Zhifang and Shareholders' Loan*

Reference is made to the announcement of the Company dated 12 June 2018 in relation to, inter alia, the acquisition of 40% interest in Dakun Zhifang.

Pursuant to an agreement dated 12 June 2018 (the "**Dakun Zhifang Agreement**") entered into between Mr. Ji Hai (冀海), Ms. Ji Ling (冀玲) and Zhangjiakou Chongliqu Hua Yu Travel Co., Ltd.* (張家口崇禮區華譽旅遊開發有限公司), a company established in the PRC and an indirect wholly-owned subsidiary of the Company ("**Zhangjiakou Hua Yu**"), Zhangjiakou Hua Yu shall pay RMB40.9 million (equivalent to approximately HK$50.2 million) to Mr. Ji Hai (冀海) and Ms. Ji Ling (冀玲) and they shall transfer 40% interest in Dakun Zhifang and 40% interest in the shareholders' loan to Zhangjiakou Hua Yu. All conditions precedent set out in the Dakun Zhifang Agreement have been fulfilled and completion of the acquisition of 40% interest in Dakun Zhifang and 40% interest in the shareholders' loan took place on 7 August 2018 in accordance with the terms and conditions of the Dakun Zhifang Agreement.

d) *Acquisition of 55% Interest in Tu Men Travel and 75% Interest in Yidao Town Real Estate*

Reference is made to the announcement of the Company dated 18 December 2018 in relation to, inter alia, the acquisition of 55% interests in Tu Men Travel and 75% interest in Yidao Town Real Estate.

Pursuant to an agreement dated 18 December 2018 (the "**Tu Men Agreement**") entered into between Mr. Wang Aijun (王愛軍), Mr. Zhang Wenxue (張文學) and Mr. Cheng Tonghui (成同輝) (collectively as "**Tu Men Vendors**") and Hebei Tengming Tourism Development Co., Ltd.* (河北滕鳴旅遊開發有限公司), an indirect wholly-owned subsidiary of the Company ("**Hebei Tengming**"), the Tu Men Vendors shall transfer 55% interest in Tu Men Travel to Hebei Tengming at a cash consideration of approximately HK$53.6 million (equivalents to RMB47.1 million) and an agreement dated 18 December 2018 (the "**Yidao Town Real Estate Agreement**") entered into between Eco-Town Development and Operation Limited* (河北東勝生態小鎮開發運營有限公司), a company incorporated in the PRC ("**Eco-Town Development**") and Hebei Xinmen Real Estate Development Co., Ltd.* (河北鑫門房地產開發有限公司), an indirect wholly-owned subsidiary of the Company ("**Xinmen Real Estate**"), Eco-Town Development shall transfer 75% interest in Yidao Town Real Estate to Xinmen Real Estate at a cash consideration of approximately HK$0.01 million (equivalents to RMB0.01 million). All conditions precedent set out in the Tu Men Agreement and Yidao Town Real Estate Agreement have been fulfilled and completion of the acquisitions of 55% interest in Tu Men Travel and 75% interest in Yidao Town Real Estate took place on 19 December 2018 in accordance with the terms and conditions of the Tu Men Agreement and the Yidao Town Real Estate Agreement.

*e) Disposal of 85% Interest in King Link Investments Limited ("**King Link**")*

Reference is made to the announcement of the Company dated 23 July 2018 in relation to, inter alia, the disposal of 85% interest in King Link.

Pursuant to an agreement dated 23 July 2018 entered into between South China Financial Holdings Limited ("**South China**"), a company incorporated in Hong Kong, whose shares are listed on the Stock Exchange and the Company, the Company transferred 85% interest in King Link to South China at a cash consideration of approximately HK$4.8 million. All conditions precedent set out in the agreement have been fulfilled and completion of the disposal of 85% interest in King Link took place on 18 September 2018 in accordance with the terms and conditions of the agreement.

Pledged of Assets

On 31 December 2018, the Group pledged both of the entire interest in Shenzhen Dong Sheng Hua Yu, which is an indirect wholly-owned subsidiary of the Company and the entire issued share capital of Donghui HK which is an indirect wholly-owned subsidiary of the Company, to secure the issue of the perpetual convertible securities issued on 30 March 2016 in an aggregate principal amount of approximately HK$170.00 million. Please refer to the Company's announcement dated 30 March 2016 and circular dated 29 January 2016 for details.

Contingent Liabilities

On 31 December 2018, the Group had no contingent liabilities.

Number and Remuneration of Employees

On 31 December 2018, the total number of employees of the Group was approximately 200. Staff costs (including Directors' emoluments) amounted to approximately HK$35.66 million for FY2018.

In addition to salary, other fringe benefits such as medical insurance and mandatory provident fund schemes for employees, are offered to all employees of the Group. Performance of the employees is normally reviewed on an annual basis with adjustment to their salaries comparable to that of the market. Individual employees may also receive a discretionary bonus at the end of each year based on their individual performance.

(c) Business and financial review for FY2017

Business Review

Travel Related and Other Services Business

The continuing economic slowdown, weak demand of high cabin corporate travel, intense competition from online travel agencies and direct sale of low cost carriers continuously adversely affected the Group's operating performance.

Despite the travel related and other services segment recorded an increase in revenue from approximately HK$78.33 million for the year ended 31 December 2016 ("**FY2016**") to approximately HK$236.29 million for FY2017, the increase was mainly attributable to the fact that the sale of air tickets was recognised on a gross basis instead of a net basis throughout FY2017. This segment recorded an operating loss of approximately HK$2.14 million for FY2017, representing a decrease of approximately 44.0%.

The Group has been looking for more experienced sales and marketing staff to capture more business and clients from the markets of Hong Kong and Mainland China as well as seeking to develop highly profitable tourism products, including MICE (Meetings, Incentives, Conferences and Exhibitions) business, cruise business and hotel booking business.

The Group has been working with global partners to develop travel reporting tools to provide opportunity corporate clients with effective and efficient travel management solution that are customised to their needs.

The Group proposes to provide comprehensive training and allowances for the study of tourism-related courses to its staff in order to improve their knowledge, service quality and service standards in tourism and travel related business.

Trading and Retail of Jewellery Business

This segment involves the distribution and sale of jewellery products such as precious stones, jade, gold and silver in the Group's flagship stores and counters of large department stores in Nanjing.

During the period from October 2016 to May 2017, blocked fences were set up along the road in front of the Group's flagship store in Nanjing by the local municipal government and as a result, there was a drop in number of customers. Furthermore, as disclosed in the Company's announcement dated 22 June 2017, on 8 June 2017, there was a fire accident (the "**Fire Accident**") on the top of the third floor of the building, two floors above where the Group's flagship jewellery store (the "**Jewellery Store**") is situated. The Jewellery Store was temporarily closed for urgent repair and reopened on 30 June 2017. Upon investigation by the local fire department, the Fire Accident was caused by a careless contractor (the "**Contractor**") who was appointed for a water proofing work at the scene.

On 27 July 2017, the Group took legal action against the Contractor at the People's Court of Qinhuai, Nanjing, the PRC seeking damages for loss and damage of the Group arising from the Fire Accident. On 14 February 2018, the Group reached an agreement with the Contractor through mediation by the court that the Contractor is required to pay the Group a sum of RMB0.55 million (equivalent to approximately HK$0.66 million) being damages for loss and damage of the Group by 31 March 2018. Such payment was received by the Group on 2 April 2018.

As a result of the above issues, this segment recorded a decrease in revenue to approximately HK$26.54 million for FY2017 and a significant increase in operating loss to approximately HK$2.58 million.

Attempting to improve the performance of this segment, on 27 July 2017, the Jewellery Store entered into a business cooperation agreement ("**Cooperation**") with an independent jewellery retailer. Under the Cooperation, the Jewellery Store shall provide the jewellery retailer with a shop space for the operation of jewellery retail business for a term of two years commencing from 1 August 2017. During the term, the jewellery retailer shall pay to the Jewellery Store an aggregate sum of RMB0.82 million (equivalent to approximately HK$0.98 million) and RMB0.84 million (equivalent to approximately HK$1.01 million) for the first year and second year respectively. All expenses and staff costs in respect of the operation of jewellery retail business at the place provided by the Jewellery Store shall be borne by the jewellery retailer.

Although the Group has tried various ways to improve the performance of its jewellery business by, including, reducing its staff costs and leasing costs as well as entering into the Cooperation over the years, this segment still suffered loss for FY2017. Despite the redoubled effort put by the management, management of the Group considers that this segment is not the core business and is not expected to be a meaningful driver of or contributor to the operating results going forward. The Group will consider making further appropriate strategic decision as and when necessary.

The principal assets for this segment are inventories, which are mainly comprised of gold ornaments, gold materials, inlaid ornament and diamond materials. During the course of business, the Group has well-established systems for sourcing, warehousing, storage, payment, delivery, sales and payment collection for the purposes of better inventory and credit control. The Group's internal control system has been effectively implemented throughout FY2017.

Financial Services Business

On 24 January 2017, the Company completed the acquisition of the entire issued share capital of Orient Victory Azure Capital Limited ("**Azure Capital**"). Throughout FY2017, the Group had carried out certain number of regulated activities under the SFO through its wholly-owned subsidiaries, namely Orient Victory Azure Asset Management Limited ("**Azure Asset Management**") and Azure Capital. Azure Asset Management is a corporation licenced to carry on Type 4 (Advising on Securities) and Type 9 (Asset Management) regulated activities and Azure Capital is a corporation licenced to carry on Type 6 (Advising on Corporate Finance) regulated activity under the SFO.

During FY2017, financial services segment recorded revenue of HK$1.74 million and losses from operation approximately HK$2.80 million from regulated activities.

The Company believes the financial and equity market would remain stable and is not expected to experience significant fluctuations in the short run, which should be favorable to the growth of Azure Capital and Azure Asset Management. In addition, the Company has diverted efforts to remarket the brand name and promote the service of Azure Capital and Azure Asset Management, an increase in new financial advisory contracts and positive revenue contribution are expected. The Company expects a reasonable return under the current market conditions and increase in revenue would be received.

The Directors believe that the acquisition can expand the financial services limb of the principal business activities of the Group and therefore maximise returns to Shareholders. It also marked an important step of the Group to enter into the financial industry in Hong Kong. The Company will continue to monitor the development of Azure Capital and Azure Asset Management and the market situation and alter the business strategy along with the market conditions.

Property Development and Investment Business

During FY2017, the Group had successfully entered into the property industry by acquiring a land in New Zealand. The preliminary plan is to develop the land in phases which will comprise self-serviced units and residential units. For details, please refer to the announcement of the Company dated 11 August 2017.

The land is located in a tourism hub in North Auckland with close proximity to motorway, public transport, local amenities and popular tourist attractions. Identifying critical housing shortage in Auckland, the Board believes the acquisition represented a good investment opportunity for the Group.

As the acquisition was only completed in late 2017 and the development is still under a preliminary stage, no revenue was recorded and this segment recorded a loss of approximately HK$82,000 during FY2017.

Financial Analysis

1. *Operating Performance*

Revenue was approximately HK$264.57 million for FY2017, representing an increase of approximately 141.8% as compared to the last financial year of approximately HK$109.42 million. The increase was mainly attributable to the fact that the sale of air tickets was recognised on a gross basis instead of a net basis throughout FY2017.

A loss of approximately HK$56.03 million was recorded for FY2017 as compared with a substantial loss of approximately HK$194.07 million for FY2016, representing a decrease of approximately 71.1%. The significant decrease in loss was primarily attributable to:

(i) the significant decrease in the share of loss of an associate of the Group from HK$148.37 million for FY2016 to HK$13.52 million for FY2017 due to the fact that no asset impairment was recorded by the associate for FY2017;

(ii) the absence of the net amortised finance charge of HK$12.06 million for the interest free loans incurred in the corresponding year; and

(iii) the decrease in the share of loss of an associate and amortised finance charge were partially offset by an increase of administrative expenses.

2. *Asset Quality*

The Group's assets mainly include cash and cash equivalents, restricted bank deposits, trade receivables, inventories and interest in an associate. The balance of cash and cash equivalents and restricted bank deposits totally amounted to approximately HK$401.14 million, of which approximately HK$49.85 million, HK$20.81 million and HK$8.95 million were denominated in RMB, NZD and USD, respectively.

The balances of trade receivables of approximately HK$28.16 million are mainly due from the customers of Four Seas Tours Limited, which are mostly well-known and large enterprises. The ageing of the Group's trade receivables of approximately HK$25.77 million, which represents about 91.5% of its total trade receivables, is within 90 days.

The balance of inventories is approximately HK$63.79 million, which are the raw materials and finished goods of jewellery products and a land in New Zealand. Out of which, approximately HK$8.40 million were pledged as security for the Group's bank loans.

Interest in an associate amounted to approximately HK$399.27 million, which was mainly attributable to intangible assets, including the Target Company's trademark and distribution network.

3. Liability Structure

The Group's liabilities mainly include trade payables and short-term borrowings. The balances of trade payables amount to approximately HK$33.39 million. The ageing of the Group's trade payables of approximately HK$33.23 million, which represents approximately 99.5% of the Group's total trade payables, is within 90 days.

As at 31 December 2017, the balances of short-term borrowings were approximately HK$8.95 million, which was denominated in RMB. Among which, HK$4.80 million were secured bank loans with effective interest rate of 4.35% per annum and HK$4.15 million were other unsecured borrowings and at an interest rate of 6.5% per annum for the year.

Liquidity and Financial Resources

During FY2017, the Group's operations and investments continued to be mainly financed by internal resources, borrowings as well as proceeds raised from issuance of equity financing exercises. As at 31 December 2017, the Group's cash and cash equivalent and the restricted bank deposit totally amounted to approximately HK$401.14 million, representing an increase of approximately 9.0% as compared to FY2016, which are managed centrally (save for the fund to be used in a specific project). The increase of cash and cash equivalent and the restricted bank deposit was mainly attributable to the net proceeds of approximately HK$135.21 million raised from issuing new shares upon the exercise of warrants.

As at 31 December 2017, the Group had total bank and other borrowings of approximately HK$8.95 million, all of which were denominated in RMB. Among which, approximately HK$4.80 million were bank loans, which were secured and the effective interest rate was 4.35% per annum for FY2017 and approximately HK$4.15 million were other short-term borrowings, which were unsecured and at an interest rate of 6.5% per annum for FY2017.

As at 31 December 2017, the Group had a current ratio of approximately 7.82. The gearing ratio was not applicable as the Group had net cash of approximately HK$348.75 million as at 31 December 2017.

Foreign Exchange Exposure

Since the transactions of the Group were mainly denominated in HK$, RMB and NZD, the Group is exposed to foreign currency risk on the cash and cash equivalents of the entity which are denominated in RMB and NZD whose functional currency is HK$. During FY2017, the Group had reviewed the hedged product in respect of foreign currency exposure of NZD but no hedging action was performed by the Group during FY2017. The Directors will continue to monitor the related foreign currency exposure and are prepared to take appropriate hedging action as and when necessary.

Capital Commitments

As at 31 December 2017, the Group had capital commitments relating to the committed investment in a joint venture company of RMB4,000,000.

Material Acquisitions and Investments

(a) Azure Capital

Reference is made to the Company's announcement dated 25 January 2017, the Company completed the acquisition of 100% shareholdings of Azure Capital on 24 January 2017, a licensed corporation to carry on Type 6 (advising on Corporate Finance) regulated activity under the SFO for the consideration of approximately HK$6.42 million, which is determined with reference to the net asset value of the Azure Capital as at 31 December 2016.

*(b) Nibou Company Limited ("**Nibou**")*

Reference is made to the Company's announcements dated 10 March 2017 and 13 March 2017, Yield Quality Investment Limited ("**Yield Quality**"), an indirect wholly-owned subsidiary of the Company as the purchaser, Mr. Ippa Kitazono as the vendor, and Mr. Zhang Jie and Mr. Hui Wan sang as the guarantors of the vendor entered into a sale and purchase agreement, pursuant to which, amongst others, Yield Quality conditionally agreed to purchase, and Mr. Ippa Kitazono conditionally agreed to sell the sale shares representing 78% of the issued share capital of Nibou at the consideration of JPY103,740,000 (equivalent to approximately HK$7,053,283) (the "**Nibou SPA**"). Due to the vendor has failed to complete the transaction in accordance with the term of the Nibou SPA and has been in breach of it. On 10 November 2017, Yield Quality issued a writ of summons against the vendor and the guarantors for the sum of HK$2,416,461 (or its JPY equivalent), damages for breach of the Nibou SPA and/or indemnity for damages for breach of the Nibou SPA, interest, further or other relief and costs.

(c) Establishment of Joint Venture

Reference is made to the announcement of the Company dated 13 April 2017 in relation to the formation of a joint venture company, namely Ningbo Meishan Bonded Port Shousheng Jianyin Investment Management Company Limited* (寧波梅山保稅港區首勝建銀投資管理有限公司) (the "**JV Company**").

The Articles of the JV Company was signed on 13 April 2017. Under the Articles, the total registered share capital of the JV Company is RMB10 million, which will be contributed and held as to 40% by the Vendor, 30% by Guangzhou Tianlun Wanyi Investment Limited ("**Tianlun**") and 30% by Jian Yin Ju Yuan Investment Management (Beijing) Limited ("**Jian Yin Ju Yuan**"). Each of Tianlun and Jian Yin Ju Yuan is a connected person of the Company. The JV Company will engage in project investment, investment management, asset management and investment consultancy, subject to the approval of the local administration of industry and commerce.

The JV Company has already obtained the business licence in the PRC on 16 May 2017.

(d) Acquisition of Land in New Zealand

As disclosed in the announcement of the Company dated 11 August 2017, the Company entered into the agreement with Horncastle Home Limited, a company incorporated in New Zealand with limited liability and is independent of and not connected with the Company or any of its connected person (as defined in the Listing Rules), in relation to the acquisition of a piece of land in New Zealand at the consideration of approximately NZD9 million (equivalent to approximately HK$51.3 million). The land is located at Silverdale, Auckland of New Zealand and has an aggregate area of approximately 15,742 sq.m. for the development of self-serviced units and residential units.

The acquisition was completed on 14 November 2017 and the development of the land is still under a preliminary stage.

(e) Investment in a Joint Venture Company

Reference is made to the announcement of the Company dated 10 July 2017 in relation to an investment agreement (the "**Investment Agreement**") entered into among, Donghui HK (an indirect wholly-owned subsidiary of the Company), Beijing Yitian New Music Cultural Development Company Limited* (北京壹天中新音樂文化產業發展有限公司) (the "**New JV Company**") and five equity holders of the new JV Company (the "**Investors**") in relation to the capital injection into the registered capital of the new JV Company by Donghui HK (the "**Capital Injection**") in accordance with the Investment Agreement. One of the Investors is a connected person of the Company.

Pursuant to the Investment Agreement, three of the Investors will transfer a total of 30% interest in the new JV Company to Donghui HK, in consideration of Donghui HK injecting RMB15 million into the new JV Company. Upon completion, the registered capital of the new JV Company will be held as to 30% and 70% by Donghui HK and the Investors respectively. Donghui HK will become the largest equity holder of the new JV Company and the financial statement of the new JV Company will be consolidated into the financial statement of the Group. As a result, the new JV Company will become an indirect non-wholly-owned subsidiary of the Company.

The Board constantly reviews the Company's business strategy and continues to explore attractive business opportunities. The new JV Company specialises in cultural and art exchange and activities, and the Company intends to expand its travel-related business with the new JV Company. The Board considers that the capital injection can strengthen the capital base of the new JV Company to cater for future development and business growth, which will enhance the performance of the new JV Company, and in turn will increase the overall profits of the Group.

Pledges of Assets

As at 31 December 2017, certain assets of the Group with an aggregate carrying value of HK$42.24 million were pledged as collateral for borrowings obtained by its subsidiaries and associate.

As at 31 December 2017, the Group had pledged the entire equity interest of Shenzhen Dong Sheng Hua Yu (an indirect wholly-owned subsidiary of the Company) and had pledged the entire issued share capital of Donghui HK (an indirect wholly-owned subsidiary of the Company), to secure the issue of the perpetual convertible securities of March 2016 (please refer to the Company's announcement dated 30 March 2016 and circular dated 29 January 2016 for details) in an aggregate principal amount of HK$170 million.

Contingent Liabilities

As at 31 December 2017, the Group had contingent liabilities in respect of a letter of credit secured for bank borrowings of an associate in an amount of HK$33.25 million.

Number and Remuneration of Employees

As at 31 December 2017, the total number of employees of the Group was 130. Staff costs (including Directors' emoluments) amounted to approximately HK$31.51 million for FY2017.

In addition to salary, other fringe benefits such as medical insurance and mandatory provident fund schemes for employees, are offered to all employees of the Group. Performance of the employees is normally reviewed on an annual basis with adjustment to their salaries comparable to that of the market. Individual employees may also receive a discretionary bonus at the end of each year based on their individual performance.

UNAUDITED FINANCIAL INFORMATION OF THE TARGET GROUP

Set out below are the unaudited consolidated statements of financial position of China Comfort Tourism Group Company Limited (the "**Target Company**") and its subsidiaries (together the "**Target Group**") as at 31 December 2017, 2018 and 2019, and the related unaudited consolidated statements of profit or loss, unaudited consolidated statements of profit or loss and other comprehensive income, unaudited consolidated statements of changes in equity and unaudited consolidated cash flow statements for the years ended 31 December 2017, 2018 and 2019, and explanatory notes (collectively referred to as the "**Financial Information**"), which have been prepared by the Directors of the Company on the basis set out below and prepared in accordance with paragraph 14.68(2)(a)(i)(A) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the " **Listing Rules**").

The Financial Information is prepared by the Directors solely for the purpose of inclusion in this Circular in connection with the Disposal. The Company's auditors, KPMG, were engaged to review the Financial Information of the Target Group set out in pages II-2 to II-14 in accordance with Hong Kong Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* and with reference to Practice Note 750, *Review of Financial Information under the Hong Kong Listing Rules for a Very Substantial Disposal*, issued by the Hong Kong Institute of Certified Public Accountants.

A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable the auditors to obtain assurance that the auditors would become aware of all significant matters that might be identified in an audit. Accordingly, the auditors do not express an audit opinion. Based on their review, nothing has come to their attention that causes them to believe that the Financial Information of the Target Group for the relevant periods is not prepared, in all material respects, in accordance with the basis of preparation set out in note 2 to the Financial Information of the Target Group.

UNAUDITED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

for the years ended 31 December 2017, 2018 and 2019

*(Expressed in Renminbi ("**RMB**"))*

	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
Revenue	655,487	528,714	424,674
Cost of sales and services	(605,878)	(470,237)	(381,636)
Gross profit	49,609	58,477	43,038
Other income	3,862	1,656	2,238
Selling, general and administrative expenses	(69,925)	(72,879)	(57,600)
Share of loss of an associate	(4,256)	(10,114)	–
(Loss)/gain on disposal of investments	–	(1,436)	3,057
Loss from operations	(20,710)	(24,296)	(9,267)
Finance costs	(6,346)	(5,465)	(6,950)
Loss before taxation	(27,056)	(29,761)	(16,217)
Income tax	5,077	2,454	(200)
Loss for the year	(21,979)	(27,307)	(16,417)
Attributable to:			
Equity owners of the Target Company	(21,782)	(27,466)	(16,321)
Non-controlling interests	(197)	159	(96)
Loss for the year	(21,979)	(27,307)	(16,417)

UNAUDITED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the years ended 31 December 2017, 2018 and 2019

(Expressed in RMB)

	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
Loss for the year	(21,979)	(27,307)	(16,417)
Other comprehensive income for the year			
Items that will not be reclassified to profit or loss:			
Surplus on revaluation of investment properties transferred from own use properties	–	–	46,777
Income tax effect	–	–	(11,694)
Total comprehensive income for the year	(21,979)	(27,307)	18,666
Attributable to:			
Equity owners of the Target Company	(21,782)	(27,466)	18,762
Non-controlling interests	(197)	159	(96)
Total comprehensive income for the year	(21,979)	(27,307)	18,666

UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
as at 31 December 2017, 2018 and 2019
(Expressed in RMB)

	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
Non-current assets			
Investment properties	–	–	47,215
Other property, plant and equipment	39,023	31,760	28,693
	39,023	31,760	75,908
Intangible assets	–	26,547	16,295
Goodwill	–	33,621	33,621
Other long-term assets	67,777	64,791	64,240
Interests in an associate	4,744	–	–
Deferred tax assets	11,245	15,202	14,449
	122,789	171,921	204,513
Current assets			
Inventories	35	–	–
Trade receivables	57,449	37,254	30,631
Prepayments, deposits and other receivables	112,802	100,472	83,295
Cash and cash equivalents	27,641	29,029	27,697
	197,927	166,755	141,623
Current liabilities			
Trade payables	58,807	76,635	61,000
Other payables and accruals	44,920	27,971	19,569
Contract liabilities	–	24,082	26,386
Income tax payable	1,075	1,396	697
Short-term borrowings	153,850	180,000	178,732
Lease liabilities	–	–	349
	258,652	310,084	286,733
Net current liabilities	(60,725)	(143,329)	(145,110)
Total assets less current liabilities	62,064	28,592	59,403

	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
Non-current liabilities			
Lease liabilities	–	–	301
Deferred tax liabilities	–	–	11,694
	–	–	11,995
NET ASSETS	62,064	28,592	47,408
CAPITAL AND RESERVES			
Paid-in capital	70,000	70,000	70,000
Reserves	(10,238)	(41,408)	(22,646)
Total equity attributable to equity owners of the Target Company	59,762	28,592	47,354
Non-controlling interests	2,302	–	54
TOTAL EQUITY	62,064	28,592	47,408

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

for the years ended 31 December 2017, 2018 and 2019
(Expressed in RMB)

	Attributable to equity owners of the Target Company						
	Paid-in capital	Share premium	Property revaluation reserve	Retained profits/ (accumulated losses)	Total	Non-controlling interests	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2017	70,000	7,080	–	4,464	81,544	–	81,544
Changes in equity for 2017:							
Loss for the year	–	–	–	(21,782)	(21,782)	(197)	(21,979)
Total comprehensive income	–	–	–	(21,782)	(21,782)	(197)	(21,979)
Contributions from non-controlling shareholders	–	–	–	–	–	2,499	2,499
Balance at 31 December 2017	70,000	7,080	–	(17,318)	59,762	2,302	62,064

	Attributable to equity owners of the Target Company						
	Paid-in capital	**Share premium**	**Property revaluation reserve**	**Accumulated losses**	**Total**	**Non-controlling interests**	**Total equity**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 31 December 2017	70,000	7,080	–	(17,318)	59,762	2,302	62,064
Impact on initial application of HKFRS9 *(Note)*	–	–	–	(3,704)	(3,704)	–	(3,704)
Balance at 1 January 2018	70,000	7,080	–	(21,022)	56,058	2,302	58,360
Changes in equity for 2018:							
Loss for the year	–	–	–	(27,466)	(27,466)	159	(27,307)
Total comprehensive income	–	–	–	(27,466)	(27,466)	159	(27,307)
Disposal of subsidiaries	–	–	–	–	–	(2,461)	(2,461)
Balance at 31 December 2018	70,000	7,080	–	(48,488)	28,592	–	28,592

Note: The Target Group has initially applied HKFRS 9 and HKFRS 15 at 1 January 2018. Under the transition methods chosen, the financial information for the year ended 31 December 2017 is not restated. See Note 4.

	Attributable to equity owners of the Target Company						
	Paid-in capital	**Share premium**	**Property revaluation reserve**	**Accumulated losses**	**Total**	**Non-controlling interests**	**Total equity**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2019	70,000	7,080	–	(48,488)	28,592	–	28,592
Changes in equity for 2019:							
Loss for the year	–	–	–	(16,321)	(16,321)	(96)	(16,417)
Other comprehensive income	–	–	35,083	–	35,083	–	35,083
Total comprehensive income	–	–	35,083	(16,321)	18,762	(96)	18,666
Contributions from a non-controlling shareholder	–	–	–	–	–	150	150
Balance at 31 December 2019	70,000	7,080	35,083	(64,809)	47,354	54	47,408

Note: The Target Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the financial information for the years ended 31 December 2017 and 2018 is not restated. See Note 4.

UNAUDITED CONSOLIDATED CASH FLOW STATEMENTS
for the years ended 31 December 2017, 2018 and 2019
(Expressed in RMB)

	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
Operating activities			
Loss before tax	(27,056)	(29,761)	(16,217)
Adjustments for:			
Depreciation and amortisation	4,109	7,828	13,655
Interest income	(3,862)	(1,656)	(2,238)
Finance costs	5,551	5,460	6,931
Share of loss of an associate	4,256	10,114	–
Loss/(gain) on disposal of investments	–	1,436	(3,057)
Changes in working capital:			
Decrease in inventories	5	35	–
(Increase)/decrease in trade receivables	(19,130)	16,491	6,623
Decrease/(increase) in prepayments, deposits and other receivables	9,108	(41,378)	2,682
Increase/(decrease) in trade payables	36,703	17,828	(15,635)
Increase in contract liabilities	–	24,082	2,304
Decrease in other payables and accruals	(6,739)	(17,502)	(8,402)
Cash generated from/(used in) operating activities	2,945	(7,023)	(13,354)
Income tax paid	(290)	(300)	(146)
Net cash generated from/(used in) operating activities	2,655	(7,323)	(13,500)

	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
Investing activities			
Interest received	3,101	1,793	2,733
Payments for the purchase of property, plant and equipment	(5,010)	(584)	(64)
Payments for intangible asset	–	(5,839)	–
Acquisition of a subsidiary, net of cash acquired	–	986	–
Disposal of subsidiaries, net of cash disposed of	–	(1,362)	–
Net proceeds from disposal of other investments	–	–	3,072
Net (increase)/decrease in amounts due from franchises	(2,016)	2,986	536
Payments for investment in an associate	(9,000)	–	–
Loans provided to franchises	(39,770)	(14,400)	(3,000)
Loans repaid by franchises	7,620	2,600	17,000
Net cash (used in)/generated from investing activities	(45,075)	(13,820)	20,277
Financing activities			
Capital element of lease rentals paid	–	–	(60)
Interest element of lease rentals paid	–	–	(5)
Proceeds from bank and other borrowings	143,959	186,000	112,732
Repayment of bank and other borrowings	(83,776)	(159,850)	(114,000)
Contributions from non-controlling shareholders	2,499	–	150
Interest paid	(4,704)	(3,619)	(6,926)
Net cash generated from/(used in) financing activities	57,978	22,531	(8,109)
Net increase/(decrease) in cash and cash equivalents	15,558	1,388	(1,332)
Cash and cash equivalents at 1 January	12,083	27,641	29,029
Cash and cash equivalents at 31 December	27,641	29,029	27,697

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB)

1 GENERAL

Orient Victory Travel Group Company Limited (the "**Company**", together with its subsidiaries referred to as the "**Group**") is an exempted limited company incorporated in the Cayman Islands with its shares listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). On 26 March 2020, Shenzhen Dongsheng Huamei Cultural Travel Company Limited, an indirect wholly-owned subsidiary of the Company entered into an equity transfer agreement with Orient Victory Cultural Tourism Group Co., Limited ("**OVCT**", which is owned as to 98% by Mr. Shi, the controlling shareholder of the Company) to sell its 49% equity interest in China Comfort Tourism Group Company Limited (the "**Target Company**"). Under the agreement, upon the completion of such transaction, OVCT will also repay on behalf of the Target Company its borrowings from the Group at the amount of RMB32,340,000 (equivalent to approximately HK$36,221,000).

The Target Company was established with limited liability in the People's Republic of China ("**PRC**") on 6 February 1987. For the years ended 31 December 2017, 2018, 2019, its equity interest is owned as to 51% and 49% by Beijing Tourism Group Company Limited ("**Beijing Tourism Group**") and the Group respectively. The Target Company and its subsidiaries hereinafter are collectively referred to as the "**Target Group**".

The particulars of entities in the Target Group are set out below:

			Proportion of ownership interest held by the Target Group			
Name of subsidiaries	**Place of incorporation/ establishment**	**Particulars of registered/ paid-up capital**	**The Target Group's effective interest**	**Held by the Target Company**	**Held by a subsidiary**	**Principal activities**
Comfort International M.I.C.E. Service Co., Limited *(Note (i))* (康輝集團北京國際會議展覽有限公司)	Mainland China	RMB10,000,000	100%	100%	–	Exhibition and conference services
Kanghui Group Beijing International Travel Agency Co., Limited *(Note (i))* (康輝集團北京國際旅行社有限公司)	Mainland China	*Note (ii)*	100%	100%	–	Tourism business
Comfort Beijing Shengjia Technology Co., Limited *(Note (i))* (康輝集團北京勝佳科技有限公司)	Mainland China	RMB10,000,000	100%	100%	–	Technological development
Beijing Ruichen Yunding Integrated Marketing And Planning Co., Limited *(Note (i))* (北京瑞辰雲頂整合營銷策劃有限公司)	Mainland China	*Note (iii)*	70%	–	70%	Exhibition and conference services

Notes:

(i) The English translation of the name is for reference only. The official name of the entity is in Chinese. The entity is a limited liability company registered under PRC law.

(ii) The registered capital of this entity is RMB3,500,000. As of 31 December 2019, the registered capital has not been fully paid up.

(iii) The registered capital of this entity is RMB2,000,000. As of 31 December 2019, the registered capital has not been fully paid up.

Upon completion of the Disposal, the Target Group will cease to be held by the Company.

The functional currency of the Target Group is RMB. All values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

2 BASIS OF PREPARATION OF THE UNAUDITED FINANCIAL INFORMATION

The unaudited financial information which comprises the consolidated statements of financial position of the Target Group as of 31 December 2017, 2018 and 2019, and the consolidated statements of profit or loss, the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements for each of the years then ended (the "**Relevant Periods**") and explanatory notes (collectively referred to as the "**Financial Information**") has been prepared in accordance with paragraph 14.68(2)(a)(i) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"), and solely for the purpose of inclusion in this Circular to be issued by the Company in connection with the Disposal.

The unaudited Financial Information has been prepared by the directors of the Company in accordance with the same accounting policies as those adopted by the Group in the preparation of the consolidated financial statements of the Group for the Relevant Periods, including the application of new HKFRSs (see Note 4). The consolidated financial statements of the Group have been prepared in accordance with the Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

The unaudited Financial Information does not contain sufficient information to constitute a complete set of financial statements as defined in Hong Kong Accounting Standard 1 (Revised), *Presentation of Financial Statements*, or an interim financial report as defined in Hong Kong Accounting Standard 34, *Interim Financial Reporting*, issued by the HKICPA and should be read in connection with the relevant published annual and interim reports of the Group for the Relevant Periods.

As at 31 December 2019, the Target Group had net current liabilities of RMB145,110,000. The Financial Information has been prepared on a going concern basis notwithstanding the net current liabilities of the Target Group at 31 December 2019 because the equity holders of the Target Company has undertaken in writing to provide financial support to the Target Group for a period of at least twelve months from the end of the reporting period, if necessary, to enable the Target Group to meet its financial obligations as and when they fall due. Accordingly, the directors of the Company consider it is appropriate to prepare the Financial Information on a going concern basis.

3 CRITICAL ACCOUNTING JUDGEMENT

In the process of applying the Company's accounting policies, management has made the following critical accounting judgement:

Franchise arrangements

To promote the Target Company's brand name (the "**Business Brand**") and to establish a network throughout the PRC, the Target Company entered into certain business arrangements (the "**Business Arrangements**") with various parties, in which the Target Company and the said parties established various companies under the relevant laws in the PRC. In order to finance their respective establishments, the Target Company made contributions in the form as paid-in capital into these companies, hence the Target Company, from a legal perspective, holds equity interests ranging between 5% and 100% in these companies. the Target Company only maintains the rights to protect the Business Brand. Under such Business Arrangements, the Target Company is entitled to fixed amounts of annual fee from these companies but does not share the operating results of these companies.

Under the relevant laws of the PRC, the companies under the Business Arrangements are not regarded as franchisees. However, since the Business Arrangements only give the Target Company certain rights to protect its Business Brand but do not give the Target Company control, joint control or significant influence over these companies' relevant activities, or variable returns on the operating results of these companies, the directors of the Company consider the Business Arrangements, from an accounting perspective, do not result in these companies being regarded as subsidiaries, joint ventures, associates or other equity investments of the Target Company, and accordingly, these companies are not consolidated into the Target Company's consolidated financial statements. However, in a view to reflect the substance of the Business Arrangements, the directors of the Company consider it is appropriate to regard these companies as franchisees of the Target Company, where the fixed annual fees received/receivable are recognised as franchise fee income instead of capital distributions/dividends.

At the inception of the Business Arrangements, deposits (i.e. financing in the form of paid-in capital mentioned above) in these franchisees are initially accounted for as a financial instrument at fair value, and thereafter stated at amortised cost using the effective interest method. Annual fees received/receivable from the franchisees are recorded as franchise fee income, reflecting the purpose for which the fees are charged.

4 CHANGES IN ACCOUNTING POLICIES

During the Relevant Periods, the HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the Relevant Periods. Of these, the following developments are relevant to the Target Group's financial statements:

- HKFRS 9, *Financial instruments*
- HKFRS 15, *Revenue from contracts with customers*
- HKFRS 16, *Leases*

(a) HKFRS 9, *Financial instruments,* including the amendments to HKFRS 9, *Prepayment features with negative compensation*

The Target Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Target Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, the financial information of the Target Group for the year ended 31 December 2017 continues to be reported under HKAS 39.

The following table summarises the impact of transition to HKFRS 9 on accumulated losses and the related tax impact (if any) at 1 January 2018.

	RMB'000
Accumulated losses	
Recognition of additional expected credit losses on financial assets measured at amortised cost	4,938
Related tax	(1,234)
Net increase in accumulated losses at 1 January 2018	3,704

The following table reconciles the closing loss allowance determined in accordance with HKAS 39 at 31 December 2017 with the opening loss allowance determined in accordance with HKFRS 9 at 1 January 2018.

	RMB'000
Loss allowance at 31 December 2017 under HKAS 39	2,425
Additional credit loss recognised at 1 January 2018 on trade receivables	4,938
Loss allowance at 1 January 2018 under HKFRS 9	7,363

(b) HKFRS 15, *Revenue from contracts with customers*

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specified the accounting for construction contracts.

HKFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Target Group has elected to use the cumulative effect transition method and there is no impact to the opening balance of equity at 1 January 2018 on the initial application of HKFRS 15. Comparative information has not been restated and continues to be reported under HKAS 18. As allowed by HKFRS 15, the Target Group has applied the new requirements only to contracts that were not completed before 1 January 2018.

Under HKFRS 15, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Target Group recognises the related revenue.

To reflect the above changes in presentation, at 1 January 2018 the Target Group has made adjustment on advances received amounting to RMB15,379,000 as a result of the adoption of HKFRS 15.

(c) HKFRS 16, *Leases*

The Target Group has initially applied HKFRS 16 as from 1 January 2019. The Target Group has elected to use the modified retrospective approach and there is no impact to the opening balance of equity at 1 January 2019. Therefore, the financial information of the Target Group for the years ended 31 December 2017 and 2018 has not been restated and continues to be reported under HKAS 17.

At 1 January 2019, the Target Group only held short-term leases and other leases with remaining lease term ending on or before 31 December 2019 which have been exempted from capitalisation.

5 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

Impact of the coronavirus outbreak

The coronavirus outbreak since early 2020 has brought additional uncertainties to the Target Group's operating environment and may impact the Target Group's operations and financial position. The Target Group has been closely monitoring the impact of the developments on the Target Group's businesses and has put in place contingency measures. These contingency measures include: negotiating with suppliers, service providers and customers to postpone selling tourism-related products and services, continuously monitoring the collection of trade receivables from customers and implementing comprehensive cost containment plans. The Target Group will keep the contingency measures under review as the situation evolves.

As far as the Target Group's businesses are concerned, the coronavirus outbreak may cause decline in tourism-related sales as travelling is restricted and the business of some tourism attractions is suspended. Management of the Target Company considers that such impact is temporary and could be reduced as the Target Group's tourism-related operations are expected to be gradually resumed upon cessation of the coronavirus outbreak. Based on the information currently available, the management estimated that the coronavirus outbreak may impact the procurement willingness and payment abilities of certain small and medium-sized customers, and as a result, may lead to impairment losses on trade receivables and sales reduction from these customers in future periods. Such impact has not been reflected in the consolidated financial statements of the Target Group for the year ended 31 December 2019.

The Target Group is still in the process of assessing the impacts of the coronavirus outbreak on the performance of the relevant segments and is currently unable to estimate the quantitative impacts to the Target Group. The Target Group will pay close attention to the development of the coronavirus outbreak and continue to perform assessment of its impact and take relevant measures.

(A) UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

1 Introduction

The following is the unaudited pro forma financial information of Orient Victory Travel Group Company Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**"), comprising the unaudited pro forma consolidated statement of financial position as at 31 December 2019 and the unaudited pro forma consolidated statement of profit or loss, unaudited pro forma consolidated statement of profit or loss and other comprehensive income, and the unaudited pro forma consolidated cash flow statement for the year ended 31 December 2019 and related notes (collectively, the "**unaudited pro forma financial information**").

The unaudited pro forma financial information is prepared by the directors of the Company 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" issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), for the purpose of illustrating the effect of the proposed disposal of 49% equity interest in China Comfort Tourism Group Company Limited (the "**Target Company**") and its subsidiaries (the "**Target Group**") on the financial position of the Group as at 31 December 2019 as if the Disposal had been completed on 31 December 2019, and the Group's financial performance and cash flows for the year ended 31 December 2019 as if the Disposal had been completed on 1 January 2019.

The unaudited pro forma financial information has been prepared for illustrative purposes only and is based on certain assumptions, estimates, and current available information. Accordingly, because of its hypothetical nature, it may not give a true picture of the financial results, cash flows and financial position of the Group had the Disposal been completed as at the specified dates or any other dates.

The unaudited pro forma financial information of the Group is prepared based on the consolidated financial statements of the Group for the year ended 31 December 2019, as extracted from the published annual report of the Group for the year ended 31 December 2019, after taking pro forma adjustments as summarised in the accompanying notes that are clearly shown and explained, directly attributable to the Disposal, and factually supportable.

The unaudited pro forma financial information should be read in conjunction with the historical financial information of the Group as set out in the published annual report of the Company for the year ended 31 December 2019 and other financial information included elsewhere in this Circular.

2 Unaudited Pro Forma Consolidated Statement of Financial Position of the Group as at 31 December 2019

	The Group	Pro forma adjustments		Unaudited pro forma for the Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 6(a))	*(Note 6(b))*	*(Note 6(c))*	
Non-current assets				
Investment properties	159,358	–	–	159,358
Other property, plant and equipment	132,170	–	–	132,170
	291,528	–	–	291,528
Intangible assets	7,813	–	–	7,813
Goodwill	15,298	–	–	15,298
Interests in an associate	343,518	(343,518)	–	–
Deferred tax assets	2,396	–	–	2,396
	660,553	(343,518)	–	317,035
Current assets				
Inventories	193,362	–	–	193,362
Trade receivables	53,875	–	–	53,875
Prepayments, deposits and other receivables	162,205	–	(36,221)	125,984
Restricted bank deposits	3,123	–	–	3,123
Cash and cash equivalents	117,807	356,594	36,221	510,622
	530,372	356,594	–	886,966
Current liabilities				
Trade payables	40,338	–	–	40,338
Contract liabilities	15,229	–	–	15,229
Other payables and accruals	278,177	–	–	278,177
Short-term borrowings	17,935	–	–	17,935
Lease liabilities	3,918	–	–	3,918
Provisions	976	–	–	976
	356,573	–	–	356,573
Net current assets	173,799	356,594	–	530,393
Total assets less current liabilities	834,352	13,076	–	847,428

	The Group	Pro forma adjustments		Unaudited pro forma for the Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 6(a))	*(Note 6(b))*	*(Note 6(c))*	
Non-current liabilities				
Long-term borrowings	109,387	–	–	109,387
Lease liabilities	1,907	–	–	1,907
Deferred tax liabilities	13,429	–	–	13,429
Provisions	3,467	–	–	3,467
	128,190	–	–	128,190
NET ASSETS	706,162	13,076	–	719,238
CAPITAL AND RESERVES				
Share capital	64,610	–	–	64,610
Perpetual convertible securities	296,274	–	–	296,274
Reserves	245,707	13,076	–	258,783
Total equity attributable to equity owners of the Company	606,591	13,076	–	619,667
Non-controlling interests	99,571	–	–	99,571
TOTAL EQUITY	706,162	13,076	–	719,238

3 Unaudited Pro Forma Consolidated Statement of Profit or Loss of the Group for the year ended 31 December 2019

	The Group	Pro forma adjustments		Unaudited pro forma for the Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 6(a))	*(Note 6(d))*	*(Note 6(e))*	
Continuing operations:				
Revenue	475,999	–	–	475,999
Cost of sales and services	(426,874)	–	–	(426,874)
Gross profit	49,125	–	–	49,125
Other income	1,707	–	–	1,707
Selling, general and administrative expenses	(79,273)	–	–	(79,273)
Share of losses of associates	(10,974)	9,744	–	(1,230)
Loss on disposal of an associate	–	–	(3,840)	(3,840)
Valuation gains on investment properties	28,025	–	–	28,025
Loss from operations	(11,390)	9,744	(3,840)	(5,486)
Finance costs	(5,971)	–	–	(5,971)
Loss before taxation	(17,361)	9,744	(3,840)	(11,457)
Income tax	(5,558)	–	–	(5,558)
Loss for the year from continuing operations	(22,919)	9,744	(3,840)	(17,015)
Discontinued operations				
Loss for the year from discontinued operations	(1,063)	–	–	(1,063)
Loss for the year	(23,982)	9,744	(3,840)	(18,078)

	The Group	Pro forma adjustments		Unaudited pro forma for the Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 6(a))	*(Note 6(d))*	*(Note 6(e))*	
Attributable to:				
Equity owners of the Company				
– continuing operations	(33,034)	9,744	(3,840)	(27,130)
– discontinued operations	(1,063)	–	–	(1,063)
	(34,097)	9,744	(3,840)	(28,193)
Non-controlling interests				
– continuing operations	10,115	–	–	10,115
– discontinued operations	–	–	–	–
	10,115	–	–	10,115
Loss for the year	(23,982)	9,744	(3,840)	(18,078)

4 Unaudited Pro Forma Consolidated Statement of Profit or Loss and Other Comprehensive Income of the Group for the year ended 31 December 2019

	The Group	**Pro forma adjustments**		**Unaudited pro forma for the Group**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 6(a))	*(Note 6(d))*	*(Note 6(e))*	
Loss for the year	(23,982)	9,744	(3,840)	(18,078)
Other comprehensive income for the year (after tax)				
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translation of financial statements of foreign operations	(16,316)	7,172	–	(9,144)
Total comprehensive income for the year	(40,298)	16,916	(3,840)	(27,222)
Attributable to:				
Equity owners of the Company				
– continuing operations	(47,793)	16,916	(3,840)	(34,717)
– discontinued operations	(1,063)	–	–	(1,063)
	(48,856)	16,916	(3,840)	(35,780)
Non-controlling interests				
– continuing operations	8,558	–	–	8,558
– discontinued operations	–	–	–	–
	8,558	–	–	8,558
Total comprehensive income for the year	(40,298)	16,916	(3,840)	(27,222)

5 Unaudited Pro Forma Consolidated Cash Flow Statement of the Group for the year ended 31 December 2019

	The Group	Pro forma adjustments			Unaudited pro forma for the Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 6(a))	*(Note 6(c))*	*(Note 6(d))*	*(Note 6(e))*	
Operating activities					
Loss before taxation:					
– continuing operations	(17,361)	–	9,744	(3,840)	(11,457)
– discontinued operations	(1,063)	–	–	–	(1,063)
	(18,424)	–	9,744	(3,840)	(12,520)
Adjustments for:					
Depreciation and amortisation	8,076	–	–	–	8,076
Interest income	(1,707)	–	–	–	(1,707)
Finance costs	5,971	–	–	–	5,971
Share of losses of associates	10,974	–	(9,744)	–	1,230
Gain on disposal of discontinued operation	(179)	–	–	–	(179)
Loss on disposal of interest in an associate	–	–	–	3,840	3,840
Equity-settled share-based payment expenses	174	–	–	–	174
Valuation gains on investment properties	(28,025)	–	–	–	(28,025)
Changes in working capital:					
Increase in inventories	(132,009)	–	–	–	(132,009)
Increase in trade receivables	(28,871)	–	–	–	(28,871)
Decrease in prepayments, deposits and other receivables	91,698	–	–	–	91,698
Increase in trade payables	13,696	–	–	–	13,696
Increase in contract liabilities	14,006	–	–	–	14,006
Decrease in other payables and accruals	(30,205)	–	–	–	(30,205)
Net cash used in operating activities	(94,825)	–	–	–	(94,825)

	The Group	Pro forma adjustments			Unaudited pro forma for the Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 6(a))	*(Note 6(c))*	*(Note 6(d))*	*(Note 6(e))*	
Investing activities					
Payment for the purchase of property, plant and equipment	(8,464)	–	–	–	(8,464)
Payments for the purchase of intangible assets	(19)	–	–	–	(19)
Net cash acquired from the acquisition of subsidiaries	23,321	–	–	–	23,321
Net proceeds from disposal of discontinued operation, net of cash disposal of	13,715	–	–	–	13,715
Net proceeds from disposal of interest in an associate	–	–	–	356,594	356,594
Net decrease in restricted bank deposits	8,671	–	–	–	8,671
Interest received	929	–	–	–	929
Loans repaid	–	36,221	–	–	36,221
Net cash generated from investing activities	38,153	36,221	–	356,594	430,968
Financing activities					
Proceeds from bank and other borrowings	20,673	–	–	–	20,673
Repayment of bank and other borrowings	(16,171)	–	–	–	(16,171)
Advances from related parties	75,456	–	–	–	75,456
Distributions paid to holders of perpetual convertible securities	(13,037)	–	–	–	(13,037)
Capital element of lease rentals paid	(3,314)	–	–	–	(3,314)
Interest element of lease rentals paid	(223)	–	–	–	(223)
Interest paid	(587)	–	–	–	(587)
Net proceeds from issuance of new shares	24,710	–	–	–	24,710
Payment for redemption of perpetual convertible securities	(100,000)	–	–	–	(100,000)
Net cash used in financing activities	(12,493)	–	–	–	(12,493)

	The Group	Pro forma adjustments			Unaudited pro forma for the Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 6(a))	*(Note 6(c))*	*(Note 6(d))*	*(Note 6(e))*	
Net (decrease)/increase in cash and cash equivalents	(69,165)	36,221	–	356,594	323,650
Cash and cash equivalents at 1 January	188,873	–	–	–	188,873
Effect of foreign exchange rate changes	(1,901)	–	–	–	(1,901)
Cash and cash equivalents at 31 December	117,807	36,221	–	356,594	510,622

6 Notes to the Unaudited Pro Forma Financial Information of the Group

(a) The amounts are extracted from the consolidated financial statements of the Group for the year ended 31 December 2019 as set out in the published annual report of the Company for the year ended 31 December 2019.

(b) Pursuant to the Equity Transfer Agreement entered into between the Group and Orient Victory Cultural Tourism Group Co., Limited ("**OVCT**") on 26 March 2020, the cash consideration for the Disposal is RMB320,000,000, which is to be settled in cash.

The adjustments represent:

(i) the derecognition of interest in the Target Company as if the Disposal had taken place on 31 December 2019 for the unaudited pro forma consolidated statement of financial position. The Group's interest in the Target Company as at 31 December 2019 is extracted from the Company's published annual report for the year ended 31 December 2019.

(ii) the cash consideration of RMB320,000,000, equivalent to approximately HK$358,400,000.

(iii) the estimated net gain on the Disposal as if it had taken place on 31 December 2019 is as follows:

	HK$'000
Total consideration for the Disposal	358,400
Less: Estimated professional costs directly attributable to the Disposal*	(1,806)
Estimated net proceeds from the Disposal	356,594
Less: Interest in the Target Company as at 31 December 2019	(343,518)
Estimated gain on the Disposal	13,076

* Estimated professional costs directly attributable to the Disposal represents proposal fees to professional advisers based on management's budget, including financial advisers, independent financial adviser, legal advisers and the auditors of the Company and other miscellaneous costs.

(c) The adjustment presents the repayment of borrowings by OVCT on behalf of the Target Company to the Group at the amount of RMB32,340,000 (equivalent to approximately HK$36,221,000) upon the completion of the Disposal and pursuant to the Equity Transfer Agreement.

(d) The adjustments represent the exclusion of the share of loss and other comprehensive income of the Target Group for the year ended 31 December 2019 as if the Disposal had been completed on 1 January 2019 for the unaudited pro forma consolidated statement of profit or loss, unaudited pro forma consolidated statement of profit or loss and other comprehensive income and unaudited pro forma consolidated cash flow statement. The Group's share of loss and other comprehensive income of the Target Group for the year ended 31 December 2019 is extracted from the Company's published annual report for the year ended 31 December 2019.

(e) The adjustments represent:

(i) the estimated net loss on the Disposal as if it had taken place on 1 January 2019, which is as follows:

	HK$'000
Total consideration for the Disposal	358,400
Less: Estimated professional costs directly attributable to the Disposal *(see Note 6(b)(iii))*	(1,806)
Estimated net proceeds from the Disposal	356,594
Less: Interest in the Target Company as at 1 January 2019	(360,434)
Estimated loss on the Disposal	(3,840)

(ii) The net cash flow as if the Disposal had taken place on 1 January 2019 (see Note 6(e)(i)).

(f) The adjustments in respect of the unaudited pro forma consolidated profit or loss, the unaudited pro forma consolidated profit or loss and other comprehensive income and unaudited pro forma consolidated cash flow statement above are not expected to have a continuing effect on the Group.

(g) The estimated gain/loss on the Disposal as illustrated above is subject to change on the date of completion of the Disposal depending on the actual carrying amount of the Group's interest in the Target Company on the date of completion of the Disposal and the actual professional costs directly attributable to the Disposal, and thus the actual gain on Disposal at the date of Completion will be different from those stated in the pro forma financial information.

(h) For the purpose of the preparation of the pro forma financial information, the amounts in RMB were converted to HKD with references to the People's Bank of China rate of approximately RMB1.00 to HK$1.12 as at 31 December 2019. No representation is made that RMB amounts have been, could have been or could be converted into HK$, or vice versa, at that rate or at any other rates or at all.

(i) No adjustment has been made to reflect any trading results or other transaction of the Group entered into subsequent to 31 December 2019 for the unaudited pro forma consolidated statement of financial position, the unaudited pro forma consolidated statement of profit and loss, the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and unaudited pro forma consolidated cash flow statement.

(B) INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong, in respect of the Group's pro forma financial information for the purpose in this Circular.

KPMG

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION

To the Directors of Orient Victory Travel Group Company Limited

We have completed our assurance engagement to report on the compilation of pro forma financial information of Orient Victory Travel Group Company Limited (the "**Company**") and its subsidiaries (collectively the "**Group**") by the directors of the Company (the "**Directors**") for illustrative purposes only. The pro forma financial information consists of the unaudited pro forma consolidated statement of financial position as at 31 December 2019, the unaudited pro forma consolidated statement of profit or loss, the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and the unaudited pro forma consolidated cash flow statement for the year ended 31 December 2019 and related notes as set out in Part A of Appendix III to the circular dated 24 June 2020 (the "**Circular**") issued by the Company. The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described in Part A of Appendix III to the Circular.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed disposal of 49% equity interest in China Comfort Tourism Group Company Limited and its subsidiaries (the "**Target Group**") on the Group's financial position as at 31 December 2019 and the Group's financial performance and cash flows for the year ended 31 December 2019 as if the Disposal had taken place at 31 December 2019 and 1 January 2019, respectively. As part of this process, information about the Group's financial position as at 31 December 2019 and the Group's financial performance and cash flows for the year ended 31 December 2019 has been extracted by the Directors from the consolidated financial statements of the Group for the year then ended, on which an audit report has been published.

Directors' Responsibilities 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 ("**HKICPA**").

Our Independence and Quality Control

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

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

Reporting Accountants' Responsibilities

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

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

For purpose 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 an investment circular is solely to illustrate the impact of a significant event or transaction on the unadjusted financial information of the Group as if the event had occurred or the transaction 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 events or transactions at 31 December 2019 or 1 January 2019 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 event or 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 accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction 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 purposes of the pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

KPMG
Certified Public Accountant
Hong Kong
24 June 2020

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 regards to the Group. 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. DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at the Latest Practicable Date, the interests and short positions of the Directors and 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) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including long and short positions which were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered into the register maintained by the Company; or (iii) which 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 ("**Model Code**") as set out in Appendix 10 of the Listing Rules were as follows:

Name of Director	Capacity	Number of Shares/ underlying shares of the Company held	Approximate percentage of shareholding in the Company *(Note 3)*
Mr. Shi	Interest in a controlled corporation	10,004,671,816 *(Note 1)*	77.42%
	Beneficial owner	130,239,145 *(Note 2)*	1.01%
Mr. Dong Xiaojie	Beneficial owner	2,014,285	0.02%

Notes:

(1) Mr. Shi holds 100% equity interest in OVRE and is deemed to be interested in the 10,004,671,816 shares of the Company held by OVRE under the SFO. The interests include the holding of (i) 7,813,182,880 Shares; (ii) the perpetual convertible securities issued in March 2016 (the "**2016 March PCS**") convertible into 128,771,155 Shares; and (iii) the perpetual convertible securities issued in October 2016 (the "**2016 October PCS**") convertible into 2,062,717,781 Shares.

(2) Mr. Shi beneficially owns 130,239,145 Shares as at the Latest Practicable Date.

(3) The approximate percentage was calculated based on 12,922,075,516 Shares in issue as at the Latest Practicable Date.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company has or is deemed to have any long or short position in shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including long and short positions which were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered into the register maintained by the Company; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

3. INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, to the best knowledge of the Directors, the following entities (not being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying shares of the Company which fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name of Shareholder	**Capacity**	**Number of Shares/ underlying shares of the Company held**	**Approximate percentage of shareholding in the Company** *(Note 5)*
OVRE *(Note 1)*	Beneficial owner	10,004,671,816	77.42%
Outstanding Global Holdings Limited ("**OGH**") *(Note 2)*	Beneficial owner Person having a security interest in shares of the Company	436,375,000 6,064,898,713	3.38% 46.93%
Chance Talent Management Limited ("**CMT**") *(Note 3)*	Person having a security interest in shares and perpetual convertible securities of the Company	6,193,669,868	47.93%
Haitong International Investment Fund SPC – Fund 1 SP ("**Haitong Fund**") *(Note 4)*	Person having a security interest in shares and perpetual convertible securities of the Company	2,812,957,781	21.77%

Notes:

(1) OVRE is wholly-owned by Mr. Shi. The interests include the holding of (i) 7,813,182,880 Shares; (ii) the 2016 March PCS convertible into 128,771,155 Shares; and (iii) the 2016 October PCS convertible into 2,062,717,781 Shares.

(2) OGH is wholly-owned by China Huarong International Holdings Limited which is wholly-owned by China Huarong Asset Management Co., Ltd. The 6,501,273,713 Shares, in aggregate, comprise (i) 6,064,898,713 Shares pledged by OVRE; and (ii) 436,375,000 Shares beneficially held by OGH.

(3) CTM is a limited liability business company incorporated under the laws of the British Virgin Islands and an indirectly wholly-owned special purpose vehicle of CCB International (Holdings) Limited. CCB International (Holdings) Limited is an investment services flagship which is indirectly wholly-owned by China Construction Bank Corporation, a joint-stock company incorporated in the PRC and listed on the Main Board of the Stock Exchange (stock code: 0939) and the Shanghai Stock Exchange (stock code: 601939). The 6,193,669,868 shares of the Company, in aggregate, comprise (i) 6,064,898,713 Shares pledged by OVRE; and (ii) the 2016 March PCS convertible into 128,771,155 Shares pledged by OVRE to CTM.

(4) Haitong Fund is an open-ended exempted segregated portfolio company. The 2,812,957,781 shares of the Company held by Haitong Fund comprise (i) 784,240,000 Shares pledged by OVRE; and (ii) the 2016 October PCS convertible into 2,028,717,781 Shares pledged by OVRE to Haitong Fund.

Save as disclosed above, as at the Latest Practicable Date, the Directors and the chief executive of the Company are not aware of any other person or corporation having an interest or short positions in the Shares or underlying shares of the Company which would require to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group, which is not determinable by the relevant employing member of the Group within one year without payment of compensation (other than statutory compensation).

5. DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the Latest Practicable Date, the following Director(s) is/are considered to have interests in the following businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group other than those businesses where the Director(s) of the Company was/were appointed as directors or represent the interests of the Company and/or the Group pursuant to the Listing Rules as set out below:

Name of Director	Name of entity which were considered to compete or likely to compete with the business of the Group	Description of competing business	Nature of interest
Mr. Shi	Orient Victory Group HK Holdings Limited (東勝集團香港控股有限公司) ("**OVHK**")	Real Estate/ Property Development	Sole Director and Sole Shareholder
	Orient Victory Property Development Group Co., Ltd.* (東勝房地產開發集團有限公司) ("**OVPD**")	Real Estate/ Property Development	Sole Shareholder

As (i) Mr. Shi is fully aware of his fiduciary duty to the Group, and will abstain from voting on any matter where there is or may be a conflict of interest; (ii) the Group engages only in travel-related property development projects which are located in the countryside while OVHK and OVPD engage in property development projects other than travel-related property development projects which are located in urban areas; and (iii) the Group have the first right of refusal on accepting the travel-related property development projects, the Group is capable of carrying its business independently of and at arm's length from the businesses of these entities.

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors or any of their respective close associates had engaged in or had any interest in any business which causes or may cause any competition with the business of the Group or any conflicts with the interests of the Group.

6. OTHER INTERESTS OF THE DIRECTORS

As at the Latest Practicable Date,

(a) none of the Directors had any interest, either direct or indirect, in any assets which had been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2019 (being the date to which the latest published audited consolidated financial statements of the Group were made up); and

(b) none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group which was subsisting as at the Latest Practicable Date and was significant in relation to the business of the Group.

7. LITIGATION

The Directors confirm that, as at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened against any member of the Group.

8. MATERIAL ADVERSE CHANGE

The Directors confirm that, as at the Latest Practicable Date, there is no material adverse changes in the financial or trading position of the Company since 31 December 2019, being the date to which the latest published audited consolidated financial statements of the Company were made up.

9. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of the Group within the two years immediately preceding the date of this Circular and are or may be material:

(i) the sale and purchase agreement dated 23 July 2018 entered into between the Company as vendor and South China Financial Holdings Limited as purchaser in relation to the disposal of 85% interest in King Link Investment Limited for the consideration of HK$4.8 million;

(ii) the loan agreement dated 13 September 2018 entered into between Zhangjiakou Chongliqu Hua Yu Travel Co., Ltd.* (張家口崇禮區華譽旅遊開發有限公司) and the other shareholders of Zhangjiakou Dakun Zhifang Real Estate Development Co., Ltd.* (張家口大坤直方房地產開發有限公司) ("**Dakun Zhifang**") as lenders, and Dakun Zhifang as borrower in respect of loans in an aggregate sum of RMB177.75 million;

(iii) the share transfer agreement dated 18 December 2018 entered into between Mr. Wang Aijun, Mr. Zhang Wenxue and Mr. Cheng Tonghui as vendors and Hebei Tengming Tourism Development Co., Ltd.* (河北滕鳴旅遊開發有限公司) as purchaser relating to the acquisition of 55% equity interest in Hebei Tu Men Travel Development Limited* (河北土門旅遊開發有限公司) for the consideration of RMB45.0 million;

(iv) the share transfer agreement dated 18 December 2018 entered into between Eco-Town Development and Operation Limited* (河北東勝生態小鎮開發運營有限公司) as vendor and Hebei Xinmen Real Estate Development Co., Ltd.* (河北鑫門房地產開發有限公司) as purchaser relating to the acquisition of 75% equity interest in Hebei Yidao Town Real Estate Development Limited* (河北驛道小鎮房地產開發有限公司) for the consideration of RMB7,800.0;

(v) the subscription agreement dated 25 January 2019 entered into between OVRE as subscriber and the Company for the subscription of up to 156,460,000 new Shares by OVRE under a top-up placing arrangement at the subscription price of HK$0.145 per Share;

(vi) the sale and purchase agreement dated 18 April 2019 entered into between Broad Vantage Limited (博益有限公司) as vendor and Mr. Shi as purchaser in relation to the disposal of Orient Victory International Financial Holdings Limited for the consideration of HK$15.9 million;

(vii) the subscription agreement dated 6 June 2019 entered into between OVRE as subscriber and the Company for the subscription of up to 15,690,000 new Shares by OVRE under a top-up placing arrangement at the subscription price of HK$0.129 per Share;

(viii) the cooperation agreement dated 18 November 2019 entered into between Beijing Huayu Tourism Development Co., Limited* (北京華譽旅遊開發有限公司), Liu Wei* (劉偉) and Guo Bin* (郭彬) in relation to the acquisition of Beijing Jinlv Shidai Tourism Co., Limited* (北京金旅時代旅行社有限公司) and its management and operation; and

(ix) the Equity Transfer Agreement.

10. EXPERT'S QUALIFICATION AND CONSENT

The following is the qualification of the expert who has given its opinions or advice which are included in this Circular:

Name	Qualifications
Pelican Financial Limited	a corporation licensed under the SFO to conduct Type 6 (advising on corporate finance) regulated activity as defined under the SFO, being the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders
KPMG	Certified Public Accountants

Each of Pelican Financial Limited and KPMG has given and has not withdrawn its written consent to the issue of this Circular, with the inclusion herein of its letter and report and references to its name in the form and context in which it appears.

As at the Latest Practicable Date, each of Pelican Financial Limited and KPMG:

(i) did not have any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and

(ii) did not have any direct or indirect interest in any assets which have been, since 31 December 2019 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

11. MISCELLANEOUS

(a) The company secretary of the Company is Mr. Ip Pui Sum ("**Mr. Ip**"). Mr. Ip is an external service provider to the Company and a Certified Public Accountant practicing in Hong Kong.

(b) The registered office of the Company is located at P.O. Box 31119 Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KY1-1205, Cayman Islands.

(c) The principal place of business of the Company in Hong Kong is situated at 1201B, 12/F, Tower 1, Admiralty Centre, 18 Harcourt Road, Admiralty, Hong Kong.

(d) The Company's share registrar and transfer office in Hong Kong is Union Registrars Limited at Suites 3301–04, 33/F, Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong.

(e) In the event of any inconsistency, the English text of this Circular shall prevail over the Chinese text.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be made available for inspection during normal business hours from 9:30 a.m. to 6:00 p.m. on any weekday except public holidays at the principal place of business of the Company in Hong Kong at 1201B, 12/F, Tower 1, Admiralty Centre, 18 Harcourt Road, Admiralty, Hong Kong from the date of this Circular up to and including the date of the EGM:

(a) the memorandum and articles of association of the Company;

(b) the material contracts as referred to in the section headed "9. Material contracts" in this appendix;

(c) the letter from the Independent Board Committee, the text of which is set out in this Circular;

(d) the letter from the Independent Financial Adviser, the text of which is set out in this Circular;

(e) the unaudited financial information of the Target Group set out in Appendix II to this Circular;

(f) the report from KPMG on the unaudited pro forma financial information of the Group, the text of which is set out in Appendix III of this Circular;

(g) the written consents referred to in the section headed "10. Expert's Qualification and Consent" in this appendix;

(h) the annual reports and consolidated financial statements of the Company for each of the three years ended 31 December 2017, 2018 and 2019; and

(i) a copy of each circular issued by the Company pursuant to the requirements set out in Chapters 14 and/or 14A of the Listing Rules which has been issued since 31 December 2019, being the date of the Company's latest published audited consolidated financial statements, including this Circular.

ORIENT VICTORY TRAVEL GROUP COMPANY LIMITED
東勝旅遊集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 265)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**EGM**") of Orient Victory Travel Group Company Limited (the "**Company**") will be held at conference room R3 & R4, United Conference Centre, 10/F, United Centre, 95 Queensway, Admiralty, Hong Kong, on Wednesday, 15 July 2020 at 11:00 a.m. for the purpose of considering and, if thought fit, passing (with or without modifications) the following resolution, which will be proposed as ordinary resolution of the Company:

ORDINARY RESOLUTION

1. "**THAT**:

   (a) the equity transfer agreement dated 26 March 2020 (the "**Equity Transfer Agreement**") entered into between Shenzhen Dongsheng Huamei Cultural Travel Company Limited* (深圳東勝華美文化旅遊有限公司), an indirect wholly-owned subsidiary of the Company, as vendor, and Orient Victory Cultural Tourism Group Co., Limited* (東勝文化旅遊集團有限公司), as purchaser, and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and

   (b) any one director of the Company be and is hereby authorised to do all such acts and things and sign all such documents (under seal, if necessary) and to take all such steps as he/she consider, necessary or expedient or desirable in connection with or to give effect to the Equity Transfer Agreement and to implement the transactions contemplated thereunder and to agree to such variation, amendment or waiver as are, in the opinion of the directors of the Company, in the interests of the Company."

By order of the Board
Orient Victory Travel Group Company Limited
SHI Baodong
Chairman, Chief Executive Officer and Executive Director

Hong Kong, 24 June 2020

Notes:

(1) A member entitled to attend and vote at the EGM is entitled to appoint one or more proxies (if holding two or more shares) to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company.

(2) In order to be valid, a form of proxy and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power of attorney or authority, must be deposited at the Company's share registrar and transfer office in Hong Kong, Union Registrars Limited at Suites 3301–04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong, for registration not less than 48 hours before the time fixed for holding the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude a member from attending and voting in person at the EGM or any adjournment thereof (as the case may be), should he/she so wishes and in such event, the form of proxy shall be deemed to be revoked.

(3) In order to qualify for attending and voting at the EGM, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's share registrar and transfer office in Hong Kong, Union Registrars Limited at Suites 3301–04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong for registration not later than 4:00 p.m. on Thursday, 9 July 2020.

(4) Delivery of an instrument appointing a proxy should not preclude a member from attending and voting in person at the EGM or any adjournment thereof and in such event, the instrument appointing a proxy shall be deemed to be revoked.

(5) In case of joint shareholdings, any one of such joint shareholders may vote at the EGM whether in person or by proxy, in respect of such shares as if he/she were solely entitled thereto, provided that if more than one of such joint shareholders be present at the EGM, the vote of the senior joint shareholder who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint shareholder(s) and for this purposes seniority will be determined by the order in which the names stand in the register of members of the Company in respect of the joint shareholding.

As at the date of this notice, the Board comprises three executive Directors, being Mr. Shi Baodong, Mr. Zhao Huining and Mr. Mo Yueming, one non-executive Director, being Ms. Song Sining, and three independent non-executive Directors, being Mr. Dong Xiaojie, Mr. He Qi and Mr. Suei Feng-jih.

For illustrative purpose of this Circular and unless otherwise specified, conversion of RMB into HK$ is based on the exchange rate of RMB1.00 = HK$1.12.

* *for identification purpose only*