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

If you have sold or transferred all your shares in **Orient Victory China Holdings Limited** (the "Company"), you should at once hand this circular together with the enclosed form of proxy to the purchaser or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser.

This circular is for information purposes only and does not constitute an offer or invitation to subscribe for or purchase any securities, nor is it calculated to invite any such offer or invitation.

東勝中國
ORIENT VICTORY CHINA

ORIENT VICTORY CHINA HOLDINGS LIMITED
東勝中國控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 265)

(1) VERY SUBSTANTIAL ACQUISITION PROPOSED ACQUISITION OF 49% EQUITY INTEREST IN CHINA COMFORT TRAVEL GROUP COMPANY LIMITED* (2) SUBSCRIPTION OF NEW SHARES UNDER SPECIFIC MANDATE AND (3) NOTICE OF EXTRAORDINARY GENERAL MEETING

Financial Adviser to the Company

建银国际
CCB International

A notice convening the EGM to be held at Conference room 3-5, 10th Floor, United Conference Centre, United Centre, 95 Queensway, Hong Kong on Tuesday, 8 September 2015 at 11:00 a.m. is set out on pages EGM-1 to EGM-3 of this circular. Whether or not you are able to attend and/or vote at the EGM in person, you are requested to complete the enclosed form of proxy and return it to the Company's share registrar and transfer office in Hong Kong, Union Registrars Limited at A18/F., Asia Orient Tower, Town Place, 33 Lockhart Road, Wanchai, Hong Kong in accordance with the instructions printed thereon as soon as possible but in any event not later than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from subsequently attending and voting in person at the EGM or any adjournment thereof (as the case may be) should you so wish.

* *for identification purpose only*

21 August 2015

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Unless the context otherwise requires, terms or expressions used in this circular shall have the meanings ascribed to them below:

"Acquisition"	the proposed acquisition of the Sale Interest by the Purchaser from the Vendors in accordance with the terms and conditions of the Equity Transfer Agreement
"Acquisition Completion"	completion of the Acquisition in accordance with the terms and conditions of the Equity Transfer Agreement
"AIC"	State Administration for Industry and Commerce of the PRC
"Announcement"	the announcement of the Company dated 9 April 2015 in relation to, among other things, the Acquisition
"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 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"	a day (excluding Saturday, Sunday, public holiday 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 throughout their normal business hours
"BVI"	British Virgin Islands
"CCBI"	CCB International Capital Limited, a licensed corporation under the SFO permitted to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO and which is the financial adviser to the Company in respect of the Acquisition and the Subscription

** for identification purpose only*

"Company"	Orient Victory China Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Stock Exchange
"connected person(s)"	has the meaning as ascribed to it under the Listing Rules
"Consideration"	the total consideration of RMB441,000,000 (approximately HK$554,820,000) payable by the Purchaser for the Acquisition
"CTM"	Chance Talent Management Limited, a company incorporated in the BVI and being one of the investors under the Investment Agreement
"Deposit"	a deposit of RMB44,100,000 (approximately HK$55,480,000) payable by the Purchaser in accordance with the Equity Transfer Agreement
"Director(s)"	director(s) of the Company
"EGM"	an extraordinary general meeting of the Company to be convened and held to approve the Equity Transfer Agreement, the Framework Agreement, the Subscription Agreement and the respective transactions contemplated thereunder
"Enlarged Group"	the Group immediately after the Acquisition Completion
"Enterprise Value"	generally means the total value of a company with reference to the sum of the market value of its common stock, the market value of its preferred equity, the market value of its debt and minority interest minus cash and investments
"Equity Transfer Agreement"	the equity transfer agreement dated 26 March 2015 entered into among the Vendors, the Purchaser and the Target Company in relation to the Acquisition
"ETA Last Trading Day"	20 March 2015, being the last trading day prior to the signing of the Equity Transfer Agreement
"Framework Agreement"	the framework agreement dated 26 March 2015 entered into among Mr. Li (on behalf of all the Vendors), the Purchaser, Beijing Tourism Group and the Target Company

"Franchisees"	the business entities (including 36 subsidiaries and 46 associated companies) of the Target Company that are under the Business Arrangements and are treated as franchisees for the purpose of accounting
"Group"	the Company and its subsidiaries from time to time
"Guarantors"	18 Vendors who collectively appointed Hwabao Trust to act as their trustee for the purpose of the Subscription and guaranteed all the obligations of Hwabao Trust under the Subscription Agreement
"HK$"	Hong Kong dollar(s), the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hwabao Trust"	Hwabao Trust Company Limited (華寶信託有限責任公司), a company established in the PRC with limited liability and a Qualified Domestic Institutional Investor appointed collectively by the Guarantors to act as their trustee for the purpose of the Subscription
"Hwabao Trust Contract"	the contract for the trust arrangement in relation to the Subscription dated 24 June 2015 entered into between the Guarantors and Hwabao Trust
"Independent Third Party" or "Independent Third Parties"	individual or company and their respective ultimate beneficial owner which, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, are third parties independent of and not connected with the Company and its connected persons
"Investment Agreement"	the investment agreement dated 27 June 2015, the announcement of which was made by the Company on 28 June 2015
"Jointly-controlled Bank Account"	a bank account to be opened and controlled by the Purchaser and the Vendors at a bank as designated by the parties for the intended purchase of the Sale Interest
"Last Trading Day"	6 July 2015, being the last trading day prior to the signing of the Subscription Agreement

"Latest Practicable Date"	19 August 2015, being the latest practicable date prior to printing of this circular for ascertaining certain information for inclusion in this circular
"Listing Committee"	the listing sub-committee of the board of the directors of the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Long Stop Date"	150 days from the date of the Equity Transfer Agreement
"Mr. Li"	Mr. Li Jilie* (李繼烈), being one of the Vendors, who holds 8.14% equity interest in the Target Company as at the Latest Practicable Date
"Mr. Shi"	Mr. Shi Baodong, the chairman of the Company and an executive Director and a controlling shareholder of the Company
"OGH"	Outstanding Global Holdings Limited, a company incorporated in the BVI and being one of the investors under the Investment Agreement
"Orient Victory Real Estate"	Orient Victory Real Estate Group Holdings Limited, a company incorporated in the BVI and is a controlling shareholder of the Company
"Perpetual Convertible Securities"	the perpetual convertible securities in an aggregate principal amount of (i) HK$70,000,000 having a denomination of HK$1,000,000 each to be subscribed by CTM pursuant to the Investment Agreement; and (ii) HK$100,000,000 having a denomination of HK$1,000,000 each to be subscribed by OGH pursuant to the Investment Agreement
"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

** for identification purpose only*

"Purchaser"	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
"Remaining Balance"	a balance of the Consideration in a sum of RMB396,900,000 (approximately HK$499,340,000) after deducting the Deposit payable by the Purchaser in accordance with the Equity Transfer Agreement
"RMB"	Renminbi, the lawful currency of the PRC
"Sale Interest"	the 49% equity interest in the Target Company owned by the Vendors as at the Latest Practicable Date
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary share(s) of HK$0.025 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Specific Mandate"	the mandate to allot and issue the Subscription Shares to be sought from the Shareholders at the EGM to authorise the Directors to allot and issue the Subscription Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscribers"	(1) 18 Vendors as set out in the Subscription Agreement and (2) Hwabao Trust
"Subscription"	the subscription of the Subscription Shares by the Subscribers pursuant to the Subscription Agreement
"Subscription Agreement"	a subscription agreement dated 7 July 2015 entered into between the Company and the Subscribers in relation to the Subscription

** for identification purpose only*

"Subscription Completion"	completion of the Subscription in accordance with the Subscription Agreement
"Subscription Completion Date"	the date which is the thirtieth Business Day after satisfaction of all the conditions precedent under the Subscription Agreement, or if such date falls on a day which is not Business Day, it shall be the Business Day immediately preceding such date, or such other date as may otherwise be agreed by the Subscribers and the Company in writing
"Subscription Price"	a subscription price of HK$0.74 per Subscription Share
"Subscription Shares"	an aggregate of 372,466,100 new Shares to be subscribed by the Subscribers pursuant to the terms of the Subscription Agreement, each as a Subscription Share
"Target Company"	China Comfort Travel Group Company Limited* (中國康輝旅行社集團有限責任公司), a company established in the PRC and its equity interest is owned as to 51% and 49% by Beijing Tourism Group and the Vendors respectively, as at the Latest Practicable Date
"Target Group"	the Target Company, its subsidiaries and associates
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers
"Trading Day"	a day on which the Stock Exchange is open for dealing business in Hong Kong
"Vendors"	comprising 36 natural persons (including Mr. Li) who are Independent Third Parties and in aggregate hold 49% equity interest in the Target Company as at the Latest Practicable Date
"%"	per cent.

For the purpose of this circular, unless otherwise indicated, conversions of RMB into HK$ is calculated at the approximate exchange rate of RMB1.00 to HK$1.2581. This exchange rate is adopted for the purpose of illustration only and does not constitute a representation that any amounts have been, could have been, or may be, exchanged at this or any other rate at all.

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ORIENT VICTORY CHINA HOLDINGS LIMITED
東勝中國控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 265)

Executive Directors:
Mr. Shi Baodong *(Chairman)*
Mr. Wang Jianhua
Ms. Xu Yongmei

Non-executive Director:
Mr. Li Yankuan

Independent Non-executive Directors:
Mr. Dong Xiaojie
Mr. He Qi
Mr. Law Wang Chak, Waltery

Registered Office:
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Willow House
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PO Box 2804
Grand Cayman
KY1-1112 Cayman Islands

Head Office and Principal Place of Business in Hong Kong:
Room 2603
Harbour Centre
25 Harbour Road
Wanchai, Hong Kong

21 August 2015

To the Shareholders

Dear Sir/Madam,

**(1) VERY SUBSTANTIAL ACQUISITION
PROPOSED ACQUISITION OF 49% EQUITY INTEREST IN
CHINA COMFORT TRAVEL GROUP COMPANY LIMITED*
AND
(2) SUBSCRIPTION OF NEW SHARES UNDER SPECIFIC MANDATE**

INTRODUCTION

The Company announced on 9 April 2015, among other things, that on 26 March 2015, the Purchaser, being an indirect wholly-owned subsidiary of the Company, entered into the Equity Transfer Agreement with the Vendors and the Target Company, pursuant to which the Vendors have conditionally agreed to sell, and the Purchaser has conditionally agreed to purchase, the Sale Interest, representing 49% equity interest in the Target Company in

* *for identification purpose only*

aggregate, at a total Consideration of RMB441,000,000 (approximately HK$554,820,000). The Acquisition is conditional upon fulfillment of various conditions under the paragraph headed "Conditions Precedent to the Equity Transfer Agreement".

On 26 March 2015, the Purchaser, Mr. Li (acting on behalf of the Vendors), Beijing Tourism Group and the Target Company entered into the Framework Agreement, which sets out the framework upon which the parties thereto will cooperate with one another in developing and managing the Target Company after the Acquisition.

The Company announced on 7 July 2015 that on 7 July 2015, the Company and the Subscribers entered into the Subscription Agreement pursuant to which the Subscribers have conditionally agreed to subscribe for, and the Company has conditionally agreed to allot and issue to the Subscribers, an aggregate of 372,466,100 Subscription Shares at the Subscription Price of HK$0.74 per Subscription Share under the Specific Mandate.

According to the Listing Rules, the Acquisition constitutes a very substantial acquisition for the Company and is therefore subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

The purpose of this circular is to provide the Shareholders with, among others, (i) further details of the Equity Transfer Agreement, the Acquisition, the Framework Agreement and information on the Target Company; (ii) further details of the Subscription Agreement and the transactions contemplated thereunder (including the grant of the Specific Mandate to allot and issue the Subscription Shares to the Subscribers pursuant to the Subscription Agreement); (iii) the accountants' report on the Target Company; (iv) unaudited pro forma financial information of the Enlarged Group; (v) the valuation report on 49% equity interest in the Target Company; (vi) the valuation report on the trademark and distribution network of the Target Group; and (vii) notice of the EGM to be convened to approve, among others, the Equity Transfer Agreement, the Framework Agreement, the Subscription Agreement and the respective transactions contemplated thereunder.

As the Subscription Completion is subject to the fulfilment of the conditions precedent stated in the Subscription Agreement, the Subscription may or may not proceed. Shareholders and potential investors should exercise caution when dealing in the Shares.

1. THE ACQUISITION

Introduction

On 26 March 2015, the Purchaser, being an indirect wholly-owned subsidiary of the Company, entered into the Equity Transfer Agreement with the Vendors and the Target Company, pursuant to which the Vendors have conditionally agreed to sell, and the Purchaser has conditionally agreed to purchase, the Sale Interest, representing 49% equity interest in the Target Company in aggregate, at a total Consideration of RMB441,000,000 (approximately HK$554,820,000). The Acquisition is conditional upon fulfillment of various conditions precedent under the paragraph headed "Conditions Precedent to the Equity Transfer Agreement". The principal terms of the Equity Transfer Agreement are set out below.

The Equity Transfer Agreement

Date

26 March 2015

Parties

(1) the Purchaser;

(2) the Vendors; and

(3) the Target Company.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Vendors are Independent Third Parties.

As at the Latest Practicable Date, the equity interest in the Target Company is owned as to 51% by Beijing Tourism Group and 49% in aggregate by the Vendors. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, Beijing Tourism Group is an Independent Third Party.

Assets to be acquired

Pursuant to the Equity Transfer Agreement, the Purchaser has conditionally agreed to purchase and the Vendors has conditionally agreed to sell, the Sale Interest, representing 49% equity interest in the Target Company in aggregate.

Consideration

The Consideration payable by the Purchaser for the Sale Interest is RMB441,000,000 (approximately HK$554,820,000), which will be settled in the following manners:

(1) the Deposit in the sum of RMB44,100,000 (approximately HK$55,480,000) shall be paid in cash within five business days from the signing of the Equity Transfer Agreement; and

(2) the Remaining Balance in the sum of RMB396,900,000 (approximately HK$499,340,000) shall be paid into the Jointly-controlled Bank Account within seven business days after the fulfillment and/or waiver (as the case may be, save for the conditions precedent set out in paragraphs (5), (7), (8), (9), (11) and (12) under the heading "Conditions Precedent to the Equity Transfer Agreement" below which cannot be waived) of the conditions precedent to the Equity Transfer Agreement.

The Remaining Balance will be released to the Vendors on Acquisition Completion as described below.

As stated in the Announcement, the Consideration was determined after arm's length negotiations between the Vendors and the Purchaser with reference to, among other things, (i) the Enterprise Value to Earnings Before Interest, Taxation, Depreciation and Amortization (EV/EBITDA) of the Target Company of 22.48 times (based on the Consideration of RMB441,000,000) which is lower than the average EV/EBITDA multiples of 46.37 times (based on 6 comparable listed companies); (ii) the net asset value attributable to the Sale Interest as at 31 December 2014; (iii) the brand name, reputation and market position of the Target Company; (iv) the historical operating and financial performance of the Target Company; and (v) the future prospects of the travel agency business in the PRC. The aforementioned EV/EBITDA analysis was based on the then latest available management accounts and the operations of the Target Group.

Reference is made to the Announcement. The Consideration was not first determined with reference to EV/Sales. This new measure for determination of the Consideration was adopted only after the publication of the Announcement. During the course of the due diligence investigation, after the Board noted the Business Arrangement of the Target Group, the Board engaged an independent valuer to assess and evaluate the fair value of 49% equity interest in the Target Company. Having considered that EV/Sales is a meaningful and commonly-used tool for evaluating the Target Company in terms of its operating scale and taken into account the professional judgement of the independent valuer, the Board considers the adoption of EV/Sales, in conjunction with EV/EBITDA as originally considered by the Board, as appropriate for determination of the Consideration. Further details relating to the reasons for adopting EV/Sales as one of the measures for determination of the Consideration are set out in Appendix V to this circular.

The Board has noted the following circumstances of the Target Group:

(i) It was revealed during the due diligence process that there was a decrease in size, profits and net assets value of the Target Group as the Target Company's 36 direct subsidiaries and 46 direct associated companies should be treated as franchisees from an accounting perspective. Please refer to the section "Information on Target Group" for details regarding such accounting treatment;

(ii) the Consideration represents a price-to-earnings ratio of 150 times (i.e. Consideration of RMB441 million divided by 49% interests in the profit of RMB6.0 million) and a price of book value ratio of 10.8 times (i.e. Consideration of RMB441 million divided by 49% interests in the total equity of RMB83.2 million) determined based on the audited financial information of the Target Group for the financial year ended 31 December 2014;

(iii) the Target Group recorded a minimal profit of RMB4.2 million, RMB3.9 million and RMB6.0 million for the years ended 31 December 2012, 2013 and 2014 and RMB2.1 million for the three months ended 31 March 2015, representing a profit margin of 0.6%, 0.6%, 0.9% and 1.28% respectively;

(iv) the Target Group recorded net current liabilities of RMB47.9 million, RMB61.0 million, RMB41.2 million and RMB43.4 million as at 31 December 2012, 2013 and 2014 and 31 March 2015 respectively;

(v) the deterioration in profitability and the financial position (such as (a) decline in profits (excluding the one-off gain on deemed disposal of a subsidiary for the year ended 31 December 2014), (b) decline in cash position and (c) increase in gearing ratios) of the Target Group during the three years ended 31 December 2014. The Target Group's cash at bank and on hand amounted to RMB74.4 million, RMB35.9 million and RMB22.9 million as at 31 December 2012, 2013 and 2014 respectively. Gearing ratios (being net debts divided by net assets) were 42%, 64% and 84% as at 31 December 2012, 2013 and 2014 respectively. Nevertheless, the Target Group's (a) net profit for the three months ended 31 March 2015 improved as shown in (iii) above, (b) cash position increased to RMB43.9 million as at 31 March 2015 and (c) gearing ratio decreased to 62% as at 31 March 2015; and

Notwithstanding the above, the Directors consider that these are not the only factors in determining the Consideration as none of these nor the then investment cost reflects the future earning capabilities of the business prospects of the Target Group and the development potential of the Target Group. Given the long operating history of the Target Group, the continuous support of the management of the Target Group by leveraging on their strong experience, expertise, resources and business connection in the travel industry are invaluable and cannot be quantified in economic terms nor measured in terms of money and helps paving the important way for the Group to enter into the PRC travel market.

The Target Group has built up a reputable brand name in the travel market in the PRC from its long operating history since 1987. The Target Group was continuously ranked as one of the Top 10 Travel Agency groups in China by China National Tourism Administration ("CNTA"). Eight companies under the Target Group were included as one of the Top 100 Travel Agencies in China in 2013. In 2010, "Comfort Travel" was honoured to be named as a Famous Trademark in China by the State Administration for Industry & Commerce of the People's Republic of China. For further information relating to the awards received by the Target Group, please refer to V-7 of Appendix V to this circular.

The Board has noted that the significant disparity between (a) the net asset value of RMB40.8 million attributable to the Sale Interest as at 31 December 2014 and the original investment costs in the Target Group from the Vendors totaling RMB34.3 million and (b) the amount of the Consideration. The original investment costs of the Vendors, most of which was contributed more than a decade ago, did not reflect the subsequent tremendous economic growth in the PRC as well as the growth of the Target Group over the years to become, among other accolades, one of the top 10 travel agency groups in the PRC.

Benefiting from the booming economy, the Target Group grew and expanded and the value of the relevant investments appreciated over time given the rising demand in the PRC travel industry, which resulted in the disparity between the amount of the Consideration and the initial investment costs in the Target Group.

The Board has also noted that the Company might be lack of substantial control over the business activities and dividend policies of the Target Group and therefore, it might create difficulties for the Company to obtain a direct economic benefit from its investment in the Target Group. However, from the Board's perspective, upon Acquisition Completion, the Purchaser can nominate the vice-chairman of the board of the Target Company and president of the Target Company and three of the seven directors of the Target Company will be nominated by the Purchaser according to the Framework Agreement and as such, the Purchaser shall have influence over the management and operation of the Target Company.

In view of the circumstances of the Target Group as outlined above, the management of the Target Group has formulated business plans to (i) change the existing business model, (ii) expand its online business, (iii) develop new businesses in association with financial institutions, insurance companies and major airlines, and (iv) enhance working efficiency. The details of the business plans of the Target Group are set out in the section headed "BUSINESS PLANS OF THE TARGET GROUP".

In addition, the Board is optimistic about the travel market (including the online travel market) outlook, growth in tourism and future expansion in the travel market in the PRC as explained in the sections headed "FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP".

When determining the Consideration, the Directors have made reference to the valuation prepared by Flagship Consulting (Hong Kong) Limited which represents a market value assessed by an independent professional valuer. The valuation report on the Sale Interest is set out in Appendix V.

Based on the valuation, four comparable companies ("Comparable Companies") were selected by the valuer to evaluate the fair value of the Sale Interest based on the following criteria:

(i) companies listed in either Hong Kong or China;

(ii) companies engaged in traditional travel agency business and have national network of branches in China; and

(iii) traditional travel agency business is important to the overall business and no intention to change in the coming future.

The valuer has excluded from its valuation two comparable companies, namely Shenzhen Tempus Global Travel Holdings Limited (stock code: 300178 CH) and Shanghai Jinjiang International Hotels Development Company Limited (stock code: 600754 CH). Shenzhen Tempus Global Travel Holdings Limited provides travel agency services but it mainly focuses on on-line ticketing and on-line travel agency business and financing business which is largely different from the principal business of the Target Company. Similarly, although Shanghai Jinjiang International Hotels Development Company Limited provides travel agency services, it mainly focuses on hotel operation relating to the hotels and food & beverage businesses, which is also different from the principal business of the Target Company.

The Directors and the independent valuer consider that the following four Comparable Companies represent a good and useful reference in assessing the fair value of the Sale Interest and the Consideration:

Comparable companies	**Principal business**	**EV/ EBITDA**	**EV/ Sales**	**Year end date for compilation of the financial ratios**
China Travel International Investment Hong Kong Limited (stock code: 00308 (HK))	The group operates tourist attractions, golf clubs, hotels and other travel related activities. It also provides passenger transportation as well as freight forwarding and cargo services.	7.32	4.44	31 December 2014
Beijing Utour International Travel Service Co Ltd (stock code: 002707 (SZ))	The company wholesales and retails outbound trips, meetings, incentives, conventions and exhibitions tours.	59.39	2.18	31 December 2014
China CYTS Tours Holdings Co., Ltd (stock code: 600138 (SH))	The company provides travel information and arrangement services.	22.38	1.94	31 December 2014
China International Travel Service Corp Ltd (stock code: 601888 (SH))	The company operates travel agencies that offer a wide range of travel packages. It also operates duty free shops.	18.15	2.19	31 December 2014
Average		26.81	2.69	

The selected companies as shown are comparable with the Target Company in terms of their business nature, size, and reputation in the PRC travel market. Furthermore, China Travel International Investment Hong Kong Limited, China CYTS Tours Holdings Co., Ltd, China International Travel Service Corp Ltd, and the Target Company, are four major traditional travel agencies in the PRC with the PRC government's background. Beijing Utour International Travel Service Co. Ltd is the largest traditional travel agency in the PRC without the PRC government's background. In view of the above, the Board considers that the selected Comparable Companies represent complete, fair and representative samples for determining the Consideration.

According to the valuation of 49% equity interest in the Target Company, the estimated fair value for the Sales Interest as derived by the average of the fair value as calculated by using the average EV/EBITDA and average EV/Sales ratios above was RMB452,700,000.

Enterprise value-to-Earnings before Interest, Tax, Depreciation and Amortization ("EV/EBITDA") ratio is a common valuation pricing multiple used in the valuation profession. It measures the profitability/cash flow of a business and how the market evaluates the business from profitability/cash flow prospects. Enterprise value-to-Sales ratio is also a common valuation pricing multiple used in the valuation profession. It measures the business size and how the market evaluates the business scale. It is a suitable measure for the Acquisition as one of the key edges of the Target Company is its well-developed extensive distribution network in the PRC.

The "price-to-book" ratio as a pricing multiple is excluded from the valuation. This ratio is regarded as the best pricing multiple that is used for companies in capital-intensive industries such as oil and gas or financial companies, in which tangible (or financial) assets are the source of value generation.

The use of "price-to-book" ratio in the determination of the Consideration has drawbacks as it does not reflect a company's earnings power or cash flows. The independent valuer has evaluated the adoption of the "price-to-book" ratio, however, the independent valuer rejected "price-to-book" ratio as one of the pricing multiples due to the following factors:

1. Quantitatively, its coefficient of variation of 0.99 is the largest among all pricing multiples considered, which means that the "price-to-book" ratio is the least reliable estimator from a statistical perspective; and

2. Qualitatively, the economic linkage between the equity value and the book value is weak in travel agency business.

Equally importantly, industry preference also affects the choice of valuation multiples. Given that travel agency business is a service-oriented industry, which operates under an asset-light business model, it is common to evaluate based on revenue multiples such as EV-to-sales, or cash flow multiples and the independent valuer therefore has used EBITDA as a proxy for cash flow.

Taking into consideration that (i) the principal businesses of the Comparable Companies are directly comparable to the Target Group's business, (ii) the Consideration was at a slight discount to the estimated fair value as mentioned above; (iii) strong brand name of the Target Group, (iv) the size of the Target Group, (v) the expected synergies disclosed in the section headed "REASONS FOR AND BENEFITS OF THE ACQUISITION AND SUBSCRIPTION", and (vi) the other factors mentioned above, the Directors are of the view that the Consideration is fair and reasonable.

Valuation of Trademark and Distribution Network of Target Group

Appendix VI sets out the valuation of the trademark and distribution network of the Target Group. The Board is of the view that the intangible assets are not amortised while their useful lives are assessed to be indefinite and the recoverable amount of such intangible assets is estimated annually. The corresponding tax benefit will be realised along with the consumption of the economic benefits embodied in these assets over time. The above accounting treatment is consistent with Hong Kong Financial Reporting Standards, including Hong Kong Accounting Standard 36, "Impairment of Assets" and Hong Kong Accounting Standard 12, "Income taxes".

Having considered that the valuation methodology adopted in the valuation of the intangible assets is consistent with the International Valuation Standards and that the information provided by the management of the Target Company which was used by the valuer for compiling the valuation report has been thoroughly reviewed and checked, the Board is of the view that the valuation is fair and appropriate as to the valuation of the distribution network determined based on the replacement costs method.

Satisfaction of Consideration

As at the Latest Practicable Date, the Deposit in the amount of RMB44,100,000 has already been paid by the Purchaser to the Vendors and therefore, the remaining maximum Consideration is RMB396,900,000 (approximately HK$499,340,000).

Reference is made to the announcement of the Company dated 28 June 2015 in relation to the proposed issue of the Perpetual Convertible Securities under a specific mandate. As disclosed, the gross proceeds from the issue of the Perpetual Convertible Securities are expected to be approximately HK$170,000,000. After deducting related professional fees and all related expenses of about HK$7,800,000, the net proceeds from the issue of the Perpetual Convertible Securities will amount to approximately HK$162,200,000. The Board intends to apply 80% of the net proceeds (approximately HK$129,760,000) from the issue of the Perpetual Convertible Securities to the payment of Consideration as disclosed.

The remaining balance will be financed by an entrustment loan from a bank with funding provided by Shenzhen Dong Yuan Hui Rong Shi Ye Company Limited* (深圳東源匯融實業有限公司) ("Shenzhen Dong Yuan") and a loan provided by Orient Victory Group HK Holdings Limited ("Orient Victory Group HK"). Under a loan arrangement, Mr. Shi through his companies, namely Shenzhen Dong Yuan and Orient Victory Group HK, agreed to make available the loans in the principal amount of HK$540,000,000 (the "Loans") to the Group. The Loans shall be repaid within eighteen months from the date of the drawdown of the Loans (subject to extension as agreed in writing by both parties) and shall be non-interest bearing and unsecured.

** for identification purpose only*

Since both Shenzhen Dong Yuan and Orient Victory Group HK are wholly-owned by Mr. Shi, a controlling shareholder of the Company who held approximately 66.22% issued share capital of the Company as at the Latest Practicable Date, Shenzhen Dong Yuan and Orient Victory China Group HK are connected persons of the Company under Chapter 14A of the Listing Rules. The provision of the Loans constitutes a connected transaction for the Company. As the provision of the Loans are for the benefit of the Company and on terms better than normal commercial terms, where no security over assets of the Group was granted in respect of the Loan, the provision of the Loans is exempt from reporting, announcement and independent shareholders' approval requirements pursuant to Rule 14A.90 of the Listing Rules.

Furthermore, as disclosed below, the gross proceeds from the Subscription are expected to be approximately HK$275,624,914 and the net proceeds of the Subscription will amount to approximately HK$260,624,914. The Company intends to repay part of the Loans by the net proceeds to be raised from the Subscription.

Adjustment to the Consideration

From the date of the Equity Transfer Agreement to Acquisition Completion, the Target Company shall notify the Purchaser upon the following events that have taken place and not within the ordinary and usual course of its business:

(1) the Target Company disposes of its assets which exceeds RMB2,800,000 (approximately HK$3,520,000) in value;

(2) the Target Company distributes any dividends apart from the dividends to Beijing Tourism Group and the Vendors in an aggregate sum exceeding RMB7,000,000 (approximately HK$8,810,000);

(3) the Target Company enters into any purchase agreement at a total consideration exceeding RMB2,800,000 (approximately HK$3,520,000); or

(4) the Target Company enters into a guarantee, pledge or loan in an amount exceeding RMB2,800,000 (approximately HK$3,520,000).

Where the Target Company incurs a loss due to the non-disclosure of information or facts by the Vendors and the Target Company to the Purchaser, such Vendors shall be liable to give compensation to the Purchaser in respect of any part of the net losses exceeding RMB2,800,000.

On or prior to the date of the Acquisition Completion, such Vendors shall confirm line-by-line regarding the adjustment to Consideration mentioned above with the personnel designated by the Purchaser, effect the confirmation of each of the matters of adjustment to the Consideration and issue a letter of confirmation (the "Letter of Confirmation"). Such Letters of Confirmation shall specify the status of such matters (if any), and the aggregate value of net losses caused to the Target Company by such matters which have been unanimously confirmed by the parties according to contract documents/resolutions at the relevant shareholders' meetings which are then already effective. On the date of the Acquisition Completion, such Vendors and the Purchaser shall direct that the taxes payable by such Vendors in the Acquisition and the value of net losses confirmed by the parties pursuant to the stipulations regarding Letters of Confirmation referred to in the preceding clause (where applicable) be deducted from the Remaining Balance of the Jointly-controlled Bank Account, and that the remaining amount of the Remaining Balance left in the Jointly-controlled Bank Account (after deducting the relevant taxes and the value of net losses (if any) as mentioned above) shall be redirected and be paid to the bank account designated by Mr Li, who acted as the representative and on behalf of all the Vendors. The Purchaser will assess each of the above events if it occurs and will agree on the net loss actually incurred by the Target Company on an individual basis.

As approved in the shareholders' meeting dated 8 March 2015, the authorised aggregate amount of the dividends of the Target Group for the year 2014 was RMB6,952,500. As at 26 June 2015, the Target Group has distributed RMB6,924,375 with the remaining amount of RMB28,125 yet to be distributed.

The Company will announce the final Consideration amount once it is determined or when the payment is made.

Conditions Precedent to the Equity Transfer Agreement

The Remaining Balance shall be paid into the Jointly-controlled Bank Account within seven business days after the fulfilment or waiver (as the case may be, save for the conditions precedent set out in paragraphs (5), (7), (8), (9), (11) and (12) which cannot be waived) of the conditions precedent to the Equity Transfer Agreement and its conditions precedent, inter alia, are as follows:

(1) the warranties and representations given by the parties thereto under the Equity Transfer Agreement having remained true, accurate and not misleading between the date of Equity Transfer Agreement and the date of the Acquisition Completion;

(2) the Purchaser having completed and being satisfied with the results of the financial and legal due diligence in relation to the Acquisition;

(3) the auditors to be engaged by the Purchaser having completed the audit of the financial statements of the Target Company for the years ended 2011, 2012, 2013 and 2014 in accordance with international financial reporting standards and having no significant adverse comments;

(4) the net asset value of the Target Company based on its audited accounts as at 31 December 2014 not being less than its audited net asset value as at 31 December 2013;

(5) the Equity Transfer Agreement and the Framework Agreement having been approved by the Shareholders at the EGM;

(6) the entering into of the Subscription Agreement between the Company and the Vendor(s) and/or other parties in a form and on terms satisfactory to the Vendors and the Company;

(7) the existing shareholders of the Target Company having passed the relevant resolutions to approve the Acquisition and the shareholders of the Target Company after the Acquisition Completion (i.e. Beijing Tourism Group and the Purchaser) having passed the relevant resolutions relating to, among other things, the rights of the shareholders and the appointment of new directors on terms satisfactory to Beijing Tourism Group and the Purchaser;

(8) the shareholders of the Target Company after the Acquisition Completion (i.e. Beijing Tourism Group and the Purchaser) having passed the relevant resolutions in relation to the adoption of new articles of association of the Target Company which shall include terms relating to the composition of the board of directors and protection of the shareholders' rights to the satisfaction of the Purchaser;

(9) the Vendors, the Purchaser and Beijing Tourism Group having agreed on an operating proposal in relation to the smooth transition of the operation management and maintaining steady growth in the business performance of the Target Company after the Acquisition on terms satisfactory to the Vendors, the Purchaser and Beijing Tourism Group;

(10) there being no applicable laws and regulations which would prohibit or limit the Acquisition;

(11) the Stock Exchange or the SFC not having indicated or ruled that the Acquisition would be deemed to be a reverse takeover as defined under the Listing Rules; and

(12) the Vendors and the Target Company having used their respective best endeavours to provide the Purchaser with all the required information to enable the Company to issue the relevant announcement(s) and circular in relation to the Acquisition, and the Vendors and the Target Company agree that the Purchaser may engage an accounting firm to complete the audit of the Target Company in accordance with the Listing Rules and/or the requirements or other relevant authorities.

In the event that any of the conditions precedent set out in paragraphs (5) or (11) above cannot be fulfilled by the Long Stop Date, any of the parties thereto is entitled to terminate the Equity Transfer Agreement, the Purchaser shall not have any liabilities therefor and the Deposit shall be returned to the Purchaser.

In the event that any of the conditions precedent set out in paragraphs (6) or (7) above cannot be fulfilled by the Long Stop Date, any of the parties thereto is entitled to terminate the Equity Transfer Agreement, the Vendors shall not have any liabilities therefor and the Deposit shall be returned to the Purchaser.

The Purchaser will negotiate with the Vendors to extend the Long Stop Date, and a further announcement will be made when an agreement is entered into between the parties in this regard.

The Company was advised that the net asset value of the Target Group based on its audited accounts on a consolidated basis as at 31 December 2014 is approximately RMB1.2 million lower than that of the Target Group as at 31 December 2013 and as a result of which the condition precedent set out in paragraph 4 above is not satisfied. However, the Company considers that the shortfall is immaterial in the context of the Acquisition and, having taken into account the reasons for and benefits of the Acquisition and that it is in the interest of the Company to proceed with the Acquisition. The Company has therefore agreed to waive the condition precedent set out in paragraph (4) above.

Tax clearance and registration at the AIC

Within seven business days after the payment of the Remaining Balance into the Jointly-controlled Bank Account, the Purchaser shall arrange to withhold from the Consideration and pay in accordance with applicable laws and regulations and the requirements of the relevant tax authorities the amount of tax payable by the Vendors in relation to the Acquisition.

Within one business day after completing the tax filing and obtaining of certificate of tax payment from the relevant tax authorities, the parties to the Equity Transfer Agreement shall arrange to submit all relevant documents to the AIC to effect the transfer of the Sale Interest and use their best endeavours to complete the registration procedures as soon as possible.

Acquisition Completion

The Acquisition Completion shall take place upon the completion of the registration at the AIC, which shall not be later than the Long Stop Date.

On the date of the Acquisition Completion, the Remaining Balance, after deducting the tax payable by the Vendors for the Acquisition and an amount equivalent to the Downward Adjustment (if any), will be paid to a bank account designated by Mr. Li, who will then arrange to distribute the Consideration among the Vendors based on their respective proportion of equity interest in the Target Company. The Vendors agreed that the payment of the Consideration to Mr. Li by the Purchaser shall be deemed to discharge the payment obligation of the Purchaser to all of the Vendors.

Termination upon Breach

If the Equity Transfer Agreement is terminated due to a material breach of the Purchaser, the Vendors shall be entitled to forfeit the Deposit. If the Equity Transfer Agreement is terminated due to a material breach of the Vendors, the Vendors shall pay the Purchaser an amount equivalent to twice the amount of the Deposit (i.e. RMB88,200,000 (approximately HK$110,960,000)) within five days after the termination of the Equity Transfer Agreement. If the Equity Transfer Agreement is terminated due to failure to obtain any approvals from any governmental or securities regulatory authorities or stock exchanges, or the Acquisition Completion does not take place by the Long Stop Date otherwise than due to any material breach of the Vendors or the Purchaser, or if any of the conditions precedent to the Equity Transfer Agreement could not be satisfied, the Vendors shall return the Deposit to the Purchaser within five days thereafter.

FRAMEWORK AGREEMENT

On 26 March 2015, the Purchaser, Mr. Li (acting on behalf of the Vendors), Beijing Tourism Group and the Target Company entered into the Framework Agreement, which sets out the framework upon which the parties thereto will cooperate with one another in developing and managing the Target Company after the Acquisition. The principal terms of the Framework Agreement are set out below.

Date

26 March 2015

Parties

(1) the Purchaser;

(2) Mr. Li (acting on behalf of the Vendors);

(3) Beijing Tourism Group; and

(4) the Target company.

Commencement

The Framework Agreement shall take effect upon the signing of the parties thereto, save for the terms under the paragraph heading "Co-operation" below, which shall be effective only upon the following having been fulfilled:

(1) the Equity Transfer Agreement and the Framework Agreement having been approved by the Shareholders at the EGM;

(2) the shareholders of the Target Company having passed the relevant resolutions in relation to the Acquisition; and

(3) the Vendors, the Purchaser and Beijing Tourism Group having agreed on an operating proposal in relation to the smooth transition of the operation management and maintaining steady growth in the business performance of the Target Company after the Acquisition on terms satisfactory to the Vendors, the Purchaser and Beijing Tourism Group.

Co-operation

The parties have agreed on certain co-operation objectives and principles, the main terms of which are summarised as follows:

(i) Principles of co-operation

After the Acquisition, Beijing Tourism Group shall maintain its status as the controlling shareholder of the Target Company. The Purchaser and its related parties shall not seek to gain shareholding or management control over the Target Company.

(ii) Financial support

After the Acquisition, the Purchaser shall provide financial support and security in relation to the Target Company in proportion to its shareholding, subject to the compliance with the relevant Listing Rules requirements. Such financial support shall include replacement of those already provided by Beijing Tourism Group and the amount to be borne by the Purchaser in proportion to its shareholding in the Target Company shall be RMB38,710,000 (approximately HK$48,700,000). In the event that the Purchaser provides such financial assistance to the Target Company, the Company will issue an announcement to inform the Shareholders and potential investors in accordance with the relevant requirements under the Listing Rules.

(iii) Composition of the board of directors of the Target Company

The board of the Target Company shall comprise of nine directors, being seven executive directors (four of whom shall be nominated by Beijing Tourism Group and three of whom shall be nominated by the Purchaser) and two independent non-executive directors (each of Beijing Tourism Group and the Purchaser shall nominate one).

(iv) Restriction on transfer of equity interest in the Target Company

The Purchaser shall not transfer the whole or any part of its equity interest in the Target Company without the prior consent of Beijing Tourism Group.

INFORMATION ON VENDORS

The identities of the Vendors and their respective equity interests in the Target Company and their methods of the Subscription and the number of the Subscription Shares they will subscribe for are as follows:

Vendors	Their respective equity interests in the Target Company	The dates when the Vendors invested in the Target Company (DD/MM/YYYY)	Subscription Methods	The number of Subscription Shares they will subscribe for either by himself or through Hwabao
Li Jilie (李繼烈)	8.14%	27/09/2002	collectively through Hwabao Trust	16,891,900
			on an individual basis	30,405,400
Wang Xiaoping (王曉平)	0.86%	27/09/2002	on an individual basis	3,909,300
Dong Ruping (董如平)	1.43%	27/09/2002	collectively through Hwabao Trust	10,859,100
Gao Suoshan (高鎖山)	2.14%	27/09/2002	on an individual basis	16,288,600
Liu Jiangmin (劉江敏)	0.86%	27/09/2002	collectively through Hwabao Trust	8,458,000
Huang Jianguo (黃建國)	0.86%	27/09/2002	collectively through Hwabao Trust	6,515,400
Chen Xiaojian (陳笑健)	0.64%	27/09/2002	collectively through Hwabao Trust	4,886,600
Zhou Pengfei (周鵬飛)	0.64%	27/09/2002	on an individual basis	4,886,600
Ye Jianjun (葉建軍)	2.86%	27/09/2002	collectively through Hwabao Trust	21,718,100
Gu Lanping (顧蘭萍)	0.86%	27/09/2002	collectively through Hwabao Trust	6,515,400
Liang Bin (梁彬)	0.86%	27/09/2002	on an individual basis	8,458,000
Ye Weimin (葉偉民)	0.50%	27/09/2002	on an individual basis	3,800,700
Zhong Liming (鍾立明)	1.43%	27/09/2002	on an individual basis	12,801,600
Gao Wei (高巍)	1.43%	21/05/2007	collectively through Hwabao Trust	10,859,100
Zhang Jianping (章建平)	0.50%	27/09/2002	on an individual basis	3,800,700
Man Yanquan (滿炎權)	1.43%	27/09/2002	on an individual basis	10,859,100
Zhou Xinmin (周新民)	2.86%	27/09/2002	collectively through Hwabao Trust	23,660,700
Zhou Xiaoding (周小丁)	2.86%	27/09/2002	collectively through Hwabao Trust	21,718,100
Zhou Xinhua (周新華)	0.50%	27/09/2002	collectively through Hwabao Trust	3,800,700
Sun Jinxiao (孫金孝)	1.43%	27/09/2002	on an individual basis	10,859,100
Gong Yufei (龔羽飛)	1.43%	27/09/2002	collectively through Hwabao Trust	12,801,600
Yang Hui (楊慧)	1.43%	08/08/2005	on an individual basis	10,859,100
Li Guosheng (李國勝)	0.36%	08/08/2005	collectively through Hwabao Trust	4,657,300
Meng Xin (孟欣)	0.86%	08/08/2005	on an individual basis	6,515,400
Li Xiaochun (李曉春)	1.43%	08/08/2005	collectively through Hwabao Trust	12,801,600
Wang Xitang (王西堂)	0.86%	08/08/2005	on an individual basis	6,515,400
Jin Hua (金華)	0.86%	06/07/2005	collectively through Hwabao Trust	6,515,400
Chen Weiguang (陳偉光)	0.50%	08/08/2005	on an individual basis	6,925,700
Wang Yingrong (王應榮)	0.64%	08/08/2005	collectively through Hwabao Trust	6,829,200
Lan Xiuhui (蘭秀輝)	0.64%	17/12/2014	collectively through Hwabao Trust	4,886,600
Lin Weihua (林偉華)	0.50%	27/09/2002	on an individual basis	4,560,800
Liu Yubo (劉玉波)	0.43%	27/09/2002	–	–
Jiang Hongbao (姜紅寶)	0.29%	17/12/2014	on an individual basis	4,114,400
Zou Feng (鄒風)	1.21%	30/12/2008	on an individual basis	5,067,600
Liu Jin (劉勁)	0.64%	27/09/2002	on an individual basis	4,886,600
Kang Kai (康凱)	3.86%	17/12/2014	collectively through Hwabao Trust	32,577,200

Note: Liu Yubo (劉玉波), one of the Vendors, deceased and the equity interest of whom in the Target Company is currently held by another Vendor, Kang Kai, who has undertaken to transfer such equity interest on the same terms as set out in the Equity Transfer Agreement to the Purchaser.

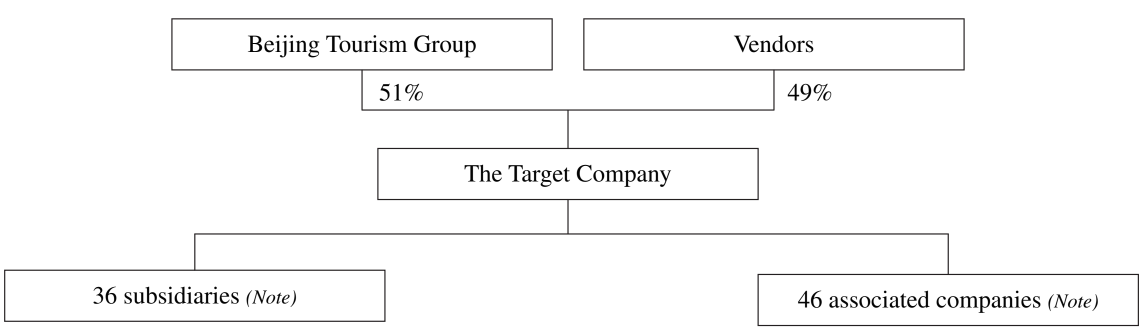
INFORMATION ON BEIJING TOURISM GROUP

As a stated-owned enterprise, Beijing Tourism Group is one of the largest travel corporations in the PRC with modernised operations, with business area covering hotels, travel agencies, automobile services, retail, catering, conventions and exhibitions, entertainment and tourist attractions. Actively engaged in reforming its business flows, Beijing Tourism Group further improves its six major tourism business segments, namely dining, accommodation, transportation, travel, retail and entertainment. Through leveraging on the synergy from brand concentration and strengthening its network management, Beijing Tourism Group has been pursuing integration in respect of its business segments of hotel, travel agency, catering, automobile services and travelling, thus achieving inter-segmental synergy.

INFORMATION ON THE TARGET COMPANY

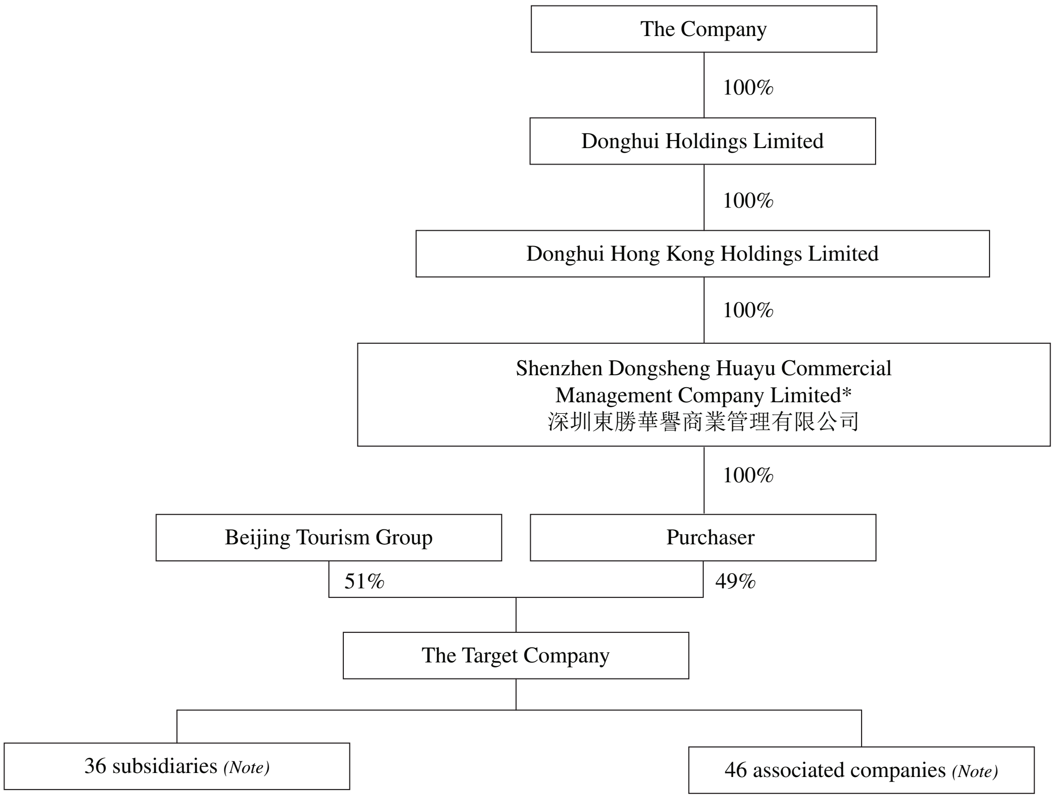
The Target Company was established in the PRC in 1987. As the Latest Practicable Date, the Target Company is owned as to 49% by the Vendors and as to 51% by Beijing Tourism Group, and its total registered capital amounted to RMB70,000,000 (approximately HK$88,070,000). The principal activities of the Target Company are provision of travel agent services in the PRC, including domestic travel, outbound travel and inbound travel and provision of services relating to the sale of air-tickets (including international flights), hotel accommodation, car rentals, sightseeing packages, communication and other travel related products.

As at the Latest Practicable Date, the Target Company has 36 subsidiaries and 46 associated companies in the PRC and the shareholding structure of the Target Group is as follows:



Note: These 36 subsidiaries and 46 associated companies of the Target Company are treated as Franchisees for the purpose of accounting.

Upon the Acquisition Completion, the shareholding structure of the Target Group will be as follows:



Note These 36 subsidiaries and 46 associated companies of the Target Company are treated as Franchisees for the purpose of accounting.

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, pursuant to which the Target Company and the said parties established various companies. In order to finance their respective establishments, the Target Company made contributions in the aggregate amount of RMB74,670,895 in the form of subscribed capital into these companies, hence the Target Company, on a legal perspective, holds equity interests ranging between 5% and 100% in these companies. Under such Business Arrangements, the Target Company only maintains the rights to protect the Business Brand and is entitled to certain fixed amounts of annual fee from these companies but does not share the operating results of these companies.

The principal terms of the Business Arrangements are set out below:

Range of fixed annual fee earned from the Franchisees

The fixed annual fee earned from the Franchisees ranges from RMB2,000 to RMB871,400 per year.

** for identification purpose only*

Basis of determination of fees payable to the Target Company

A lump sum fee can be charged for the Franchisees' use of the Target Group's registered logo and Business Brand in conducting their businesses and the Target Group is entitled to a fixed annual investment return by investing in the Franchisees.

Use of Business Brand

Use of the Business Brand by the Franchisees will attract a fixed lump sum fee chargeable by the Target Group. Such fixed lump sum fee is determined on the basis of the travel agency category of the Franchisee and such standard of determination has been adopted by the Target Company since 2000. A fixed lump sum fee of RMB500,000 is applicable to the Franchisees which are qualified to engage in outbound tourism; whereas a fixed lump sum fee of RMB100,000 is applicable to PRC travel agencies and RMB50,000 is applicable to newly established PRC travel agencies.

Target Group's investments in the Franchisees

By investing in the Franchisees, the Target Company is entitled to a fixed investment return ranging from 10% to 20% of the amount invested in the next year. Such percentage threshold is determined by reference to (i) the PRC interbank lending rate which is between 5% and 10%; and (ii) the overall profit margin of the tourism industry.

Tenure of the Business Arrangements

The Business Arrangements are not established by way of contracts and hence, the concept of tenure is not applicable.

Business model of the Franchise Business

Based on the Business Arrangements, the Target Company is entitled to receive fixed annual fees from the Franchisees for use of the Business Brand for its businesses and the Target Company does not share the operating results of the Franchisees. Apart from that, there is no relevant legal rights and obligations in relation to the contract of the franchise business of the Target Company in respect of the Franchisees since there is no contractual relationship between the parties.

Termination of the Business Arrangements

Since the Business Arrangements are not established by way of contracts, the concept of termination of Business Arrangements will only be applicable when any of the Franchisee ceases to carry on its business. In the event that a franchisee ceases to carry on its business, whether the Target Company could recover its contributions in such Franchisee will depend on whether the franchisee has any remaining assets available for distribution.

Risks associated with the Business Arrangements

Under the Business Arrangements, the Target Company is only entitled to annual fees payable by the Franchisees but without sharing their operating results. The Franchisees effectively operate independently without the supervision of the Target Company even though the Franchisees operates under the Business Brand. Should any quality of the services delivered by the Franchisees under the Business Brand prove to be below the acceptable standard, the reputation of the Target Company will be jeopardised.

As at the Latest Practicable Date, the Target Company has 36 direct subsidiaries and 46 direct associated companies. Under the laws of the PRC, the companies under the Business Arrangements are not regarded as franchisees, and the Target Company continues to bear the relevant risks as equity holders of these companies under the law in the PRC. 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 or significant influence over these companies' relevant activities, or variable returns on the operating results of these companies, and accordingly, the Directors consider the Business Arrangements, from an accounting perspective, do not result in these companies being regarded as subsidiaries, associates or other equity investments of the Target Company, and accordingly, the above 36 direct subsidiaries and 46 direct associated companies are not consolidated into the Target Company's consolidated financial statements set out in Appendix II to this Circular. However, with a view to reflecting the substance of the Business Arrangements, the Directors consider that it is appropriate that these companies are regarded as franchisees of the Target Company, where the fixed annual fees received/receivable shall be recognised as franchise fee income instead of capital distributions/dividends.

The Target Group had a net assets value of approximately RMB83,174,000 as at 31 December 2014. The following table shows the financial information of the Target Group for the two years ended 31 December 2013 and 31 December 2014:

	For the year ended 31 December	
	2013	**2014**
	RMB'000/HK$'000	*RMB'000/HK$'000*
Profit before taxation	4,238/5,332	5,708/7,181
Net Profit	3,923/4,936	5,962/7,501

Net asset value attributable to the Sale Interest as at 31 December 2014 was RMB40,755,260 (approximately HK$51,274,193); and the original investment costs in the Target Group from the Vendors were RMB34,300,000.

BUSINESS PLANS OF THE TARGET GROUP

In order to retain control over the business activities and dividend policies, enhance the operation efficiency, improve the financial position and profitability, the management of the Target Group plans to:

Change the existing Business Arrangement that generates fixed returns

The existing Business Arrangement is crucial to the development of the Target Group across the PRC as the Target Group achieves large-scale expansion rapidly at low costs by leveraging such a franchise business model. At present, the Target Group owns more than 2,000 operating outlets across the PRC with a well-established network. However, the allocation model that generates fixed returns is unable to satisfy the needs to enhance operating efficiency at the group level. It is difficult for the Target Group to pull together its financial resources for strategic upgrade of its existing business model. Accordingly, the Target Group intends to explore the possibility of changing the Business Arrangement that generates fixed returns to an operating model with dividend allocation in proportion to shareholding.

Vigorously expand the Online to Offline (O2O) business

With more than 2,000 operating outlets nationwide, the Target Group has abundant offline resources, offering a variety of travel products. Looking ahead, the Target Group will vigorously expand the online business. Through optimizing its own network platform, establishing membership network and entering into corporate strategic cooperating with major online B2C platforms, the Target Group will endeavour to integrate the offline physical travel resources with online resources to build a premium service system and explores the potential of the existing resources to the fullest extent.

Develop “Travel+” business

After more than 30 years of development, the Target Group has accumulated an extensive customer base. The Target Group will explore opportunities to cooperate with financial institutions to gradually provide “Travel+” (travel + finance) business based on the huge amount of customer resources, including but not limited to the following:

a. Integrate the respective premium customers of the banks and the Target Group; issue the Target Group’s membership and bank card to the Target Group’s customers exclusively where cardholders can enjoy price discounts and promotions and formulate travel projects according to their own needs so as to expand the customer base of both parties, whereby the Target Group may share the relevant returns of the banks.

b. The banks shall provide funding support for the development of travel products including scenic construction, route development etc.

c. The financial institutions and the Target Group shall jointly develop travel fund products targeting at their customers such as fixed-fund investment where a small fixed amount will be invested monthly to enjoy premium travel services during holidays.

d. The Target Group will step up the cooperation with insurance companies and enter into long-term insurance purchase agreements to provide quality and low-cost insurance services for the customers, whereby the Target Group may also generate returns therefrom.

Enhance operating efficiency

The Target Group will strengthen cooperation with major airlines, national scenic providers and large-scale chain hotels, and reduce the operating costs through economies of scale and create additional value through resource integration and services. Furthermore, the Target Group will optimise the internal management structure to reduce labour costs and enhance working efficiency.

LAWS AND REGULATIONS APPLICABLE TO THE TRAVEL AGENCY BUSINESS IN THE PRC

According to the Regulation on Travel Agencies (《旅行社條例》) promulgated by the State Council on 20 February 2009 and implemented on 1 May 2009 and the Implementation Rules for the Regulations on Travel Agencies (《旅行社條例實施細則》) promulgated by the National Tourism Administration and implemented on 3 May 2009, travel agencies may be engaged in the businesses of soliciting, organising and receiving tourists, and providing the relevant tourism services. An application for the establishment of travel agencies should meet the following conditions, among other things: (i) permanent operation premises; (ii) necessary operation facilities; and (iii) registered capital of no less than RMB300,000. A travel agency shall place a security deposit for quality (in the case of travel agencies which are engaged in the domestic tourism business and inbound tourism business, the security deposit of RMB200,000) with a designated bank within three business days from the date on which it obtains the operation licence. In addition, the Regulation on Travel Agencies also makes provision for: (i) the establishment of the branch agency; (ii) the performance of tourism contracts; (iii) the protection of tourists' interest; (iv) the engagement of tour guides; (v) the insurance of tourism; and (vi) the surveillance from government.

NON-COMPLIANCE OF THE TARGET GROUP

According to the documents provided by the Target Group and the (《關於中國康輝旅行社集團有限責任公司的法律盡職調查報告》) ("Legal Due Diligence Report") issued dated 20 July 2015 prepared by the PRC lawyer of the Company and based on the information provided by the Target Company, the main non-compliance activities of the Target Group are as follows: (i) three Franchisees of the Target Company failed to provide the Social Insurance Registration Certificate or relevant payment record. Among which, one Franchisee is in the process of deregistration; one Franchisee has suspended its operation for two years with no employees; the remaining one Franchisee is in the process of applying for the Social Insurance Registration Certificate; (ii) 28 Franchisees of the Target Company failed to provide the registration documents for housing provident fund accounts opening; (iii) the Target Company and 4 of its Franchisees, among themselves, engaged in borrowing and lending without authorization; (iv) the Target Company and 30 of its Franchisees failed to register the housing tenancies with competent authorities. According to the Legal Due Diligence Report and all the documents provided, explanations made and letters of confirmation issued by the Target Group as of 20 July 2015, save as the major non-compliances disclosed above, the Legal Due Diligence Report contained no other findings that would need to be drawn to the attention of the Shareholders or investors of the Company.

According to the Social Insurance Law of the People's Republic of China (《中華人民共和國社會保險法》), promulgated by the Standing Committee of the National People's Congress on 28 October 2010 and implemented on 1 July 2011, where an enterprise fails to register for social insurance, the social insurance administrative department shall order the enterprise to remedy this failure within a specified time limit. If such enterprise still fails to do so at the expiration of the time limit, it shall be imposed a fine equivalent to 1-3 times the amount of the overdue social insurance contribution.

Based on the Legal Due Diligence Report, the Franchisee who is in the process of applying for the Social Insurance Registration Certificate (Guizhou Comfort International Travel Agency Co., Ltd. (貴州康輝國際旅行社有限公司)) was acquired by the Target Company in April 2014 as the Franchisee. As calculated and confirmed by Guizhou Comfort International Travel Agency Co., Ltd., the social insurance fee payable since its acquisition by the Target Company is RMB54,900. Accordingly, such Franchisee may be subject to a maximum penalty from RMB54,900 to RMB164,700.

According to the Administrative Regulations on the Housing Provident Fund (《住房公積金管理條例》), promulgated by the State Council and implemented on 23 March 2002, where an enterprise fails to undertake payment and deposit registration of housing provident fund or fails to go through the formalities of opening housing provident fund accounts for its staff and workers, the housing provident fund management center shall order it to go through the formalities within a specified time limit; where failing to do so at the expiration of the time limit, a fine of not less than RMB10,000 and no more than RMB50,000 shall be imposed.

Some of the enterprises under the Target Group currently do not have a large operating scale, with a registered capital of only around RMB 1.5 million. The headcount of some enterprises is relatively small. This, coupled with the reason that the payment for the housing provident fund is not compulsorily required in the majority of places, leads to the fact that some enterprises have not opened any housing provident fund account. As confirmed by the Target Group, it shall, in accordance with the Administrative Regulations on the Housing Provident Fund (《住房公積金管理條例》), monitor those Franchisees who have not opened the housing provident fund accounts and process the payment and deposit registration with the local housing provident fund management center as soon as possible. Upon approval by the housing provident fund management center, it shall go through the formalities of opening the housing provident fund accounts for their employees with the entrusted bank.

According to the General Rules on Loans (《貸款通則》), promulgated by the People's Bank of China on 28 June 1996 and implemented on 1 August 1996, where enterprises engage in borrowing and lending or borrowing and lending in a disguised manner without authorization, the People's Bank of China shall impose a fine on the lenders equivalent to 1-5 times the amount of its illegal gains, and the activities shall be banned by the People's Bank of China.

Based on the Legal Due Diligence Report, as at the date of issue of such due diligence report, the Target Group incurred total interests of RMB4,670,450 on intragroup borrowings. According to the General Rules on Loans (《貸款通則》), it may be subject to a maximum penalty equivalent to one to five times of the interest income by the People's Bank of China, i.e. RMB4,670,450 to RMB23,352,250. The several enterprises among which borrower-lender relationships currently exist have been pursuing positive operational development for a number of years, and the borrowings are just used as short-term liquidity to meet business needs. The Target Group will formulate solutions as soon as possible and urge the relevant enterprises to formulate plans for accelerated repayment of the borrowings. Those enterprises having a loan contract are required to warrant that there will no longer be any borrower-lender relationship upon the loans becoming due and repayable.

According to the Administrative Measures for Commodity Housing Tenancy (《商品房屋租賃管理辦法》), promulgated by the Ministry of Housing and Urban-Rural Development on 1 December 2010 and implemented on 1 February 2011, where an enterprise fails to file the housing tenancy for registration with competent authorities, the competent construction (real estate) departments of the people's governments of the municipalities directly under the Central Government, cities and counties shall urge it to make corrections within a specified time limit, where failing to do so at the expiration of the time limit a fine of not less than RMB1,000 and no more than RMB10,000 shall be imposed.

Most enterprises under the Target Group are able to provide tenancy agreements or contracts entered into with the building owners in respect of the premises used as corporate offices. At the local level, the competent administrative/industrial authorities of the relevant enterprises require the filing submission in respect of building tenancy at the time of registration of the enterprises, while the relevant housing administration bureaus have not requested the enterprises to effect such filing. According to the Administrative Measures for Commodity Housing Tenancy (《商品房屋租賃管理辦法》), the building tenant shall file the housing tenancy for registration with competent authorities. As confirmed by the Target Group, it shall monitor the companies which have not filed the housing tenancy for registration to communicate with the registration competent authorities. Upon confirmation that the lessee shall be responsible for filing the housing tenancy for registration, it shall file such housing tenancy for registration with the competent authorities as soon as possible in accordance with the relevant requirements under the Administrative Measures for Commodity Housing Tenancy (《商品房屋租賃管理辦法》).

INFORMATION ON THE PURCHASER AND THE GROUP

The Purchaser is a company established in the PRC with limited liability and is an indirect wholly-owned subsidiary of the Company. Its principal businesses are investment holding and/or provision of travel-related services in the PRC. As at the Latest Practicable Date, the Purchaser is owned as to 100% by Shenzhen Dongsheng Huayu Commercial Management Company Limited*, a company established in the PRC, which in turn is owned as 100% by Donghui Hong Kong Holdings Limited, a company incorporated in Hong Kong. Donghui Hong Kong Holdings Limited is owned as to 100% by Donghui Holdings Limited, a company incorporated in the BIV, which is a direct wholly-owned subsidiary of the Company.

The Group is principally engaged in sale of air-tickets and other travel related services, trading and retail of jewellery products, and investment holding.

FINANCIAL EFFECTS OF THE ACQUISITION

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

Assets and liabilities

As set out in Appendix III to this circular, the unaudited pro forma consolidated statement of financial position of the Enlarged Group illustrates the effect of the completion of the Acquisition on the Group, assuming that the Acquisition had taken place on 31 December 2014. If the Acquisitions had been completed on 31 December 2014, the total assets of the Enlarged Group as at 31 December 2014 would have been increased from approximately HK$186 million to approximately HK$707 million primarily attributable to the acquisition of 49% equity interest in the Target Company.

The total liabilities of the Enlarged Group as at 31 December 2014 would have been increased from approximately HK$57 million to approximately HK$571 million primarily attributable to assumption of the liability for the settlement of the Consideration.

Earnings

Immediately after the Acquisition Completion, the Target Company will be owned as to 49% by the Purchaser and 51% by Beijing Tourism Group and will be accounted for as an associate of the Company, and the financial results, assets and liabilities of the Target Company will be stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting.

** for identification purpose only*

The audited net profit for the year ended 31 December 2014 (as extracted from the annual report of the Group for the year ended 31 December 2014) was approximately HK$542,000. According to the unaudited pro forma income statement of the Enlarged Group for the year ended 31 December 2014, as if the Acquisition Completion had taken place on 1 January 2014, the unaudited pro forma net profit of the Enlarged Group would have been increased to approximately HK$9,187,000 after taking into account the share of profits of the Target Company of HK$8,645,000 arising from the Acquisition.

Gearing

As at 31 December 2014, the Group's gearing ratio calculated as a percentage of total borrowings over total shareholder's equity was approximately 12%. The gearing ratio of the Enlarged Group will decrease to 11% upon the Acquisition Completion.

FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

According to the latest World Tourism Organisation's (UNWTO) World Tourism Barometer, international tourist arrivals reached 1,138 million in 2014, a 4.7% increase over the previous year. For 2015, UNWTO forecasts international tourism to grow by 3% to 4%, further contributing to the global economic recovery. The number of international tourists reached 1,138 million in 2014, 51 million more than in 2013. With an increase of 4.7%, this is the fifth consecutive year of above average growth since the 2009 economic crisis. By region, Asia registered one of the areas with the strongest growth.

For 2015, UNWTO forecasts international tourist arrivals to grow between 3% and 4%. By region, growth is expected to be stronger in Asia and the Pacific (+4% to +5%) and it is expected that the demand to continue growing in 2015 as the global economic situation improves even though there are still plenty of challenges ahead. On the positive side, oil prices have declined to a level not seen since 2009. This will lower transport costs and boost economic growth by lifting purchasing power and private demand in oil importing economies. As to the international tourism receipts, Asia and the Pacific, which accounts for 30% of worldwide international tourism receipts, saw an increase in tourism earnings of US$16 billion, reaching US$377 billion. According to UNWTO, in respect of the top ten ranking by tourism earnings, China climbed from 5th to 3rd place following a 10% increase in earnings to US$57 billion in 2014.

The Board considers that the Acquisition allow the Group to further expand its travel-related and other services and broaden the spectrum of its travel-related services into the PRC markets. The Board believes that through the Acquisition, the Group will be able to broaden and strength its revenue stream and have access to the massive PRC market through the extensive network of the Target Group in the PRC.

As disclosed in the annual report of the Company for the financial year ended 31 December 2014, for the business which involves the sale of air tickets and other travel-related services principally provided to corporate clients ("Corporate Travel Business"), since the global aviation market benefits from the drop in oil prices, the Group expects that the Corporate Travel Business will be able to enjoy steady growth. The Company will also deploy resources in marketing, promotion and technology with an aim to enhancing the Group's market position in the corporate travel market, including the MICE sector (Meetings, Incentives, Conferences and Exhibitions) and hotel booking business as appropriate. The Group will continue to focus on internal training. Further, in order to offer better quality services to customers and to benefit from market growth potential, the Group will join hands with the Group's Hong Kong and overseas partners in the travel industry to roll out an internet booking platform for corporate travels.

As disclosed above, the Target Group will explore fully its competitive advantages with several insurance companies and banks with a view to achieving joint business development and maximising mutual benefits through business cooperation. For instance, the Target Group will engage in cross-selling by cooperating with several insurance companies to offer a wide variety of travel insurance products and packages to its customers. Similarly, the Target Group will cooperate with several banks to offer some travel privileges, perks, promotion, complimentary offers or rewards program to their credit cardholders. In this way, the Target Group will enlarge its customer base as well as receive commission fees from these insurance companies and banks.

As the Board takes an optimistic view in the prospect of the global tourism industry, the Group will continue to focus its business on travel-related and other services in the near future and to look for further related investment opportunities in addition to the Acquisition. In view of the above, the Directors consider the Acquisition to be a good investment for the Group, as part of the Group's development of its travel business and believes that the Acquisition would enhance the financial results of the Enlarged Group.

INDUSTRY OVERVIEW IN THE PRC

Industry outlook: market demand in the PRC is leading in the world

While the annual travel expenses per capita in China are still considerably lower than developed countries generally, the market demand in the PRC has grown at a much faster rate than that in the developed countries due to various positive factors such as growth of macro economy, increase in GDP and residents' income, improvements in tourism transportation facilities and Governmental policies in favour of the tourism industry. UNWTO predicts that in 2015, China will become the world's largest market in terms of domestic tourism, and the world's fourth largest market in terms of outbound tourism; in 2020, China will become the world's most popular destination for tourists and the world's fourth largest source of tourists. In 2015, the aggregate income of the tourism industry in China is expected to exceed 3 trillion and maintain a high growth rate.

Competitors: co-existence of competition and cooperation at the product end and the sales end

From the perspective of the tourism service products end, the major competitors of the Target Group are conventional tourism service enterprises, such as conventional travel agents including CYTS, CITS and HKCTS, as well as conventional outbound tourism service enterprises focused on the wholesale and sales of outbound tourism products, such as U-Tour, Caissa, Phoenix Tours and Huayuan International Travel. However, there also exist cases where the Target Group sells its own tourism service products to, or procures tourism service products from, its industry competitors. In other words, the competition features at the product end include competition as the major element, while also entailing a certain degree of cooperation.

From the perspective of the tourism service sales end, the Target Group has two types of major competitors: (1) conventional offline sales channels such as retail branches (this type of competitors principally consists of conventional tourism service enterprises with offline sales networks, and such type of competitors is basically the same as those competitors relating to the product end outlined above); (2) emerging online sales channels such as Internet portals and client-end applications on mobile phones (this type of competitors principally consists of emerging tourism service enterprises with online sales channels and a certain scale of users, such as Ctrip, Ly.com and Tuniu). However, there also exist cases where the Target Group sells its own tourism service products through the offline channels of conventional tourism service enterprises or through the online channels of emerging tourism service enterprises. Regarding the conventional offline channels, the Target Group is focused on the absorption of production capacity and adopts a strategy centred on competition and supplemented by cooperation. Regarding the emerging online channels, the Target Group is focused on the complementation of various advantages and adopts a strategy centred on cooperation and supplemented by competition.

Development trend: integration of the industry encouraged by the intensifying competition

Overall speaking, the tourism service industry faces intensifying competition, and the current competition focuses on products and prices. Among all, the price level of standardised tourism service products, such as air-ticket agencies, hotel reservation and domestic tourism products, tends to decrease, while the market demand for outbound tourism products and personalised tourism service products, such as theme-based vacation tourism, commercial tourism, luxury cruise trips, helicopter trips, photography tours, trips to the Poles and golf vacations, has been increasing. The price level of such non-standardized and personalized tourism service products remains relatively high.

Together with the fact that the overall tourism service industry has very low concentration rate, industry integration has become inevitable. It is predicted that those medium- and small-scale tourism service enterprises without any unique product or service capability will be gradually eliminated from the market, while large-scale tourism service enterprises will perform integration with their medium- and small-scale counterparts by relying on their huge network resources, strong brand resources and human resources. It is predicted that the concentration rate of the Chinese tourism service market will gradually increase, and large-scale tourism service enterprises will occupy leading positions in the industry over the long term and enjoy the benefits of the rapid development of the industry.

The Target Group owns the largest offline sales network in China (with such offline network referring to the points of sale which are brick-and-mortar retail branches), and is a well-known nationally-unified travel service brand with an experienced operating team and leading operational scale. On the basis of its current business scale, the Target Group aims to bring about reformation of its business through the inter-connection of networks by putting forward the strategies which focus on "network, scale, products and resources" to better serve the customers with the quality of travel services, the integration of technology and services and the compliment of products and resources. At the same time, the Target Group aims to leverage on China as the most popular tourism destination and the source of tourists as huge resources to enrich its product lines and expand its business segments, thereby becoming a leader in the world's travel services industry.

BUSINESS MODEL OF THE TARGET GROUP

The main business of The Target Group, as a leading traditional travel agency, includes wholesale of travel service products to companies in the same industry, retail of travel service products to direct customers, pick-up service and business club rewards.

(1) Wholesale of tourism products: the Target Group, through its own design or by purchasing tourism service products from third parties, wholesales such products to other traditional travel agencies and online travel agencies (such as Tuniu).

(2) Retail of travel service products: similar to wholesale, the Target Group obtains the products either through its own design and/or from third parties but for retail services, it sells the products directly to the end-users.

(3) Pick-up service: the Target Group, through its extensive solid network that covers the entire country, provides pick-up services in tourist destinations, such as Huang Shan and Paektu Mountain in the PRC.

(4) Business club rewards: the Target Group also provides business club rewards services to corporate unit clients.

(5) Meetings, incentives, conferences and exhibitions (MICE): these consist of (1) commercial meetings, conferences and exhibitions, which include promotional and marketing fairs, annual conferences, celebrations and industry summits; and (2) incentive tourism, which is represented by commercial tourism activities aimed at offering incentives to staff or cooperation partners.

The products and services provided by the Target Group also include tours for inbound tourism, outbound tourism and domestic tourism.

The Target Group also shares the income of its Franchisees through a system of fixed payments. The Franchisees, on a case-by-case basis, design, purchase and sell travel service products as operated by their respective management. The income of such Franchisees in excess of the fixed payments to the Target Group would be shared by the other shareholders and management of the Franchisees respectively.

BUSINESS STRATEGIES OF THE TARGET GROUP

The business strategies of the Target Group include those for the product end and those for the sales end.

The business strategies for the product end of the Target Group mainly focus on overseas and domestic travel products. It has established production centres in provincial capitals such as Beijing, Shanghai, Chengdu, Shenyang, Xi'an, Wuhan, Changsha, Fuzhou, Xiamen, Zhengzhou and Lanzhou which allows for product coverage in these areas. Moreover, in cities which have popular sightseeing destinations, for example, Huang Shan, Paektu Mountain, Guilin, Guangxi, Yunnan and Hainan, the Target Group has established tourist reception businesses.

The business strategies for the sales end of the Target Group mainly focus on continuing to expand the offline network in premium source locations of tourists and to fortify its own advantage of possessing the largest offline sales network, on the basis of reinforcing its existing offline sales network. Another aspect of such strategies involves the dedication to conducting reforms and continuing to explore, perfect and improve its own online sales business on the basis of cooperation with emerging online sales channels.

The Target Group's pricing strategy is determined by reference to costs and profit, taking into account the market competition. The wholesale segment has a wide coverage, and serves to ensure that the pricing of basic, fixed travel routes in various places will remain at levels acceptable to the general public. The pick-up segment is oriented to individual travellers, and is generally conducted by way of provisional arrangements and involves low pricing. The retail segment features boutique customised routes with high pricing. As a component of the high-end tourism market, the segment of business club rewards involves conclusion of contracts with large groups and generally represents long-term cooperation with a high profit.

RISK FACTORS AND REMEDIAL ACTIONS

The main risk factors relating to the Target Group and the remedial actions adopted by the Target Group are set out below:

Risks relating to the business of the Target Group

Capital lending to the Franchisees within the Target Group

To support the business development of its Franchisees, the Target Group engages in capital lending activities to its Franchisees. If the Franchisees are unable to repay the debts, the Target Group may be subject to financial loss. In order to ensure the development of the Franchisees, the Target Group will continue to support its Franchisees through capital lending. However, the Target Group will stringent its internal regulations and assess the financial situations of the relevant Franchisees prior to lending, so as to keep the risks at the lowest level.

Failure to pay social insurance and housing provident fund

Certain Franchisees of the Target Group failed to pay for the social insurance and housing provident fund for their employees and may be subject to penalty and financial loss for failure to comply with the relevant PRC laws and regulations. The Target Group itself has paid the full sum of the social insurance and housing provident fund for its employees in accordance with the relevant PRC laws and regulations. Furthermore, the Target Group will urge its Franchisees to pay for the outstanding social insurance and housing provident fund for their employees as required by the relevant PRC laws.

External risks

The Target Group is subject to risks including interruption to business operations due to strikes, lockouts, work stoppages or other forms of labour shortage or unrest, breakdown or failure of equipment, earthquakes, floods and other natural disasters as well as accidents. The Company has purchased travel agency insurance covers to lower the harm caused by such external risks. Meanwhile, the Target Group has been proactively expanding its scope of business and is dedicated to the establishment and development of overseas branch offices, so as to reduce the impact of specific events on the group's overall operations and to enhance its ability to withstand risks.

Risks relating to the PRC

Political and economic policies of the PRC government could affect the Target Group's business

Before its adoption of the economic reforms and open policy in late 1970s, the PRC had been primarily a planned economy. With the commencement of the PRC government's effort to reform the Chinese economy in 1978, the PRC government introduced changes to its economic system, as well as the government structure. These reforms have led to significant economic growth and progress in social development. Although the PRC government still owns a significant portion of the productive assets in China, economic reform policies have placed much emphasis on creating autonomous enterprises and the utilization of market mechanisms. Factors that may cause the PRC government to modify, delay or even discontinue the implementation of certain reform measures include political changes and political instability and such economic factors as changes in rates of national and regional economic growth, unemployment and inflation.

The Directors anticipate that the PRC government will continue to further implement these reforms, further reduce government interference on enterprises, and rely more on free market mechanisms for the allocation of resources, bring positive effect on our overall and long-term development. Any changes in the political climate, economic and social situation, the laws, regulations and policies of the PRC arising therefrom, may have an adverse effect on the present or future operations of our Group. With the business and operations of the Target Group substantially based in the PRC, the operations and financial results could be adversely affected by the restrictive or austere policies introduced by the PRC government. It may not be able to capitalise on economic reform measures adopted by the PRC government. It cannot be assured that the PRC government will not impose economic and regulatory controls that may adversely affect the relevant business, financial position and results of operations.

2. PROPOSED SUBSCRIPTION OF NEW SHARES

On 7 July 2015, the Company entered into the Subscription Agreement with the Subscribers and the Guarantors, pursuant to which the Subscribers have conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue an aggregate of 372,466,100 Subscription Shares at the Subscription Price of HK$0.74 per Subscription Share to the Subscribers. The main terms of the Subscription Agreement are summarised below:

The Subscription Agreement

Date

7 July 2015

Parties

(1) the Company (as issuer);

(2) the Subscribers (as subscribers);

(3) the Guarantors (as guarantors)

To the best of the knowledge, information and belief of the Directors and having made all reasonable enquiries, as at the Latest Practicable Date, the Subscribers and the respective ultimate beneficial owners (if applicable) are an Independent Third Party and none of them hold any Shares.

Subject to the terms and fulfilment of the conditions precedent set out in the Subscription Agreement, the Subscribers have conditionally agreed to subscribe for, in aggregate, and the Company has conditionally agreed to allot and issue an aggregate of 372,466,100 Subscription Shares at the Subscription Price of HK$0.74 per Subscription Share, with an aggregate consideration of approximately HK$275,624,914.

The total aggregate consideration for the Subscription, being HK$275,624,914, shall be payable by the Subscribers in cash to the Company upon Subscription Completion.

Subscription Shares

The Subscription Shares comprise 372,466,100 new Shares, representing approximately 20.43% of the existing issued share capital of the Company and approximately 16.49% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares (assuming no further change in the share capital structure of the Company from the Latest Practicable Date and up to the Subscription Completion).

Conditions precedent to the Subscription

Subscription Completion is conditional upon fulfilment of the following conditions:

1. the listing of, and permission to deal in, the Subscription Shares being granted by the Listing Committee of the Stock Exchange (either unconditionally or subject to conditions which are acceptable to the Company) and such permission and listing not subsequently being revoked prior to or on the date of the Subscription Completion;

2. the approval by the Shareholders of the Subscription Agreement and the transactions contemplated thereunder (including but not limited to the issue of the Subscription Shares) at the EGM subject to and in accordance with the requirements under the Listing Rules;

3. the conditions precedent under the Equity Transfer Agreement having been fulfilled and completion of the Equity Transfer Agreement taking place in accordance with its terms and conditions;

4. no representation, warranty or undertaking under the Subscription Agreement having been breached by the Company or is otherwise rendered inaccurate, untrue or misleading in any material respect, in each case on or prior to the Subscription Completion; and

5. there not being any change in the laws, regulations or policies by the government of the PRC or any other relevant jurisdictions or any matters or situations caused by the Vendors otherwise resulting in any of the relationships, transactions and matters contemplated by the Subscription Agreement or the performance of the parties thereto under the Subscription Agreement, becoming unlawful or unable to materialise.

Each of the Company and the Subscribers shall use their best endeavours to procure the fulfilment of the conditions precedent to the Subscription within 30 days after the date of the EGM.

If the above conditions precedent are not fulfilled within 30 days after the date of the EGM, the Subscription Agreement shall terminate and neither of the parties thereto will have any claim against the other for costs, damages, compensation or otherwise save for any antecedent breach of the Subscription Agreement.

Hwabao Trust undertakes and agrees that it shall have sufficient permitted investment quota granted by the State Administration of Foreign Exchange (the "Quota") for the Subscription Shares. In the event that Hwabao Trust applies the Quota for other transactions and as a result of which there is no sufficient Quota for the transactions contemplated under the Subscription Agreement, the conditions precedent set out in paragraph 5 above shall not be regarded as non-fulfillment and Hwabao Trust shall be liable for breach of, non-compliance of or failure to perform its obligations under the Subscription Agreement and the loss of the Company arising thereupon but such liabilities shall not exceed the amount equivalent to the total relevant Subscription Price payable by the Guarantors to Hwabao Trust.

Subscription Completion

The Subscription Completion shall take place on the Completion Date, which shall be within 30 days after the date of the EGM.

Ranking of the Subscription Shares

The Subscription Shares, when fully paid, will rank pari passu in all respects among themselves, and with the other Shares in issue as at the date of the Subscription Completion including the rights to all dividends and other distributions declared, made or paid at any time on or after the date of the Subscription Completion.

Lock-up Period

The Subscribers undertake to the Company that, unless with the prior written consent of the Company, it shall not, and procure its beneficial owners not to, sell, dispose of or otherwise deal with or create any options, rights, interests or encumbrances in respect of (or to enter into any agreement to sell, dispose of or otherwise deal with or create any options, rights, interests or encumbrances in respect of), 50% of the Subscription Shares (or any of its interests therein) within a period of six months from the Completion Date and the other 50% of the Subscription Shares (or any of its interests therein) within a period of nine months from the Completion Date.

Guarantee by the Guarantors

The Guarantors unconditionally and irrevocably guarantee all the obligations of Hwabao Trust under the Subscription Agreement and guarantee that Hwabao Trust will make all the payments (including the principal amount, interests, expenses and other fees) and perform its obligations under the Subscription Agreement in a timely manner.

In the event that on or before the Completion Date, the Guarantors have not made the relevant payment in full in relation to the Subscription to Hwabao Trust in accordance with the Hwabao Trust Contract, and as a result of which, Hwabao Trust is unable to fulfil its obligations under the Subscription Agreement, Hwabao Trust shall not be regarded as violating, breaching or not complying its obligations under the Subscription Agreement; and the Guarantors shall be liable for breach of, non-compliance of or failure of Hwabao to perform its obligations under the Subscription Agreement and any loss of the Company arising thereupon but such liabilities shall not exceed the amount equivalent to the total relevant Subscription Price payable by the Guarantors to Hwabao Trust.

Subscription Price

The Subscription Price is fixed at HK$0.74 per Subscription Share, which represents:

(1) a discount of approximately 22.92% to the closing price of HK$0.96 per Share as quoted on the Stock Exchange on the ETA Last Trading Day;

(2) a discount of approximately 15.91% to the average closing price of approximately HK$0.88 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the ETA Last Trading Day;

(3) a discount of approximately 11.90% to the average closing price of approximately HK$0.84 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the ETA Last Trading Day;

(4) a discount of approximately 50.67% to the closing price of HK$1.50 per Share as quoted on the Stock Exchange on the Last Trading Day;

(5) a discount of approximately 67.40% to the average closing price of approximately HK$2.27 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;

(6) a discount of approximately 72.18% to the average closing price of approximately HK$2.66 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day; and

(7) a discount of approximately 64.08% to the closing price of HK$2.06 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Subscription Price was arrived at after arm's length negotiations between the Company and the Subscribers with reference to the prevailing market prices at the time the Equity Transfer Agreement was entered into. The Subscription Price was determined with reference to the prevailing market prices at the ETA Last Trading Day instead of the Last Trading Day since, as evidenced by the Subscription Agreement being one of the conditions precedent under the Equity Transfer Agreement, the parties have already been negotiating the terms of the Subscription Agreement with reference to the then prevailing market prices at the ETA Last Trading Day. The Subscription Agreement was finalised after the Equity Transfer Agreement had been entered into as the Vendors are PRC residents and, in view of relevant PRC regulatory and foreign exchange issues, additional time was needed to arrange for the funding in Hong Kong dollars to pay for the Subscription Shares.

Changes to the shareholding structure of the Company as a result of the Subscription

As at the Latest Practicable Date, the Company has 1,823,401,376 Shares in issue. The following table illustrates the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately upon the Subscription Completion but before the full conversion of the Perpetual Convertible Securities; and (iii) immediately upon the full conversion of the Perpetual Convertible Securities and Subscription Completion (assuming that there is no change in the issued share capital of the Company other than the issue of the Subscription Shares since the date of the Subscription Agreement and up to the Subscription Completion):

Shareholders	As at the Latest Practicable Date		Immediately upon Subscription Completion but before the full conversion of the Perpetual Convertible Securities		Immediately upon the full conversion of the Perpetual Convertible Securities and Subscription Completion	
Orient Victory Real Estate *(Note 1)*	1,207,418,004	66.218	1,207,418,004	54.986	1,207,418,004	53.463
Mr. Dong Xiaojie *(Note 2)*	300,000	0.016	300,000	0.014	300,000	0.013
Mr. Law Wang Chak, Waltery *(Note 2)*	70,000	0.004	70,000	0.003	70,000	0.003
Subscribers	–	–	372,466,100	16.962	372,466,100	16.492
CTM	56,470,000	3.097	56,470,000	2.572	82,224,231	3.641
OGH	87,275,000	4.786	87,275,000	3.974	124,066,759	5.494
Other public Shareholders	471,868,372	25.879	471,868,372	21.489	471,868,372	20.894
Total	**1,823,401,376**	**100%**	**2,195,867,476**	**100%**	**2,258,413,466**	**100%**

Notes:

1. Orient Victory Real Estate is a company incorporated in the BVI and whose entire issued share capital/equity is beneficially owned by Mr. Shi Baodong, an executive Director.

2. Mr. Dong Xiaojie and Mr. Law Wang Chak Waltery are independent non-executive Directors.

Fundraising activities of the Company in the past 12 months

Set out below is a summary of the fundraising activities of the Company during the past 12 months immediately before the Latest Practicable Date.

Date of announcement	Fundraising activity	Net proceeds raised (approximately)	Intended use of proceeds	Actual use of proceeds
28 June 2015	Proposed issue of Perpetual Convertible Securities under specific mandate *(Note)*	HK$162,200,000	Payment of the consideration for the Acquisition and as general working capital of the Company	Not applicable

Note: The issue of the Perpetual Convertible Securities under a specific mandate has not yet been completed as at the Latest Practicable Date.

Save for the fundraising activities disclosed above, the Company had not raised any other fund on any issue of equity securities in the past 12 months immediately before the Latest Practicable Date.

Specific Mandate

The Subscription Shares will be allotted and issued by the Company pursuant to the Specific Mandate proposed to be sought from the Shareholders at the EGM.

Application for listing of the Subscription Shares

Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares.

INFORMATION ON THE SUBSCRIBERS

Hwabao Trust, one of the Subscribers, is a company established in the PRC with limited liability and a Qualified Domestic Institutional Investor (QDII). The Guarantors collectively appointed Hwabao Trust to act as their trustee for the purpose of the Subscription. Pursuant to the Hwabao Trust Contract entered into between Hwabao Trust and the Guarantors, Hwabao Trust shall conditionally subscribe for the relevant Subscription Shares in accordance with the Subscription Agreement for the benefit of the Guarantors using its status as a Qualified Domestic Institutional Investment under the PRC foreign exchange regulations. Hwabao Trust is principally engaged in fund trust, management of investment funds and provision of various financial services.

The other Subscribers are 18 Vendors who are natural persons and their details are set out in the section headed "INFORMATION ON VENDORS". Mr. Li Jilie (李繼烈), one of the Vendors, will subscribe for the relevant Subscription Shares both by himself and through Hwabao Trust. The other 34 Vendors (apart from Mr. Liu Yubo and Mr. Li Jilie) will subscribe for the relevant Subscription Shares either by themselves or through Hwabao Trust.

USE OF PROCEEDS FROM SUBSCRIPTION

The gross proceeds from the Subscription are expected to be approximately HK$275,624,914. After deducting related professional fees and all related expenses of about HK$15,000,000, the net proceeds of the Subscription will amount to approximately HK$260,624,914, representing a net price of approximately HK$0.70 per Subscription Share. The net proceeds from the Subscription will be used for the general working capital of the Group and the development of new businesses of the Group.

REASONS FOR AND BENEFITS OF THE ACQUISITION AND SUBSCRIPTION

The Target Company is a renowned nation-wide travel services company in the PRC. The Directors believe that through the Acquisition, the Company can make good use of the Target Company's connections and networks to expand the scope of its travelling business in the PRC.

While the extensive networks of the Target Group were established primarily through the Business Arrangement, the Target Company and the Franchisees frequently cooperate with or are affiliated with one another to make joint efforts to carry out large-scale activities and functions relating to the Target Group's travel products such as a luxury cruise trip to Thailand, and to roll out some promotion or marketing programmes together. This always receives favourable support from the Franchisees and such informal operational system has been in practice for a long period of time. Up to the Latest Practicable Date, the Target Group has not entered into, nor proposes to enter into any agreement, arrangement or understanding, whether formal or informal and whether express or implied, and negotiation (whether concluded or not) with an intention to reorganise its current corporate structure or to change its operational system. However, the Target Group will explore and consider any of the business arrangement that can enhance the efficiency of its existing operational system.

The synergy effect to the expansion of the Company's existing business into its travel market in the PRC is expected to result from the Acquisition as (i) the Company will be able to leverage the Target Group's strong experience, expertise, resources and business connection in the travel industry in the PRC and pave its way for expansion of its travel business in the near future; (ii) the Company will also be able to leverage the established nation-wide network and connections of the Target Company as well as its strong brand name of the Target Company; (iii) the travel services and products provided by the Company and the Target Group will complement to each other; and (iv) the Company and the Target Group will create cross-selling opportunities by utilizing their customer base and network of the Group and the Target Group and improve operational efficiencies through sharing of resources and expenses (such as marketing and promotion expenses, technology related expenses).

Through the Acquisition, the Group envisages that it will not only be able to expand its business in the PRC travel market but also enhance the Group's overall market position as well as its competitiveness within the PRC travel industry. The Company is also expected to enjoy (i) cost savings from bulk purchases of air-tickets and hotel and attraction bookings; (ii) growing prospects by expansion into the businesses of PRC tours and corporate travel services by co-operating with the Target Company; and (iii) cross selling the products and services of the Target Company to the Company's corporate clients in Hong Kong.

The Acquisition therefore can strengthen and create such synergies with the existing travel business of the Group for corporate clients as the Acquisition would provide an opportunity for the Company to enter into the massive PRC travel industry which, according to the Opinions of the State Council on Accelerating the Development of Tourism Industry (No. 41 [2009] of the State Council), has been a strategic industry of the PRC's economy, through the invaluable relationship with the Target Company. Furthermore, the Company sees great potential for development of the Target Group through improving its online services, as well as leveraging on the huge customer base of the Target Group by offering other services such as providing travel privileges in association with several banks to its credit cardholders and travel insurance at a discounted price in association with several insurance companies to its customers. The Company would further explore such potential opportunities with the management of the Target Group after the Acquisition Completion.

The relationship with Beijing Tourism Group, which is a leading state-owned travel services company in the PRC, would be invaluable to the Group as it would enhance the Group's overall competitiveness in the PRC market and would be a useful resource to other potential opportunities in the PRC. The Directors also consider that the Acquisition is in line with one of the existing principal businesses of the Group and that the expanded scope of business of the Group into the travelling business in the PRC would provide an extra income source for the Group.

The Board has taken into account the growth prospect of the travel industry in PRC. As China's economy has experienced a strong growth and the disposable income of people in the PRC has significantly increased over the past decades, more mainland Chinese people are seeking opportunities to improve their life style and travel overseas and the PRC travel market has increased and expanded rapidly. Such economic growth, together with PRC government's policies supporting the travel industry, it is anticipated that in the coming years, the Target Company will benefit from the rising PRC travel market and will have great potential to develop and expand further and continue to be the one of the largest travel agencies in the PRC.

The Board has also considered that in the PRC travel market, there is a gradual expansion of destinations. In the past, mainland Chinese's major destinations were in Southeast Asia but they have in recent years been expanding to other countries such as Japan, South Korea, France, Australia, New Zealand, the United States. The Target Company has a long operating history and profound experience, which would be well positioned to capture the market growth with new travel packages to explore new destinations to meet the market demand. The Board is of the view that the Target Group has a sustainable competitive advantage to maintain its a leading position in the industry.

The Acquisition can enhance the Group's overall competitiveness in the PRC market as the Target Group is one of the leaders in the PRC travel market. The Target Group was regularly ranked as one of the Top 10 Travel Agency groups in China by China National Tourism Administration ("CNTA"). Eight companies under the Target Group were ranked among the Top 100 Travel Agencies in China in 2013. In 2010, "Comfort Travel" was honoured as a Famous Trademark in China by the State Administration for Industry and Commerce of the PRC.

It is the Board's view that an obvious trend in the PRC travel market is that the online travel agency services will have tremendous opportunities for growth in the foreseeable future. With the Target Group's market position and reputation already as a leading travel agency in the PRC, the Board sees great potential to leverage on such inherent advantages for further development through improving its online services.

In view of the above as well as the other reasons described herein, the Board considers that, despite the apparent less favourable factors based on certain traditional valuation multiples such as price-to-earnings ratio of 150 times as set out above, the Consideration is fair and reasonable and justifiable.

The valuer, whose valuation report on the fair value of 49% equity interest in the Target Company is set out in Appendix V to this circular, is an independent expert with years of experience in valuation industry. The valuer has no conflicts of interest in relation to the Acquisition, has no beneficial interest in the share capital of any member of the Enlarged Group and has not directly or indirectly had any interest in any assets of any member of the Enlarged Group since 31 December 2014 as disclosed on page VII-5, and is engaged by the Company to provide the Shareholders with its unbiased and objective professional advice on the Acquisition.

The Board is of the view that the valuation report set out in Appendix V provides the Shareholders with sufficient information from the perspectives of a professional valuer, taking into account that the valuer has conducted a throughout and in-depth analysis of the business of the Target Company, the valuation and opinion were formed with sufficient basis and the assumptions that had been used to reach its conclusion were reasonable, the sources of the information relied upon by the valuer appeared to be reasonable and reliable, the valuation methodology (particularly the adoption of the EV/Sales and EV/EBITDA in view of the Business Arrangement and the capital structure of the Target Group) was supported by reasonable and adequate explanation and was in line with valuation methodology, the Target Company's objective company overview, comprehensive economic overviews and industry overviews, and the fair comparison of various variation multiples between the Comparable Companies and the Target Company. In light of the above, the Board considers that the valuation report is fair and reasonable and justifiable that the Board and Shareholders can rely on its information for reference in considering the fairness and reasonableness of the Consideration.

As disclosed above, the entering into of the Subscription Agreement between the Company and the Vendor(s) and/or other parties in a form and on terms satisfactory to the Vendors and the Company is one of the conditions precedents to the Acquisition Completion. Furthermore, the Directors considered various ways of raising funds and believe that the Subscription represents an opportunity to raise capital for the Company while broadening the shareholder base and capital base of the Company.

The undertakings to lock up the Subscription Shares demonstrate the support, commitment and confidence of the Vendors to the continuous development of the Target Company.

Having considered the above, the Directors are of the view that the terms of the Equity Transfer Agreement, the Framework Agreement and the Subscription Agreement have been negotiated on an arm's length basis and the terms of the Equity Transfer Agreement, the Framework Agreement and the Subscription Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As more than one of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the Acquisition exceeds 100%, the Acquisition constitutes a very substantial acquisition for the Company and is therefore subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

Pursuant to Rule 13.39(4) of the Listing Rules, all votes at the EGM will be taken by poll. Furthermore, any Shareholder with a material interest in the proposed transaction(s) and his associates will abstain from voting on resolution(s) approving that transaction(s).

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as at the Latest Practicable Date, no Shareholder had an interest in the Equity Transfer Agreement, the Subscription Agreement and the respective transactions contemplated thereunder. Therefore, no Shareholder is required to abstain from voting on the resolution to be proposed at the EGM to approve the Equity Transfer Agreement, the Subscription Agreement and the respective transactions contemplated thereunder. The Company will announce the results of the poll in the manner set out in Rule 13.39(5) of the Listing Rules.

EGM

The EGM will be convened to consider and, if thought fit, approve the Equity Transfer Agreement, the Framework Agreement, the Subscription Agreement and the respective transactions contemplated thereunder. The notice of EGM is set out from EGM-1 to EGM-3 of this circular.

A form of proxy for the EGM is enclosed with this circular. Whether you intend to attend the EGM or not, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Union Registrars Limited, at A18/F., Asia Orient Tower, Town Place, 33 Lockhart Road, Wanchai, Hong Kong, not less than 48 hours before the time fixed for the EGM. Completion and delivery of the form of proxy will not preclude you from attending and voting at the EGM in person if you so wish.

As the Subscription Completion is subject to the fulfilment of the conditions precedent stated in the Subscription Agreement, the Subscription may or may not proceed. Shareholders and potential investors should exercise caution when dealing in the Shares.

RECOMMENDATION

In light of the aforesaid, in particular, the benefits of entering into of the Equity Transfer Agreement, the Framework Agreement and the Subscription Agreement as discussed, the Board considers that their respective terms and conditions are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Shareholders to vote in favor of the resolution(s) as set out in the notice of the EGM attached thereto.

ADDITIONAL INFORMATION

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

Yours faithfully,
For and on behalf of
the Board of Directors of
Orient Victory China Holdings Limited
Shi Baodong
Chairman and Executive Director

A. SUMMARY OF FINANCIAL INFORMATION

The consolidated financial statements of the Group (i) for the financial year ended 31 December 2014 is disclosed in the 2014 annual report of the Company dated 20 March 2015 (published on 22 April 2015) from pages 80 to 202; (ii) for the financial year ended 31 December 2013 is disclosed in the 2013 annual report of the Company dated 18 March 2014 (published on 29 April 2014) from pages 26 to 104; and (iii) for the financial year ended 31 December 2012 is disclosed in the 2012 annual report of the Company dated 26 March 2013 (published on 29 April 2013) from pages 24 to 108, all of which have been published on the website of the Stock Exchange (www.hkex.com.hk) and the website of the Company (http://www.orientvictorychina.com.hk).

B. INDEBTEDNESS

As at the close of business on 30 June 2015, 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$73,064,000, including secured bank borrowings of approximately HK$7,608,000 and unsecured borrowings which were loans payable of approximately HK$65,456,000. None of these borrowings is guaranteed except that the secured bank borrowings of approximately HK$7,608,000 were guaranteed by Nanjing Minxing Credit Guarantee Co., Ltd, the guarantees of which were secured by certain inventories of the Group.

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 June 2015, the Group did not have any debt securities issued and outstanding, and authorized 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 or hire purchase commitments, distinguishing between guaranteed, unguaranteed, secured and unsecured borrowings and debt, and any mortgages and charges of the Group.

C. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2014, the date to which the latest published audited financial statements of the Group were made up.

D. WORKING CAPITAL STATEMENT

The Directors are of the opinion that taking into account of the Group's internal resources, cash flow from operations, the effect of the Acquisition and also other facilities available to the Enlarged Group, the Enlarged Group will have sufficient working capital for a period of 12 months from the date of this circular.

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong.

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

21 August 2015

The Directors
Orient Victory China Holdings Limited

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information relating to China Comfort Travel Group Company Limited (the "Target Company") and its subsidiaries (hereinafter collectively referred to as the "Target Group") comprising the consolidated statements of financial position of the Target Group and the statements of financial position of the Target Company as at 31 December 2012, 2013 and 2014 and 31 March 2015, and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements of the Target Group, for each of the years ended 31 December 2012, 2013 and 2014 and the three months ended 31 March 2015 (the "Track Record Period"), and a summary of significant accounting policies and other explanatory information (the "Financial Information"), for inclusion in the shareholder's circular of Orient Victory China Holdings Limited (the "Company") dated 21 August 2015 (the "Circular") in connection with the proposed acquisition of 49% equity interests in the Target Company by the Company.

The Target Company was established in the People's Republic of China (the "PRC") on 6 February 1987 as a limited liability company under the Companies Law of the PRC. All companies comprising the Target Group have adopted 31 December as their financial year end date. Details of the companies comprising the Target Group that are subject to audit during the Track Record Period and the names of the respective auditors are set out in Section B Note 27. The statutory financial statements of these companies were prepared in accordance with Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC.

The directors of the Target Company have prepared the consolidated financial statements of the Target Group for the Track Record Period (the "Underlying Financial Statements") in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The Underlying Financial Statements for each of the years ended 31 December 2012, 2013 and 2014 and the three months ended 31 March 2015 were audited by KPMG Huazhen LLP (畢馬威華振會計師事務所(特殊普通合夥)) in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Financial Information has been prepared by the directors of the Company for inclusion in the Circular in connection with the Company's proposed acquisition of 49% equity interests in the Target Company based on the Underlying Financial Statements, with no adjustments made thereon and in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL INFORMATION

The directors of the Company are responsible for the preparation of the Financial Information that gives a true and fair view in accordance with HKFRSs issued by the HKICPA and the applicable disclosure provisions of the Listing Rules, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS' RESPONSIBILITY

Our responsibility is to form an opinion on the Financial Information based on our procedures performed in accordance with Auditing Guideline "Prospectuses and the Reporting Accountant" (Statement 3.340) issued by the HKICPA. We have not audited any financial statements of the Target Company, its subsidiaries or the Target Group in respect of any period subsequent to 31 March 2015.

OPINION

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the financial position of the Target Group and of the Target Company as at 31 December 2012, 2013 and 2014 and 31 March 2015 and the Target Group's financial performance and cash flows for the Track Record Period then ended.

CORRESPONDING FINANCIAL INFORMATION

For the purpose of this report, we have also reviewed the unaudited corresponding interim financial information of the Target Group comprising the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the three months ended 31 March 2014, together with the notes thereon (the "Corresponding Financial Information"), for which the directors of the Company are responsible, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

The directors of the Company are responsible for the preparation of the Corresponding Financial Information in accordance with the same basis adopted in respect of the Financial Information. Our responsibility is to express a conclusion on the Corresponding Financial Information based on our review.

A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the Corresponding Financial Information.

Based on our review, for the purpose of this report, nothing has come to our attention that causes us to believe that the Corresponding Financial Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

A CONSOLIDATED FINANCIAL INFORMATION OF THE TARGET GROUP

1 CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Section B Note	Years ended 31 December			Three months ended 31 March	
		2012	**2013**	**2014**	**2014**	**2015**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000 (unaudited)*	*RMB'000*
Turnover	*3*	726,719	649,099	688,233	174,412	165,173
Cost of services		(679,607)	(602,524)	(644,876)	(163,834)	(153,261)
Gross profit	*3(b)*	47,112	46,575	43,357	10,578	11,912
Other revenue	*4*	4,066	2,269	2,429	180	1,010
Other net (loss)/income		(258)	(61)	(20)	9	(3)
Selling expenses		(21,984)	(21,124)	(22,246)	(5,563)	(5,436)
Administrative expenses		(17,889)	(16,445)	(16,449)	(3,891)	(3,847)
Profit from operations		11,047	11,214	7,071	1,313	3,636
Finance costs	*5(a)*	(6,237)	(5,188)	(5,002)	(1,286)	(1,330)
Share of losses of associates		(290)	(1,788)	(879)	(552)	–
Gain on deemed disposal of a subsidiary	*12*	–	–	4,518	–	–
Profit/(loss) before taxation	*5*	4,520	4,238	5,708	(525)	2,306
Income tax	*6*	(305)	(315)	254	195	(191)
Profit/(loss) and total comprehensive income for the year/period		4,215	3,923	5,962	(330)	2,115
Attributable to:						
Equity holders of the Target Company		4,216	3,935	5,962	(310)	2,115
Non-controlling interests		(1)	(12)	–	(20)	–
Profit/(loss) and total comprehensive income for the year/period		4,215	3,923	5,962	(330)	2,115

The accompanying notes form part of the Financial Information.

2 CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Section B Note	At 31 December 2012 RMB'000	At 31 December 2013 RMB'000	At 31 December 2014 RMB'000	At 31 March 2015 RMB'000
Non-current assets					
Fixed assets	*10(a)*	37,749	47,143	44,339	43,442
Deposits in franchisees	*11*	65,907	64,682	67,467	67,062
Interests in associates	*13*	27,710	31,123	–	–
Available-for-sale equity investment	*14*	–	–	9,900	9,900
Deferred tax assets	*19(b)*	2,049	2,441	2,695	2,708
		133,415	145,389	124,401	123,112
Current assets					
Inventories		53	111	48	49
Trade and other receivables	*15*	244,851	216,999	172,158	172,993
Cash at bank and on hand	*16*	74,395	35,943	22,882	43,934
		319,299	253,053	195,088	216,976
Current liabilities					
Bank and other loans	*17*	110,295	90,041	93,041	93,041
Trade and other payables	*18*	254,997	222,698	142,641	166,465
Current taxation	*19(a)*	1,901	1,328	633	837
		367,193	314,067	236,315	260,343
Net current liabilities		(47,894)	(61,014)	(41,227)	(43,367)
NET ASSETS		85,521	84,375	83,174	79,745
CAPITAL AND RESERVES	*20*				
Paid-in capital		70,000	70,000	70,000	70,000
Reserves		15,335	14,201	13,174	9,745
Total equity attributable to equity holders of the Target Company		85,335	84,201	83,174	79,745
Non-controlling interests		186	174	–	–
TOTAL EQUITY		85,521	84,375	83,174	79,745

The accompanying notes form part of the Financial Information.

3 STATEMENTS OF FINANCIAL POSITION

	Section B Note	At 31 December 2012 RMB'000	At 31 December 2013 RMB'000	At 31 December 2014 RMB'000	At 31 March 2015 RMB'000
Non-current assets					
Fixed assets	*10(b)*	37,720	47,126	44,339	43,442
Deposits in franchisees	*11*	65,907	64,682	67,467	67,062
Investment in a subsidiary	*12*	9,900	9,900	–	–
Available-for-sale equity investment	*14*	–	–	9,900	9,900
Deferred tax assets	*19(b)*	2,049	2,441	2,695	2,708
		115,576	124,149	124,401	123,112
Current assets					
Inventories		53	111	48	49
Trade and other receivables	*15*	234,537	201,518	172,158	172,993
Cash at bank and on hand	*16*	63,849	33,746	22,882	43,934
		298,439	235,375	195,088	216,976
Current liabilities					
Bank and other loans	*17*	110,295	90,041	93,041	93,041
Trade and other payables	*18*	215,864	182,196	142,641	166,465
Current taxation	*19(a)*	1,715	1,086	633	837
		327,874	273,323	236,315	260,343
Net current liabilities		(29,435)	(37,948)	(41,227)	(43,367)
NET ASSETS		86,141	86,201	83,174	79,745
CAPITAL AND RESERVES	*20*				
Paid-in capital		70,000	70,000	70,000	70,000
Reserves		16,141	16,201	13,174	9,745
TOTAL EQUITY		86,141	86,201	83,174	79,745

The accompanying notes form part of the Financial Information.

4 CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Section B Note	Paid-in capital RMB'000 (Section B Note 20(c))	Statutory reserves RMB'000 (Section B Note 20(d))	Retained profits RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
		Attributable to equity holders of the Target Company					
Balance at 1 January 2012		70,000	4,295	12,097	86,392	187	86,579
Changes in equity for the year ended 31 December 2012:							
Profit and total comprehensive income for the year		–	–	4,216	4,216	(1)	4,215
Appropriation to statutory reserves	*20(d)*	–	418	(418)	–	–	–
Distributions	*20(b)*	–	–	(5,273)	(5,273)	–	(5,273)
		–	418	(5,691)	(5,273)	–	(5,273)
Balance at 31 December 2012 and 1 January 2013		70,000	4,713	10,622	85,335	186	85,521
Changes in equity for the year ended 31 December 2013:							
Profit and total comprehensive income for the year		–	–	3,935	3,935	(12)	3,923
Appropriation to statutory reserves	*20(d)*	–	514	(514)	–	–	–
Distributions	*20(b)*	–	–	(5,069)	(5,069)	–	(5,069)
		–	514	(5,583)	(5,069)	–	(5,069)
Balance at 31 December 2013 and 1 January 2014		70,000	5,227	8,974	84,201	174	84,375
Changes in equity for the year ended 31 December 2014:							
Profit and total comprehensive income for the year		–	–	5,962	5,962	–	5,962
Decrease in non-controlling interests in connection with disposal of a subsidiary	*12*	–	–	–	–	(174)	(174)
Appropriation to statutory reserves	*20(d)*	–	396	(396)	–	–	–
Distributions	*20(b)*	–	–	(6,989)	(6,989)	–	(6,989)
		–	396	(7,385)	(6,989)	(174)	(7,163)
Balance at 31 December 2014		70,000	5,623	7,551	83,174	–	83,174

The accompanying notes form part of the Financial Information.

	Section B Note	Paid-in capital	Statutory reserves	Retained profits	Sub-total	Non-controlling interests	Total equity
		Attributable to equity holders of the Target Company					
		RMB'000 *(Section B Note 20(c))*	*RMB'000* *(Section B Note 20(d))*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2015		70,000	5,623	7,551	83,174	–	83,174
Changes in equity for the three months ended 31 March 2015:							
Profit and total comprehensive income for the period		–	–	2,115	2,115	–	2,115
Distributions	*20(b)*	–	–	(5,544)	(5,544)	–	(5,544)
Balance at 31 March 2015		70,000	5,623	4,122	79,745	–	79,745
Balance at 1 January 2014		70,000	5,227	8,974	84,201	174	84,375
Changes in equity for the three months ended 31 March 2014:							
Loss and total comprehensive income for the period (unaudited)		–	–	(310)	(310)	(20)	(330)
Distributions (unaudited)	*20(b)*	–	–	(5,567)	(5,567)	–	(5,567)
Balance at 31 March 2014 (unaudited)		70,000	5,227	3,097	78,324	154	78,478

The accompanying notes form part of the Financial Information.

5 CONSOLIDATED CASH FLOW STATEMENTS

	Section B Note	Years ended 31 December			Three months ended 31 March	
		2012	2013	2014	2014	2015
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000 (unaudited)*	*RMB'000*
Operating activities						
Profit/(loss) before taxation		4,520	4,238	5,708	(525)	2,306
Adjustments for:						
– Depreciation	*5(c)*	3,784	3,614	3,757	933	952
– Interest income	*4*	(4,066)	(2,269)	(2,429)	(180)	(1,010)
– Finance costs	*5(a)*	6,237	5,188	5,002	1,286	1,330
– Share of losses of associates		290	1,788	879	552	–
– Gain on deemed disposal of a subsidiary	*12*	–	–	(4,518)	–	–
– Net loss on disposal of fixed assets	*5(c)*	2	1	–	–	–
		10,767	12,560	8,399	2,066	3,578
Changes in working capital:						
– Decrease/(increase) in inventories		4	(58)	63	63	(1)
– Decrease in trade and other receivables		6,422	11,080	19,147	18,653	432
– Increase/(decrease) in trade and other payables		39,549	(32,159)	19,269	(9,723)	20,624
Cash generated from/(used in) operations		56,742	(8,577)	46,878	11,059	24,633
Income tax paid	*19(a)*	(1,407)	(1,280)	(453)	–	–
Net cash generated from/(used in) operating activities		55,335	(9,857)	46,425	11,059	24,633
Investing activities						
Payments for purchase of fixed assets		(308)	(13,011)	(966)	(397)	(55)
Proceeds from disposal of fixed assets		–	2	–	–	–
Net (increase)/decrease in deposits in franchisees		(83)	1,225	(2,785)	(765)	405
Net (increase)/decrease in amounts due from franchisees		(25,001)	18,038	(19,085)	(5,669)	(1,084)
Net decrease in cash and cash equivalents through disposal of a subsidiary	*12*	–	–	(28,471)	–	–
Capital contributions into associates		(7,000)	(5,201)	–	–	–
Decrease in restricted cash at bank		700	–	400	–	–
Interest received		978	1,003	696	57	827
Net cash (used in)/generated from investing activities		(30,714)	2,056	(50,211)	(6,774)	93
Financing activities						
Proceeds from bank and other loans		106,639	121,948	112,010	–	–
Repayment of bank and other loans		(94,919)	(142,202)	(109,010)	–	–
Distributions to equity holders of the Target Company		(5,149)	(5,264)	(6,876)	(2,075)	(2,511)
Interest paid		(6,436)	(5,133)	(4,999)	(1,148)	(1,163)
Net cash generated from/(used in) financing activities		135	(30,651)	(8,875)	(3,223)	(3,674)
Net increase/(decrease) in cash and cash equivalents		24,756	(38,452)	(12,661)	1,062	21,052
Cash and cash equivalents at 1 January	*16*	48,519	73,275	34,823	34,823	22,162
Cash and cash equivalents at 31 December/31 March	*16*	73,275	34,823	22,162	35,885	43,214

The accompanying notes form part of the Financial Information.

B NOTES TO THE FINANCIAL INFORMATION

(Expressed in Renminbi ("RMB") unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The Financial Information sets out in this report has been prepared in accordance with HKFRSs, which collective term includes Hong Kong Accounting Standards ("HKASs") and related interpretations, issued by the HKICPA. Further details of the significant accounting policies adopted are set out in the remainder of this Section B.

The HKICPA has issued a number of new and revised HKFRSs. For the purpose of preparing this Financial Information, the Target Group and the Target Company have adopted all applicable new and revised HKFRSs to the Track Record Period, except for any new and revised standards or interpretations that are not yet effective for the accounting period ended 31 March 2015. The new and revised accounting standards and interpretations issued but not yet effective for the accounting period beginning 1 January 2015 are set out in Section B Note 25.

The Financial Information also complies with the applicable disclosure provisions of the Listing Rules.

The accounting policies set out below have been applied consistently to all periods presented in the Financial Information.

The Corresponding Financial Information for the three months ended 31 March 2015 has been prepared in accordance with the same basis and accounting policies adopted in respect of the Financial Information.

(b) Basis of presentation and measurement

The Financial Information comprise the Target Company and its subsidiaries (together referred to as the "Target Group") and the Target Group's interests in associates. As at 31 December 2012, 2013 and 2014 and 31 March 2015, the consolidated financial statements of the Target Group comprises the following companies:

At 31 December 2012	At 31 December 2013	At 31 December 2014	At 31 March 2015
The Target Company	The Target Company	The Target Company	The Target Company
Subsidiaries:	*Subsidiaries:*		
Beijing Comfort Scenic Project Development Company Limited ("Beijing Scenic") 北京康輝景區旅游開發有限責任公司 *(Note (i))*	Beijing Scenic *(Note (i))*		
Comfort Media Advertisement (Beijing) Company Limited ("Comfort Media") 康輝傳媒廣告(北京)有限責任公司 *(Note (i))*	Comfort Media *(Note (i))*		
Associates:	*Associates:*		
Jiashan Comfort Xitang Travel Project Development Company Limited ("Jiashan Xitang") 嘉善康輝西塘旅游置業開發有限責任公司 *(Note (i))*	Jiashan Xitang *(Note (i))*		
Comfort Hanyi (Beijing) Investment Management Company Limited ("Comfort Hanyi") 康輝漢鎰(北京)投資管理有限公司 *(Note (i))*	Comfort Hanyi *(Note (i))*		

Note:

(i) Beijing Scenic, together with its subsidiary, Comfort Media, and its associates, Jiashan Xitang and Comfort Hanyi, were disposed of by the Target Group in 2014.

As mentioned in Section B Notes 2(a)(i) and 11, the Target Group's interests in its franchisees, which were established with the Target Company provided financings in the form of paid-in capital resulting in the Target Group having equity holdings ranging from 5% to 100%, are not regarded as subsidiaries, associates or other equity investments of the Target Group. Accordingly, these franchisees are not consolidated into the consolidated financial statements of the Target Group during the Track Record Period.

The measurement basis used in the preparation of the Financial Information is the historical cost basis except for investment in available-for-sale equity investment which is stated at its fair value (Section B Note 1(g)).

The Financial Information is presented in RMB, rounded to the nearest thousand.

As at 31 March 2015, the Target Group had net current liabilities of RMB43,367,000. The Financial Information has been prepared on a going concern basis notwithstanding the net current liabilities of the Target Group at 31 March 2015 because the equity holder of the Target Company has undertaken in writing to provide financial support to the Target Group for a period 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. In addition, based on a cash flow forecast of the Target Group for the twelve months ending 31 March 2016 prepared by the management of the Target Group, the Target Group would have adequate funds to meet its liabilities as and when they fall due at least twelve months from the end of the reporting period. Accordingly, the directors of the Company consider it is appropriate to prepare the Financial Information on a going concern basis.

(c) Use of estimates and judgments

The preparation of Financial Information in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Judgments made by management in the application of HKFRSs that have significant effect on the Financial Information and major sources of estimation uncertainty are discussed in Section B Note 2.

(d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Target Group. The Target Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Target Group has power, only substantive rights (held by the Target Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Target Company, and in respect of which the Target Group has not agreed any additional terms with the holders of those interests which would result in the Target Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Target Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity holders of the Target Company. Non-controlling interests in the results of the Target Group are presented on the face of the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the period between non-controlling interests and the equity holders of the Target Company.

Changes in the Target Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Target Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate (see Section B Note 1(e)) or joint venture.

In the Target Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (Section B Note 1(j)), unless the investment is classified as held for sale.

(e) Associates

An associate is an entity in which the Target Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Target Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Target Group's share of the investee's net assets and any impairment loss relating to the investment (Section B Note 1(j)). Any acquisition-date excess over cost, the Target Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the period are recognised in the consolidated statement of profit or loss, whereas the Target Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Target Group's share of losses exceeds its interest in the associate, the Target Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Target Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Target Group's interest is the carrying amount of the investment under the equity method together with the Target Group's long-term interests that in substance form part of the Target Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Target Group and its associates are eliminated to the extent of the Target Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

In all other cases, when the Target Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (Section B Note 1(g)).

(f) Franchisees

A franchisee is an entity with whom the Target Group or the Target Company enters into a franchise arrangement. Under such franchise arrangement, the franchisee has a unilateral decision to operate its business. Control over such fundamental decisions which have significant effect on the returns of the franchisees is determined by the parties other than the Target Group or the Target Company. The Target Group or the Target Company has protective rights which are designed to protect the franchise brand.

The Target Group's or the Target Company's franchise arrangements are undertaken in the legal form of investments. Initial cash injections in the franchisees are presented as "deposits in franchisees" in the statement of financial position. Such deposits are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method less allowance for impairment losses (Section B Note 1(j)). The accounting policy for franchise fee income is set out in Section B Note 1(s)(iii).

(g) Other investment in equity securities

The Target Group's and the Target Company's policies for investment in equity securities, other than investments in subsidiaries, associates, and joint ventures, and those investments entered under franchise arrangements are as follows:

Investment in equity securities is initially stated at fair value, which is its transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. This investment is subsequently accounted for as follows:

Investment in equity securities which is not classified as held for trading is classified as available-for-sale equity investment. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. As an exception to this, investment in equity securities that does not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured is recognised in the statement of financial position at cost less impairment losses (Section B Note 1(j)). Dividend income from equity securities is recognised in profit or loss in accordance with the policy set out in Section B Note 1(s)(iv).

When the investment is derecognised or impaired (Section B Note 1(j)), the cumulative gain or loss recognised in equity is reclassified to profit or loss. Investment is recognised/derecognised on the date the Target Group and the Target Company commits to purchase/sell the investment or it expires.

(h) Fixed assets

Fixed assets are stated in the statement of financial position at cost less accumulated depreciation and impairment losses (Section B Note 1(j)(ii)).

Gains or losses arising from the retirement or disposal of an item of fixed assets are determined as the difference between the net disposal proceeds and the carrying amount of the item are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of fixed assets, less their estimated residual values, if any, using the straight line method over their estimated useful lives as follows:

	Estimated useful lives
Buildings	20 years
Motor vehicles, office and other equipments	3 to 10 years

Where parts of an item of fixed assets have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(i) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Target Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Target Group

Assets that are held by the Target Group under leases which transfer to the Target Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Target Group are classified as operating leases.

(ii) Operating lease charges

Where the Target Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(j) Impairment of assets

(i) Impairment of investment in equity securities and receivables

Investment in equity securities, current and non-current receivables and deposits in franchisees that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Target Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follow:

– For interests in associates accounted for under the equity method in the consolidated financial statements (Section B Note 1(e)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with Section B Note 1(j)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with Section B Note 1(j)(ii).

– For trade and other receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior periods.

– For available-for-sale securities, the cumulative loss that has been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

  Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of receivable, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Target Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of the each reporting period to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased.

– fixed assets; and
– investment in a subsidiary in the Target Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

– Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior periods. Reversals of impairment losses are credited to profit or loss in the period in which the reversals are recognised.

(k) Inventories

Inventories of the Target Group are promotional items to be consumed for tourism service, which are carried at the lower of cost and net realisable value. Cost is calculated using the first-in-first-out formula and comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(l) Trade and other receivables

Receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (Section B Note 1(j)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts (Section B Note 1(j)(i)).

(m) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(n) Trade and other payables

Trade and other payables are initially recognised at fair value, and are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(p) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Target Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Termination benefits

Termination benefits are recognised at the earlier of when the Target Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

(q) Income tax

Income tax for the period comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to business combinations, or items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous periods.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Target Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Target Company or the Target Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Target Company or the Target Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(r) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Target Group or the Target Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(s) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Target Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Tourism service

Tourism service income is recognised when the package tours and other travel related services are rendered by the Target Group.

(ii) Other services

Income from other services is recognised when the related services are rendered by the Target Group.

(iii) Franchise fee income

Franchise fee income is recognised as revenue on the basis that reflects the purpose for which the fees are charged. For those fees charged for the use of continuing rights granted by the Target Group, or for other services provided by the Target Group during the period of the franchise arrangement, franchise fee income is recognised as revenue as the services are provided or the rights are used.

(iv) Dividend

Dividend income from unlisted investment is recognised when the equity holder's right to receive payment is established.

(v) Interest income

Interest income is recognised as it accrues using the effective interest method.

(t) Translation of foreign currencies

Foreign currency transactions during the period are translated into the functional currency of the entity to which they relate at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency of the entity to which they relate at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

(u) Borrowing costs

Borrowing costs are expensed in the period in which they are incurred.

(v) Related parties

(a) A person, or a close member of that person's family, is related to the Target Group if that person:

(i) has control or joint control over the Target Group;

(ii) has significant influence over the Target Group; or

(iii) is a member of the key management personnel of the Target Group or the Target Group's parent.

(b) An entity is related to the Target Group if any of the following conditions applies:

(i) The entity and the Target Group are members of the same group.

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Target Group or an entity related to the Target Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(w) Segment reporting

Operating segments, and the amounts of each segment item reported in the Financial Information, are identified from the financial information provided regularly to the Target Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Target Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

The Target Group's turnover is substantially derived from customers situated in the PRC, and the Target Group's operating assets are substantially located in the PRC. Accordingly, no segment analysis based on geographical location of the customers or assets is provided.

2 ACCOUNTING JUDGEMENT AND ESTIMATES

(a) Critical accounting judgement in applying the Target Group's accounting policies

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

(i) 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 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, 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 in accordance with the accounting policy set out in Section B Note 1(s)(iii), reflecting the purpose for which the fees are charged.

(b) Sources of estimation uncertainty

Section B Note 21 contains information about the assumptions and their risk factors relating to valuation of fair value of financial instruments. Other key resources of estimation uncertainty in the preparation of the Financial Information are as follows:

(i) Impairment of long-lived assets

If circumstances indicate that the carrying amount of a long-lived asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in accordance with accounting policy for impairment of long-lived assets as described in Section B Note 1(j). The carrying amounts of long-lived assets are reviewed in order to assess whether the recoverable amounts have declined below the carrying amounts. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the fair value less costs of disposal and value in use. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to the level of revenue and amount of operating costs. The Target Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of the level of revenue and amount of operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods, where applicable.

(ii) Impairment of receivables

The management maintains an allowance for doubtful accounts for estimated losses resulting from the inability of the debtors to make the required payments. The management bases the estimates on the ageing of the individual receivable balance, debtor credit-worthiness and historical write-off experience. If the financial condition of the debtors were to deteriorate, actual write-offs would be higher than estimated.

(iii) Depreciation

Fixed assets are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual values. The management reviews the estimated useful lives and residual values of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The determination of the useful lives and residual values are based on the historical experience with similar assets. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

(iv) Deferred tax assets

Deferred tax assets are recognised for unused tax losses and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which the deferred tax assets can be utilised. In determining the amount of deferred tax assets to be recognised, significant judgement is required relating to the timing and level of future taxable profits, after taking into account future tax planning strategies. The amount of deferred tax assets recognised at future dates are adjusted if there are significant changes from these estimates.

3. TURNOVER AND SEGMENT REPORTING

(a) Turnover

The principal activities of the Target Group are the provision of tourism-related, Meeting, Incentives, Conferences and Exhibition ("MICE") -related, and ticket-sales related services, and the provision of the Target Group's brand name for the use by the Target Group's franchisees.

Turnover mainly represents revenue from the provision of tourism-related and MICE-related services, franchise fee income, and ticket-sales agency fee income, and is after any value-added and sales taxes and sales discounts. The amount of each significant category of revenue recognised in turnover during the Track Record Period is analysed as follows:

	Years ended 31 December			Three months ended 31 March	
	2012	**2013**	**2014**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Provision of tourism-related services	310,508	292,031	396,654	81,599	128,057
Provision of MICE-related services	406,687	345,334	284,326	91,192	35,437
Franchise fee income	4,927	6,568	5,942	1,486	1,503
Ticket-sales agency fee income	2,451	1,253	1,078	135	176
Others	2,146	3,913	233	–	–
	726,719	649,099	688,233	174,412	165,173

The Target Group's customer base is diversified and has no customer with whom transactions have exceeded 10% of the Target Group's turnover during the Track Record Period. Details of concentrations of credit risk are set out in Section B Note 21(a).

(b) Segment reporting

The Target Group manages its businesses by lines of business. In a manner consistent with the way in which information is reported internally to the Target Group's most senior executive management for the purposes of resource allocation and performance assessment, the Target Group has presented the following five reportable segments. No operating segments have been aggregated to form the following reportable segments.

– Tourism: this segment provides tourism-related services, mainly outbound and domestic package tours and visa application arrangements.

– MICE: this segment makes arrangements on meetings, incentives, conferences and exhibitions for corporate customers.

– Franchise: this segment manages the Target Group's franchisees.

– Tickets: this segment provides ticket-sales agency services.

– Others: other services income.

(i) Segment information

For the purposes of assessing segment performance and allocating resources between segments, the Target Group's senior executive management monitors the results attributable to each reportable segment on the following bases:

Revenue and net income and expenses are allocated to the reportable segments with reference to revenue and net income generated by those segments and the expenses incurred by those segments. There are no inter-segment sales during the Track Record Period. Assistance provided by one segment to another is not measured.

The measure used for reporting segment profit is gross profit. The Target Group's operating expenses such as selling expenses and administrative expenses, and assets and liabilities are not monitored by the Target Group's senior executive management based on segments. Accordingly, neither information on segment assets and liabilities nor information concerning capital expenditure, interest income and interest expenses is presented.

Information regarding the Target Group's reportable segments as provided to the Target Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the Track Record Period is set out below.

	Year ended 31 December 2012					
	Tourism	**MICE**	**Franchise**	**Tickets**	**Others**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Reportable segment revenue and net income	310,508	406,687	4,927	2,451	2,146	726,719
Reportable segment gross profit	5,048	33,755	4,927	2,314	1,068	47,112

	Year ended 31 December 2013					
	Tourism	**MICE**	**Franchise**	**Tickets**	**Others**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Reportable segment revenue and net income	292,031	345,334	6,568	1,253	3,913	649,099
Reportable segment gross profit	2,418	34,030	6,568	1,183	2,376	46,575

	Year ended 31 December 2014					
	Tourism	**MICE**	**Franchise**	**Tickets**	**Others**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Reportable segment revenue and net income	396,654	284,326	5,942	1,078	233	688,233
Reportable segment gross profit/(loss)	15,676	20,967	5,942	1,018	(246)	43,357

	Three months ended 31 March 2014 (unaudited)					
	Tourism	MICE	Franchise	Tickets	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Reportable segment revenue and net income	81,599	91,192	1,486	135	–	174,412
Reportable segment gross profit	1,984	6,981	1,486	127	–	10,578

	Three months ended 31 March 2015					
	Tourism	MICE	Franchise	Tickets	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Reportable segment revenue and net income	128,057	35,437	1,503	176	–	165,173
Reportable segment gross profit	7,598	2,645	1,503	166	–	11,912

4 OTHER REVENUE

	Years ended 31 December			Three months ended 31 March	
	2012	2013	2014	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Interest income from cash at bank	978	1,003	183	57	41
Interest income from amounts due from franchisees	3,088	1,266	1,733	123	183
Others	–	–	513	–	786
	4,066	2,269	2,429	180	1,010

5 PROFIT/(LOSS) BEFORE TAXATION

Profit/(loss) before taxation is arrived at after charging/(crediting):

(a) Finance costs

	Years ended 31 December			Three months ended 31 March	
	2012	2013	2014	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Interest expenses on bank and other loans	6,237	5,188	5,002	1,286	1,330

No borrowing costs have been capitalised during the Track Record Period.

(b) Staff costs

	Years ended 31 December			Three months ended 31 March	
	2012	2013	2014	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Salaries, wages and other benefits	11,184	11,539	12,493	3,178	3,348
Contributions to defined contribution retirement plans	2,040	1,997	2,026	566	574
	13,224	13,536	14,519	3,744	3,922

The employees of the Target Group participate in defined contribution retirement benefit schemes managed by the local government authorities, whereby the Target Group is required to contribute to the schemes at around 20% of the employees' basic salaries. Employees of the Target Group are entitled to retirement benefits, calculated based on a percentage of the average salaries level in the PRC, from the above mentioned retirement schemes at their normal retirement age.

The Target Group has no further obligation for payment of other retirement benefits beyond the above contributions.

(c) Other items

	Years ended 31 December			Three months ended 31 March	
	2012	2013	2014	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Depreciation *(Section B Note 10)*	3,784	3,614	3,757	933	952
Provision for impairment losses on trade and other receivables	4,196	1,669	1,016	–	53
Operating lease charges in respect of buildings and office equipments	855	682	540	154	165
Auditors' remuneration – statutory audit service	406	456	420	110	110
Net loss on disposal of fixed assets	2	1	–	–	–
Net foreign exchange loss/(gain)	5	111	(105)	(9)	2

6 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(a) Taxation in the consolidated statements of profit or loss and other comprehensive income represent:

	Years ended 31 December			Three months ended 31 March	
	2012	**2013**	**2014**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Current taxation:					
– Provision for PRC Corporate Income Tax for the year/period *(Section B Note 19(a))*	1,350	707	–	12	204
Deferred taxation:					
– Origination and reversal of temporary differences *(Section B Note 19(b))*	(1,045)	(392)	(254)	(207)	(13)
	305	315	(254)	(195)	191

(b) Reconciliation between tax expenses and accounting profits/(loss) at applicable tax rate:

	Years ended 31 December			Three months ended 31 March	
	2012	**2013**	**2014**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Profit/(loss) before taxation	4,520	4,238	5,708	(525)	2,306
Expected tax on profit/(loss) before taxation, calculated at the applicable tax rate of 25%	1,130	1,060	1,427	(131)	577
Tax effect of non-deductible expenses	330	269	296	7	28
Tax effect of share of losses of associates	73	447	220	138	–
Tax effect of non-taxable income	(1,228)	(1,461)	(2,600)	(372)	(414)
Tax effect of unused tax losses not recognised	–	–	403	163	–
	305	315	(254)	(195)	191

The companies comprising the Target Group are subject to PRC Corporate Income Tax rate of 25% during the Track Record Period.

7 DIRECTORS' REMUNERATION

Directors' remuneration during the Track Record Period is as follows:

	Year ended 31 December 2012				
	Directors' fees	**Salaries and allowances**	**Discretionary bonuses**	**Retirement scheme contributions**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Chairman					
Li Jilie	–	267	68	33	368
Directors					
Dong Ruping	–	257	61	33	351
Gao Suoshan	–	205	51	33	289
Yang Hui	–	205	51	33	289
	–	934	231	132	1,297

	Year ended 31 December 2013				
	Directors' fees	**Salaries and allowances**	**Discretionary bonuses**	**Retirement scheme contributions**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Chairman					
Li Jilie	–	396	5	37	438
Directors					
Dong Ruping	–	396	5	37	438
Gao Suoshan	–	320	4	37	361
Yang Hui	–	320	4	37	361
	–	1,432	18	148	1,598

	Year ended 31 December 2014				
	Directors' fees	**Salaries and allowances**	**Discretionary bonuses**	**Retirement scheme contributions**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Chairman					
Li Jilie	–	352	21	40	413
Directors					
Dong Ruping	–	352	21	40	413
Gao Suoshan	–	289	16	40	345
Yang Hui	–	289	16	40	345
	–	1,282	74	160	1,516

	Three months ended 31 March 2014 (unaudited)				
	Directors' fees	Salaries and allowances	Discretionary bonuses	Retirement scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Chairman					
Li Jilie	–	80	–	9	89
Directors					
Dong Ruping	–	80	–	9	89
Gao Suoshan	–	65	–	9	74
Yang Hui	–	65	–	9	74
	–	290	–	36	326

	Three months ended 31 March 2015				
	Directors' fees	Salaries and allowances	Discretionary bonuses	Retirement scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Chairman					
Li Jilie	–	80	–	10	90
Directors					
Dong Ruping	–	80	–	10	90
Gao Suoshan	–	65	–	10	75
Yang Hui	–	65	–	10	75
	–	290	–	40	330

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four, four, four, four (unaudited) and four are directors for each of the years ended 31 December 2012, 2013 and 2014 and for each of the three months ended 31 March 2014 (unaudited) and 2015, respectively, whose emoluments are disclosed in Section B Note 7. The aggregate of the emoluments in respect of the other individual is as follows:

	Years ended 31 December			Three months ended 31 March	
	2012	2013	2014	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Salaries and other emoluments	82	76	73	18	39
Retirement scheme contributions	16	16	16	4	5
	98	92	89	22	44

The emoluments of the one individual with the highest emoluments who is not a director are within the following band:

	Years ended 31 December			Three months ended 31 March	
	2012	2013	2014	2014	2015
				(unaudited)	
Hong Kong dollar ("HK$") Nil to 1,000,000	1	1	1	1	1

9 PROFIT/(LOSS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE TARGET COMPANY

The consolidated profit/(loss) attributable to equity holders of the Target Company which have been dealt with in the financial statements of the Target Company are as follow:

	Years ended 31 December			Three months ended 31 March	
	2012	2013	2014	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Amount of consolidated profit attributable to equity holders of the Target Company dealt with in the Target Company's financial statements *(Section B Note 20(a))*	4,181	5,129	3,962	1,684	2,115

10 FIXED ASSETS

(a) The Target Group

	Buildings	Motor vehicles, office and other equipments	Total
	RMB'000	*RMB'000*	*RMB'000*
Cost:			
At 1 January 2012	58,531	4,135	62,666
Additions	–	308	308
Disposals	–	(74)	(74)
At 31 December 2012	58,531	4,369	62,900
Accumulated depreciation:			
At 1 January 2012	(18,139)	(3,300)	(21,439)
Charge for the year	(3,446)	(338)	(3,784)
Written back on disposals	–	72	72
At 31 December 2012	(21,585)	(3,566)	(25,151)
Net book value:			
At 31 December 2012	36,946	803	37,749

	Buildings	Motor vehicles, office and other equipments	Total
	RMB'000	*RMB'000*	*RMB'000*
Cost:			
At 1 January 2013	58,531	4,369	62,900
Additions	12,271	740	13,011
Disposals	–	(73)	(73)
At 31 December 2013	70,802	5,036	75,838
Accumulated depreciation:			
At 1 January 2013	(21,585)	(3,566)	(25,151)
Charge for the year	(3,261)	(353)	(3,614)
Written back on disposals	–	70	70
At 31 December 2013	(24,846)	(3,849)	(28,695)
Net book value:			
At 31 December 2013	45,956	1,187	47,143
Cost:			
At 1 January 2014	70,802	5,036	75,838
Additions	–	966	966
Decrease through disposal of a subsidiary	–	(63)	(63)
At 31 December 2014	70,802	5,939	76,741
Accumulated depreciation:			
At 1 January 2014	(24,846)	(3,849)	(28,695)
Charge for the year	(3,261)	(496)	(3,757)
Decrease through disposal of a subsidiary	–	50	50
At 31 December 2014	(28,107)	(4,295)	(32,402)
Net book value:			
At 31 December 2014	42,695	1,644	44,339
Cost:			
At 1 January 2015	70,802	5,939	76,741
Additions	–	55	55
At 31 March 2015	70,802	5,994	76,796
Accumulated depreciation:			
At 1 January 2015	(28,107)	(4,295)	(32,402)
Charge for the period	(807)	(145)	(952)
At 31 March 2015	(28,914)	(4,440)	(33,354)
Net book value:			
At 31 March 2015	41,888	1,554	43,442

(b) The Target Company

	Buildings	Motor vehicles, office and other equipments	Total
	RMB'000	*RMB'000*	*RMB'000*
Cost:			
At 1 January 2012	58,531	4,091	62,622
Additions	–	295	295
Disposals	–	(74)	(74)
At 31 December 2012	58,531	4,312	62,843
Accumulated depreciation:			
At 1 January 2012	(18,139)	(3,288)	(21,427)
Charge for the year	(3,446)	(322)	(3,768)
Written back on disposals	–	72	72
At 31 December 2012	(21,585)	(3,538)	(25,123)
Net book value:			
At 31 December 2012	36,946	774	37,720
Cost:			
At 1 January 2013	58,531	4,312	62,843
Additions	12,271	734	13,005
Disposals	–	(73)	(73)
At 31 December 2013	70,802	4,973	75,775
Accumulated depreciation:			
At 1 January 2013	(21,585)	(3,538)	(25,123)
Charge for the year	(3,261)	(335)	(3,596)
Written back on disposals	–	70	70
At 31 December 2013	(24,846)	(3,803)	(28,649)
Net book value:			
At 31 December 2013	45,956	1,170	47,126
Cost:			
At 1 January 2014	70,802	4,973	75,775
Additions	–	966	966
At 31 December 2014	70,802	5,939	76,741
Accumulated depreciation:			
At 1 January 2014	(24,846)	(3,803)	(28,649)
Charge for the year	(3,261)	(492)	(3,753)
At 31 December 2014	(28,107)	(4,295)	(32,402)
Net book value:			
At 31 December 2014	42,695	1,644	44,339

	Buildings	Motor vehicles, office and other equipments	Total
	RMB'000	*RMB'000*	*RMB'000*
Cost:			
At 1 January 2015	70,802	5,939	76,741
Additions	–	55	55
At 31 March 2015	70,802	5,994	76,796
Accumulated depreciation:			
At 1 January 2015	(28,107)	(4,295)	(32,402)
Charge for the period	(807)	(145)	(952)
At 31 March 2015	(28,914)	(4,440)	(33,354)
Net book value:			
At 31 March 2015	41,888	1,554	43,442

11 DEPOSITS IN FRANCHISEES

	The Target Group and the Target Company			
	At 31 December			At 31 March
	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deposits in franchisees	65,907	64,682	67,467	67,062

To promote the Business Brand and to establish a network throughout the PRC, the Target Company entered into 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.

At the inception of the Business Arrangements, contributions into these companies made by the Target Company in the form as paid-in capital are recorded as deposits in these franchisees, which are initially accounted for as a financial instrument at fair value, and thereafter stated at amortised cost using the effective interest method.

12 INVESTMENT IN A SUBSIDIARY

	The Target Company			
	At 31 December			At 31 March
	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Unlisted equity, at cost	9,900	9,900	–	–

As at 31 December 2012 and 2013, the Target Company had direct or indirect interests in the following subsidiaries, all of which are private companies. The particulars of these subsidiaries, immediately prior to their disposals by the Target Group as further explained below, are set out below:

Name of subsidiary	Place of establishment	Particulars of registered/ paid-up capital	Equity interests attributable to the equity holders of the Target Company		Principal activities
			Direct	Indirect	
Beijing Scenic	The PRC	RMB10,000,000	99%	–	Development of tourist attraction projects
Comfort Media	The PRC	RMB2,000,000	–	94%	Provision of advertisement service to Beijing Scenic's sub-group companies

In 2014, the Target Company and Beijing Scenic entered into a series of capital injection agreements with various third parties, where these third parties agreed to inject an aggregate of RMB39,120,000 into Beijing Scenic. Upon completion of the above capital injections on 21 May 2014, the Target Company's equity holding in Beijing Scenic decreased from 99.0% to 20.2%. Beijing Scenic, together with its subsidiary, Comfort Media, ceased to be subsidiaries of the Target Group. The Target Company's loss of control of Beijing Scenic was accounted for as a deemed disposal of the entire equity interest in Beijing Scenic. The 20.2% equity interest retained in Beijing Scenic is recognised at fair value and is regarded as fair value on initial recognition of an available-for-sale equity investment (see Section B Note 14).

The aggregate net assets of the subsidiaries disposal of were as follows:

	RMB'000
Cash and cash equivalents	28,471
Trade and other receivables	46,514
Interests in associates	30,243
Trade and other payables	(99,684)
Other assets and liabilities, net	(162)
Net assets of subsidiaries disposed of	5,382
Remeasurement of the retained 20.2% equity interests at its fair value	9,900
Gain on deemed disposal of a subsidiary	4,518
Net cash outflow arising on disposal of a subsidiary	28,471

13 INTERESTS IN ASSOCIATES

	The Target Group			
	At 31 December			At 31 March
	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Shares of net assets	27,710	31,123	–	–

The following list contains particulars of the Target Group's associates, which are unlisted entities:

Name of associate	Place of establishment	Particulars of registered and paid-up capital	Equity interests attributable to the equity holders of the Target Company: Direct	Equity interests attributable to the equity holders of the Target Company: Indirect	Principal activities
Jiashan Xitang	The PRC	RMB80,000,000	–	35%-40% *(Note (i))*	Development of tourist attraction project
Comfort Hanyi	The PRC	RMB4,000,000	–	30% *(Note(ii))*	Investment holding

The above associates are accounted for using the equity method in the Financial Information.

Note (i): Jiashan Xitang is an associate of Beijing Scenic, a then subsidiary of the Target Group (see Section B Note 12). The Target Group's interest in Jiashan Xitang increased from 35% as at 31 December 2012 to 40% as at 31 December 2013, and it was disposed of during the year ended 31 December 2014 along with the Target Group's disposal of Beijing Scenic.

Note (ii): Comfort Hanyi is an associate of Beijing Scenic established in May 2013, a then subsidiary of the Target Group (see Section B Note 12), and it was disposed of during the year ended 31 December 2014 along with the Target Group's disposal of Beijing Scenic.

Summarised combined financial information of the Target Group's associates, not adjusted for the Target Group's interests in these associates, is disclosed below:

	At 31 December			At 31 March
	2012	**2013**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets	230	274	–	–
Current assets	82,739	124,907	–	–
Current liabilities	(3,796)	(28,665)	–	–
Non-current liabilities	–	(18,000)	–	–
Net assets	79,173	78,516	–	–

	Years ended 31 December			Three months ended 31 March	
	2012	**2013**	**2014**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000 (unaudited)*	*RMB'000*
Turnover	–	–	–	–	–
Loss and total comprehensive income for the year/period	(829)	(4,657)	(2,540)	(1,653)	–

14 AVAILABLE-FOR-SALE EQUITY INVESTMENT

	The Target Group and the Target Company			
	At 31 December			At 31 March
	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Unlisted equity, at fair value	–	–	9,900	9,900

The above equity investment represents the Target Group's 20.2% equity interests in Beijing Scenic (see Section B Note 12). The directors of the Target Company consider that the Target Company does not have significant influence over Beijing Scenic's management, and hence, it is accounted for in accordance with the accounting policy on available-for-sale equity investment as stated in Section B Note 1(g).

15 TRADE AND OTHER RECEIVABLES

	The Target Group			
	At 31 December			At 31 March
	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables due from:				
– Third parties	144,632	117,832	78,417	67,670
– Related parties *(Section B Note 23(c))*	4,659	8,689	–	–
	149,291	126,521	78,417	67,670
Less: allowance for doubtful debts *(Section B Note 15(b))*	(5,457)	(7,068)	(5,337)	(5,337)
	143,834	119,453	73,080	62,333
Prepayments, deposits and other receivables:				
– Amounts due from related parties *(Section B Note 23(c))*	3,067	17,992	3,600	3,600
– Amounts due from franchisees *(Note (i))*	32,262	14,224	33,309	34,393
– Prepayments	28,973	15,580	14,635	18,105
– Others	39,481	52,574	52,980	60,061
	103,783	100,370	104,524	116,159
Less: allowance for doubtful debts	(2,766)	(2,824)	(5,446)	(5,499)
	101,017	97,546	99,078	110,660
	244,851	216,999	172,158	172,993

	The Target Company			
	At 31 December			At 31 March
	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables due from:				
– Third parties	144,535	117,511	78,417	67,670
– Related parties	–	42	–	–
	144,535	117,553	78,417	67,670
Less: allowance for doubtful debts *(Section B Note 15(b))*	(5,432)	(7,023)	(5,337)	(5,337)
	139,103	110,530	73,080	62,333
Prepayments, deposits and other receivables:				
– Amounts due from a subsidiary	20,270	45,414	–	–
– Amounts due from related parties	2,300	4,050	3,600	3,600
– Amounts due from franchisees *(Note (i))*	32,262	14,224	33,309	34,393
– Prepayments	28,973	15,580	14,635	18,105
– Others	14,395	14,461	52,980	60,061
	98,200	93,729	104,524	116,159
Less: allowance for doubtful debts	(2,766)	(2,741)	(5,446)	(5,499)
	95,434	90,988	99,078	110,660
	234,537	201,518	172,158	172,993

Note (i): Included in the amounts due from franchisees are RMB18,103,000, RMB8,188,000, RMB8,588,000 and RMB10,070,000 bear interest ranged from 7.5%-9.0%, 7.5%-9.0%, 7.5%-9.0% and 7.5%-9.0% for each of the years ended 31 December 2012, 2013 and 2014 and the three months ended 31 March 2015, respectively.

All of the trade and other receivables are expected to be recovered or recognised as expenses within one year.

(a) Ageing analysis

At 31 December 2012, 2013 and 2014 and 31 March 2015, the ageing analysis of trade receivables, based on the invoice date and net of allowance for doubtful debts, is as follows:

	The Target Group			
	At 31 December			At 31 March
	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Less than 3 months	113,408	78,314	37,701	41,569
More than 3 months but less than 6 months	27,068	20,862	28,422	14,396
More than 6 months but less than 12 months	–	13,778	5,174	5,304
More than 12 months	3,358	6,499	1,783	1,064
	143,834	119,453	73,080	62,333

	The Target Company			
	At 31 December			At 31 March
	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Less than 3 months	110,287	74,303	37,701	41,569
More than 3 months but less than 6 months	27,068	20,862	28,422	14,396
More than 6 months but less than 12 months	–	13,778	5,174	5,304
More than 12 months	1,748	1,587	1,783	1,064
	139,103	110,530	73,080	62,333

Further details on the Target Group's credit policy are set out in Section B Note 21(a).

(b) Impairment of trade receivables

Impairment losses of trade receivables is recorded using an allowance account unless the Target Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly (Section B Note 1(j)(i)).

The movements in the allowance for doubtful debts during the Track Record Period are as follows:

	The Target Group			
	At 31 December			At 31 March
	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At the beginning of the year/period	875	5,457	7,068	5,337
Impairment losses recognised/(reversed)	4,582	1,611	(1,686)	–
Decrease due to disposal of a subsidiary	–	–	(45)	–
At the end of the year/period	5,457	7,068	5,337	5,337

	The Target Company			
	At 31 December			At 31 March
	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At the beginning of the year/period	865	5,432	7,023	5,337
Impairment losses recognised/(reversed)	4,567	1,591	(1,686)	–
At the end of the year/period	5,432	7,023	5,337	5,337

The Target Group's trade receivables of RMB15,560,000, RMB18,569,000, RMB7,178,000 and RMB7,178,000 were individually determined to be impaired as at 31 December 2012, 2013 and 2014 and 31 March 2015, respectively. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of RMB5,457,000, RMB7,068,000, RMB5,337,000 and RMB5,337,000 were recognised as at 31 December 2012, 2013 and 2014 and 31 March 2015, respectively.

(c) Trade receivables that are not impaired

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired are as follows:

	The Target Group			
	At 31 December			At 31 March
	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Neither past due nor impaired	109,290	78,314	37,658	41,569
Less than 3 months past due	22,615	20,656	26,915	14,033
More than 3 months but less than 6 months past due	–	2,474	5,227	3,877
More than 6 months past due	1,826	6,508	1,439	1,013
	133,731	107,952	71,239	60,492

	The Target Company			
	At 31 December			At 31 March
	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Neither past due nor impaired	106,169	74,741	37,658	41,569
Less than 3 months past due	22,615	20,656	26,915	14,033
More than 3 months but less than 6 months past due	–	2,036	5,227	3,877
More than 6 months past due	216	1,596	1,439	1,013
	129,000	99,029	71,239	60,492

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Target Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Target Group does not hold any collateral over these balances.

16 CASH AT BANK AND ON HAND

	The Target Group			
	At 31 December			At 31 March
	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash at bank and on hand	74,395	35,943	22,882	43,934
Less: restricted cash at bank *(Note (i))*	(1,120)	(1,120)	(720)	(720)
Cash and cash equivalents in the consolidated cash flow statements	73,275	34,823	22,162	43,214

	The Target Company			
	At 31 December			At 31 March
	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash at bank and on hand	63,849	33,746	22,882	43,934
Less: restricted cash at bank *(Note (i))*	(1,120)	(1,120)	(720)	(720)
Cash and cash equivalents	62,729	32,626	22,162	43,214

Note (i): Restricted cash at bank mainly represents bank deposits pledged by the Target Group as performance of tourism contracts as required by the relevant authorities.

The Target Group's operations in the PRC are conducted in RMB. RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to the relevant rules and regulations of foreign exchange control promulgated by the PRC government.

17 BANK AND OTHER LOANS

	The Target Group and the Target Company			
	At 31 December			At 31 March
	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Guaranteed short-term bank loans	50,000	49,000	49,000	49,000
Unsecured and unguaranteed other loans due to third parties	8,010	11,010	14,010	14,010
Unsecured and unguaranteed other loans due to related parties *(Section B Note 23(c))*	52,285	30,031	30,031	30,031
	110,295	90,041	93,041	93,041

The Target Group's and the Target Company's short-term bank loans were guaranteed by Beijing Tourism Group Company Limited ("Beijing Tourism Group") for each of the years ended 31 December 2012, 2013 and 2014 and the three months ended 31 March 2015.

Further details of the Target Group's management of liquidity risk are set out in Section B Note 21(b).

18 TRADE AND OTHER PAYABLES

	The Target Group			
	At 31 December			At 31 March
	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables due to third parties	143,401	110,125	83,887	84,910
Amounts due to related parties *(Section B Note 23(c))*	720	853	943	884
Payable for staff related costs	5,033	5,102	4,961	4,956
Distributions payable	2,120	1,925	2,038	5,071
Other taxes payable	987	1,572	789	805
Interest payable	30	85	88	255
Others	62,004	62,384	21,147	25,014
Financial liabilities measured at amortised cost	214,295	182,046	113,853	121,895
Receipts in advance from customers	40,702	40,652	28,788	44,570
	254,997	222,698	142,641	166,465

	The Target Company			
	At 31 December			At 31 March
	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables due to third parties	143,401	110,125	83,887	84,910
Amounts due to related parties	720	853	943	884
Payable for staff related costs	5,022	5,066	4,961	4,956
Distributions payable	2,120	1,925	2,038	5,071
Other taxes payable	878	1,440	789	805
Interest payable	30	85	88	255
Others	22,991	22,050	21,147	25,014
Financial liabilities measured at amortised cost	175,162	141,544	113,853	121,895
Receipts in advance from customers	40,702	40,652	28,788	44,570
	215,864	182,196	142,641	166,465

All of the trade and other payables are expected to be settled or recognised as revenue within one year or are repayable on demand.

As at 31 December 2012, 2013 and 2014 and 31 March 2015, the ageing analysis of trade payables, based on the invoice date, is as follows:

	The Target Group			
	At 31 December			At 31 March
	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	123,927	87,268	58,043	63,123
Over 1 year	19,474	22,857	25,844	21,787
	143,401	110,125	83,887	84,910

	The Target Company			
	At 31 December			At 31 March
	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	123,927	87,268	58,043	63,123
Over 1 year	19,474	22,857	25,844	21,787
	143,401	110,125	83,887	84,910

19 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(a) Current taxation in the consolidated statements of financial position represent:

	The Target Group			
	At 31 December			At 31 March
	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At the beginning of the year/period	1,958	1,901	1,328	633
Provision for the year/period *(Section B Note 6(a))*	1,350	707	–	204
Income tax paid	(1,407)	(1,280)	(453)	–
Decrease through disposal of a subsidiary	–	–	(242)	–
At the end of the year/period	1,901	1,328	633	837

	The Target Company			
	At 31 December			At 31 March
	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At the beginning of the year/period	1,958	1,715	1,086	633
Provision for the year/period	1,164	466	–	204
Income tax paid	(1,407)	(1,095)	(453)	–
At the end of the year/period	1,715	1,086	633	837

(b) Deferred tax assets

The components of deferred tax assets recognised in the consolidated statements of financial position and the movements during the Track Record Period are as follows:

	The Target Group and the Target Company
	RMB'000
Deferred tax arise from the allowances for doubtful debts	
At 1 January 2012	1,004
Credited to profit or loss *(Section B Note 6(a))*	1,045
At 31 December 2012 and 1 January 2013	2,049
Credited to profit or loss *(Section B Note 6(a))*	392
At 31 December 2013 and 1 January 2014	2,441
Credited to profit or loss *(Section B Note 6(a))*	254
At 31 December 2014	2,695
Credited to profit or loss *(Section B Note 6(a))*	13
At 31 March 2015	2,708

20 CAPITAL, RESERVES AND DISTRIBUTIONS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Target Group's consolidated equity is set out in the consolidated statements of changes in equity. Details of the changes in the Target Company's individual components of equity between the beginning and the end of the year/period during the Track Record Period are set out below:

	Section B Note	Paid-in capital *RMB'000* *(Section B Note 20(c))*	Statutory reserves *RMB'000* *(Section B Note 20(d))*	Retained profits *RMB'000*	Total equity *RMB'000*
Balance at 1 January 2012		70,000	4,295	12,938	87,233
Changes in equity for the year ended 31 December 2012:					
Profit and total comprehensive income for the year		–	–	4,181	4,181
Appropriation to statutory reserves	*20(d)*	–	418	(418)	–
Distributions	*20(b)*	–	–	(5,273)	(5,273)
		–	418	(5,691)	(5,273)
Balance at 31 December 2012 and 1 January 2013		70,000	4,713	11,428	86,141
Changes in equity for the year ended 31 December 2013:					
Profit and total comprehensive income for the year		–	–	5,129	5,129
Appropriation to statutory reserves	*20(d)*	–	514	(514)	–
Distributions	*20(b)*	–	–	(5,069)	(5,069)
		–	514	(5,583)	(5,069)
Balance at 31 December 2013 and 1 January 2014		70,000	5,227	10,974	86,201
Changes in equity for the year ended 31 December 2014:					
Profit and total comprehensive income for the year		–	–	3,962	3,962
Appropriation to statutory reserves	*20(d)*	–	396	(396)	–
Distributions	*20(b)*	–	–	(6,989)	(6,989)
		–	396	(7,385)	(6,989)
Balance at 31 December 2014		70,000	5,623	7,551	83,174

	Section B Note	Paid-in capital RMB'000 (Section B Note 20(c))	Statutory reserves RMB'000 (Section B Note 20(d))	Retained profits RMB'000	Total equity RMB'000
Balance at 1 January 2015		70,000	5,623	7,551	83,174
Changes in equity for the three months ended 31 March 2015:					
Profit and total comprehensive income for the period		–	–	2,115	2,115
Distributions	*20(b)*	–	–	(5,544)	(5,544)
Balance at 31 March 2015		70,000	5,623	4,122	79,745
Balance at 1 January 2014		70,000	5,227	10,974	86,201
Changes in equity for the three months ended 31 March 2014:					
Profit and total comprehensive income for the period (unaudited)		–	–	1,684	1,684
Distributions (unaudited)	*20(b)*	–	–	(5,567)	(5,567)
Balance at 31 March 2014 (unaudited)		70,000	5,227	7,091	82,318

(b) Distributions

Pursuant to the resolutions passed by the board of directors of the Target Company, amounts of RMB5,273,000, RMB5,069,000 and RMB6,989,000 and RMB5,567,000 (unaudited) and RMB5,544,000 were distributed to equity holders of the Target Company for each of the years ended 31 December 2012, 2013 and 2014 and each of the three months ended 31 March 2014 (unaudited) and 2015, respectively.

(c) Paid-in capital

The paid-in capital of the Target Company at 31 December 2012, 2013 and 2014 and 31 March 2015 amounted to RMB70,000,000.

(d) Statutory reserves

Appropriation to the statutory reserves were made at a certain percentage of profit after taxation determined in accordance with relevant rules and regulations of the PRC.

(e) Distributability of reserves

At 31 December 2012, 2013 and 2014 and 31 March 2015, the amounts of reserves available for distribution to equity holders of the Target Company were RMB11,428,000, RMB10,974,000, RMB7,551,000 and RMB4,122,000, respectively.

(f) Capital management

The Target Group's primary objectives when managing capital are to safeguard the Target Group's ability to continue as a going concern, so that it can continue to provide returns for equity holders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Target Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher equity holders returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Target Group monitors its capital structure on the basis of a gearing ratio, which is net borrowings divided by net assets.

	The Target Group			
	At 31 December			At 31 March
	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bank and other loans	110,295	90,041	93,041	93,041
Less: cash at bank and on hand	(74,395)	(35,943)	(22,882)	(43,934)
Net borrowings	35,900	54,098	70,159	49,107
Net assets	85,521	84,375	83,174	79,745
Gearing ratio	42%	64%	84%	62%

	The Target Company			
	At 31 December			At 31 March
	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bank and other loans	110,295	90,041	93,041	93,041
Less: cash at bank and on hand	(63,849)	(33,746)	(22,882)	(43,934)
Net borrowings	46,446	56,295	70,159	49,107
Net assets	86,141	86,201	83,174	79,745
Gearing ratio	54%	65%	84%	62%

21 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and foreign currency risks arises in the normal course of the Target Group's business.

The Target Group's exposure to these risks and the financial risk management policies and practices used by the Target Group to manage these risks are described below.

(a) Credit risk

The Target Group's credit risk is primarily attributable to cash at bank, trade and other receivables and deposits in franchisees. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

Substantially all of the Target Group's cash at bank are deposited in reputable banks in the PRC which management assessed the credit risk to be insignificant.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are generally due within 90 days from the date of billing. Debtors with balances that are more than 90 days past due are normally requested to settle all outstanding balances before any further credit is granted. Normally, the Target Group does not obtain collateral from customers.

The Target Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Target Group has significant exposure to individual customers. The receivable from the Target Group's largest debtor accounted for 14%, 12%, 15% and 15% of total trade receivables as at 31 December 2012, 2013 and 2014 and 31 March 2015, respectively. The receivable from the Target Group's five largest debtors accounted for 28%, 31%, 28% and 32% of total trade receivables as at 31 December 2012, 2013 and 2014 and 31 March 2015, respectively.

In respect of deposits in franchisees, credit evaluations are performed on all franchisees on an ongoing basis. These evaluations focus on the franchisees' financial performance and cash flow status. The deposits in franchisees will be collected upon the expiration of the respective franchise arrangements.

The Target Group does not provide any other guarantees which would expose the Target Group or the Target Company to credit risk.

Further quantitative disclosure in respect of the Target Group's exposure to credit risk arising from deposits in franchisees, and trade and other receivables are set out in Section B Note 11 and Note 15, respectively.

(b) Liquidity risk

The Target Group is responsible for its own cash management, including the short-term investment of cash surpluses and the raising of loans to cover expected cash demands. The Target Group's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end the reporting period of the Target Group's and the Target Company's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest dates the Target Group and the Target Company can be required to pay:

The Target Group

	Contractual undiscounted cash outflow within 1 year or on demand	**Carrying amount**
	RMB'000	*RMB'000*
At 31 December 2012		
Bank and other loans	116,518	110,295
Trade and other payables measured at amortised cost	214,295	214,295
	330,813	324,590
At 31 December 2013		
Bank and other loans	95,186	90,041
Trade and other payables measured at amortised cost	182,046	182,046
	277,232	272,087

	Contractual undiscounted cash outflow within 1 year or on demand	Carrying amount
	RMB'000	*RMB'000*
At 31 December 2014		
Bank and other loans	98,241	93,041
Trade and other payables measured at amortised cost	113,853	113,853
	212,094	206,894
At 31 March 2015		
Bank and other loans	96,930	93,041
Trade and other payables measured at amortised cost	121,895	121,895
	218,825	214,936

The Target Company

	Contractual undiscounted cash outflow within 1 year or on demand	Carrying amount
	RMB'000	*RMB'000*
At 31 December 2012		
Bank and other loans	116,518	110,295
Trade and other payables measured at amortised cost	175,162	175,162
	291,680	285,457
At 31 December 2013		
Bank and other loans	95,186	90,041
Trade and other payables measured at amortised cost	141,544	141,544
	236,730	231,585

	Contractual undiscounted cash outflow within 1 year or on demand	Carrying amount
	RMB'000	*RMB'000*
At 31 December 2014		
Bank and other loans	98,241	93,041
Trade and other payables measured at amortised cost	113,853	113,853
	212,094	206,894
At 31 March 2015		
Bank and other loans	96,930	93,041
Trade and other payables measured at amortised cost	121,895	121,895
	218,825	214,936

(c) Interest rate risk

During the Track Record Period, all of the Target Group's and the Target Company's bank and other loans are drawn at fixed rates, which exposed the Target Group to fair value interest rate risk.

(i) Interest rate profile

The following table details the interest rate profile of the Target Group's and the Target Company's bank and other loans as at 31 December 2012, 2013 and 2014 and 31 March 2015.

The Target Group and the Target Company

	At 31 December						At 31 March	
	2012		2013		2014		2015	
	Effective interest rate		Effective interest rate		Effective interest rate		Effective interest rate	
	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*
Fixed rate borrowings:								
Bank and other loans	4.86%-8%	110,295	4.86%-8%	90,041	5%-6%	93,041	5%-6%	93,041

(d) Currency risk

The Target Group is exposed to currency risk primarily through payables which gives rise to cash payments that are denominated in a foreign currency (i.e. a currency other than the functional currency of the operations to which the transactions relate). During the Track Record Period, certain of the Target Group's payables are denominated in foreign currency and the entities that the transactions relate has a functional currency in RMB. Nonetheless, the management considers the Target Group is not exposed to significant currency risk in this respect, as the cash payments that are denominated in a foreign currency are insignificant.

(e) Fair value measurement

(i) Financial assets measured at fair value

Fair value hierarchy

The following table presents the fair value of the Target Group's and the Target Company's financial instruments measured at the respective reporting period end dates during the Track Record Period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs, i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

- Level 2 valuations: Fair value measured using Level 2 inputs, i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

- Level 3 valuations: Fair value measured using significant unobservable inputs.

	The Target Group and the Target Company			
	At 31 December			At 31 March
	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Level 3				
– Available-for-sale equity investment	–	–	9,900	9,900

The fair value of available-for-sale equity investment is determined based on discounted cash flows. Significant unobservable inputs include forecast operating revenue and cost, discount rate and other factors.

(ii) Fair value of financial assets and liabilities carried at other than fair value

The carrying amounts of the Target Group's and the Target Company's financial instruments carried at cost or amortised cost approximate their fair values at 31 December 2012, 2013 and 2014 and 31 March 2015 due to the relatively short term nature of these financial instruments.

22 OPERATING LEASE COMMITMENTS

At 31 December 2012, 2013 and 2014 and 31 March 2015, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Target Group and the Target Company			
	At 31 December			At 31 March
	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	–	539	479	344
After 1 year but within 2 years	–	479	–	–
	–	1,018	479	344

The Target Group leases buildings and office equipments under operating leases. The leases typically run for an initial period of 1 to 2 years, with an option to renew when all terms are renegotiated. None of the leases includes contingent rentals.

23 MATERIAL RELATED PARTY TRANSACTIONS AND BALANCES

The Target Group had the following material related party transactions during the Track Record Period and balances at the end of each reporting period end.

(a) Key management personnel remuneration

Remuneration for key management personnel of the Target Group during the Track Record Period, including amounts paid to the Target Company's directors as disclosed in Section B Note 7 and the highest paid employee of the Target Group as disclosed in Section B Note 8, is as follows:

	Years ended 31 December			Three months ended 31 March	
	2012	**2013**	**2014**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000 (unaudited)*	*RMB'000*
Short-term employee benefits	1,247	1,526	1,429	308	329
Post-employment benefits	148	164	176	40	45
	1,395	1,690	1,605	348	374

The remuneration is included in "staff costs" (Section B Note 5(b)).

(b) Material related party transactions

(i) Transactions with Beijing Tourism Group and its subsidiaries

	Note	Years ended 31 December			Three months ended 31 March	
		2012	**2013**	**2014**	**2014**	**2015**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000 (unaudited)*	*RMB'000*
Provision of tourism attraction development services		439	–	–	–	–
Interest expenses		3,898	2,077	1,911	450	420
Interest-bearing loans borrowed	*(aa)*	41,000	49,000	49,000	–	–
Repayment of interest-bearing loans	*(aa)*	50,000	69,000	49,000	–	–

Note:

(aa) During the Track Record Period, the Target Group borrowed loans from Beijing Tourism Group. These loans are unsecured, bear interest ranging from 5% to 6% per annum and are repayable within one year.

(ii) Transactions with associates of the Target Group

	Years ended 31 December			Three months ended 31 March	
	2012	2013	2014	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000 (unaudited)*	*RMB'000*
Provision of tourism attraction development services	1,646	3,913	233	–	–
Net increase in advances granted	240	13,175	–	–	–

(iii) Transactions with the Target Group's senior management

		Years ended 31 December			Three months ended 31 March	
	Note	2012	2013	2014	2014	2015
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000 (unaudited)*	*RMB'000*
Interest expenses		262	39	2	1	1
Interest-bearing loans borrowed	*(bb)*	792	12,938	–	–	–
Repayment of interest-bearing loans	*(bb)*	4,898	15,192	–	–	–
Net increase/(decrease) in advances granted		1,500	1,750	(450)	–	–

Note:

(bb) During the Track Record Period, the Target Group borrowed loans from certain directors of the Target Company. These loans are unsecured, bear interest ranging from 5.80% to 8% per annum and are repayable within one year.

(iv) Transactions entered into by the Target Company with its subsidiaries

	Years ended 31 December			Three months ended 31 March	
	2012	2013	2014	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000 (unaudited)*	*RMB'000*
Net (decrease)/increase in advances granted	(951)	25,144	(11,183)	(11,183)	–

(c) Related party balances

		The Target Group			
		At 31 December			At 31 March
	Section B	**2012**	**2013**	**2014**	**2015**
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables due from:					
– Subsidiaries of Beijing Tourism Group		1,663	1,663	–	–
– The Target Group's associates		2,996	7,026	–	–
	15	4,659	8,689	–	–
Other receivables due from:					
– The Target Group's senior management		2,300	4,050	3,600	3,600
– The Target Group's associates		767	13,942	–	–
	15	3,067	17,992	3,600	3,600
Other loans due to:					
– Beijing Tourism Group		50,000	30,000	30,000	30,000
– The Target Group's senior management		2,285	31	31	31
	17	52,285	30,031	30,031	30,031
Other payables due to:					
– Beijing Tourism Group and its subsidiaries	*18*	720	853	943	884

(d) Transactions with other state-controlled entities in the PRC

The Target Group is a state-controlled enterprise and operates in an economic regime currently dominated by entities directly or indirectly controlled by the PRC government through its government authorities, agencies, affiliations and other organisations (collectively referred as "state-controlled entities").

Apart from transactions with Beijing Tourism Group and its subsidiaries which were disclosed in Section B Note 23(b)(i) above, the Target Group also has transactions with other state-controlled entities, included but not limited to the following:

– provision and receipt of tourism-related services;

– provision of MICE-related services;

– provision of ticket-sales agency services; and

– bank deposits and borrowings.

These transactions are conducted in the ordinary course of the Target Group's business on terms comparable to those with other entities that are not state-controlled.

24 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

For the purpose of the Financial Information, the directors of the Company considered the immediate and ultimate holding company of the Target Company to be Beijing Tourism Group, a limited liability company established in the PRC. This entity does not produce financial statements available for public use.

25 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ACCOUNTING PERIOD BEGINNING ON 1 JANUARY 2015

Up to the date of issue of the Financial Information, the HKICPA has issued a number of amendments and new standards which are not yet effective for the period beginning 1 January 2015 and which have not been adopted in the Financial Information. These include the following which may be relevant to the Target Group.

	Effective for accounting periods beginning on or after
Amendments to HKAS 16 and HKAS 38, *Clarification of acceptable methods of depreciation and amortisation*	1 January 2016
Amendments to HKAS 1, *Disclosure initiative*	1 January 2016
HKFRS 15, *Revenue from contracts with customers*	1 January 2017
HKFRS 9, *Financial instruments*	1 January 2018

The Target Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that, except for HKFRS 15, *Revenue from contracts with customers*, and HKFRS 9, *Financial instruments*, for which the Target Group is still under the process in assessing the impact of its application, the adoption of the remaining standards, amendments to standards and interpretations is unlikely to have a significant impact on the Financial Information.

26 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

(a) Change of the Target Company's equity interest in Beijing Scenic

On 7 April 2015, the Target Company's equity interest in Beijing Scenic decreased from 20.2% to 19.8% after further capital injections made by the other equity holders of Beijing Scenic. The directors of the Company continue to consider Beijing Scenic as an available-for-sale equity investment of the Target Company.

(b) Acquisition of 49% equity interest in the Target Company

On 9 April 2015, the Company announced that the Company, via one of its subsidiaries, has entered into an equity transfer agreement to acquire 49% equity interest in the Target Company at a total consideration of RMB441,000,000. The acquisition is conditional upon fulfilment of various conditions pursuant to the equity transfer agreement and approval by the equity shareholders of the Company in a shareholders meeting to be held on 8 September 2015. Upon completion of the equity transfer, the Target Company will become an associate of the Company. The directors of the Company have confirmed that the Company has commenced considering the potential financial impact of the acquisition but is not yet in a position to determine the potential financial impact of the acquisition on the Group's results of operations in future periods and financial position at future dates.

(c) Distributions

On 21 May 2015, the directors of the Target Company approved to distribute RMB1,408,000 to the equity holders of the Target Company.

27 STATUTORY AUDIT

The financial statements of the companies comprising the Target Group which are subject to audit during the Track Record Period were audited by the following auditors:

Name of company	**Financial year**	**Statutory auditors** *(Note (i))*
The Target Company	For the years ended 31 December 2012, 2013 and 2014	Beijing Xinghua Certified Public Accountants ("Beijing Xinghua") 北京興華會計師事務所
Beijing Scenic	For the years ended 31 December 2012 and 2013 *(Note (ii))*	Beijing Xinghua 北京興華會計師事務所
Comfort Media	For the years ended 31 December 2012 and 2013 *(Note (ii))*	Beijing Xinghua 北京興華會計師事務所

Note (i): The English translation of the names are for reference only. The official names of these entities are in Chinese.

Note (ii): Beijing Scenic, together with its subsidiary, Comfort Media, ceased to be subsidiaries of the Target Group in 2014 (see Section B Note 12).

C SUBSEQUENT FINANCIAL STATEMENTS AND DISTRIBUTIONS

No audited financial statements have been prepared by the Target Company in respect of any period subsequent to 31 March 2015. Save as disclosed in the Financial Information, no dividend or distribution has been declared or made by any companies comprising the Group in respect of any period subsequent to 31 March 2015.

Yours faithfully
KPMG
Certified Public Accountants
Hong Kong

A. PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

1. Introduction

The unaudited pro forma financial information of Orient Victory China Holdings Limited (the "Company") and its subsidiaries (collectively the "Group"), comprising the unaudited pro forma consolidated statement of financial position as at 31 December 2014, unaudited pro forma consolidated statement of profit or loss and unaudited pro forma consolidated cash flow statement for the year ended 31 December 2014, has been prepared by the directors of the Company in accordance with paragraphs 4.29 and 14.69(4)(a)(ii) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") for the purpose of illustrating the effect of the proposed acquisition of 49% equity interest in China Comfort Travel Group Company Limited (the "Target Company") by the Group (the "Acquisition"), to provide information about how the Acquisition might have affected the Group's financial position as at 31 December 2014 and the Group's financial performance and cash flows for the year ended 31 December 2014 as if the Acquisition had taken place at 31 December 2014 and 1 January 2014 respectively.

The unaudited pro forma financial information that includes (i) unaudited pro forma consolidated statement of financial position of the Enlarged Group, (ii) unaudited pro forma consolidated statement of profit or loss of the Enlarged Group and (iii) unaudited pro forma consolidated cash flow statement of the Enlarged Group is prepared to provide information on the Enlarged Group as a result of the completion of the Acquisition on the basis of notes set out below for illustrating the effect of the Acquisition, as if the Acquisition had taken place on 31 December 2014 for the unaudited pro forma consolidated statement of financial position and at the beginning of the year ended 31 December 2014 for the unaudited pro forma consolidated statement of profit or loss and cash flow statement.

The unaudited pro forma financial information has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the financial positions, financial performance or cash flows of the Enlarged Group had the Acquisition been completed as at the specified dates or any future date.

The unaudited pro forma financial information of the Enlarged Group should be read in conjunction with the historical financial information of the Group as set out in the published annual report of the Group for the year ended 31 December 2014 and other financial information included elsewhere in this circular. The unaudited pro forma financial information of the Enlarged Group does not take into account of any trading or other transactions subsequent to the date of the financial statements included in the unaudited pro forma financial information of the Enlarged Group.

2. Unaudited pro forma consolidated statement of financial position of the Enlarged Group as at 31 December 2014

	The Group	Pro forma adjustment	Unaudited pro forma for the Enlarged Group
	HK$'000 *(Note 5(a))*	*HK$'000* *(Note 5(b))*	*HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment	452	–	452
Available-for-sale financial assets	54,509	–	54,509
Investment in an associate	–	576,781	576,781
	54,961	576,781	631,742
CURRENT ASSETS			
Inventories	28,026	–	28,026
Trade receivables	29,089	–	29,089
Prepayments, deposits and other receivables	5,215	–	5,215
Financial assets at fair value through profit or loss	11,756	–	11,756
Cash and bank balances	56,935	(55,482)	1,453
	131,021	(55,482)	75,539
CURRENT LIABILITIES			
Trade payables	34,889	–	34,889
Other payables and accruals	5,564	514,338	519,902
Interest-bearing bank and other borrowings	15,594	–	15,594
Tax payable	456	–	456
	56,503	514,338	570,841
NET CURRENT ASSETS/(LIABILITIES)	74,518	(569,820)	(495,302)
NET ASSETS	129,479	6,961	136,440
CAPITAL AND RESERVES			
Equity attributable to equity shareholders of the Company			
Share capital	45,584	–	45,584
Reserves	76,765	6,961	83,726
	122,349	6,961	129,310
Non-controlling interests	7,130	–	7,130
TOTAL EQUITY	129,479	6,961	136,440

3. Unaudited pro forma consolidated statement of profit or loss of the Enlarged Group for the year ended 31 December 2014

	The Group	Pro forma adjustments		Unaudited pro forma for the Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 5(a))	*(Note 5(b))*	*(Note 5(c))*	
REVENUE	124,668	–	–	124,668
Cost of sales	(41,521)	–	–	(41,521)
Gross profit	83,147	–	–	83,147
Other income	2,807	–	–	2,807
Fair value loss on financial assets at fair value through profit or loss	(3,222)	–	–	(3,222)
Loss on disposal of financial assets at fair value through profit or loss	(7,840)	–	–	(7,840)
Gain on disposal of subsidiaries	22,760	–	–	22,760
Selling and distribution expenses	(7,103)	–	–	(7,103)
Administrative expenses	(82,036)	–	–	(82,036)
Other operating expenses	(1,249)	–	–	(1,249)
Finance costs	(3,936)	–	–	(3,936)
Share of profits of an associate	–	6,961	1,684	8,645
PROFIT BEFORE TAX	3,328	6,961	1,684	11,973
Income tax expense	(2,786)	–	–	(2,786)
PROFIT FOR THE YEAR	542	6,961	1,684	9,187
Attributable to:				
Equity shareholders of the Company	1,029	6,961	1,684	9,674
Non-controlling interests	(487)	–	–	(487)
	542	6,961	1,684	9,187

4. Unaudited pro forma consolidated cash flow statement of the Enlarged Group for the year ended 31 December 2014

	The Group	Pro forma adjustments		Unaudited pro forma for the Enlarged Group
	HK$'000 *(Note 5(a))*	*HK$'000* *(Note 5(b))*	*HK$'000* *(Note 5(c))*	*HK$'000*
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax	3,328	6,961	1,684	11,973
Adjustments for:				
Finance costs	3,936	–	–	3,936
Interest income	(46)	–	–	(46)
Gain on disposal of items of property, plant and equipment, net	(31)	–	–	(31)
Gain on disposal of subsidiaries	(22,760)	–	–	(22,760)
Fair value loss on financial assets at fair value through profit or loss	3,222	–	–	3,222
Loss on disposal of financial assets at fair value through profit or loss	7,840	–	–	7,840
Write-back of trade and other payables	(15)	–	–	(15)
Impairment of trade receivables	1,280	–	–	1,280
Depreciation	2,014	–	–	2,014
Share of profits of an associate	–	(6,961)	(1,684)	(8,645)
	(1,232)	–	–	(1,232)
Decrease in inventories	2,867	–	–	2,867
Increase in trade receivables	(57,237)	–	–	(57,237)
Decrease in prepayments, deposits and other receivables	2,754	–	–	2,754
Increase in trade payables	88,379	–	–	88,379
Decrease in other payables and accruals	(20,359)	–	–	(20,359)
Cash generated from operations	15,172	–	–	15,172
Hong Kong profits tax paid	(1,043)	–	–	(1,043)
Net cash flows from operating activities	14,129	–	–	14,129

	The Group	Pro forma adjustments		Unaudited pro forma for the Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 5(a))	*(Note 5(b))*	*(Note 5(c))*	
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of items of property, plant and equipment	(1,638)	–	–	(1,638)
Payment for acquisition of an associate	–	(55,482)	–	(55,482)
Interest received	46	–	–	46
Proceeds from disposal of financial assets at fair value through profit or loss	18,098	–	–	18,098
Proceeds from disposal of subsidiaries	16,918	–	–	16,918
Proceeds from disposal of items of property, plant and equipment	40	–	–	40
Net cash flows from/(used in) investing activities	33,464	(55,482)	–	(22,018)
CASH FLOWS FROM FINANCING ACTIVITIES				
New bank and other borrowings	72,928	–	–	72,928
Repayment of bank loans	(33,374)	–	–	(33,374)
Advance to non-controlling shareholders of subsidiaries	(1,025)	–	–	(1,025)
Interest paid	(1,911)	–	–	(1,911)
Special dividend paid	(63,454)	–	–	(63,454)
Net cash flows used in financing activities	(26,836)	–	–	(26,836)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	20,757	(55,482)	–	(34,725)
Cash and cash equivalents at beginning of the year	36,488	–	–	36,488
Effect of foreign exchange rate changes, net	(310)	–	–	(310)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	56,935	(55,482)	–	1,453

5. Notes to the unaudited pro forma financial information of the Enlarged Group

(a) The amounts are extracted from the consolidated financial statements of the Group for the year ended 31 December 2014, as set out in the published 2014 annual report of the Company.

(b) The adjustment represents the consideration of RMB441,000,000 (equivalent to approximately HK$554,820,000) paid/payable to the Vendor (the "Consideration") and the acquisition-related cost payable of RMB11,923,000 (equivalent to approximately HK$15,000,000) for the Acquisition.

According to the Equity Transfer Agreement dated 26 March 2015 (the "Agreement"), the Group proposed to acquire 49% equity interest in the Target Company and will have significant influence over the Target Company upon completion of the Acquisition. The Acquisition is accounted for as acquisition of an associate in accordance with Hong Kong Accounting Standard ("HKAS") 28, *Investments in Associates and Joint Ventures*.

	Notes	*RMB'000*	*HK$'000*
Consideration comprised:			
– cash payment	*(i)*	44,100	55,482
– consideration payable	*(i)*	396,900	499,338
– acquisition-related costs	*(i)*	11,923	15,000
Total consideration		452,923	569,820
Less: The Group's 49% share of the fair value of identifiable net assets of the Target Group as at the acquisition date	*(ii)*	458,455	576,781
Gain on the Acquisition	*(iii)*	(5,532)	(6,961)

(i) Pursuant to the Agreement, 10% of the Consideration, equivalent to approximately HK$55,482,000, shall be paid as deposit within five business days from the signing of the Agreement; the remaining 90% of the Consideration, equivalent to approximately HK$499,338,000, shall be paid within seven business days after the fulfillment of the conditions precedent to the Agreement.

The Directors plan to settle the remaining consideration of the Acquisition via various future financing, including potential borrowing of HK$540,000,000 interest-free loan from a connected party, the issue of Perpetual Convertible Securities of HK$170,000,000 and the Subscription of 372,466,100 Subscription Shares at the Subscription Price of HK$0.74 per Subscription Share by the Subscribers. The financing arrangements are in process as at the date of this Circular. No adjustment has been made to the unaudited pro forma financial information for the effect of these financing arrangements.

The Directors estimated that the acquisition-related costs (including fee to legal advisers, financial adviser, reporting accountants, valuer, printer and other expenses) shall be approximately HK$15,000,000.

Actual consideration of the Acquisition may be different from the amounts used in this unaudited pro forma financial information of the Enlarged Group because as stipulated in the Agreement, the amount of the Consideration is subject to adjustments upon fulfillment of various conditions.

(ii) The Group's 49% share of the fair value of identifiable net assets of the Target Group represents:

	RMB'000	*HK$'000*
Net assets value of the Target Group before the Acquisition	83,174	104,641
Intangible assets:		
– Trademark	102,593	129,072
– Distribution network	904,759	1,138,277
Fair value adjustment on the Target Group's fixed assets	129,245	162,603
Effect of deferred tax liabilities estimated at the tax rate of 25%	(284,149)	(357,488)
Total fair value of identifiable net assets of the Target Group	935,622	1,177,105
The Group's 49% share of the fair value of identifiable net assets of the Target Group as at the acquisition date	458,455	576,781

The Group's 49% share of the fair value of identifiable net assets of the Target Group as at the acquisition date is estimated by reference to the valuation reports issued by Flagship Consulting (Hong Kong) Limited ("Flagship Consulting") and Zhong Huan Song De (Beijing) Assets Evaluation Company Limited ("Zhonghuansongde"). The fair values of the Target Group's intangible assets are determined using the Relief-from-Royalty Method under the income approach and the Replacement Cost Method under the cost approach and the fair values of the Target Group's fixed assets are determined using the Market Approach, which Flagship Consulting, Zhonghuansongde and the Directors consider to be the most suitable valuation methodology.

The Target Group's franchisees pay a fixed lump sum fee to the Target Company for the use of the Target Company's Trademark. Fair value of the Trademark is estimated by reference to the valuation report issued by Flagship Consulting. The fair value is determined using the Relief-from-Royalty Method under the income approach.

Distribution network refers to the distribution network under the Trademark, it covers all the franchisees and their branches operated. Fair value of the distribution network is estimated by reference to the valuation report issued by Flagship Consulting, the fair value is determined using the Replacement Cost Method under the cost approach.

By reference to the valuation reports issued by Flagship Consulting, considering the Target Group has been operating for more than 30 years and well recognised as a renowned national travel agent group in China, the economic useful lives of the Trademark and the distribution network have been estimated as indefinite.

The fair value adjustment on the Target Group's fixed assets refers to the assets valuation appreciation on the office buildings located in Beijing owned by the Target Group. Fair value of the office buildings is estimated by reference to the valuation report issued by Zhonghuansongde. The fair value is determined using the Market Approach.

The amounts of fair values of the identifiable assets and liabilities of the Target Group are subject to change upon the completion of the valuation of the fair values of the identifiable assets and liabilities of the Target Group on the date of completion of the Acquisition. Consequently, the carrying amount of the investment in the associate and the share of profit or loss of the associate for subsequent periods, will likely result in different amounts than those stated in this unaudited pro forma financial information.

(iii) According to HKAS 28, on acquisition of the investment in an associate, any excess of the investor's share in the fair value of identifiable net assets over the cost of the investment is included in the investor's share of the investee's profit or loss in the period in which the investment is acquired. The adjustment for gain on the Acquisition is not expected to have a continuing effect to the Enlarged Group.

According to HKAS 28, HKAS 39, *Financial Instruments: Recognition and Measurement*, and HKAS 36, *Impairment of Assets*, after initial recognition, the entire carrying amount of the investment in an associate is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount, whenever there is indicator that the investment in an associate may be impaired.

For the purpose of the unaudited pro forma financial information, the Company has ensured the steps taken on the assessment of impairment performed in accordance with HKAS 36. The Directors have assessed the impairment of the investment in an associate by considering whether the carrying amount of the investment in an associate will exceed its recoverable amount, being higher of value in use and fair value less costs to sell, as at 31 December 2014 for the unaudited pro forma consolidated statement of financial position as if the Acquisition had been completed on 31 December 2014 and for the unaudited pro forma consolidated statement of profit or loss as if the Acquisition had been completed on 1 January 2014. Should the recoverable amount is below the carrying amount of the investment in an associate, an impairment loss will be recognised.

The recoverable amount of the investment in an associate was determined with reference to the valuation report dated 21 August 2015 on the fair value of the 49% equity interest in the Target Group using the market approach prepared by an independent valuer, Flagship Consulting. Since the recoverable amount of the investment in an associate is higher than its carrying amount, the Company concludes there is no impairment on the investment in an associate.

The Company will adopt consistent accounting policies, valuation method and principal assumptions as used in the unaudited pro forma financial information to assess the impairment of the investment in the Target Company in the future financial periods ends.

In connection with the unaudited pro forma financial information as set out in page III-2 to III-5, our reporting accountants have conducted their work in accordance with Hong Kong Standard on Assurance Engagements (HKSAE) 3420 "Assurance Engagements to Report on the Compilation of Unaudited Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA and their report is set forth in page III-10 to III-12. In reporting on the unaudited pro forma financial information, our reporting accountants considered that the impairment assessment made by the Directors has been properly compiled on the basis stated in the unaudited pro forma financial information of the Enlarged Group and the basis is consistent with the accounting policies adopted by the Company.

(c) The adjustment represents share of profit of the associate relating to the Acquisition of RMB1,338,000 (equivalent to approximately HK$1,684,000) as if the Acquisition has taken place at 1 January 2014. Details of the share of profit of an associate are as follows:

	Note	*RMB'000*	*HK$'000*
Profit attributable to equity holders of the Target Group		5,962	7,501
Effect from the depreciation on the fair value adjustment on fixed assets	*(i)*	(4,308)	(5,420)
Effect of deferred tax liabilities estimated at the tax rate of 25%		1,077	1,355
Profit attributable to equity holders of the Target Group after fair value adjustment		2,731	3,436
The Group's % of equity interest in the Target Company		49%	49%
Share of profit of an associate		1,338	1,684

(i) Adjustment is made to the profit attributable to equity holders of the Target Group. Due to the fair value adjustment on fixed assets, the additional depreciation expense is estimated as HK$5,420,000 based on an estimate of average remaining useful life of 30 years, which was estimated by reference to the durable lives of steel concrete structure buildings from construction perspective and the Company's management estimated useful lives of these office buildings. In accordance with the accounting policy of the Company, depreciation is calculated on the straight-line basis to write off the cost of each item of fixed assets over its estimated useful life. Useful lives will be reviewed, and adjusted if appropriate, at least at each financial year end.

The adjustments for share of profit or loss of the associate relating to the Acquisition is expected to have a continuing effect to the Enlarged Group.

(d) No adjustment has been made to the unaudited pro forma financial information to reflect any trading results or other transactions of the Enlarged Group entered into subsequent to 31 December 2014.

(e) The Directors assume that the exchange rate of HKD against RMB used in the unaudited pro forma financial information of the Enlarged Group was RMB1.00 to HK$1.2581. No representation is made that RMB amounts have been, could have been or could be converted into HK$, or vice versa, at that rate or at any other rates or at all.

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.

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

21 August 2015

TO THE DIRECTORS OF ORIENT VICTORY CHINA HOLDINGS LIMITED

We have completed our assurance engagement to report on the compilation of pro forma financial information of Orient Victory China Holdings 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 2014, the unaudited pro forma consolidated statement of profit or loss and unaudited pro forma consolidated cash flow statement for the year ended 31 December 2014 and related notes as set out in Part A of Appendix III to the circular dated 21 August 2015 (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 acquisition of 49% equity interest in China Comfort Travel Group Company Limited (the "Proposed Acquisition") on the Group's financial position as at 31 December 2014 and the Group's financial performance and cash flows for the year ended 31 December 2014 as if the Proposed Acquisition had taken place at 31 December 2014 and 1 January 2014, respectively. As part of this process, information about the Group's financial position as at 31 December 2014 and the Group's financial performance and cash flows for the year ended 31 December 2014 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 (the "HKICPA").

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 comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the pro forma financial information in accordance with paragraph 4.29 of the Listing Rules, and with reference to AG 7 issued by the HKICPA.

For 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 2014 or 1 January 2014 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 Accountants
Hong Kong

Set out below are the management discussion and analysis of the Group as extracted from the annual reports of the Company for each of the three financial years ended 31 December 2014 (the "Management Discussion and Analysis"). Terms used below shall have the same meanings as those defined in the Management Discussion and Analysis.

For the year ended 31 December 2014

BUSINESS REVIEW

Travel Related and Other Services

The Group's travel related and other services segment mainly comprises the businesses which involve the sale of air tickets and other travel-related services principally provided to corporate clients ("Corporate Travel Business") and provided to travel agents ("Wholesale Travel Business"). It recorded 36.3% decrease in revenue to HK$72.99 million and 55.4% decrease in operating profit to HK$16.24 million for the year ended 31 December 2014 as compared to the figure for the year ended 31 December 2013.

The decrease in revenue by HK$41.53 million as compared to the year ended 31 December 2013 is mainly attributable to the conditional sale by the Company of the entire issued share capital of South China (BVI) Limited, which would hold South China (BVI) Limited and its subsidiaries and associated companies after the reorganisation of the Group (the "Disposal Group") as set out in the Company's circular dated 12 August 2014 (the "Disposal") which completed on 4 September 2014. For the year ended 31 December 2014, the Group recorded the revenue and profit of the Corporate Travel Business for the period from 1 January 2014 to 31 December 2014 and the revenue and profit of the Wholesale Travel Business for the period from 1 January 2014 to the date of completion of the Disposal.

The relatively weak global economic environment, with fiscal tightening by the Central People's Government of the PRC, corporate clients reducing their travel costs and remaining cautious in their business travel spending, and political events unfolding in Thailand, one of the most popular tourist destinations for Hong Kong people, have affected the travel industry negatively.

Trading and Retail of Jewellery

The Group's trading and retail of jewellery segment includes the distribution and sale of jewellery products such as precious stones, jade, gold and silver in the Group's flagship store and counters of large department stores in Nanjing. During the year ended 31 December 2014, the revenue recorded a drop, since the high demand for gold products driven by the slide of the international gold price in the year of 2013 was not sustained in 2014.

For the year ended 31 December 2014, the segment recorded 39.9% decrease in revenue to HK$51.68 million (2013: HK$86.04 million) and the segment result was HK$1.99 million (2013: HK$2.06 million). The revenue decreased by HK$34.36 million for the year ended 31 December 2014 as compared to the year ended 31 December 2013. The drop in revenue in 2014 was partially compensated by the enhancement in gross profit margin. As such, the Group's trading and retail of jewellery segment recorded a slight drop in business performance for the year ended 31 December 2014.

FINANCIAL ANALYSIS

1. Operating Performance

On 4 September 2014, completion of the Disposal took place and the Disposal Group, which was engaged in, among other things, the Wholesale Travel Business, ceased to be subsidiaries of the Company. Therefore, the Group only recorded the revenue and profit of the Disposal Group for the period from 1 January 2014 to the date of completion of the Disposal. The Group recorded revenue of HK$124.67 million and profit attributable to owners of the Company was HK$1.03 million for the year ended 31 December 2014, representing a decrease by 37.8% and 95.3% respectively as compared to the year for ended 31 December 2013.

The substantial decrease in profit for the year ended 31 December 2014 was mainly attributable to:

(i) the disposal loss and fair value loss on financial assets at fair value through profit or loss in the amount of approximately HK$7.84 million and HK$3.22 million, respectively for the year ended 31 December 2014 as opposed to the fair value gain in the amount of approximately HK$11.32 million for the year ended 31 December 2013;

(ii) the non-recurring expenses of professional fees of approximately HK$2.5 million in total relating to the transactions as disclosed in the Company's circular dated 12 August 2014 and announcement dated 7 December 2014 respectively;

(iii) the non-recurring legal expenses incurred by the Disposal Group, which ceased to be subsidiaries of the Company with effect from completion of the disposal thereof on 4 September 2014, in respect of a series of litigations against Sinosoft Technology Group Limited and other parties as more particularly set out in the Company's announcements dated 20 June 2013, 26 June 2013, 24 July 2013, 30 July 2013, 20 August 2013, 2 September 2013, 3 December 2013 and 12 May 2014, respectively;

(iv) a decrease in the revenue and profit from the Corporate Travel Business of the Group for the year ended 31 December 2014 as compared to that for the year ended 31 December 2013 due to the relatively weak global economic environment; and

(v) the above were partly set off by the gain on disposal of the Disposal Group at about HK$22.76 million.

2. Asset Quality

The Group's assets mainly include cash and bank balances, available-for-sale financial assets, trade receivables, inventories and financial assets at fair value through profit or loss.

The balance of cash and bank balances is HK$56.94 million, of which HK$1.49 million were denominated in RMB.

Available-for-sale financial assets represent approximately 64,128,416 shares of South China (China) Limited ("SCC") (stock code:413) held by the Group.

The balances of trade receivables of HK$29.09 million are due from Four Seas Tours Limited's corporate customers, which are mostly well-known and larger enterprises. The ageing of HK$25.84 million, which represents about 88.8% of total trade receivables, is within 90 days.

The balance of inventories is HK$28.03 million, of which it all belongs to the raw materials and finished goods of jewellery products. Out of HK$11.26 million were pledged as security for the Group's bank loan.

Financial assets at fair value through profit or loss refer to 87,081,856 shares of South China Land Limited ("SCL") (stock code: 8155) held by the Group. The share price of SCL as at the year-end date is HK$0.135 per share. The fair values loss of financial assets at fair value through profit or loss is approximately HK$3.22 million during the year.

3. Liquidity Structure

The Group's liabilities mainly include trade payables and interest-bearing bank and other borrowings. The balances of trade payables amount to HK$34.89 million. The ageing of HK$34.76 million, which represents 99.6% of total trade payables, is within 90 days. The balances of bank and other borrowings are HK$15.59 million, among which HK$7.56 million are bank borrowings and the remaining HK$8.03 million are other borrowings.

LIQUIDITY AND FINANCIAL RESOURCES

During the year ended 31 December 2014, the Group's operations and investments continued to be mainly financed by internal resources and bank and other borrowings. As at 31 December 2014, the Group's cash and cash equivalents amounted to approximately HK$56.94 million, which included cash and bank balances of the Group denominated in RMB amounted to approximately HK$1.49 million.

As at 31 December 2014, the Group's interest-bearing bank borrowings were approximately HK$7.57 million. The bank borrowings were secured and the range of effective interest rate on bank borrowings for the year ended 31 December 2014 was 6.4%-7.2% per annum. As at 31 December 2014, the Group's other borrowings were approximately HK$8.03 million. The other borrowings were unsecured and the interest rate on other borrowings for the year ended 31 December 2014 was 7% per annum. All bank and other borrowings were denominated in RMB.

As at 31 December 2014, the Group had a current ratio of 2.32. The net debt to total assets ratio was not applicable as the Group was in net cash position for both 2013 and 2014.

CAPITAL STRUCTURE

The Group had no debt securities or other capital instruments as at 31 December 2014 and up to the date of 2014 Annual Report. As compared to the year ended 31 December 2013, there was no material change in the Group's capital structure. The capital structure of the Group consists of net debts (which include advances from shareholders and bank and other borrowings) and equity attributable to owners of the Company (comprising share capital and reserves).

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

As at 31 December 2014, the Group had no significant exposure to fluctuations in foreign exchange rates and any related hedges.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATES

On 30 April 2014, the Company entered into a disposal agreement (as amended by a supplemental agreement dated 24 June 2014) with Tremendous Success Holdings Limited ("Tremendous Success"), which was wholly owned by Mr. Ng Hung Sang, a former Director and substantial Shareholder, for the disposal of the entire issued share capital of South China (BVI) Limited at a consideration of approximately HK$95.5 million. Mr. Ng ceased to be a Director on 3 October 2014.

Under this arrangement, Tremendous Success became the owner of the Disposal Group (including, among other interests, the entire issued share capital of Hong Kong Four Seas Tours Limited which was engaged in the Wholesale Travel Business, 35% of the issued share capital of Four Seas Tours Limited and 15% of the issued share capital of King Link Investments Limited). Completion of the Disposal took place on 4 September 2014, and the Disposal Group ceased to be subsidiaries of the Company.

PLEDGES OF ASSETS, CONTINGENT LIABILITIES AND COMMITMENTS

As at 31 December 2014, a significant portion of the borrowings was for normal trading purposes with the level of borrowings depending on the level of trading activities. Certain of the inventories of the Group totalling approximately HK$11.3 million and certain of other receivables of the Group totalling approximately HK$0.8 million were pledged to secure certain of the Group's bank borrowings of approximately HK$7.6 million. As at 31 December, the Group did not have any significant contingent liabilities and capital commitment as at 31 December 2014.

INVESTMENTS

The Group held some remaining shares and warrants of SCC after distribution in specie of SCC shares to the Shareholders in June 2009. In July 2009, the Group exercised the warrants of SCC held which were then converted to SCC shares. In August 2009, SCC paid a special dividend for its entire interest in SCL to its shareholders by means of distribution in specie. During the year, the Group recognized a disposal loss and fair value loss on financial assets at fair value through profit or loss in the amount of approximately HK$7.84 million and HK$3.22 million respectively for SCL shares in the Consolidated Statement of Profit or Loss and shares of SCC recorded a fair value gain of HK$6.42 million on available-for-sales financial assets in the Consolidated Statement of Comprehensive Income.

NUMBER AND REMUNERATION OF EMPLOYEES

As at 31 December 2014, the total number of employees of the Group was 139 (2013: 352). The employees are remunerated based on their work performance, professional experience and prevailing industry practices.

In addition to salary, other fringe benefits such as provident fund are offered to all employees of the Group. Performance of the employees is normally reviewed on an annual basis with adjustment compatible to the market. Individual employees may also receive a discretionary bonus at the end of each year based on performance. Employees may also be granted share options under the share option schemes adopted by the Company.

PROSPECTS

Travel Related and Other Services

For the Group's Corporate Travel Business, the global aviation market benefits from the drop in oil price and the Group expects that the Corporate Travel Business will be able to enjoy steady growth. The Company will also deploy resources in marketing, promotion and technology with an aim to enhancing its market position in the corporate travel market, including the MICE sector (Meetings, Incentives, Conferences and Exhibitions) and hotel booking business as appropriate. The Group will continue to focus on internal training. Further, in order to offer better quality services to customers and to benefit from market growth potential, the Group will join hands with the Group's Hong Kong and overseas partners in the travel industry to roll out an internet booking platform for corporate travels.

Trading and Retail of Jewellery

For the Group's jewellery business, the Group intends to cope with the gloomy outlook of the bullion and jewellery markets by taking the following initiatives: firstly, the Group will step up its marketing efforts so as to grasp a larger market share; secondly, the Group intends to increase the turnover of bullion, increase the variety of its jewellery products, especially those with innovative designs, and follow the policy of small profits and quick turnover so as to increase sales revenue.

New Business

The Group's management has identified the health care market in the PRC as a possible new focus of development. The Group intends to tap into the business of health care services related to hospitals, treatments, rehabilitation and senior care through acquisition of a suitable target company to be identified, self-development and/or business co-operation. Health-check and monitoring, health assessment and consultancy, and health improvement and protection operations may also be set up and launched should suitable opportunities arise. All these initiatives are intended to enable the Company to envisage a gradual development of business in the health care market in China.

For the year ended 31 December 2013

BUSINESS REVIEW

Travel Related and Other Services

The travel related and other services segment mainly comprises Four Seas Travel. The segment recorded 11.1% increase in revenue to HK$114.5 million and 36.3% increase in operating profit to HK$36.4 million for the year ended 31 December 2013 as compared to the corresponding year in 2012.

For the year ended 31 December 2013, revenue from Four Seas Travel amounted to HK$107.5 million, representing 9.8% increase as compared to the corresponding year in 2012. The reported operating profit increased by 31.8% from HK$27.5 million for the year ended 31 December 2012 to HK$36.3 million for the year ended 31 December 2013. The increase in revenue by HK$9.5 million as compared to 2012 is attributable to the growth in air-ticket wholesale and corporate travel businesses. Year 2013 continued to be a year of economic uncertainties, with fiscal tightening by The Central People's Government of the PRC corporate clients reducing their travel costs and remaining cautious in their business travel spending, and political events unfolding in Thailand, one of the most popular tourist destinations for Hong Kong people. All of these have impacted the travel industry negatively. Despite the impact, Four Seas Travel's business continued to grow steadily in 2013.

To cope with the Group's strategic move, Four Seas Travel has extended the Group's reach to the Mainland China since 2007 and has a total of six branches in Shenzhen, Guangzhou, Chongqing, Nanjing, Shanghai and Beijing.

During the year, the Mainland China market has recorded a negative growth in revenue as strong fiscal tightening policies by The Central People's Government of the PRC have come into effect. Revenue from the Mainland China market, which accounted for approximately 21.4% (2012: 24.5%) of the total revenue of Four Seas Travel, decreased by 4.1% to HK$23.0 million for the year ended 31 December 2013 as compared to the corresponding year in 2012. Measures have been taken place to minimise the adverse effects on the Group's overall business and more measures have been put in place to tighten the Group's credit policies in order to lower the Group's risk exposure. All these place Four Seas Travel in a better position to monitor potential risks in the Mainland China. Although Four Seas Travel was facing the pressure of changes in government economic policies and rampant cost inflation in the Mainland China, management is confident that there would be a gradual improvement in the operating results in the Mainland China market.

Trading and Manufacturing of Jewellery

The trading and manufacturing of jewellery segment includes the distribution and sale of jewellery products such as precious stones, jade, gold and silver in the Group's flagship store and counters of large department stores in Nanjing. During the year ended 31 December 2013, the demand for gold products was boosted by the slide of the international gold price and the revenue recorded a significant growth despite that the growth was diluted by the decrease in gross margin. The segment recorded 40.9% increase in revenue to HK$86.0 million (2012: HK$61.1 million) and profit from operations was HK$2.1 million (2012: HK$3.3 million). The drop in profit from operations was largely attributable to the decrease in gross margin ratio which outweighed the contribution from revenue growth. The gross margin ratio decreased from 21.4% for the year ended 31 December 2012 to 14.1% for the year ended 31 December 2013. As a result, the trading and manufacturing of jewellery segment recorded a slight drop in business performance.

As published in the Company's announcements dated 20 June 2013, 26 June 2013, 24 July 2013, 30 July 2013, 20 August 2013, 2 September 2013 and 4 December 2013, certain legal proceedings in relation to Nanjing South China Skytech Technology Co., Ltd., and the joint venture partner and certain members of the former management team of the same are in progress.

LIQUIDITY AND FINANCIAL RESOURCES

During the year ended 31 December 2013, the Group's operations and investments continued to be mainly financed by internal resources and bank and other borrowings. As at 31 December 2013, the Group's cash and cash equivalent and pledged bank deposits amounted to approximately HK$34.23 million and HK$3.25 million respectively, of which included cash and bank balances of the Group denominated in RMB amounted to approximately HK$20.85 million.

As at 31 December 2013, the Group's secured and unsecured interest-bearing bank borrowings were approximately HK$18.03 million and HK$10.99 million, respectively. The range of effective interest rate on the secured and unsecured bank borrowings for the year ended 31 December 2013 was 2.2%-7.2% and 2.2%-5.8% per annum, respectively. As at 31 December 2013, the Group's other borrowings were approximately HK$8.40 million. The other borrowings were unsecured and the interest rate on other borrowings for the year ended 31 December 2013 was 7% per annum. Except for bank borrowings with an aggregate amount of approximately HK$7.67 million and other borrowings of approximately HK$8.40 million which were denominated in RMB, all other borrowings were in HK$.

As at 31 December 2013, the Group had a current ratio of 1.76 and a gearing ratio of 1.5%. The gearing ratio was computed by the Group's net debt divided by capital plus net debt.

CAPITAL STRUCTURE

The Group had no debt securities or other capital instruments as at 31 December 2013 and up to the date of 2013 Annual Report. As compared to the year ended 31 December 2012, there was no material change in the Group's capital structure. The capital structure of the Group consists of net debts (which include advances from shareholders and bank and other borrowings) and equity attributable to owners of the Company (comprising share capital and reserves).

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

As at 31 December 2013, the Group had no significant exposure to fluctuations in foreign exchange rates and any related hedges.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATES

During the year ended 31 December 2013, the Group did not have any material acquisition and disposal of subsidiaries and associates.

PLEDGES OF ASSETS, CONTINGENT LIABILITIES AND COMMITMENTS

As at 31 December 2013, a significant portion of the borrowings was for normal trading purposes with the level of borrowings depending on the level of trading and investing activities. As at 31 December 2013, the Group's bank borrowings of approximately HK$18.02 million were secured by: (i) the pledge of the Group's time deposits of approximately HK$3.25 million; (ii) the pledge of the Group's inventories of approximately HK$7.67 million; and (iii) the pledge of the Group's trade and other receivables of approximately HK$12.95 million. The Group had no significant contingent liabilities as at 31 December 2013.

The Group had capital commitments contracted, but not provided for in relation to acquisition of land in Mainland China of approximately HK$3.62 million at the end of the reporting period.

INVESTMENTS

The Group held some remaining shares and warrants of South China (China) Limited ("SCC") after distribution in specie of SCC shares to the Company's shareholders in June 2009. In July 2009, the Group exercised the SCC warrants held which were then converted to SCC shares. In August 2009, SCC paid a special dividend for its entire interest in South China Land Limited ("SCL") to its shareholders by means of distribution in specie. During the year, shares of SCL recorded a fair value gain of HK$11.2 million on financial assets at fair value through profit or loss in the Consolidated Statement of Profit or Loss and shares of SCC recorded a fair value gain of HK$3.8 million on available-for-sales financial assets in the Consolidated Statement of Comprehensive Income.

EMPLOYEES

As at 31 December 2013, the total number of employees of the Group was 352 (2012: 381). Employees' cost (including directors' emoluments) amounted to approximately HK$62.9 million for the year (2012: approximately HK$60.1 million).

In addition to salary, other fringe benefits such as medical subsidies, provident fund and subsidized training programs are offered to all employees of the Group. Performance of the employees is normally reviewed on an annual basis with adjustment compatible to the market. Individual employees may also receive a discretionary bonus at the end of each year based on performance. Employees may also be granted share options under the share option schemes adopted by the Company.

PROSPECTS

Travel Related and Other Services

Four Seas Travel continued to allocate more resources to promotion and marketing to expand and diversify its product types such as MICE (Meetings, Incentives, Conferences and Exhibitions), hotel booking and cruise products in order to widen the Group's client base in both Hong Kong and the Mainland China markets. In addition, the Group continued to focus on internal training and to develop the Group's online and mobile booking platform so as to provide high-quality services with diversified distribution channels to the Group's customers and to capture potential market growth. The Group would leverage on the leading position in Hong Kong air-ticket wholesale market for future growth of the Group. The Group continued to expand the Group's market share to maintain the position as one of the top air-ticket distributors in Hong Kong. Meanwhile, Four Seas Travel continued to leverage on its competitive advantage and success in Hong Kong to the Mainland China market. The Group's ultimate strategy is to become one of the major players in the Mainland China market.

Trading and Manufacturing of Jewellery

The Group continuously looked for high potential points of sale in Nanjing and the surrounding cities. In addition, the Group would strengthen and consolidate the scale of sales and profitability of the existing points of sale in the coming years in order to achieve continuity in revenue growth and profit improvement.

For the year ended 31 December 2012

BUSINESS REVIEW

Travel Related and Other Services

The travel related and other services segment mainly comprises Four Seas Travel. The segment recorded a 9.3% increase in revenue to HK$103.1 million and a 0.8% increase in operating profit to HK$26.7 million for the year ended 31 December 2012 as compared to the corresponding year.

Travel related and other services included revenue from Four Seas Travel amounting to HK$97.9 million and reported operating profit of HK$27.5 million, representing a 10.0% and 2.3% increase respectively as compared to the corresponding year in 2011. 2012 continued to be a year of economic turbulences, corporate clients tightened their cost and remained cautious in their business travel spending. Although facing the impact of a weak economic environment, Hong Kong business remained steady in 2012 and recorded a 2.9% growth in revenue as compared to 2011. To cope with the Group's strategic move, Four Seas Travel had extended the Group's reach to Mainland China since 2007 and already has six branches in Shenzhen, Guangzhou, Chongqing, Nanjing, Shanghai and Beijing. During the year, Mainland China market achieved a significant growth in both air-tickets wholesale and corporate travel business despite the Mainland China market is still at its development stage. Net revenue from Mainland China market increased by 52.4% to HK$19.5 million in 2012 and accounted for approximately 19.9% (2011: 14.4%) of the total net revenue of Four Seas Travel. The gross revenue from Mainland China market increased from HK$558.1 million in 2011 to HK$835.2 million in 2012, representing a 49.7% growth as compared to the corresponding year. The operating result of Mainland China market recorded a loss of HK$0.9 million (2011: HK$1.5 million), representing a 42.2% improvement as compared to the corresponding year in 2011. Four Seas Travel was facing the pressure of salaries increment in the year of 2012, with the expectation that the salaries would stabilize and the sound effects of promotion and marketing, management is confident that there would be a gradual improvement in operating result in Mainland China market.

Trading and Manufacturing

The trading and manufacturing segment included the distribution and sale of jewellery products such as precious stones, jade, gold and silver in the Group's flagship store in Nanjing and counters of large department stores in Nanjing and Maanshan. The segment recorded a 5.4% increase in revenue to HK$61.1 million (2011: HK$58.0 million) and 2.2% increase in profit from operations to HK$3.3 million (2011: HK$3.2 million). The segment's performance remained steady in 2012.

LIQUIDITY AND FINANCIAL RESOURCES

During the year ended 31 December 2012, the Group's operations and investments continued to be mainly financed by internal resources and bank and other borrowings. As at 31 December 2012, the Group's cash and cash equivalent and pledged bank deposits amounted to approximately HK$31.85 million and HK$15.21 million respectively, of which included cash and bank balances of the Group denominated in RMB amounted to approximately HK$20.58 million.

As at 31 December 2012, the Group's secured and unsecured interest-bearing bank borrowings were approximately HK$26.01 million and HK$29.23 million, respectively. The range of effective interest rate on secured and unsecured bank borrowings for the year ended 31 December 2012 was 2.2%-8.2% and 2.8%-6.9% per annum, respectively. As at 31 December 2012, the Group's other borrowings were approximately HK$7.51 million. The other borrowings were unsecured and the interest rate on other borrowings for the year ended 31 December 2012 was 7% per annum. Except for bank borrowings with an aggregate amount of approximately HK$9.86 million and other borrowings of approximately HK$7.51 million which were denominated in RMB, all other borrowings were in HK$.

As at 31 December 2012, the Group had a current ratio of 1.59 and a gearing ratio of 14.3%. The gearing ratio was computed by the Group's net debt divided by capital plus net debt.

CAPITAL STRUCTURE

The Group had no debt securities or other capital instruments as at 31 December 2012 and up to the date of the annual report of the Company for the year ended 31 December 2012 ("2012 Annual Report"). As compared to the year ended 31 December 2012, there was no material change in the Group's capital structure. The capital structure of the Group consists of net debts (which mainly include advances from shareholders and bank and other borrowings) and equity attributable to owners of the Company (comprising share capital and reserves).

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

As at 31 December 2012, the Group had no significant exposure to fluctuations in foreign exchange rates and any related hedges.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATES

During the year ended 31 December 2012, the Group did not have any material acquisition and disposal of subsidiaries and associates.

PLEDGES OF ASSETS, CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

As at 31 December 2012, a significant portion of the borrowings was for normal trading purposes with the level of borrowings depending on the level of trading and investing activities. As at 31 December 2012, the Group's bank borrowings of approximately 26.01 million were secured by: (i) the pledge of the Group's time deposits of approximately HK$15.21 million; (ii) the pledge of the Group's inventories of approximately HK$8.63 million; and (iii) the pledge of the Group's trade receivables of approximately HK$20.45 million. The Group had no significant contingent liabilities as at 31 December 2012.

The Group had capital commitments contracted, but not provided for in relation to acquisition of land in Mainland China of approximately HK$3.49 million at the end of the reporting period.

INVESTMENTS

The Group held some remaining shares and warrants of South China (China) Limited ("SCC") after distribution in specie of SCC shares to the Company's shareholders in June 2009. In July 2009, the Group exercised the SCC warrants held which were then converted to SCC shares. In August 2009, SCC paid a special dividend for its entire interest in South China Land Limited ("SCL") to its shareholders by means of distribution in specie. During the year, shares of SCL recorded a fair value gain of HK$6.2 million on financial assets at fair value through profit or loss in the consolidated income statement and shares of SCC recorded a fair value gain of HK$15.4 million on available-for-sales financial assets in the consolidated statement of comprehensive income.

EMPLOYEES

As at 31 December 2012, the total number of employees of the Group was 381 (2011: 381). Employees' cost (including directors' emoluments) for continuing operations amounted to approximately HK$60.1 million for the year (2011: approximately HK$56.4 million). In addition to salary, other fringe benefits such as medical subsidies, provident fund and subsidized training programs are offered to all employees of the Group. Performance of the employees is normally reviewed on an annual basis with adjustment compatible to the market. Individual employees may also receive a discretionary bonus at the end of each year based on performance. Employees may also be granted share options under the share option scheme adopted by the Company.

PROSPECTS

Travel Related and Other Services

Four Seas Travel continued to allocate resources in promotion and marketing to expand and diversify its business product types such as MICE (Meetings, Incentives, Conferences and Exhibitions), hotel booking and cruise products in order to widen the Group's client base in both Hong Kong and Mainland China markets. In addition, the Company would simultaneously emphasize on internal training and continue to develop the Group's online booking platform so as to provide high quality or even better services to the Group's customers and capture potential market growth. The Group's leading position in the Hong Kong air-tickets wholesale market gives us strategic advantages in expanding the Group's leisure, MICE and corporate travel business, which have all seen steady growth and increases in the Group's market position in the past few years. In meanwhile, Four Seas Travel continues to leverage on the Group's competitive advantage and success in Hong Kong to Mainland China market. The Group's ultimate strategy is to become one of major players in Mainland China market.

Trading and Manufacturing

The company continuously looked for high potential point-of-sale in Nanjing and surrounding cities. In addition, the Company would strengthen and consolidate the scale of sale and profitability of the existing point-of-sale in 2013 in order to achieve continuity in revenue growth and profit improvement.

Set out below is the management discussion and analysis of the Target Group for the three years ended 31 December 2014 and the three months ended 31 March 2014 and 2015 based on the financial information of the Target Group as set out in Appendix II to this circular.

For the three months ended 31 March 2015

FINANCIAL REVIEW OF OPERATIONS

Revenue

The Target Group generated turnover of approximately RMB165.2 million for the three months ended 31 March 2015, representing a decrease of approximately 5.3% from RMB174.4 million in the previous period. The decrease in turnover was mainly due to the decrease in revenue from the provision of MICE services of RMB55.8 million as a result of the continued decreased demand, and was partially offset by the increase in revenue from the provision of tourism-related services of RMB46.5 million mainly due to the increased demand in both inbound and outbound tours in the PRC. The gross profit of approximately RMB11.9 million and a net profit of approximately RMB2.1 million were recorded for the three months ended 31 March 2015.

Cost of services

The Target Group incurred cost of services of approximately RMB153.3 million for the three months ended 31 March 2015, representing a decrease of approximately 6.4% from RMB163.8 million in the previous period. The decrease in cost of sales was mainly due to the decrease in revenue for the three months ended 31 March 2015.

Selling expenses

The Target Group incurred selling expenses of approximately RMB5.4 million for the three months ended 31 March 2015, no material change from RMB5.6 million in the previous period.

Administrative expenses

The Target Group incurred administrative expenses of approximately RMB3.8 million for the three months ended 31 March 2015, no material change from RMB3.9 million in the previous period.

Finance costs

The Target Group incurred finance costs of approximately RMB1.3 million for the three months ended 31 March 2015, no material change from RMB1.3 million in the previous period.

Income tax

The Target Group incurred income tax expenses of approximately RMB0.2 million for the three months ended 31 March 2015, while incurred income tax credit of approximately RMB0.2 million for the three months ended 31 March 2014. The change in income tax was mainly due to the increase in net profits for the period and partially offset by the decrease in deferred tax arising from the allowances for doubtful debts recognised for the three months ended 31 March 2015.

Liquidity and financial resources

As at 31 March 2015, the Target Group's net assets amounted to approximately RMB79.7 million and net current liabilities amounted to approximately RMB43.4 million. The current ratio, representing current assets divided by current liabilities was 0.8.

Total borrowings of the Target Group as at 31 March 2015 were approximately RMB93.0 million which consisted of guaranteed short-term bank loans of approximately RMB49.0 million and other interest-bearing loans of approximately RMB44.0 million. The range of effective interest rate on bank and other loans was 5% – 6% per annum, which were all dominated in RMB. The Target Group's cash and cash equivalents as at 31 March 2015 amounted to approximately RMB43.2 million, which included cash and bank balances of the Target Group denominated in RMB amounted to RMB42.1 million. The gearing ratio, which is net debt divided by net assets was 62%.

During the three months ended 31 March 2015, the Target Group funded its working capital requirement and capital expenditure mainly through its own operational cash flow and bank and other loans.

Charges of assets

As of 31 March 2015, none of the Target Group's assets was pledged.

Contingent liabilities

The Target Group did not have any material contingent liabilities as at 31 March 2015.

Capital commitments

The Target Group did not have any material capital commitments as at 31 March 2015.

Employees

The Target Group had 336 employees as at 31 March 2015. Apart from stated-managed retirement benefit, the Target Group provides training and other opportunities to improve their skills and knowledge. In general, the Target Group determines employee compensation based on each employee's performance, qualifications, position and seniority. The total remunerations paid to the Target Group's employees for the three months ended 31 March 2015 was approximately RMB3.9 million.

Foreign currency exposure

During the three months ended 31 March 2015, the revenue and operating cost were mainly dominated in Renminbi. Bank and other loans were all denominated in Renminbi.

As the exchange rates of Hong Kong dollars against Renminbi were relatively stable during the year, the Target Group's exposure to fluctuations in exchange rates was minimal. The Target Group will closely monitor the foreign currency exposure and to arrange for hedging facilities when necessary.

Significant investments, material acquisition and disposal

The Target Group did not have any significant investment, material acquisition and disposal for the three months ended 31 March 2015.

For the year ended 31 December 2014

FINANCIAL REVIEW OF OPERATIONS

Revenue

The Target Group generated turnover of approximately RMB688.2 million for the year ended 31 December 2014, representing an increase of approximately 6.0% from RMB649.1 million in the previous year. The increase in turnover was mainly due to the increase in revenue from outbound tours primarily to Southeast Asia. The gross profit of approximately RMB43.4 million and a net profit of approximately RMB6.0 million were recorded for the year ended 31 December 2014.

Cost of services

The Target Group incurred cost of services of approximately RMB644.9 million for the year ended 31 December 2014, representing an increase of approximately 7.0% from RMB602.5 million in the previous year. The increase in cost of sales was mainly due to the increase in revenue for the year ended 31 December 2014.

Selling expenses

The Target Group incurred selling expenses of approximately RMB22.2 million for the year ended 31 December 2014, representing an increase of approximately 5.2% from RMB21.1 million in the previous year. The increase was mainly due to the increase in advertising and promotion expenses for the year ended 31 December 2014.

Administrative expenses

The Target Group incurred administrative expenses of approximately RMB16.4 million for the year ended 31 December 2014, no material change from RMB16.4 million in the previous year.

Finance costs

The Target Group incurred finance costs of approximately RMB5.0 million for the year ended 31 December 2014, representing a decrease of approximately 3.8% from RMB5.2 million in the previous year. The decrease was mainly due to the decrease in average bank and other loan balance in 2014.

Income tax

The Target Group incurred income tax credit of approximately RMB0.3 million for the year ended 31 December 2014, while incurred income tax expense of approximately RMB0.3 million for the year ended 31 December 2013. The change in income tax was mainly due to the changes in profit before tax, and the origination and reversal of temporary differences.

Liquidity and financial resources

As at 31 December 2014, the Target Group's net assets amounted to approximately RMB83.2 million and net current liabilities amounted to approximately RMB41.2 million. The current ratio, representing current assets divided by current liabilities was 0.8.

Total borrowings of the Target Group as at 31 December 2014 were approximately RMB93.0 million which consisted of guaranteed short-term bank loans of approximately RMB49.0 million and other interest-bearing loans of approximately RMB44.0 million. The range of effective interest rate on bank and other loans was 5% – 6% per annum, which were all dominated in RMB. The Target Group's cash and cash equivalents as at 31 December 2014 amounted to approximately RMB22.2 million, which included cash and bank balances of the Target Group denominated in RMB amounted to RMB20.2 million. The gearing ratio, which is net debt divided by net assets was 84%.

During the year, the Target Group funded its working capital requirement and capital expenditure mainly through its own operational cash flow and bank and other loans.

Charges of assets

As of 31 December 2014, none of the Target Group's assets was pledged.

Contingent liabilities

The Target Group did not have any material contingent liabilities as at 31 December 2014.

Capital commitments

The Target Group did not have any material capital commitments as at 31 December 2014.

Employees

The Target Group had 388 employees as at 31 December 2014. Apart from stated-managed retirement benefit, the Target Group provides training and other opportunities to improve their skills and knowledge. In general, the Target Group determines employee compensation based on each employee's performance, qualifications, position and seniority. The total remunerations paid to the Target Group's employees for the year ended 31 December 2014 was approximately RMB14.5 million.

Foreign currency exposure

During the year, the revenue and operating cost were mainly dominated in Renminbi. Bank and other loans were all denominated in Renminbi.

As the exchange rates of Hong Kong dollars against Renminbi were relatively stable during the year, the Target Group's exposure to fluctuations in exchange rates was minimal. The Target Group will closely monitor the foreign currency exposure and to arrange for hedging facilities when necessary.

Significant investments, material acquisition and disposal

In 2014, the Target Company signed a series of capital increase agreements with a group of independent third parties. The above capital increase transactions were completed on 21 May 2014, as a result, the Target Company's interest in Beijing Comfort Scenic Project Development Company Limited ("Beijing Scenic") was diluted from 99.0% to 20.2%.

Target Company's remaining equity interest in Beijing Scenic has been reclassified as an available-for-sale equity investment.

Save as disclosed above, the Target Group did not have any significant investment, material acquisition and disposal.

For the year ended 31 December 2013

FINANCIAL REVIEW OF OPERATIONS

Revenue

The Target Group generated turnover of approximately RMB649.1 million for the year ended 31 December 2013, representing a decrease of approximately 10.7% from RMB726.7 million in the previous year. The decrease in turnover was mainly due to the decrease in revenue from the provision of MICE services primarily resulting from the decreased demand. The gross profit of approximately RMB46.6 million and a net profit of approximately RMB3.9 million were recorded for the year ended 31 December 2013.

Cost of services

The Target Group incurred cost of services of approximately RMB602.5 million for the year ended 31 December 2013, representing a decrease of approximately 11.3% from RMB679.6 million in the previous year. The decrease in cost of sales was mainly due to the decrease in revenue from the provision of MICE services.

Selling expenses

The Target Group incurred selling expenses of approximately RMB21.1 million for the year ended 31 December 2013, which remained relatively stable from approximately RMB22.0 million for the year ended 31 December 2012.

Administrative expenses

The Target Group incurred administrative expenses of approximately RMB16.4 million for the year ended 31 December 2013, representing a decrease of approximately 8.4% from HK$17.9 million in the previous year. The decrease was mainly due to the reversal of impairment of trade receivables for the year ended 31 December 2013.

Finance costs

The Target Group incurred finance costs of approximately RMB5.2 million for the year ended 31 December 2013, representing a decrease of approximately from RMB6.2 million in the previous year. The decrease was mainly due to the decrease in average bank and other loan balance in 2013.

Income tax

The Target Group incurred income tax expenses of approximately RMB0.3 million for the year ended 31 December 2013, remained stable with RMB0.3 million in the previous year.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2013, the Target Group's net assets amounted to approximately RMB84.4 million and net current liabilities amounted to approximately RMB61.0 million. The current ratio, representing current assets divided by current liabilities was 0.8.

Total borrowings of the Target Group as at 31 December 2013 were approximately RMB90.0 million which consisted of guaranteed short-term bank loans of approximately RMB49.0 million and other interest-bearing loans of approximately RMB41.0 million. The range of effective interest rate on bank and other loans was 4.9% - 8% per annum, which were all denominated in RMB. The Target Group's cash and cash equivalents as at 31 December 2013 amounted to approximately RMB34.8 million, which included cash and bank balances of the Target Group denominated in RMB amounted to RMB32.8 million. The gearing ratio, which is net debt divided by net assets was 64%.

During the year, the Target Group funded its working capital requirement and capital expenditure mainly through its own operational cash flow and bank and other loans.

Charges of assets

As of 31 December 2013, none of the Target Group's assets was pledged.

Contingent liabilities

The Target Group did not have any material contingent liabilities as at 31 December 2013.

Capital commitments

The Target Group did not have any material capital commitments as at 31 December 2013.

Employees

The Target Group had 363 employees as at 31 December 2013. Apart from stated-managed retirement benefit, the Target Group provides training and other opportunities to improve their skills and knowledge. In general, the Target Group determines employee compensation based on each employee's performance, qualifications, position and seniority. The total remunerations paid to the Target Group's employees for the year ended 31 December 2013 was approximately RMB13.5 million.

Foreign currency exposure

During the year, the revenue and operating cost were mainly dominated in Renminbi. Bank and other loans were all denominated in Renminbi.

As the exchange rates of Hong Kong dollars against Renminbi were relatively stable during the year, the Target Group's exposure to fluctuations in exchange rates was minimal. The Target Group will closely monitor the foreign currency exposure and to arrange for hedging facilities when necessary.

Significant investments, material acquisition and disposal

During the year, the Target Group did not have any significant investment, material acquisition and disposal.

For the year ended 31 December 2012

FINANCIAL REVIEW OF OPERATIONS

Revenue

For the year ended 31 December 2012, the Target Group achieved a turnover of approximately RMB726.7 million, a gross profit of approximately RMB47.1 million and a net profit of approximately RMB4.2 million. Revenue was mainly derived from tours, MICE services, ancillary travel related products and services and franchise fee income from franchise partners in the PRC.

Cost of services

The Target Group incurred approximately RMB679.6 million of cost of services for the year ended 31 December 2012, which mainly comprised direct costs incurred in our tours and ancillary travel related products and services, which included airfares, land operator fees, hotel tariffs, transportation expenses, meal expenses, admission ticket cost and others.

Selling expenses

The Target Group incurred approximately RMB22.0 million of selling expenses for the year ended 31 December 2012, which mainly comprised staff costs, advertising and promotion expenses, operating lease expenses, travel and transportation expenses and other sundry expenses.

Administrative expenses

The Target Group incurred approximately RMB17.9 million of administrative expenses for the year ended 31 December 2012, which mainly comprised staff costs, depreciation and amortisation, travel and transportation expenses, legal and professional fees, office and utility expenses, and others.

Finance costs

The Target Group incurred approximately RMB6.2 million of finance costs for the year ended 31 December 2012, which mainly comprised interest expenses from bank and other loans.

Income tax

The Target Group incurred approximately RMB0.3 million of income tax expenses for the year ended 31 December 2012.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2012, the Target Group's net assets amounted to RMB85.5 million and net current liabilities amounted to approximately RMB47.9 million. The current ratio, representing current assets divided by current liabilities was 0.9.

Total borrowings of the Target Group as at 31 December 2012 were approximately RMB110.3 million which consisted of guaranteed short-term bank loans of approximately RMB50.0 million and other interest-bearing loans of approximately RMB60.3 million. The range of effective interest rate on bank and other loans for the year ended 31 December 2012 was 4.9% – 8.0% per annum, which were all denominated in RMB. The Target Group's cash and cash equivalents as at 31 December 2012 amounted to approximately RMB73.3 million, which included cash and cash bank balances of the Target Group denominated in RMB amounted to RMB69.5 million. The gearing ratio, which is net debt divided by net assets was 42%.

During the year, the Target Group funded its working capital requirement and capital expenditure mainly through its own operational cash flow and bank and other loans.

Charges of assets

As of 31 December 2012, none of the Target Group's assets was pledged.

Contingent liabilities

The Target Group did not have any material contingent liabilities as at 31 December 2012.

Capital commitments

The Target Group did not have any material capital commitments as at 31 December 2012.

Employees

The Target Group had 345 employees as at 31 December 2012. Apart from stated-managed retirement benefit, the Target Group provides training and other opportunities to improve their skills and knowledge. In general, the Target Group determines employee compensation based on each employee's performance, qualifications, position and seniority. The total remunerations paid to the Target Group's employees for the year ended 31 December 2012 was approximately RMB13.2 million.

Foreign currency exposure

During the year, the revenue and operating cost were mainly dominated in Renminbi. Bank and other borrowings were all denominated in Renminbi.

As the exchange rates of Hong Kong dollars against Renminbi were relatively stable during the year, the Target Group's exposure to fluctuations in exchange rates was minimal. The Target Group will closely monitor the foreign currency exposure and to arrange for hedging facilities when necessary.

Significant investments, material acquisition and disposal

During the year, the Target Group did not have any significant investment, material acquisition and disposal.

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from the independent professional valuer, Flagship Consulting (Hong Kong) Limited.

LETTER OF OPINION

Ref: FC201504008

21 August 2015

The Board of Directors
Orient Victory China Holdings Limited
Room 2063, Harbour Centre
25 Harbour Road
Wanchai, Hong Kong

Dear Sirs/Madams,

Re: Valuation of 49% Equity Interest in China Comfort Travel Group Company Limited

In accordance with the instructions from Orient Victory China Holdings Limited ("the Company", together with its subsidiaries, collectively referred to as "the Group"), we are required to evaluate the fair value of 49% equity interest ("the Asset") in China Comfort Travel Group Company Limited ("the Target Company", together with its subsidiaries and associates, collectively referred to as "the Target Group") as of 31 May 2015 ("the Valuation Date").

Our analysis and conclusion, which are to be used only in their entirety, are for the use of the management ("the Management") of the Group solely for internal reference regarding proposed acquisition in the Target Company and form part of the Company's circular dated 21 August 2015 only. They are not to be used for any other purposes or by any other party for any purpose, without our express written consent. None should rely on our analysis and conclusion as a substitute for their own judgement or due diligence. The following report summarizes the conclusion and findings based on our conducted analysis.

This valuation engagement was conducted in accordance with the International Valuation Standards. The estimate of value that results from a valuation engagement is expressed as a conclusion of value.

Based on our analysis, as described in this report, the estimate of fair value of the Asset as of the Valuation Date was RMB452,700,000. This conclusion is subject to the assumptions, the Limiting Conditions and the Statement of General Services Conditions described in this report. We have no obligation to update this report or our conclusion of value for information that comes to our attention after the date of this report.

Yours faithfully,
For and on behalf of
Flagship Consulting (Hong Kong) Limited
Ferry S.F. Choy
CFA, ICVS
Director

CONTENT

Executive Summary

Governing Standard:	International Valuation Standards
Purpose:	Internal reference
Standard of Value:	Fair Value
Premise of Value:	Value as a going concern
Client Name:	Orient Victory China Holdings Limited
Target Name:	China Comfort Travel Group Company Limited
Type of Entity:	Private Limited Company
Business Interest Valued:	49%
Valuation Date:	31 May 2015
Report Date:	21 August 2015
Methodology:	Market Approach – Guideline Public Company Method
Conclusion of Value:	RMB452,700,000

Introduction

In accordance with the instructions from Orient Victory China Holdings Limited ("the Company", together with its subsidiaries, collectively referred to as "the Group"), we are required to evaluate the fair value of 49% equity interest ("the Asset") in China Comfort Travel Group Company Limited ("the Target Company", together with its subsidiaries and associates, collectively referred to as "the Target Group") as of 31 May 2015 ("the Valuation Date").

It is our understanding that our analysis and conclusion, which are to be used only in their entirety, will be used by the management ("the Management") of the Group for internal reference to facilitate the evaluation of the investment potential in the Target Company and form part of the Company's circular dated 21 August 2015 only. Our analysis was conducted for the above purpose and this report should be used for no other purpose without our express written consent. None should rely on our analysis and conclusion as a substitute for their own judgement or due diligence. Our work was performed subject to the assumptions, the Limiting Conditions and the Statement of General Services Conditions described in this report.

We express no opinion and accept no responsibility for the accuracy and completeness of the financial information or other data provided to us by others. We assume that the financial and other information provided to us is accurate and complete, and we have relied upon this information in performing our assessment.

Scope of Services

We were engaged by the Management to perform an independent assessment on the fair value of the Asset as of the Valuation Date.

Basis of Value

The opinion of value of the Asset will be on the basis of fair value, which is defined as *"the estimated price for the transfer of an asset or liability between identified knowledgeable and willing parties that reflects the respective interests of those parties."*

Premise of Value

Premise of value means an assumption regarding the most likely set of transactional circumstances that may be applicable to the subject valuation. In general, there are two types of premises: 1) going concern and 2) liquidation.

(1) Going concern: a business is expected to continue operating without intention or threat of liquidation; and

(2) Liquidation: a business is clearly going to cease operation in the near future. It can be further classified into orderly liquidation or forced liquidation.

For this particular case, the premise of value is going concern. Going concern value is defined as *"the value of a business enterprise that is expected to operate into the future. The intangible elements of Going Concern Value result from factors such as having a trained workforce, an operational plant, and the necessary licenses, systems, and procedures in place"*.

Level of Value

The control characteristics and marketability characteristics will significantly impact the value of the equity interest in a business entity. The combination of these characteristics commonly refers to the level of value. There are four basic levels of value: 1) controlled, marketable interest value, 2) controlled, non-marketable interest value, 3) non-controlling, marketable interest value, and 4) non-controlling, non-marketable interest value.

For this particular case, the level of value is non-controlling, non-marketable interest value.

Statement of Compliance

The evaluation has been prepared in accordance with International Valuation Standards published by the International Valuation Standards Council and is, to the best of our knowledge, compliant with this code.

Sources of Information

Sources of data utilized in our analysis included but not limited to the following:

- Audited financial statements of the Target Group for the years ended 31 December 2012, 31 December 2013, and 31 December 2014;
- Audited financial statements of the Target Group for the periods ended 31 March 2014, and 31 March 2015;
- Introduction information of the Target Group;
- Bloomberg database; and
- The FMV Restricted Stock Study™.

We conducted a site visit to the headquarters of the Target Company in Beijing in early June 2015. During the site visit, we had meetings with Mr Dong (the President) and Mr. Gao (the Chief Accountant) and toured around the office.

We also relied upon publicly available information from sources on capital markets, including industry reports, various databases of publicly traded companies and news.

We express no opinion and accept no responsibility for the accuracy and completeness of the financial information or other data provided to us by others. We assume that the financial and other information provided to us is accurate and complete, and we have relied upon this information in performing our assessment.

Company Overview

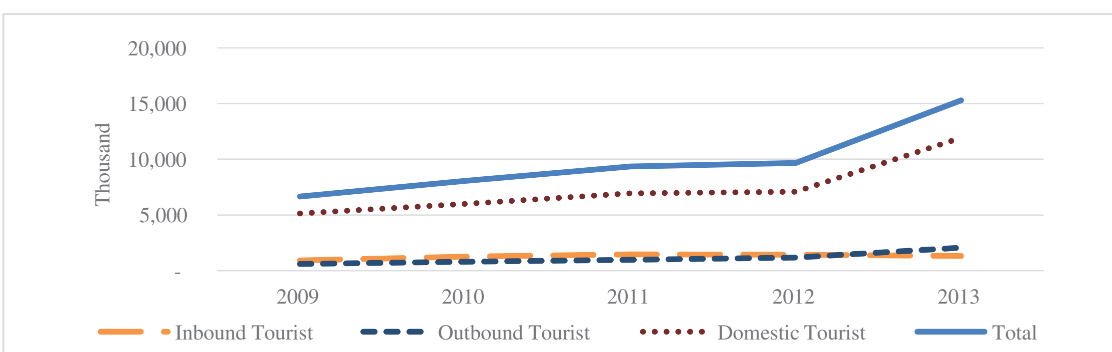
The Target Company was established in 1987 in China with headquarters in Beijing.

The Target Group is principally engaged in providing a full range of travel agency services in China. Its services include inbound tours, outbound tours (including franchised Taiwan tour), domestic tours, [1]MICE business, domestic and international air ticket agency business, and tourist attraction operations and development. The core business developed steadily in the past several years.

The major sources of revenue are tourism-related business and MICE-related businesses. The tourism-related business market grew markedly in the past several years although its momentum affected a little bit in 2013 due to the anti-graft campaign launched by President Xi. The growth trend was driven by the improving consumption capability of the general public, a strong Chinese Yuan, the preference of the mid-to-high income group for outbound travel for vacation and holiday, an increasing number of destinations allowed for travel, and tourism policies favouring Chinese tourism implemented by different countries.

The Target Group served millions of tourists annually. In 2013, the Target Group served more than 15 million of tourists. In terms of the number of tourist served, the domestic tour business served nearly 12 million tourists and was regarded as the largest business segment. The outbound tour business served more than 2 million tourists in 2013 and grew nearly four times in the period of 2009 to 2013.

Figure 1: Number of Tourists Served 2009 – 2013



Source: The Target Group

The Target Group was continuously ranked as one of the Top 10 Travel Agency groups in China by China National Tourism Administration ("CNTA"). Eight companies under the Target Group were included as one of the Top 100 Travel Agencies in China in 2013. In 2010, "Comfort Travel" was honoured to be named as a Famous Trademark in China by the [2]SAIC.

1 Refer to meetings, incentives, conferencing, exhibitions

2 State Administration for Industry & Commerce of the People's Republic of China

Table 1: Top 10 Travel Agency Group in China, 2013

Rank	Travel Agency Group
1	Shanghai Spring International Travel Service (Group) Co., Ltd
2	China CYTS Tours Holding Co., Ltd
3	China Travel Service Head Office Co., Ltd
4	China International Travel Service Limited, Head Office
5	Guangdong China Travel Service Co., Ltd
6	China Comfort Travel Group Company Limited
7	Shanghai Jinjing Int'l Travel Co., Ltd
8	GZL Int'l Travel Service Ltd
9	Guangdong Nanhu Int'l Travel Service Co., Ltd
10	CITI Tourism Group Co., Ltd.

Table 2: Eight Companies under the Target Group Awarded as a Top 100 Travel Agency in China, 2013

Rank	Travel Agency
18	Hubei Comfort Int'l Travel Co., Ltd
48	Hebei Comfort Intl Travel Company, Ltd
53	China Comfort Travel Group Co., Ltd
54	Liaoning Comfort Intl Travel Co., Ltd
57	Fujian Comfort International Travel Service Inc.
79	Sichuan Comfort Int'l Travel Service Co., Ltd
80	Hunan New Comfort International Travel Co., Ltd
84	Jiangsu Comfort International Travel Service Co., Ltd

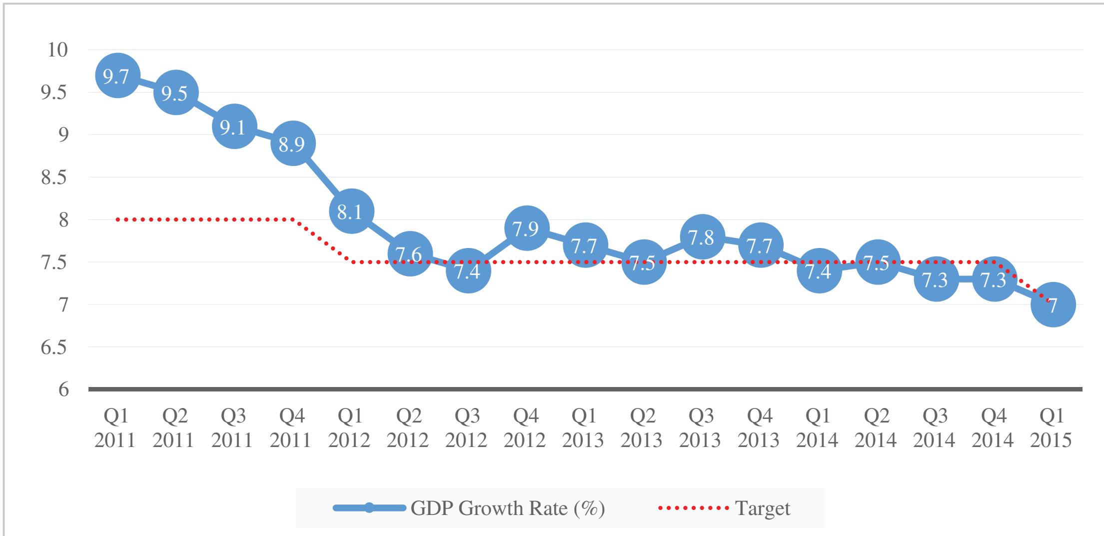
Economic Overview

The Target Group operates in China. We have evaluated the impact of the general economic environment on its business.

Recent Economic Development

China's GDP growth stood at 7.0% in the first quarter of 2015, just meeting the target 7.0%. Nevertheless, many analysts believed that the actual economic situation was worse than what the government had announced. The main drag in growth stemmed from slower fixed asset investment growth and a challenging environment in the manufacturing sector. At the same time, the restructuring and upgrading of the economy sped up. President Xi described this economic pattern as the "new normal".

Figure 2: China's GDP Growth Rate



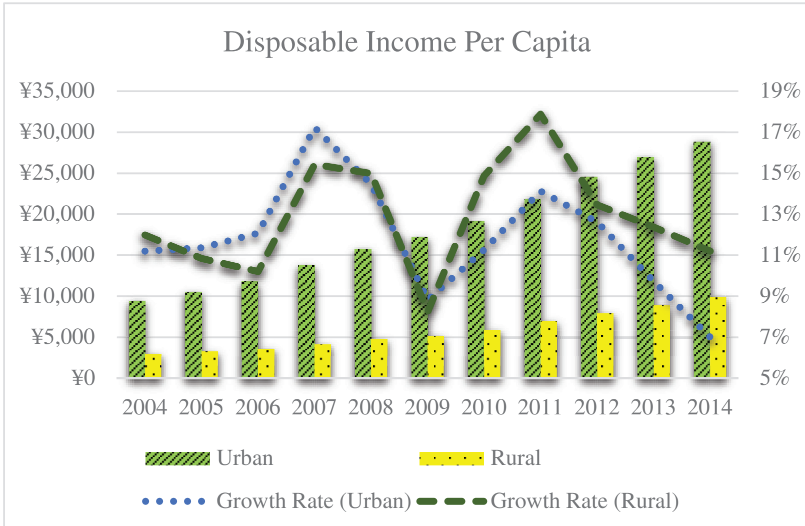
Source: National Bureau of Statistics of China

Demand for services such as tourism and healthcare continuously increased over the years and has been driven by the steady growth in personal income. However, growth in goods consumption was slower in 2014 mainly due to the anti-graft campaign which significantly restricted the spending on luxury items, fine dining and business travel.

Growing Trend of Disposable Income

As China's economy has expanded in these past years, both urban and rural disposable income per capita has surged. The urban disposable income per capita increased threefold from RMB9,422 in 2004 to RMB28,844 in 2014 with a CAGR of 11.8%, but the growth rate has slowered in recent years. Comparatively, the increase of rural disposal income per capita accelerated in the past several years. The rural disposable income per capita increased from RMB2,936 in 2004 to RMB9,982 in 2014 with a CAGR of 12.9%.

Figure 3: Disposable Income Per Capita, 2004 – 2014



Urban

CAGR 2004 – 14: 11.8%

CAGR 2004 – 09: 12.8%

CAGR 2009 – 14: 10.9%

Rural

CAGR 2004 – 14: 12.9%

CAGR 2004 – 09: 11.9%

CAGR 2009 – 14: 13.9%

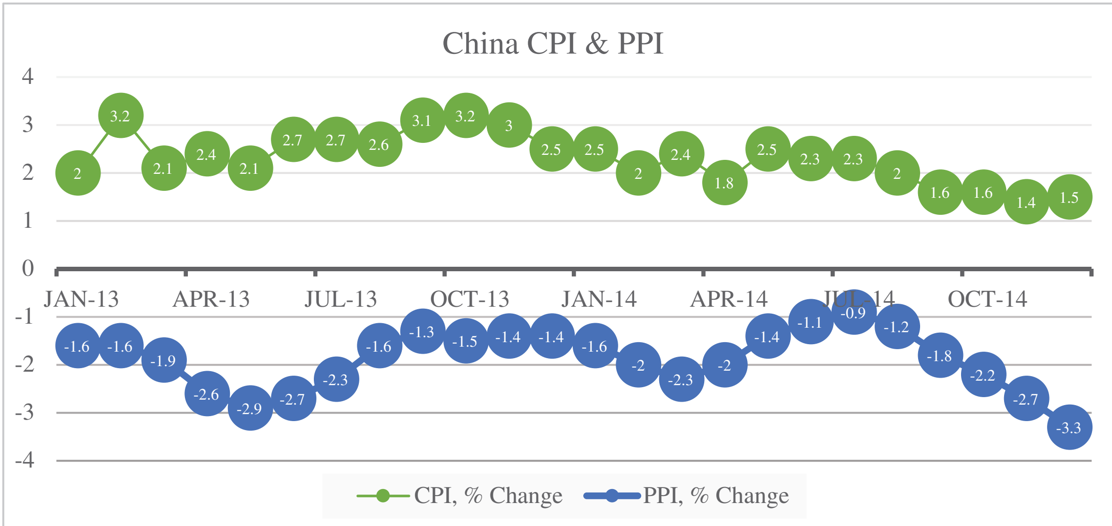
Source: National Bureau of Statistics of China

The portion of urban population in China increased from 40.53% in 2003 to 53.73% in 2013, representing a CAGR of 2.86%. Overall population growth is expected to be steady in this decade. According to projections from the International Monetary Fund and CEIC, China's population will grow from 1.37 billion in 2014 to 1.40 billion in 2019, representing a CAGR of approximately 0.43%.

Stable Inflation

Inflation was mild in 2014. Consumer price inflation was only 2% in 2014, significantly lower than the government's target level, i.e. 3.5%. Low inflation was a result of milder imported inflation and receding local cost pressure during the year.

Figure 4: China CPI and PPI



Source: National Bureau of Statistics of China

Fluctuation in the Currency Market

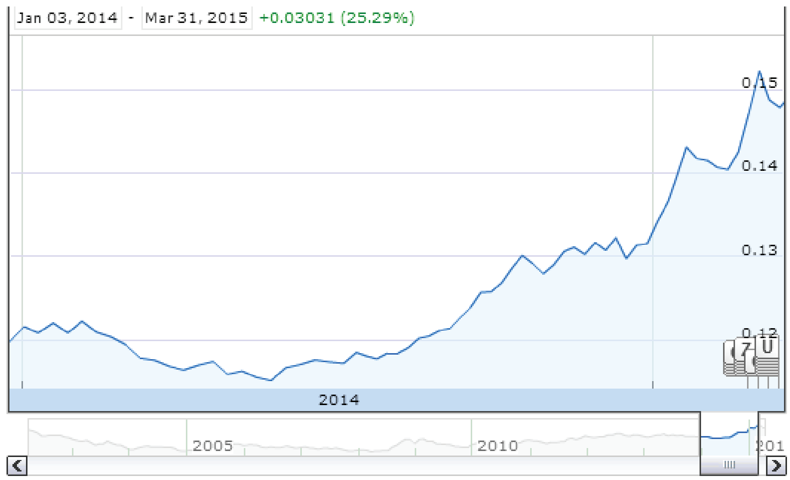
The RMB against the USD was bullish for most of the time in the last decade. In the last five years, the RMB against the USD has been appreciated around 10%. While the United States has recently finished its third round of quantitative easing, new turns of quantitative easing has been started in Europe and Japan. As a result, the RMB appreciated significantly in last year against all other major currencies (e.g. EUR, JPY, AUD) and stimulated the demand of outbound travel.

Figure 5: Exchange Rate

(a) RMB against USD

Source: Google

(b) RMB against EUR



Source: Google

(c) RMB against JPY

Source: Google

(d) RMB against AUD

Industry Overview

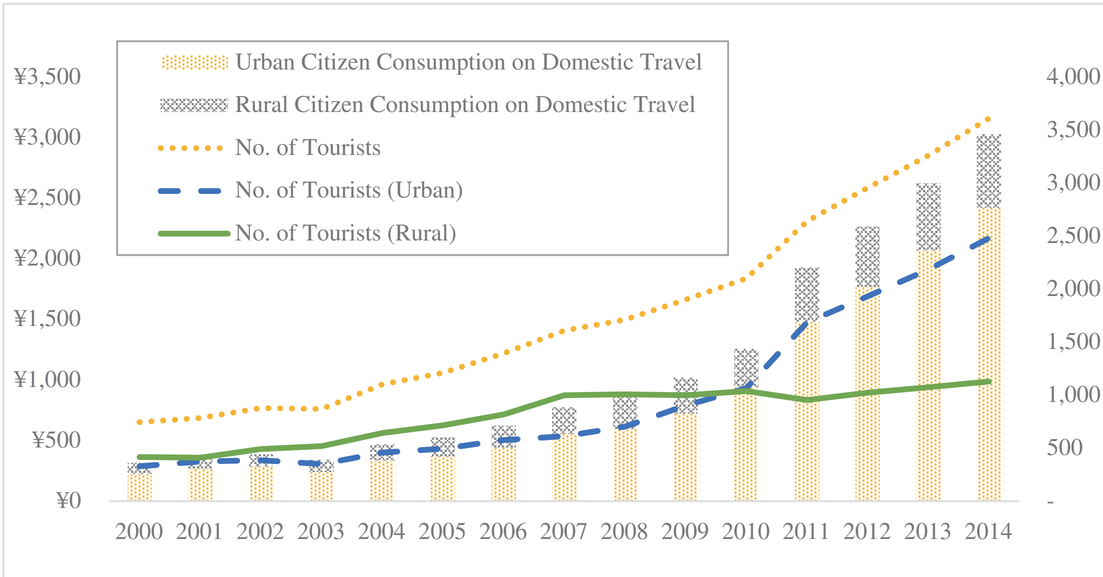
Affluent Economy Stimulates the Demand on Leisure Travel

The demand on recreational travel has been on the rise, driven by the increasing level of disposable income and the growing interest in leisure activities. There is a strong positive correlation between the demand on leisure travel and income level. When GDP per capita reaches USD2,000, tourism will grow rapidly. When GDP per capita reaches USD3,000, tourism will experience exponential growth and when GDP per capita reaches USD5,000, tourism will enter into mature stage driven by leisure travel, towards individualized and diversified services and focus on tourists' travel experience. In 2013, GDP per capita in China was over USD5,000 and in major cities (Beijing, Shanghai, Guangzhou, etc.), it was over USD10,000.

Continuous Development in Domestic Tourism

The total consumption and number of tourists in domestic travel surged in the past decade. The total number of tourists from urban areas has grown notably in the last five years while the total number of tourists from rural area has remained stable.

Figure 6: Consumption and Number of Tourists in Domestic Travel in China



The expansion of the middle class in China continuous to boost up the demand for domestic travel opportunities and services. Although the high-end accommodation and catering industries are still in a downturn due to the modest growth of China's economy and anti-graft campaign, mid-level and economy hotels perform well. The demand on leisure travel has shifted from the senior management of a small number of state owned enterprises and the owners of large corporates to the general public. It is expected that by 2020, the GDP per capita will be USD12,000 – 15,000, the urbanization rate will be 60% and there will be 600 – 800 million people in the middle class. Following the rapid period of expansion of the past several years, domestic tourism is expected to continue its growth into the future.

Domestic tourism is an important part of service industry in China. It is also being used as a policy to resolve the serious wealth imbalance among different regions and is the primary focus of China's economic transformation and upgrade. Many new policies and guidelines are being published by the central government to support the development of tourism. For instance, the long vacation policy and the toll-free highway policy instituted during long holidays have stimulated domestic tourism.

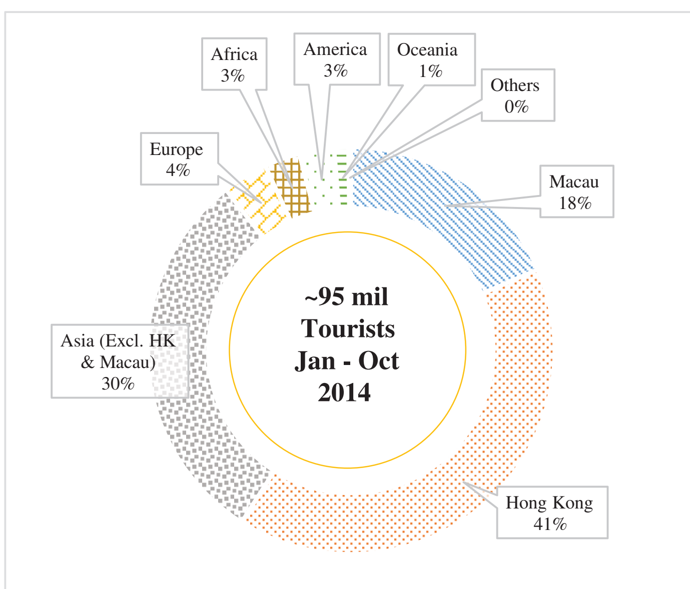
This huge demand on domestic travel has also resulted in many problems, such as overcrowding in tourist spots, chaos and hassle brought upon villages and local residents, and even the damage of historical sites. These problems have stemmed from inadequate development of tourism resources. The insufficient number of tourist attractions often fails to ease the flow of tourists and existing transportation infrastructure cannot support peak holiday seasons. It is expected that further investment in the development of tourist spots with governmental support would elevate the quality of domestic tourism and in return support its long term growth.

Rise of Outbound Tourism

After China joined the World Trade Organisation in 2001, the outbound travel policy started to change. The growth of outbound tourism has jumped significantly since 2004 after the central government decided to use the free independent traveller ("FIT") scheme to support the post-SARS Hong Kong economy in the second half of 2003. The number of cities opened for FIT application increased from 10 in 2003 to 49 in 2007. In 2014, 78% of tourism in Hong Kong (around 47 million people) was from China. Macau has also benefited from the FIT policy. The number of Chinese tourists who visit Macau increased from 1.63 million in 1999 to 18.63 million in 2013 with a CAGR of 19%. On average, a Chinese tourist spent MOP2,563 in 2013. Currently, the Chinese tourist has come the most important source of visitors to Hong Kong and Macau.

According to the CNTA, the number of outbound tourists crossed 100 million in 2014. This was more than ten times the number of outbound tourists in 1998 (8.43 million). It marked a new milestone in China's tourism history. Hong Kong is the destination most visited by Chinese tourist, followed by Macau. The total number of trips abroad from China is estimated to be 109 million in 2014 according to World Tourism Organization. Expenditure was up by 17% in the first three quarters of 2014. China is the world's largest outbound market since 2012 with a total expenditure of USD129 billion in 2013.

Figure 7: Destination of Outbound Tourists



Geographically speaking, Chinese tourists are more adventurous than ever, although Asia is still the major travel destination. In the first ten months of 2014, more than 85 million Chinese tourists visited different Asian countries, including the 56 million who visited Hong Kong and Macau. This was a growth of 16.1% compared with the same period of 2013. Europe ranks second with more than 3.4 million Chinese tourists visiting in the first ten months of 2014. For Europe, this was a growth of 10.4% compared with the same period of 2013. Surprisingly, Africa ranked higher than America as the third most visited continent by Chinese tourists.

The top five Asian countries visited by Chinese tourists in the first ten months of 2014 were South Korea (5.2 million), Thailand (3.3 million), Japan (2.3 million), Vietnam (1.4 million) and Singapore (1.4 million). The number of Chinese tourists to South Korea and Japan grew more than 40% in the first ten months of 2014. This growth stemmed from the strong Chinese Yuan as mentioned in the last section.

According to a research conducted by the World Tourism Cities Federation ("WTCF"), the most Chinese outbound tourists are from affluent provinces in eastern and central China. These tourists usually come from a higher income bracket and a better educational background. The higher the income level, the more frequent in outbound travel. More than half of outbound tourists are born after the 1980's.

Chinese tourists are famous for their strong purchasing power and also regarded as big spenders on luxury items. According to a research published by Hotels.com, Chinese outbound tourists on average spend more than USD1,000 a day excluding accommodation.

All tourist destinations welcome the arrival of Chinese tourists and see Chinese tourism as a potential cure for weak economy. Travel visas remains a major obstacle for the further development of Chinese outbound tourism, although by the end of 2014, there were more than 151 countries and regions allowed for travel and 117 of them were already operated. Most of the outbound travel required a travel visa.

Based on the WTCF's research, more than 87% of outbound Chinese tourists use a travel agent and more than 90% of them indicated that they would continue using a travel agent to arrange outbound trips. The research also indicated that 37.41% of outbound tourists joined travel tours. This might be because travel visas can often only be applied through approved travel agents and language barrier.

Outbound tours are more complicated than local tours. They require more resources to developing new products and rely on overseas connections to organize logistics such as transportation and accommodation. Large-scale traditional large travel agents, such as China International Travel, China CYTS Tours, and the Target Group, have the resources and capabilities to manage the complexities of outbound tours.

Competition from the Internet Promoting Change in Traditional Travel Agents

The traditional business model for travel agents has been significantly challenged by internet. For instance, the traditional ticketing business has been gradually taken over by online travel agents, such as CTrip, Qunar, etc. Currently, the major sources of income for these online travel agents are ticketing and accommodation booking services. These online travel agents provide a transparent platform and abundant information to the customers. They provide timely, flexible and convenient service to all internet users. Hotels, flights, and tourism spots are also welcome for direct online reservation. According to the research conducted by Hotels.com, 53% of outbound tourists use websites, apps or online travel agents to reserve their accommodation.

Nowadays, large online travel agents have also begun to provide personalized tourism packages. This has escalated the competition between the traditional travel agents and the online travel agents. Traditional travel agents have also started to engage in online business. They want to widen their distribution channels through internet by leveraging their rich offline resources. A representative sample would be www.aoyou.com. Aoyou.com provides a one-stop online travel agency service and is the online platform of China CYTS Tours. It links up the existing offline resources of China CYTS Tours with the online platform. Another typical example would be www.cits.cn, the online platform of China International Travel.

Valuation Methodology

The valuation of any asset can be broadly classified into one of three approaches, namely the cost approach, market approach and income approach.

Cost Approach: this is a general way of determining a value indication of a business ownership interest by using one or more methods based on the value of the net asset. Value is established based on the principle of substitution. Based on the logic that the value of a business is equal to the sum of its parts, value is established based on the cost of reproducing or replacing the property, less depreciation from physical deterioration and functional and economic obsolescence, if present and measurable.

Market Approach: this is a general way of determining a fair value indication of a business ownership interest by using one or more methods that compare the subject to similar business ownership interests that have been sold. Value is established based on the principle of competition. It simply means that if one thing is similar to another and can be used for the other, then they must be equal in value. Otherwise, the one with lower value will attract all the demand and the one with higher value can either reduce its price or be extinguished by market force. As a result, the price of two similar items should approximate one another.

Income Approach: this is a general way of determining a fair value indication of a business ownership interest by using one or more methods that convert anticipated benefits into a present value amount. Value is established based on the principle of anticipation. In this approach, an economic benefit stream of the asset under analysis is selected. This selected benefit stream is then discounted to present value with an appropriate risk-adjusted discount rate.

Various methods of valuation used in practice are considered as subdivisions of these broad approaches. Valuation methods under the market and income approaches generally contain common characteristics such as measures of earning power, discount rates and/or capitalization rates and multiples.

Selection of Valuation Methodology

As mentioned, valuation of any asset can be broadly classified into one of three approaches, namely the cost approach, the market approach and the income approach. In any valuation analysis, all three approaches must be considered, and the approach or approaches deemed most relevant will then be selected for use in the fair value analysis of that asset.

For this particular case, after our research and analysis, we have decided the Guideline Public Company Method under the market approach is the most suitable valuation methodology.

Compared with the other two approaches, the cost approach might not be able to easily reflect the value contributed from the intangible assets, e.g. the trademark of the Target Group, the established distribution network, the assembled workforce, the goodwill, etc. Therefore, we decided the cost approach would not be a good valuation approach for this case.

The income approach requires an explicit forecast of the future benefit streams over a reasonably foreseeable short term and an estimate of a long term benefit stream that is stable and sustainable. The income approach highly depends on the reliability of the projection. Based on the management, the Target Group involves thousands of point of sales and it is very difficult to reliably project the long-term future economic benefit streams especially under the keen competition from online competitors. The potential growth of the Target Group's own online platform is also another factor. Therefore, we have rejected the income approach to develop our opinion.

Based on our research, we do not note any similar sizeable transaction with sufficient information for comparison. Therefore, the Guideline Transaction Method under the market approach is not applicable. However, as there are comparable listed companies with similar in business nature for a meaningful comparison, we applied the Guideline Public Company Method under the market approach in deriving the fair value of the Asset.

General Assumptions

A number of general assumptions have to be established in order to sufficiently support our conclusion of value. The general valuation assumptions adopted in this valuation are:

- There will be no material change in the existing political, legal, fiscal, foreign trade and economic conditions in China and where the Target Group is carrying on its businesses;
- There will be no significant deviation in the industry trend and market condition from the current market expectation;

– There will be no material change in interest rates or foreign currency exchange rates from those currently prevailing;

– There will be no major change in the current taxation law and travelling policy in China;

– All relevant legal approvals, business certificates or licenses for the normal course of operation are formally obtained, remain in good standing, and can be procured with no additional costs or fees; and

– The Target Group will retain competent management, key personnel and technical staff to support their on-going business operations.

Guideline Public Company Method

The Guideline Public Company Method assumes that the share prices of comparable listed companies in the same or a similar industry provide objective evidence for the values at which investors are willing to buy or sell interest of other companies in that industry.

In order to apply the Guideline Public Company Method, we first of all need to select comparable listed companies engaged in the same or similar industry that can provide a meaningful comparison. After selecting comparable listed companies, we need to determine what kind of pricing multiples are suitable or commonly used in evaluating companies in that industry. After selecting the appropriate pricing multiples and calculating the corresponding pricing multiples of the comparable listed companies, the pricing multiples will then be applied to the subject company. After applying all the necessary valuation adjustments, we will come up with the value of the subject.

Pricing multiples are usually based on either equity value or enterprise value. Equity value refers to the market value of the shares, while enterprise value refers to the value of the whole enterprise, which is comprised of shares, preferred equity, debt and minority interest but excluding cash equivalent. When using pricing multiples based on the enterprise value, it is necessarily to convert the enterprise value into equity value.

The relationship between equity value and enterprise value are as follows:

Enterprise Value = #Equity Value
+ Debt
+ Minority Interest
+ Preferred Equity
- Cash equivalent

Refers to the market value of the common shares which derived based on the prevailing share price times the number of share issued.

Selection of Comparable Listed Companies

In order to select the appropriate comparable listed companies, we focus on those companies engaging in travel agency business in China.

Although according to the Hong Kong Financial Reporting Standards, many of the subsidiaries and associates of the Target Company are regarded as franchisees, the legal structure of these companies still remains and will be reported according to their legal form under PRC accounting standards. As our selection of comparable companies covers listed companies in China (using PRC accounting standards), we do not reject the comparable companies that are not using franchising. Also, in order to reflect the geographical coverage of the franchising network of the Target Group, we required the comparable companies should also have a wide network of branches in China.

The following criteria are used to select our comparable companies:

1. Companies listed in Hong Kong or China;

2. Companies engaged in traditional travel agency business and have a wide network of branches in China; and

3. Traditional travel agency business is important to the overall business and no intention to change in the coming future.

We have adopted the following searching procedures in order to obtain a full and exhaustive list of comparable companies:

- Using Bloomberg database to search comparable companies (include all listed companies in Hong Kong and China) based on the above criteria; and

- Cross check the list of comparable companies using Google search engine and financial websites, e.g. www.stock.qq.com, www.finance.sina.com.cn, www.aastocks.com, etc.

In order to select the appropriate comparable companies, we have reviewed the potential comparable companies' annual reports, news and announcements.

The following list of comparable listed companies are selected based on the above criteria. To the best of our knowledge the following list of comparable listed companies are full and exhaustive.

We have selected (i) China Travel International Investment Hong Kong Limited ("China Travel Hong Kong"), (ii) Beijing Utour International Travel Service Co., Ltd ("Utour"), (iii) China CYTS Tours Holdings Co., Ltd ("CYTS Tours"), and (iv) China International Travel Service Corp Ltd ("China International") as the comparable companies to the Target Company.

We have analysis regarding:

(i) Background

China Travel Hong Kong, CYTS Tours, China International and the Target Company are all government related travel agencies. Utour is the largest non-government background listed travel agency in China.

(ii) Operation method

All of these companies operate traditional travel agency business in China.

(iii) Geographic coverage, business scale and revenue contribution from travel agency business

All of these companies have a wide network of branches and a significant portion (i.e. more than 30%) of revenue contributed by traditional travel agency related business.

(iv) Branding

All of these companies are well known traditional travel agencies in China. All of them are top tier travel agencies in China according to CNTA.

Although based on our research we can only obtain four comparable companies, we believed that these comparable listed companies are sufficiently comparable to the Target Company and allow a fair and meaningful comparison.

Table 3: Listed of Comparable Listed Companies

	Company	**Stock Code**	**Business Description**
1	China Travel International Investment Hong Kong Limited	00308 (HK)	The group operates tourist attractions, golf clubs, hotels, and other travel related activities. It also provides passenger transportation as well as freight forwarding and cargo services.
2	Beijing Utour International Travel Service Co., Ltd	002707 (SZ)	The company wholesales and retails outbound trips, and meetings, incentives, conventions and exhibitions tours.
3	China CYTS Tours Holdings Co., Ltd	600138 (SH)	The company provides travel information and arrangement services.
4	China International Travel Service Corp Ltd	601888 (SH)	The company operates travel agencies that offer a wide range of travel packages. The company also operates duty free shops.

Source: Bloomberg

Table 4: Revenue from Travel Agency Business

Company Name	Stock Code	Exchange	Location of Major Business Operation	Revenue from Travel Agency Business – in Million (as% of Total Revenue) 2011	2012	2013	2014	CAGR 2011 – 14
China Travel International Investment Hong Kong Limited	00308	Hong Kong	China	HKD1,665 (38.3%)	HKD1,765 (37.8%)	HKD1,512 (34.7%)	HKD1,467 (32.8%)	-4.1%
Beijing Utour International Travel Service Co Ltd	002707	Shenzhen	China	RMB1,585 (100%)	RMB2,138 (100%)	RMB3,005 (100%)	RMB4,217 (99.9%)	38.6%
China CYTS Tours Holdings Co Ltd	600138	Shanghai	China	RMB4,982 (59.2%)	RMB5,772 (56.2%)	RMB6,021 (64.6%)	RMB6,609 (62.3%)	9.9%
China International Travel Service Corp Ltd	601888	Shanghai	China	RMB8,529 (67.2%)	RMB10,602 (65.7%)	RMB10,772 (61.7%)	RMB12,011 (60.2%)	12.1%

Sources: Bloomberg and annual reports

Determination of Pricing Multiple

We have reviewed the financial information of these comparable listed companies and the Target Company. We have evaluated the application of the most common used pricing multiples (i.e. Price-to-Earnings ("P/E") ratio, Price-to-Book ("P/B") ratio, Price-to-Sales ("P/S") ratio, Enterprise Value-to-Earnings Before Interest, Tax, Depreciation and Amortization ("EV/EBITDA") ratio, Enterprise Value-to-Earnings Before Interest and Tax ("EV/EBIT") ratio and the Enterprise Value-to-Sales ("EV/Sales") ratio) to this valuation. We determined that the EV/EBITDA ratio and EV/Sales ratio would be the suitable ratios for this case.

Based on the financial information of these companies, they have adopted different capital structures in operating the business.

	Debt to Equity (Net Book Value) on 31 December 2014
Target Company	112%
China Travel International Investment Hong Kong Limited	5.6%
Beijing Utour International Travel Service Co Ltd	1.1%
China CYTS Tours Holdings Co., Ltd	23.7%
China International Travel Service Corp Ltd	0.7%

One of the limitations on application of equity value based pricing multiples is the impact from capital structure. As equity value based pricing multiples do not take into account of the capital structure of the companies, it is prefer to adopt pricing multiples based on enterprise value which are neutral on capital structure. As both P/E ratio and EV/EBITDA ratio or EV/EBIT ratio measure the operational performance of the business, we have rejected the adaptation of the P/E ratio in this valuation.

We have also evaluated the application of P/B ratio in this valuation. However, we considered that it would be difficult to adopt P/B ratio this case as the coefficient of variation ("CV") which measure the dispersion of the data, is largest among the rest of the pricing multiples. The P/B ratios swing from 1.37x to 16.67x. Additionally, traditional travel agency is not a capital intensive business. The fixed assets invested do not directly link up with the value of the business.

Regarding the P/S ratio, we have rejected to apply it to our valuation as it is a common mistake on mismatching as the sales should be based on the contribution from both the equity holders and the debt holders. On the other hand, we have evaluated the EV/Sales ratio to our valuation. EV/Sales ratio links up the sales volume and the value of the business. Based on our research, size of travel agency has significant impact on the value of business. It is also one of the common applied pricing ratios in evaluation of a travel agency business.

EV/EBITDA ratio and EV/EBIT ratio are very similar enterprise value multiples. Both of them are less affected by the capital structure of the company. Both multiples measure operating performance and are not affected by different tax rules. EV/EBIT ratio will have advantageous in evaluation of capital intensity business. As travel agency business is not capital intensity business, we have adopted EV/EBITDA ratio in this valuation.

In summary, both operational performance and the scale of business are closely related to the value of a travel agency business. It is because provision of some travel agency functions, e.g. VISA application, outbound trip to Hong Kong, Macau, Taiwan, etc, are restricted to a few approved large travel agencies only. Furthermore, only large travel agencies will have the resources and networks to develop tourism products while small travel agencies can only be the resellers or distributors of these products. As a result, we have selected the EV/EBITDA ratio and EV/Sales ratio as the pricing multiples.

Latest financial information as of the Valuation Date of these comparable listed companies is used to calculate these ratios.

Table 5: Pricing Multiples of Comparable Listed Companies

	Company	Stock Code	EV/EBITDA	EV/Sales	P/E	P/B
1	China Travel International Investment Hong Kong Limited	00308 (HK)	7.32	4.44	12.24	1.37
2	Beijing Utour International Travel Service Co Ltd	002707 (SZ)	59.39	2.18	88.33	16.67
3	China CYTS Tours Holdings Co., Ltd	600138 (SH)	22.38	1.94	52.68	4.34
4	China International Travel Service Corp Ltd	601888 (SH)	18.15	2.19	34.1	4.97
		Average	26.81	2.69	46.84	6.84
		Coefficient of Variation	0.84	0.44	0.69	0.99
		Accept or Reject	Accept	Accept	Reject	Reject

Source: Bloomberg

Valuation Adjustment

For this particular case, the level of value is a non-controlling, non-marketable interest value. We based on the Guideline Public Company Method to develop our value. The information used, including share prices of the comparable listed companies, is developed from a non-controlling marketable interest's position. It is because an investor can use the share prices of these companies to trade only a small amount of shares (i.e. without control) in open market (i.e. marketable). Therefore, we need to consider the impact on value due to a lack of marketability by applying a discount for lack of marketability ("DLOM") but not the discount for lack of control in this case.

DLOM is the valuation adjustment with a large monetary impact on the final determination of value. Marketability is defined as the ability to convert an investment into cash quickly at a known price and with minimal transaction costs. DLOM is a downward adjustment for the value of an investment to reflect its reduced level of marketability.

In selecting the appropriate DLOM, we considered the length of time and effort required by the Management in order to sell the Asset. This typically would take at least three to nine months if a transaction could be consummated at all. We considered the substantial expenses that are typically incurred to sell a business, including legal fees, accounting fees and intermediary fees. We have made reference to the FMV Restricted Stock Study™ which is a common and popular transaction database for determination of DLOM. The estimated DLOM based on the FMV Restricted Stock Study™, is 15%. We cross checked this result with Finnerty's Put Option Model with different combinations of volatility (40% – 50%, based on the historical volatilities of the comparable companies) and time of restriction (1 – 3 years) and confirmed with the suggested DLOM. Therefore, for the purpose of this valuation, we adopted a DLOM of 15%.

Estimation of Fair Value

Based on the above discussion, we have estimated the fair value of the Asset as RMB452,700,000. For the calculation, please refer to the following table.

(RMB'000)		**EV/EBITDA**	**EV/Sales**
Net Profit	5,962		
Tax	(254)		
Interest Expense	5,002		
Depreciation/Amortization	3,757		
Less: Non-Recurring Profit	(4,518)		
EBITDA		9,949	
Revenue			688,233
Pricing Multiple		26.81	2.69
Enterprise Value		266,733	1,851,347
Add: Cash Equivalents		43,934	43,934
Less: Interest Bearing Debts		(93,041)	(93,041)
Add: Excess Assets#			
(i) AFS Equity Instruments		9,900	9,900
(ii) Deposits in Franchisees		67,062	67,062
Sub-total		294,588	1,879,202
DLOM	15%	(44,188)	(281,880)
Total		250,400	1,597,322
Weight		50%	50%
100% Equity		923,861	
49% Equity		452,692	
49% Equity (Rounded)		452,700	

** For reference only. The value of 49% equity interest estimated based on P/E ratio: RMB148.4 million based on P/E: 46.84x.

Excess assets need to be added back as the pricing multiples only represent the value from operation. We need to add back the non-operating assets and liabilities to come up with a comprehensive result.

As discussed before, EV/EBITDA ratio and EV/Sales ratio described different angles of the same business. EV/EBITDA ratio explains the relationship between the business value and the cash flow/return while EV/Sales ratio explains the relationship of between business value and the scale of the business. The low result based on EV/EBITDA ratio demonstrates the situation of the poor performance of the Target Company. The high result based on EV/Sales ratio demonstrates the advantage due to the economy of scale of the business.

Both the operation performance and the scale are important to the success of a travel agency business, therefore, we considered it is appropriate to adopt both ratios in the valuation of the Target Company. In assigning the weights to these two ratios, it should be very careful as these two ratios yield very different conclusions. Firstly, both of these ratios are commonly applied in evaluation of a travel agency business. Both of these ratios explain the key characteristics of a travel agency business. Secondly, we evaluated the data characteristics of the ratios. The CV of EV/Sales ratio (0.44) is lower than those of EV/EBITDA ratio (0.84). Logically, it should assign a higher weighting towards the narrower multiple. However, in the absence of empirical results any assignment of weights is pure guesswork. Without empirical evidence, the fifty-fifty weighting is the most suitable selection.

Sensitivity Analysis

As mentioned before, the DLOM applied has a significant influence to the fair value of the Asset. We have performed a sensitivity analysis on the fair value of the Asset under different combinations of DLOM.

Table 6: Scenario Analysis

DLOM	**Fair Value**
	(RMB'000)
0%	532,600
5%	505,900
10%	479,300
15%	452,700
20%	426,100
25%	399,400

Based on the Table 6, it demonstrates a linear relationship between the DLOM and the fair value of the Asset. Increase DLOM for one percent, the fair value of the Asset will decrease for around RMB5.3 million.

Limiting Conditions

We have made no investigation of and assumed no responsibility for the title to or any liabilities against the Company, the Target Company and the Target Group.

The opinion expressed in this report has been based on the information supplied to us by the Company, the Target Group and their staff, as well as from various institutes and government bureaus without verification. All information and advice related to this valuation are provided by the Management. Readers of this report may perform due diligence themselves. We have exercised all due care in reviewing the supplied information. Although we have compared key data supplied to us with their expected values, the accuracy of the results and conclusions from the review rely on the accuracy of the supplied data. We have relied on this information and have no reason to believe that any material facts have been withheld, or that a more detailed analysis may reveal additional information. We do not accept responsibility for any errors or omissions in the supplied information and do not accept any consequential liability arising from commercial decision or actions resulting from them.

This valuation reflects facts and conditions as they exist at the Valuation Date. Subsequent events have not been considered, and we have no obligation to update our report for such events and conditions.

Conclusion

In conclusion, based on the analysis stated above and the valuation method employed, it is our opinion that the fair value of 49% equity interest in China Comfort Travel Group Company Limited as of 31 May 2015 is **RMB452,700,000** (RENMINBI FOUR HUNDRED FIFTY TWO MILLION AND SEVEN HUNDRED THOUSAND ONLY).

The opinion of value was based on generally accepted valuation procedures and practices that rely extensively on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained.

We hereby certify that we have neither present nor prospective interests in the subject under valuation. Moreover, we have neither personal interests nor biases with respect to the parties involved.

Yours faithfully,
For and on behalf of
Flagship Consulting (Hong Kong) Limited
Ferry S.F. Choy
CFA, ICVS
Director

Exhibit A – Statement of General Services Conditions

The service(s) provided by Flagship Consulting (Hong Kong) Limited will be performed in accordance with the professional valuation standard. Our compensation is not contingent in any way upon our conclusions of value. We assume, without independent verification, the accuracy of all data provided to us. We will act as an independent contractor and reserve the right to use subcontractors. All files, working papers or documents developed by us during the course of the engagement will be our property. We will retain this data for at least seven years after completion of the engagement.

Our report is to be used only for the specific purpose stated herein and any other use is invalid. No reliance may be made by any third party without our prior written consent. You may show our report in its entirety to those third parties who need to review the information contained herein. None should rely on our report as a substitute for their own due diligence or judgment. No reference to our name or our report, in whole or in part, may be made in any document you prepare and/or distribute to third parties without our written consent.

You agree to indemnify and hold us harmless against and from any and all losses, claims, actions, damages, expenses, or liabilities, including reasonable attorneys' fees, to which we may become subject in connection with this engagement. You will not be liable for our negligence. Your obligation for indemnification and reimbursement shall extend to any controlling person of Flagship Consulting (Hong Kong) Limited, including any director, officer, employee, subcontractor, affiliate or agent. In the event we are subject to any liability in connection with this engagement, regardless of advanced legal theory, such liability will be limited to the amount of fees we received for this engagement.

We reserve the right to include your company name in our client list, but we will maintain the confidentiality of all conversations, documents provided to us, and the contents of our reports, subject to legal or administrative process and proceedings. These conditions can only be modified by written documents executed by both parties.

Exhibit B – Involved Staff Biographies

Ferry S.F. Choy, *CFA, ICVS*
Director

Mr. Choy is presently the Director of Flagship Consulting (Hong Kong) Limited. Mr. Choy provides valuation services mainly for financial reporting, transactions, and the purposes of an IPO. These valuation services include business valuation, equity valuation, biological assets valuation, mining valuation and financial instrument valuation. His experience covers a wide range of different industry includes food & beverage, manufacturing and information technology.

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from the independent professional valuer, Flagship Consulting (Hong Kong) Limited.

LETTER OF OPINION

Ref: FC201507017

21 August 2015

The Board of Directors
Orient Victory China Holdings Limited
Room 2063, Harbour Centre
25 Harbour Road
Wanchai, Hong Kong

Dear Sirs/Madams,

Re: Valuation of Trademark and Distribution Network of
China Comfort Travel Group Company Limited

In accordance with the instructions from Orient Victory China Holdings Limited ("the Company", together with its subsidiaries, collectively referred to as "the Group"), we are required to evaluate the fair value of the trademark ("the Trademark") and distribution network ("the Distribution Network", together with the Trademark, collectively referred to as "the Intangible Assets") of China Comfort Travel Group Company Limited ("the Target Company", together with its subsidiaries and associates, collectively referred to as "the Target Group") as of 31 May 2015 ("the Valuation Date").

Our analysis and conclusion, which are to be used only in their entirety, are for the use of the management ("the Management") of the Group solely for pro-forma financial reporting in relation to the potential acquisition of 49% equity interest in the Target Company only. They are not to be used for any other purposes or by any other party for any purpose, without our express written consent. None should rely on our analysis and conclusion as a substitute for their own judgement or due diligence. The following report summarizes the conclusion and findings based on our conducted analysis.

This valuation engagement was conducted in accordance with the International Valuation Standards. The estimate of value that results from a valuation engagement is expressed as a conclusion of value.

Based on our analysis, as described in this report, the estimate of fair value of the Intangible Assets as of the Valuation Date are as follows:

Trademark	RMB102,593,000
Distribution Network	RMB904,759,000

This conclusion is subject to the assumptions, the Limiting Conditions and the Statement of General Services Conditions described in this report. We have no obligation to update this report or our conclusion of value for information that comes to our attention after the date of this report.

Yours faithfully,
For and on behalf of
Flagship Consulting (Hong Kong) Limited
Ferry S.F. Choy
CFA, ICVS
Director

EXECUTIVE SUMMARY

Governing Standard:	International Valuation Standards
Purpose:	Internal reference
Standard of Value:	Fair Value
Premise of Value:	Value as a going concern
Client Name:	Orient Victory China Holdings Limited
Target Name:	China Comfort Travel Group Company Limited
Type of Entity:	Private Limited Company
Assets Valued:	Trademark and Distribution Network
Valuation Date:	31 May 2015
Report Date:	21 August 2015
Methodology:	Trademark – Relief from Royalty Method
	Distribution Network – Replacement Cost Method
Conclusion of Value:	Trademark – RMB102,593,000
	Distribution Network – RMB904,759,000

INTRODUCTION

In accordance with the instructions from Orient Victory China Holdings Limited ("the Company", together with its subsidiaries, collectively referred to as "the Group"), we are required to evaluate the fair value of the trademark ("the Trademark") and distribution network ("the Distribution Network", together with the Trademark, collectively referred to as "the Intangible Assets") of China Comfort Travel Group Company Limited ("the Target Company", together with its subsidiaries and associates, collectively referred to as "the Target Group") as of 31 May 2015 ("the Valuation Date").

It is our understanding that our analysis and conclusion, which are to be used only in their entirety, will be used by the management ("the Management") of the Group for pro-forma financial reporting in relation to the potential acquisition of 49% equity interest in the Target Company only. Our analysis was conducted for the above purpose and this report should be used for no other purpose without our express written consent. None should rely on our analysis and conclusion as a substitute for their own judgement or due diligence. Our work was performed subject to the assumptions, the Limiting Conditions and the Statement of General Services Conditions described in this report.

SCOPE OF SERVICES

We were engaged by the Management to perform an independent assessment on the fair value of the Intangible Assets as of the Valuation Date.

BASIS OF VALUE

The opinion of value of the Intangible Assets will be on the basis of fair value. According to Hong Kong Financial Reporting Standard 13 ("HKFRS 13") Fair Value Measurement, fair value is defined as "*the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date*."

SOURCES OF INFORMATION

Sources of data utilized in our analysis included but not were limited to the following:

- Audited financial statements of the Target Company for the years ended 31 December 2012, 31 December 2013, and 31 December 2014;
- Audited financial statements of the Target Company for the periods ended 31 March 2014, and 31 March 2015;
- The Target Group introduction information;
- Cost of redeveloping a travel agent company or branch;
- The PRC Tax regulations; and
- Bloomberg database.

We conducted a site visit to the headquarters of the Target Company in Beijing in early June 2015. During the site visit, we had meetings with Mr. Dong (the President) and Mr. Gao (the Chief Accountant) and toured around the office.

We also relied upon publicly available information from sources on capital markets, including industry reports, various databases of publicly traded companies and news.

We express no opinion and accept no responsibility for the accuracy and completeness of the financial information or other data provided to us by others. We assume that the financial and other information provided to us is accurate and complete, and we have relied upon this information in performing our assessment.

COMPANY OVERVIEW

For details, please refer to the Company Overview section of Appendix V.

VALUATION METHODOLOGY

The valuation of any asset can be broadly classified into one of three approaches, namely the cost approach, market approach and income approach.

Cost Approach: this is a general way of determining a value indication of a business ownership interest by using one or more methods based on the value of the net asset. Value is established based on the principle of substitution. Based on the logic that the value of a business is equal to the sum of its parts, value is established based on the cost of reproducing or replacing the property, less depreciation from physical deterioration and functional and economic obsolescence, if present and measurable.

Under the cost approach, the replacement cost of either a similar asset or one providing similar service potential or utility is estimated.

Market Approach: this is a general way of determining a fair value indication of a business ownership interest by using one or more methods that compare the subject to similar business ownership interests that have been sold. Value is established based on the principle of competition. It simply means that if one thing is similar to another and can be used for the other, then they must be equal in value. Otherwise, the one with lower value will attract all the demand and the one with higher value can either reduce its price or be extinguished by market force. As a result, the price of two similar items should approximate one another.

Under the market approach, the value of an intangible asset is determined by reference to market activity, e.g. transaction bids or offers involving identical or similar assets. However, due to the heterogeneous nature of intangible assets means that it is very difficult to find market evidence of transactions involving identical assets.

If there is market evidence at all it is usually in respect of assets that are similar, but not identical. Thus, it will often be necessary to make adjustments to the available prices or valuation multiples to reflect difference between the subject asset and those involved in the transactions. These adjustments may only be determinable at a qualitative, rather than quantitative level.

Income Approach: this is a general way of determining a fair value indication of a business ownership interest by using one or more methods that convert anticipated benefits into a present value amount. Value is established based on the principle of anticipation. In this approach, an economic benefit stream of the asset under analysis is selected. This selected benefit stream is then discounted to present value with an appropriate risk-adjusted discount rate.

Under the income approach, the value of an intangible asset is determined by reference to the present value of income, cash flows or cost savings generated by the intangible asset. The three major valuation methods under the income approach used in the intangible asset valuation are:

– Relief-from-royalty method

– Premium profits method

– Excessing earnings method

All of these methods involves the converting the forecast cash flows to an indication of value using either discounted cash flow techniques or capitalisation of a single cash flow.

CURRENT BUSINESS ARRANGEMENTS

To promote the Trademark and to establish a network throughout China, the Target Company entered into certain business arrangements ("the Business Arrangements") with various parties, pursuant to which the Target Company and the said parties established various companies. In order to finance their respective establishments, the Target Company made contributions in the aggregate amount of RMB74,670,895 in the form of subscribed capital into these companies, hence the Target Company, on a legal perspective, holds equity interests ranging between 5% and 100% in these companies.

Under such Business Arrangements, the Target Company only maintains the rights to protect the Trademark and is entitled to certain fixed amounts of fee from these companies but does not share the operating results of these companies.

The principal terms of the Business Arrangements are set out below:

Range of fixed annual fee earned from the Franchisees

The fixed annual fee earned from the franchisees ranges from RMB2,000 to RMB871,400 per year.

Use of Trademark

The franchisees will pay a fixed lump sum fee to the Company for the use of the Trademark. Such fixed lump sum fee is determined on the basis of the travel agency category of the franchisee and such standard of determination has been adopted by the Target Company since 2000. A fixed lump sum fee of RMB500,000 is applicable to the franchisees which are qualified to engage in outbound tourism; whereas a fixed lump sum fee of RMB100,000 is applicable to PRC travel agencies and RMB50,000 is applicable to newly established PRC travel agencies.

Target Group's investments in the Franchisees

By investing in the franchisees, the Target Company is entitled to a fixed investment return ranging from 10% to 20% of the amount invested in the next year. Such percentage threshold is determined by reference to (i) the PRC interbank lending rate which is between 5% and 10%; and (ii) the overall profit margin of the tourism industry.

Tenure of the Business Arrangements

The Business Arrangements are not established by way of contracts and hence, the concept of tenure is not applicable.

Business model of the franchise business

Based on the Business Arrangements, the Target Company is entitled to receive fixed annual fees from the franchisees for use of the Trademark for its businesses and the Target Company does not share the operating results of the franchisees. Apart from that, there is no relevant legal rights and obligations in relation to the contract of the franchise business of the Target Company in respect of the franchisees since there is no contractual relationship between the parties.

SELECTION OF VALUATION METHODOLOGY

As mentioned, valuation of any asset can be broadly classified into one of three approaches, namely the cost approach, the market approach and the income approach. In any valuation analysis, all three approaches must be considered, and the approach or approaches deemed most relevant will then be selected for use in the fair value analysis of that asset.

The Trademark refers to the trademarks or trade name of the Target Group. As stated in the last section, the Target Company managed its business through the Business Arrangements with the franchisees. As a result, the usage of the Trademark has created a stream of economic benefit since 2000. Therefore, based on our opinion, the Relief-from-Royalty Method under the income approach is regarded as the best valuation method for the Trademark.

The Distribution Network refers to the distribution network under the Trademark. It includes all the subsidiaries, associates and their branches. Based on our discussion with the senior management during site visit, although the Target Company does not directly involved in the fellow companies' operation, the fellow companies will execute the business strategies imposed by the Target Company. The Target Company can mobilize the Distribution Network to promote new products or adopt new business strategies. We considered the Replacement Cost method under the cost approach would be the best valuation method for the Distribution Network as it estimates the cost involved in re-establishing similar distribution network which provide similar functionality.

For this particular case, we have decided to apply:

Table 1: Selected Valuation Methods

Trademark	Relief-from-Royalty Method (under the income approach)
Distribution Network	Replacement Cost Method (under the cost approach)

GENERAL ASSUMPTIONS

A number of general assumptions have to be established in order to sufficiently support our conclusion of value. The general valuation assumptions adopted in this valuation are:

– There will be no material change in the existing political, legal, fiscal, foreign trade and economic conditions in China and where Comfort Travel Group is carrying on its businesses;

– There will be no significant deviation in the industry trend and market condition from the current market expectation;

– There will be no material change in interest rates or foreign currency exchange rates from those currently prevailing;

– There will be no major change in the current taxation law and travelling policy in China;

– All relevant legal approvals, business certificates or licenses for the normal course of operation are formally obtained, remain in good standing, and can be procured with no additional costs or fees; and

– The Target Group will retain competent management, key personnel and technical staff to support their on-going business operations.

VALUATION OF TRADEMARK – RELIEF-FROM-ROYALTY METHOD

Royalty fee is the consideration paid to the intangible asset owner for using the intangible asset. In order to estimate the fair value of the Trademark, we start evaluating the amount of annual royalty fee should be paid for using the intangible asset and discount the annual royalty fee to the Valuation Date to estimate the fair value of the Trademark.

Per our discussion with the Target Company, the Target Company is receiving annual payment from franchisees. The business operation in Beijing and Hebei province are under the direct management of the Target Company and does not require to pay royalty. In order to comprehensively estimate the fair value of the Trademark through Relief-from-Royalty method, we need to estimate a royalty rate to approximate the amount of royalty income for this part of business.

Determination of Royalty Rate

In order to estimating the royalty rate, we have applied the following procedures:

(i) Looking for comparable transactions; and

(ii) Apply Rules of Thumb (a) 25% Operating Profit, (b) 25% Gross Profit and (c) 5% of Revenue

(i) Looking for Comparable Transactions

We have searched for similar comparable transactions in the market. However, based on our research, we cannot find any comparable transaction with royalty rate information.

(ii) Rule of Thumb

Another method of royalty rate estimation is by assuming a part of the profits as the contribution of the trademark's owner. Depends on the nature of the intangible asset and the corresponding industry practice, gross profit, operating profit or net profit can be used as the profit reference. We have adopted the gross profit and the operating profit as the profit reference.

We have selected four comparable companies for this particular case. For the details of the comparable companies, please refer to Exhibit C.

A popular starting point for negotiations is to base royalty rates on a percentage of profit (usually 25%). We have performed an analysis on the historical performance of the Target Company and the comparable companies to estimate the corresponding royalty rate in term of revenue.

A summary of Royalty Rate Estimation:

Table 2: Royalty Rate Estimation based on 25% Gross Profit

Comparable Company	**Average 4-yr GP**	**Royalty Rate: 25% GP**
The Target Company	5.1%	1.3%
China Travel International Investment Hong Kong Limited	Undisclosed	N/A
Beijing Utour International Travel Service Co Ltd	9.4%	2.4%
China CYTS Tours Holdings Co Ltd	8.8%	2.2%
China International Travel Service Corp Ltd	9.9%	2.5%

Sources: The Target Company and the annual reports of Comparable Companies

Table 3: Royalty Rate Estimation based on 25% Operating Profit

Comparable Company	**Average 4-yr OP**	**Royalty Rate: 25% OP**
The Target Company	0.2%	0.1%
China Travel International Investment Hong Kong Limited	10.3%	2.6%
Beijing Utour International Travel Service Co Ltd	3.8%	0.9%
China CYTS Tours Holdings Co Ltd	Undisclosed	N/A
China International Travel Service Corp Ltd	Undisclosed	N/A

Sources: The Target Company and the annual reports of Comparable Companies

Another rule of thumb used net sales as the basis for measuring royalty rate is the "5% of Net Sales Method". The royalty rate is based on 5% of the net sales. The major drawback of this method is that it does not take into consideration of other financial considerations, the scope of the license grant, the risk associated with licensing the intellectual property, the capital investment necessary to implement the intellectual property, profits, manufacturing expense, and operating expenses.

Table 4: Summary of the Royalty Rate Estimation

Methodology	**Royalty Rate (% of Revenue)**	**Remarks**
Comparable Transaction	N/A	No comparable transaction can be identified
Rule of Thumb – 25% Gross Profit	1.3% – 2.5%	
Rule of Thumb – 25% Operating Profit	0.1% – 2.6%	
Rule of Thumb – 5% of Revenue	5%	
Range	0.1% – 5%	

In order to determine a fair royalty rate, we have taken into account the following factors:

– The Target Group is the sixth largest travel agent in China in 2013;

– The Target Group is the second largest travel agent (based on the management account in PRC accounting standards) in terms of revenue among these companies;

– The Target Group has a strong brand recognition with more than 2,000 branches/subsidiaries/associates in China;

– The Target Group has a long operation history;

– The Target Group has demonstrated a significant growth in the last 4 years; and

– The Target Group has a lower profitability compared with the comparable companies.

After carefully considered the above factors, we considered to apply 1.5% of revenue as the royalty rate for using the Trademark.

Basis of Royalty Income

As mentioned before, total royalty income should be covered both the annual payment received from the franchisees under the Business Arrangement and the royalty income estimated for Beijing and Hebei province business.

According to the audited financial information, the Target Company received RMB4.9 million, RMB6.6 million and RMB5.9 million annual payment from franchisees for the years ended of 2012, 2013 and 2014, respectively. Thus, we assume the Target Company will continuously receive RMB6 million annual payment from franchisees in 2015.

For the business operation in Beijing and Hebei province under the direct management of the Target Company, we assumed a 5% growth on revenue in 2015 and 3% growth on revenue for the year after 2015 and applied 1.5% royalty rate to approximate the royalty income.

Determination of Corporate Income Tax Rate

The Corporate Income Tax rate in China is 25%. Accordingly, we have adopted the same rate in our valuation.

Determination of Discount Rate

We have to estimate an appropriate discount rate to discount the future economic benefits arisen from using the Trademark.

We firstly developed the cost of equity and the cost of debt of a travel agency business based on data and factors relevant to the economy and the industry as of the Valuation Date. These costs were then weighted in terms of a typical or market participant's capital structure to arrive at the weighted average cost of capital ("WACC"). We might apply additional adjustments on top of the WACC to reflect the risk of the subject asset as our discount rate opinion. For details of the calculation, please referred to Exhibit C.

The formula for calculating the WACC is:

$$WACC = \frac{D}{V} \times (1 - T_c) \times r_{debt} + \frac{E}{V} \times r_{equity}$$

D:	Debt	T_c:	Corporate Tax Rate
E:	Equity	r_{debt}:	Cost of Debt
V:	Debt and Equity	r_{equity}:	Cost of Equity

(i) Development of Cost of Equity

We have adopted the Modified Capital Asset Pricing Model ("MCAPM") to calculate the cost of equity.

The formula for calculating the cost of equity based on MCAPM is:

$$r_{equity} = r_{risk\ free} + beta \times ERP + r_{size} + r_{specific}$$

r_{equity}	=	Cost of Equity	beta	=	Sensitivity of a stock's return to the return on the market portfolio
$r_{risk\ free}$	=	Risk Free Rate			
r_{size}	=	Size Premium			
$r_{specific}$	=	Specific Company Adjustment	ERP	=	Equity Risk Premium

According to the above formula, the estimated cost of equity is 17.99%.

(ii) Development of Cost of Debt

In order to estimate the cost of debt, we have made reference to the current borrowing cost of the Target Company. We adopted 10% as the cost of debt.

(iii) Development of Weighted Average Cost of Capital

WACC is determined by the weighted average, at market value, of the cost of all financing sources in the business enterprise's capital structure. For this particular exercise, we made reference to the average capital structure of the comparable companies. Subsequent to the calculations of the cost of equity, the cost of debt and application of the average capital structure of the comparable companies, we come up with a WACC of 17.47%.

(iv) In order to reflect the higher inherent risk of the Trademark due to the intangible nature, we have applied 1% on top of the WACC to conclude our discount rate. The discount rate for this valuation is 18.47%.

Tax Amortization Benefit

Under HKFRS 13, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participant at the measurement date. Under an orderly transaction, the price of the intangible assets would generally reflects tax benefits associated with the amortization of the intangible assets from a market participant's point of view, which is irrespective of (a) whether such tax amortization benefit would be tax deductible under the PRC Enterprise Income Tax for the Company and (b) whether the Company would have sufficient future profits to realise such tax benefits.

According the PRC tax regulation, for intangible assets recognised due to acquisition, the minimum time for amortization is 10 years. Therefore, we have adopted 10 years as the duration to estimate tax amortization benefit of the Trademark. As such, 1/10 of the value will be amortized, the tax amortization benefit would be 25% of the amortization amount. Iterations have been implemented into the calculation to match amortization expenditure with total fair value inclusive of tax amortization benefits.

Economic Useful Life

The Target Group has been operating for more than 30 years and well recognised as a renowned national travel agent group in China. From our opinion, the risk of trademark infringement is not high and the cost of renewal should be minimal. Therefore, the economic useful life of the Trademark should be indefinite.

Estimation of Fair Value

Based on the above discussion and the adopted valuation method, the fair value of the Trademark as of the Valuation Date is RMB102,593,000. For details of the calculation, please refer to the Exhibit D.

VALUATION OF DISTRIBUTION NETWORK – REPLACEMENT COST METHOD

Under the cost approach, the replacement cost of either a similar asset or one providing similar service potential or utility is estimated.

The inputs that are considered when applying the cost approach include the following:

- The cost of developing or purchasing an identical asset;
- The cost of developing or purchasing an asset offering the same utility or service potential;
- Any adjustments required to the cost of developing or purchasing to reflect the specific characteristics of the subject asset, such as economic or functional obsolescence; and
- Any opportunity cost incurred by the developer of the asset.

Based on the provided information, the Distribution Network covers:

- 42 companies in major cities;
- 248 companies in lower tiers cities; and
- 1,829 branches in different provinces.

The management of the Target Company has provided a detailed cost breakdown of redeveloping the distribution network.

We have compared the provided cost estimation with other market information. For instance, for the estimated staff cost, we has compared the provided information with other human resources agencies' publications. For the projected utility cost and rental, we have compared the provided information with the actual incurred cost. We have also detailed discussion with the management of the Target Company to understand about the procedures of exploration of a region, the involved staff and the corresponding time projection basis.

Additionally, we have selected the top 10 fellow companies as samples to cross check the provided cost information with the actual incurred cost. The sampling scope covers more than 750 branches. Basically, the cost estimation provided by the Target Company matched with the existing operating results and no significant discrepancy has been noted.

Tax Amortization Benefit

Under HKFRS 13, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participant at the measurement date. Under an orderly transaction, the price of the intangible assets would generally reflects tax benefits associated with the amortization of the intangible assets from a market participant's point of view, which is irrespective of (a) whether such tax amortization benefit would be tax deductible under the PRC Enterprise Income Tax for the Company and (b) whether the Company would have sufficient future profits to realise such tax benefits.

According the PRC regulation, for intangible assets recognised due to acquisition, the minimum time for amortization is 10 years. Therefore, we have adopted 10 years as the duration, together with 18.47% discount rate and 25% corporate income tax rate, to estimate tax amortization benefit of the Distribution Network. As such, 1/10 of the value will be amortized and the tax amortization benefit would be 25% of the amortization amount. Iterations have been implemented into the calculation to match amortization expenditure with total fair value inclusive of tax amortization benefits.

Economic Useful Life

The Target Group has been operating for more than 30 years and well recognised as a renowned national travel agent group in China. As the Distribution Network is closely related to its business, from our opinion, the economic useful life of the Distribution Network should be indefinite.

Estimation of Fair Value

Based on the cost involved in redeveloping the Distribution Network, there is no substantial investment on fixed assets as travel agency is not a capital intensive business.

We have also adopted relief from royalty method to estimate the value from the discount on royalty fee income due to the Business Arrangements as a cross checking procedure. Key assumptions include: (i) total revenue of the Target Group based on PRC accounting standards, (ii) 1.5% royalty rate, (iii) 18.47% discount rate, (iv) 3% long term growth rate and (v) perpetual useful life. We came up with a rough estimation of RMB888 million which is close to our concluded fair value.

Based on the above discussion and the adopted valuation method, the fair value of the Distribution Network as of the Valuation Date is RMB904,759,000.

For details of the calculation, please refer to the Exhibit E.

LIMITING CONDITIONS

We have made no investigation of and assumed no responsibility for the title to or any liabilities against the Company, the Target Company and the Target Group.

The opinion expressed in this report has been based on the information supplied to us by the Company, the Target Group and their staff, as well as from various institutes and government bureaus without verification. All information and advice related to this valuation are provided by the Management. Readers of this report may perform due diligence themselves. We have exercised all due care in reviewing the supplied information. Although we have compared key data supplied to us with their expected values, the accuracy of the results and conclusions from the review rely on the accuracy of the supplied data. We have relied on this information and have no reason to believe that any material facts have been withheld, or that a more detailed analysis may reveal additional information. We do not accept responsibility for any errors or omissions in the supplied information and do not accept any consequential liability arising from commercial decision or actions resulting from them.

This valuation reflects facts and conditions as they exist at the Valuation Date. Subsequent events have not been considered, and we have no obligation to update our report for such events and conditions.

CONCLUSION

In conclusion, based on the analysis stated above and the valuation method employed, it is our opinion that the fair value of the Trademark and the Distribution Network of China Comfort Travel Group Company Limited as of 31 May 2015 are:

	Fair Value
	(RMB'000)
Trademark	102,593
Distribution Network	904,759

The opinion of value was based on generally accepted valuation procedures and practices that rely extensively on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained.

We hereby certify that we have neither present nor prospective interests in the subject under valuation. Moreover, we have neither personal interests nor biases with respect to the parties involved.

Yours faithfully,
For and on behalf of
Flagship Consulting (Hong Kong) Limited
Ferry S.F. Choy
CFA, ICVS
Director

EXHIBIT A – STATEMENT OF GENERAL SERVICES CONDITIONS

The service(s) provided by Flagship Consulting (Hong Kong) Limited will be performed in accordance with the professional valuation standard. Our compensation is not contingent in any way upon our conclusions of value. We assume, without independent verification, the accuracy of all data provided to us. We will act as an independent contractor and reserve the right to use subcontractors. All files, working papers or documents developed by us during the course of the engagement will be our property. We will retain this data for at least seven years after completion of the engagement.

Our report is to be used only for the specific purpose stated herein and any other use is invalid. No reliance may be made by any third party without our prior written consent. You may show our report in its entirety to those third parties who need to review the information contained herein. None should rely on our report as a substitute for their own due diligence or judgment. No reference to our name or our report, in whole or in part, may be made in any document you prepare and/or distribute to third parties without our written consent.

You agree to indemnify and hold us harmless against and from any and all losses, claims, actions, damages, expenses, or liabilities, including reasonable attorneys' fees, to which we may become subject in connection with this engagement. You will not be liable for our negligence. Your obligation for indemnification and reimbursement shall extend to any controlling person of Flagship Consulting (Hong Kong) Limited, including any director, officer, employee, subcontractor, affiliate or agent. In the event we are subject to any liability in connection with this engagement, regardless of advanced legal theory, such liability will be limited to the amount of fees we received for this engagement.

We reserve the right to include your company name in our client list, but we will maintain the confidentiality of all conversations, documents provided to us, and the contents of our reports, subject to legal or administrative process and proceedings. These conditions can only be modified by written documents executed by both parties.

EXHIBIT B – INVOLVED STAFF BIOGRAPHIES

Ferry S.F. Choy, *CFA, ICVS*
Director

Mr. Choy is presently the Director of Flagship Consulting (Hong Kong) Limited. Mr. Choy provides valuation services mainly for financial reporting, transactions, and the purposes of an IPO. These valuation services include business valuation, equity valuation, biological assets valuation, mining valuation and financial instrument valuation. His experience covers a wide range of different industry includes food & beverage, manufacturing and information technology.

EXHIBIT C – DERIVATION OF THE DISCOUNT RATE

Development of Cost of Equity

We have adopted the Modified Capital Asset Pricing Model ("MCAPM") to calculate the cost of equity.

The formula for calculating the cost of equity based on MCAPM is:

$$r_{equity} = r_{risk\ free} + beta \times ERP + r_{size} + r_{specific}$$

r_{equity}	=	Cost of Equity	beta	=	A measure of systemic risk of a stock
$r_{risk\ free}$	=	Risk Free Rate			
r_{size}	=	Size Premium	ERP	=	Equity Risk Premium
$r_{specific}$	=	Specific Company Adjustment			

Risk Free Rate ("$r_{risk\ free}$")

Risk free rate refers to the rate of return available in the market on an investment free of default risk. For this particular case, based on our discussion with the Management, the discount rate is targeted to be used in China where the business is located. Therefore, we have selected the bond yield of 10-year Chinese Government Bond as of the Valuation Date as the risk free rate. We have made reference to the bond yield information published in www.chinabond.com.cn.

Beta

In the MCAPM formula, beta is a measure of the systematic risk of a stock relative to the market portfolio which includes all types of risky investment. However, as the market portfolio does not exist in reality, we need to apply a proxy of the market portfolio in estimating the beta. Therefore, the beta described the tendency of a stock's price to correlate with change in a specific index. We obtained betas from four comparable companies with reference to the benchmark indices in the stock exchanges which the comparable companies listed in, details of which are stated below. The identified betas were unlevered to remove the effects of financial leverage on the indication of relative risk provided by the beta, and re-levered at the average of the comparable companies' capital structure which is considered as a typical capital structure from market participant's point of view. We have relied on the Bloomberg database to develop our result.

The relationship between unlevered beta and levered beta as follows:

$$beta_{levered} = beta_{unlevered} \text{ x } [1 + (1 - T_c) \text{ x } \frac{D}{E}]$$

D	=	Debt	$beta_{levered}$	=	Levered Beta
E	=	Equity	$beta_{unlevered}$	=	Unlevered Beta
T_c	=	Corporate Tax Rate			

Selection of Comparable Companies

In selecting the comparable companies, we started with a description of the company, in terms of lines of business, market location of business and other criteria.

The following criteria are used to select our comparable companies:

1. Companies listed in Hong Kong or China;

2. Companies engaged in traditional travel agency business and have a wide network of branches in China; and

3. Traditional travel agency business is important to the overall business and no intention to change in the coming future.

We based on the Bloomberg database and Google in selecting our comparable companies which are listed as follows:

Table C1 – List of Comparable Companies

Company	Stock Code	Business Description
1. China Travel International Investment Hong Kong Limited	00308 (HK)	The group operates tourist attractions, golf clubs, hotels, and other travel related activities. It also provides passenger transportation as well as freight forwarding and cargo services.
2. Beijing Utour International Travel Service Co Ltd	002707 (SZ)	The company wholesales and retails outbound trips, and meetings, incentives, conventions and exhibitions tours.

Company		Stock Code	Business Description
3.	China CYTS Tours Holdings Co., Ltd	600138 (SH)	The company provides travel information and arrangement services.
4.	China International Travel Service Corp Ltd	601888 (SH)	The company operates travel agencies that offer a wide range of travel packages. The company also operates duty free shops.

Table C2 – Unlevered Beta

Company	Stock Code	Levered Beta	Eff. Tax Rate	D/E Ratio	Unlevered Beta
China Travel International Investment Hong Kong Limited	00308 (HK)	1.034	16.3%	7.5%	0.973
Beijing Utour International Travel Service Co Ltd	002707 (SZ)	0.471	25.4%	0%	0.471
China CYTS Tours Holdings Co., Ltd	600138 (SH)	0.775	26.3%	13.1%	0.707
China International Travel Service Corp Ltd	601888 (SH)	0.696	24.5%	0.2%	0.695
			Average	5.2%	0.711

Table C3 – Levered Beta

Unlevered Beta	0.711
Applied D/E Ratio	5.2%
Tax Rate (Corporate Tax Rate in China)	25.00%
Re-levered Beta	0.739

Equity Risk Premium

We made reference to the equity risk premium published by Prof. Aswath Damodaran of New York University. The equity risk premium for China based on two different methodologies are 6.65% and 7.96% with an average of 7.31%. We have applied 7.31% as the ERP for China in this case.

Size Premium

Size premium is the historical tendency for the stocks of firms with smaller market capitalizations to outperform the stocks of firms with larger market capitalizations. In here, the size premium is defined as a premium over the expected return of equity developed based on original Capital Asset Pricing Model. As there is no similar research in China, we made reference to the studies performed by Duff & Phelps as reflected in their publication of 2015 Valuation Handbook – Guide to Cost of Capital. In this case, we made reference to the size premium for the 10th deciles (according to market capitalization) of NYSE/AMEX/NASDAQ in the United States and applied 5.99% size premium.

Specific Company Adjustment

Specific company adjustment is designed to account for the additional risk factors specific to the company being valued.

Company specific risk factors may include the following:

- Unfavourable policy due to recent policy change
- Litigation
- Over reliance on single or few customers/suppliers
- Change in key management
- Restriction on fund raising
- Obsolete technology
- Accidents

Based on our analysis, the profitability of the Target Company is worse than the comparable companies. We considered 3% specific company adjustment should be applied to address the poor profitability of the Target Company.

As at the Valuation Date, the cost of equity would be:

$$r_{equity} = r_{risk\ free} + beta \times ERP + r_{size} + r_{specific}$$

r_{equity}	=	Cost of Equity	beta	=	A measure of systemic risk of a stock
$r_{risk\ free}$	=	Risk Free Rate	ERP	=	Equity Risk Premium
r_{size}	=	Size Premium			
$r_{specific}$	=	Specific Company Adjustment			

Table C4 – Cost of Equity

Risk Free Rate	3.60%
Beta	0.739
Equity Risk Premium	7.31%
Size Premium	5.99%
Specific Company Adjustment	3.00%
Cost of Equity	17.99%

Development of Cost of Debt

In order to estimate the cost of debt, we have made reference to the current borrowing cost of the Target Company. We adopted 10% as the cost of debt.

Development of Weighted Average Cost of Capital

WACC is determined by the weighted average, at market value, of the cost of all financing sources in the business enterprise's capital structure. For this particular exercise, we made refer to the average capital structure of the selected comparable companies.

As at the Valuation Date, the weighted average cost of capital would be:

$$WACC = \frac{D}{V} \times (1 - T_c) \times r_{debt} + \frac{E}{V} \times r_{equity}$$

D:	Debt	T_c:	Corporate Tax Rate
E:	Equity	r_{debt}:	Cost of Debt
V:	Debt and Equity	r_{equity}:	Cost of Equity

Table C5 – Weighted Average Cost of Capital

Weight of Interest Bearing Debt (D/V)	4.94%
x Cost of Debt (r_{debt})	10.00
x (1 - Corporate Tax Rate)	0.75
Weighted Cost of Debt	0.37%
+	
Weight of Equity (E/V)	95.06%
x Cost of Equity (r_{equity})	17.99%
Weighted Cost of Equity	17.10%
WACC	17.47%

Remarks: detail may not add to total due to rounding.

In order to reflect the higher inherent risk of the Trademark due to the intangible nature, we have applied 1% on top of the WACC to conclude our discount rate. The discount rate for this valuation is 18.47%.

Exhibit D – Trademark Valuation Calculation

		2015	2016	Terminal	Remarks
		RMB'000			
Revenue from BJ HQ		688,233			Based on audited account
Less: Franchised Fee Income		5,942			Based on audited account
Revenue from BJ HQ without Franchised Fee Income		682,291			
Expected Grow th in 2015 (5%)		716,406			Supported by CAGR 09 – 14: 10.1% per management account
Royalty Income – BJ HQ	1.5% of Revenue	10,746			
Franchise Fee Income 2015		6,000			Estimated based on historical data
Total Royalty Income		16,746			
Tax	25.0%	(4,187)			PRC Corporate Tax Rate
After Tax Royalty Income		12,560			
Pro-rata		7,326	12,936	86,147	Valuation date: May 31, so 7 months left until year end. Assumed 3% growth in long run
Discount Rate	18.47%				
Time		0.29	1.08	1.08	Mid-point convention
Discount Factor		0.952	0.832	0.832	
Present Value		**89,438**			

		2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Tax amortization benefit	25% tax rate	2,565	2,565	2,565	2,565	2,565	2,565	2,565	2,565	2,565	2,565
Time		0.29	1.08	2.08	3.08	4.08	5.08	6.08	7.08	8.08	9.08
Discount Factor		0.952	0.832	0.703	0.593	0.501	0.423	0.357	0.301	0.254	0.215
Trademark Value		**102,593**									

Exhibit E – Distribution Network Valuation Calculation

Distribution Network	*RMB*										
Distribution Network Part A	208,962,600										
Distribution Network Part B	250,132,800										
Distribution Network Part C	329,646,767										
Total Distribution Network before TAB	**788,742,167**										
		2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
Tax amortization benefit	25% tax rate	22,618,976	22,618,976	22,618,976	22,618,976	22,618,976	22,618,976	22,618,976	22,618,976	22,618,976	22,618,976
Time		0.29	1.08	2.08	3.08	4.08	5.08	6.08	7.08	8.08	9.08
Discount Factor	18.47% discount rate	0.952	0.832	0.703	0.593	0.501	0.423	0.357	0.301	0.254	0.215
Total Distribution Network	**904,759,027**										

Replacement Cost Estimated by the Target Company for 42 Companies in Major Cities

Distribution Network Part A – Key cities and provincial capital cities

	Number of days required in general	Personnel required (position)	Number of personnel required	Average monthly wage	Average daily wage	Cost required
Preparation stage						
– Region, market research and seek partners etc.	15	Deputy general manager	1	¥16,000	¥533	¥8,000
	30	Head of Chinese citizen travel service headquarters	1	¥15,000	¥500	¥15,000
	30	Head of MICE department	1	¥15,000	¥500	¥15,000
	90	Business manager	3	¥12,000	¥400	¥108,000
	90	Business officer	10	¥5,000	¥167	¥150,000
	0	Others (please state)	0	¥0	¥0	¥0
– Submit the preliminary proposal to the Board for approval	10	General manager	1	¥20,000	¥667	¥6,667
	10	Deputy general manager	2	¥15,000	¥500	¥10,000
	10	Manager of business department	3	¥10,000	¥333	¥10,000
	10	Officer of business department	10	¥5,000	¥167	¥16,667
	0	Others (please state)	0	¥0	¥0	¥0
– Potential due diligence (legal, finance and etc.) on partners	15	Head of group administration department	1	¥15,000	¥500	¥7,500
	15	Manager of group administration department	2	¥12,000	¥400	¥12,000
	15	Officer of group administration department	4	¥8,000	¥267	¥16,000
	15	Head of legal affairs department	1	¥12,000	¥400	¥6,000
	45	Officer of legal affairs department	1	¥8,000	¥267	¥12,000
	15	Head of finance department	1	¥12,000	¥400	¥6,000
	30	Manager of finance department	1	¥10,000	¥333	¥10,000
	15	Head of business department	1	¥15,000	¥500	¥7,500
	30	Manager of business department	3	¥10,000	¥333	¥30,000
	45	Officer of business department	10	¥5,000	¥167	¥75,000
	0	Others (please state)	0	¥0	¥0	¥0
– Draft, approve and enter into contracts	5	Director	5	¥20,000	¥667	¥16,667
	10	General manager	1	¥20,000	¥667	¥6,667
	10	Head of group administration department	1	¥15,000	¥500	¥5,000
	10	Manager of group administration department	2	¥12,000	¥400	¥8,000
	10	Officer of group administration department	5	¥8,000	¥267	¥13,333
	10	Head of legal affairs department	1	¥12,000	¥400	¥4,000
	10	Officer of legal affairs department	2	¥8,000	¥267	¥5,333
	10	Head of business department	1	¥15,000	¥500	¥5,000
	10	Manager of business department	3	¥12,000	¥400	¥12,000
	10	Officer of business department	10	¥5,000	¥167	¥16,667
	0	Others (please state)	0	¥0	¥0	¥0
					Total	**¥614,000**

		Number of days required in general	Personnel required (position)	Number of personnel required	Average monthly wage	Average daily wage	Cost required
Training stage							
(i)	Business management and product related training	1	General manager	1	¥20,000	¥667	¥667
		1	Deputy general manager	2	¥16,000	¥533	¥1,067
–	Distribution partner staff training	1	Head of various departments	10	¥10,000	¥333	¥3,333
		1	Head of group administration department	2	¥15,000	¥500	¥1,000
		1	Manager of group administration department	2	¥12,000	¥400	¥800
		5	Head of business department	1	¥15,000	¥500	¥2,500
		5	Manager of business department	2	¥12,000	¥400	¥4,000
		5	Officer of business department	100	¥5,000	¥167	¥83,333
		0	Others (please state)	0	¥0	¥0	¥0
(ii)	Computer system training	1	Head of networking department	1	¥12,000	¥400	¥400
–	Agency staff training	1	Officer of networking department	2	¥8,000	¥267	¥533
–	IT department staff installation support	1	Network engineer	1	¥15,000	¥500	¥500
		1	Officer of networking department	2	¥8,000	¥267	¥533
		0	Others (please state)	0	¥0	¥0	¥0
(iii)	Other related training	1	Head of finance department	1	¥15,000	¥500	¥500
–	Finance related training	1	Officer of finance department	2	¥8,000	¥267	¥533
–	Legal affairs related training	1	Head of legal affairs department	1	¥12,000	¥400	¥400
		1	Officer of legal affairs department	2	¥8,000	¥267	¥533
–	HR related training	1	Head of HR department	1	¥12,000	¥400	¥400
		1	Officer of HR department	2	¥8,000	¥267	¥533
		2	Head of finance department	1	¥15,000	¥500	¥1,000
		2	Officer of finance department	10	¥8,000	¥267	¥5,333
		2	Head of legal affairs department	1	¥12,000	¥400	¥800
		2	Officer of legal affairs department	2	¥8,000	¥267	¥1,067
		2	Head of HR department	1	¥12,000	¥400	¥800
		2	Officer of HR department	2	¥8,000	¥267	¥1,067
		0	Others (please state)	0	¥0	¥0	¥0
						Total	**¥111,633**

	Number of days required in general	Personnel required (position)	Number of personnel required	Average monthly wage	Average daily wage	Cost required
Official operation stage						
Business monitoring and guidance	10	Head of group administration department	1	¥15,000	¥500	¥5,000
– Formulation of travel products for particular	10	Manager of group administration department	2	¥12,000	¥400	¥8,000
regions	10	Officer of group administration department	4	¥8,000	¥267	¥10,667
– Marketing support						
– Regular business and	10	Head of legal affairs department	1	¥12,000	¥400	¥4,000
product training	10	Officer of legal affairs department	2	¥8,000	¥267	¥5,333
– Online platform and IT	10	Head of finance department	1	¥15,000	¥500	¥5,000
system support to facilitate	10	Manager of business department	2	¥12,000	¥400	¥8,000
distribution partners' normal	10	Head of business department	1	¥15,000	¥500	¥5,000
operation	10	Manager of business department	2	¥12,000	¥400	¥8,000
	10	Officer of business department	100	¥5,000	¥167	¥166,667
	10	Head of HR department	1	¥12,000	¥400	¥4,000
	10	Officer of HR department	2	¥8,000	¥267	¥5,333
	10	Head of networking department	1	¥12,000	¥400	¥4,000
	10	Officer of networking department	2	¥8,000	¥267	¥5,333
	10	Network engineer	1	¥16,000	¥533	¥5,333
Advertisement investment	360	Advertising and promotion				¥3,000,000
Rental and utilities	360					¥1,000,000
					Total	**¥4,249,667**

	Cost required	Headquarters portion	Non-headquarters portion
Preparation stage	¥614,000	¥614,000	¥0
Training stage	¥111,633	¥11,733	¥99,900
Official operation stage	¥4,249,667	¥70,000	¥4,179,667
Total	**¥4,975,300**	**¥695,733**	**¥4,279,567**
Existing distribution points	42	42	42
Distribution network reconstruction cost	**¥208,962,600**	**¥29,220,800**	**¥179,741,800**

Replacement Cost Estimated by the Target Company for 248 Companies in Lower Tiers Cities

Distribution Network Part B – Inland provincial municipal cities

	Number of days required in general	Personnel required (position)	Number of personnel required	Average monthly wage	Average daily wage	Cost required
Preparation stage						
– Region, market research and seek partners etc.	15	Deputy general manager	1	¥16,000	¥533	¥8,000
	90	Manager of business department	1	¥12,000	¥400	¥36,000
	90	Officer of business department	5	¥5,000	¥167	¥75,000
	0	Others (please state)	0	¥0	¥0	¥0
– Submit the preliminary proposal to the Board for approval	10	General manager	1	¥20,000	¥667	¥6,667
	10	Deputy general manager	2	¥15,000	¥500	¥10,000
	10	Manager of business department	1	¥10,000	¥333	¥3,333
	10	Officer of business department	5	¥5,000	¥167	¥8,333
	0	Others (please state)	0	¥0	¥0	¥0
– Potential due diligence (legal, finance and etc.) on partners	15	Manager of group administration department	1	¥12,000	¥400	¥6,000
	15	Officer of group administration department	1	¥8,000	¥267	¥4,000
	15	Officer of legal affairs department	1	¥8,000	¥267	¥4,000
	15	Manager of finance department	1	¥10,000	¥333	¥5,000
	30	Officer of finance department	1	¥8,000	¥267	¥8,000
	15	Manager of business department	1	¥4,000	¥133	¥2,000
	30	Officer of business department	5	¥2,500	¥83	¥12,500
	0	Others (please state)	0	¥0	¥0	¥0
– Draft, approve and enter into contracts	5	Director	1	¥20,000	¥667	¥3,333
	10	General manager	1	¥20,000	¥667	¥6,667
	10	Manager of group administration department	1	¥12,000	¥400	¥4,000
	10	Officer of group administration department	2	¥8,000	¥267	¥5,333
	10	Officer of legal affairs department	1	¥8,000	¥267	¥2,667
	10	Manager of business department	1	¥4,000	¥133	¥1,333
	10	Officer of business department	5	¥2,500	¥83	¥4,167
	0	Others (please state)	0	¥0	¥0	¥0
					Total	**¥216,333**

		Number of days required in general	Personnel required (position)	Number of personnel required	Average monthly wage	Average daily wage	Cost required
Training stage							
(i)	Business management and product related training	1	General manager	1	¥20,000	¥667	¥667
		1	Deputy general manager	2	¥16,000	¥533	¥1,067
–	Distribution partner staff training	1	Head of various departments	5	¥10,000	¥333	¥1,667
		1	Manager of group administration department	1	¥12,000	¥400	¥400
		1	Officer of group administration department	2	¥8,000	¥267	¥533
		5	Manager of business department	5	¥4,000	¥133	¥3,333
		5	Officer of business department	30	¥2,500	¥83	¥12,500
		0	Others (please state)	0	¥0	¥0	¥0
(ii)	Computer system training	1	Head of networking department	1	¥12,000	¥400	¥400
–	Agency staff training	1	Officer of networking department	2	¥8,000	¥267	¥533
–	IT department staff installation support	1	Officer of networking department	2	¥8,000	¥267	¥533
		0	Others (please state)	0	¥0	¥0	¥0
(iii)	Other related training	1	Manager of finance department	1	¥12,000	¥400	¥400
–	Finance related training	1	Officer of finance department	2	¥8,000	¥267	¥533
–	Legal affairs related training	1	Officer of legal affairs department	1	¥8,000	¥267	¥267
		1	Head of HR department	1	¥12,000	¥400	¥400
–	HR related training	1	Officer of HR department	2	¥8,000	¥267	¥533
		2	Head of finance department	1	¥4,500	¥150	¥300
		2	Officer of finance department	10	¥3,000	¥100	¥2,000
		2	Officer of legal affairs department	2	¥5,000	¥167	¥667
		2	Head of HR department	1	¥4,000	¥133	¥267
		2	Officer of HR department	2	¥2,000	¥67	¥267
		0	Others (please state)	0	¥0	¥0	¥0
						Total	**¥27,267**

	Number of days required in general	Personnel required (position)	Number of personnel required	Average monthly wage	Average daily wage	Cost required
Official operation stage						
Business monitoring and guidance	10	Officer of group administration department	2	¥8,000	¥267	¥5,333
– Formulation of travel products for particular regions	10	Officer of legal affairs department	1	¥8,000	¥267	¥2,667
– Marketing support	10	Manager of finance department	1	¥12,000	¥400	¥4,000
– Regular business and product training	10	Officer of finance department	4	¥5,000	¥167	¥6,667
– Online platform and IT system support to facilitate distribution partners' normal operation	10	Manager of business department	5	¥4,000	¥133	¥6,667
	10	Officer of business department	30	¥2,500	¥83	¥25,000
	10	Officer of HR department	2	¥8,000	¥267	¥5,333
	10	Head of networking department	1	¥12,000	¥400	¥4,000
	10	Officer of networking department	2	¥8,000	¥267	¥5,333
Advertisement investment	360	Advertising and promotion				¥500,000
Rental and utilities	360					¥200,000
					Total	**¥765,000**

	Cost required	Headquarters portion	Non-headquarters portion
Preparation stage	¥216,333	¥216,333	¥0
Training stage	¥27,267	¥7,933	¥19,333
Official operation stage	¥765,000	¥33,333	¥731,667
Total	**¥1,008,600**	**¥257,600**	**¥751,000**
Existing distribution points	248	248	248
Distribution network reconstruction cost	**¥250,132,800**	**¥63,884,800**	**¥186,248,000**

Replacement Cost Estimated by the Target Company for 1,829 branches in different provinces

Distribution Network Part C - Various operating outlets (Retail department)

	Number of days required in general	Personnel required (position)	Number of personnel required	Average monthly wage	Average daily wage	Cost required
Preparation stage						
– Region and market research	5	Manager of business department	1	¥12,000	¥400	¥2,000
	60	Manager of business department	1	¥3,000	¥100	¥6,000
	60	Officer of business department	2	¥2,000	¥67	¥8,000
– Submit the preliminary proposal to the Board for approval	5	Manager of business department	1	¥12,000	¥400	¥2,000
	10	Manager of business department	1	¥3,000	¥100	¥1,000
	10	Officer of business department	2	¥2,000	¥67	¥1,333
– Draft, approve and enter into contracts	5	Manager of business department	1	¥12,000	¥400	¥2,000
	10	Manager of business department	1	¥3,000	¥100	¥1,000
	10	Officer of business department	2	¥2,000	¥67	¥1,333
	0	Others (please state)	0	¥0	¥0	¥0
					Total	**¥24,667**

	Number of days required in general	Personnel required (position)	Number of personnel required	Average monthly wage	Average daily wage	Cost required
Training stage						
(i) Business management and product related training	1	Manager of business department	1	¥12,000	¥400	¥400
	1	Manager of business department	1	¥3,000	¥100	¥100
– Distribution partner staff training	1	Officer of business department	5	¥2,000	¥67	¥333
					Total	**¥833**

	Number of days required in general	Personnel required (position)	Number of personnel required	Average monthly wage	Average daily wage	Cost required
Official operation stage						
Business monitoring and	1	Manager of business department	1	¥12,000	¥400	¥400
guidance	10	Manager of business department	1	¥3,000	¥100	¥1,000
– Marketing support	10	Officer of business department	5	¥2,000	¥67	¥3,333
– Regular business and product training						
Advertisement investment	360	Advertising and promotion				¥50,000
Rental and utilities	360					¥100,000
					Total	**¥154,733**

	Cost required	Headquarters portion	Non-headquarters portion
Preparation stage	¥24,667	¥6,000	¥18,667
Training stage	¥833	¥400	¥433
Official operation stage	¥154,733	¥400	¥154,333
Total	**¥180,233**	**¥6,800**	**¥173,433**
Existing distribution points	1,829	1,829	1,829
Distribution network reconstruction cost	**¥329,646,767**	**¥12,437,200**	**¥317,209,567**

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

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

Save as disclosed below, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were (i) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange:

Name of Directors	Capacity	Number of Shares held	Approximate% of shareholding
Mr. Shi Baodong	Interest of controlled corporation *(Note)*	1,207,418,004	66.220%
Mr. Dong Xiaojie	Beneficial owner	300,000	0.017%
Mr. Law Wang Chak, Waltery	Beneficial owner	70,000	0.004%
Total		1,207,788,004	66.241%

Note: The 1,207,418,004 Shares are held by Orient Victory Real Estate Group Holdings Limited, a company incorporated in the British Virgin Islands with limited liability, which is wholly-owned by Mr. Shi Baodong, the Chairman and executive Director of the Company.

Save as disclosed above, as at the Latest Practicable Date, so far as is known to the Directors and the chief executive of the Company, none of the Directors nor chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO);or were required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein; or were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

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

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

Name of Shareholders	Capacity	Number of Shares held	Number of underlying Shares	Total number of Shares and underlying Shares	Approximate% of shareholding
Mr. Shi Baodong	Interest of controlled corporation *(Note)*	1,207,418,004	1,207,418,004	1,207,418,004	66.22%

Note:

(1) Mr. Shi Baodong hold 100% equity interest in Orient Victory Real Estate Group Holdings Limited, which in turn holds 1,207,418,004 Shares in the Company.

Save as disclosed above, as at the Latest Practicable Date, the Company had not been notified by any person (other than the Directors or chief executives of the Company) who had interests or short positions in the shares, underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying the rights to vote in all circumstances at general meetings of any member of the Enlarged Group.

3. DIRECTORS' INTERESTS IN ASSETS/CONTRACTS AND OTHER INTERESTS

None of the Directors has any direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Enlarged Group or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group since 31 December 2014, being the date to which the latest published audited consolidated accounts of the Group were made up.

None of the Directors was materially interested in any asset, contract or arrangement entered into by any member of the Enlarged Group subsisting at the Latest Practicable Date which was significant in relation to the business of the Enlarged Group.

4. COMPETING BUSINESS

As at the Latest Practicable Date, so far as the Directors were aware, none of the Directors or their respective associates had any interest in any business which competes or may compete, either directly or indirectly, with the business of the Enlarged Group or have or may have any other conflicts of interest with the Enlarged Group pursuant to the Listing Rules.

5. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had a service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

6. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against the Company or any of its subsidiaries.

7. MATERIAL CONTRACTS

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

(a) the disposal agreement dated 30 April 2014 entered into between the Company and Tremendous Success Holdings Limited, as amended by the supplemental agreement dated 24 June 2014 entered into between the Company and Tremendous Success Holdings Limited, relating to the transfer of the entire issued share capital of South China (BVI) for a total consideration of HK$95,466,000;

(b) the deed of assignment dated 4 September 2014 entered into between the Company and Tremendous Success Holdings Limited whereby the Company assigned, among others, its rights and benefits and liabilities in certain litigation cases as the plaintiff to Tremendous Success Holdings Limited;

(c) the service agreement dated 4 September 2014 entered into among the Company, Four Seas Tours Limited and HK Four Seas Tours Limited, pursuant to which HK Four Seas Tours Limited would provide certain information technology, trademarks licensing, back office support and air ticket purchase agency services to Four Seas Tours Limited at a monthly service fee of HK$100,000;

(d) the shareholders' agreement dated 4 September 2014 entered into among Sleek City Limited, Four Seas Travel (BVI) Limited and Four Seas Tours Limited to govern the shareholders' interest in Four Seas Tours Limited;

(e) the shareholders' agreement dated 4 September 2014 entered into among Sleek City Limited, Tek Lee Finance and Investment Corporation Limited and King Link Investments Limited to govern the shareholders' interest in King Link Investments Limited;

The principal terms and contents of the above material contracts are set out in the circular of the Company dated 10 September 2014.

(f) the Equity Transfer Agreement;

(g) the Framework Agreement;

(h) the placing agreement dated 11 June 2015 entered into between the Company and South China Securities Limited as a placing agent in respect of the placing of 64,128,416 ordinary shares with par value of HK$0.02 each in the share capital of South China (China) Limited, a company incorporated in the Cayman Islands and the shares of which are listed on the Stock Exchange (stock code: 413);

(i) the Investment Agreement dated 27 June 2015 entered into among the Company as issuer, Mr. Shi Baodong and Longtrade Genesis Limited as guarantors, and OGH and CTM as investors, in relation to, among other things, the proposed issue of the Perpetual Convertible Securities under a specific mandate in an aggregate principal amount of (i) HK$70,000,000 having a denomination of HK$1,000,000 each to be subscribed by CTM; and (ii) HK$100,000,000 having a denomination of HK$1,000,000 each to be subscribed by OGH; and

(j) the Subscription Agreement.

8. CONSENTS AND QUALIFICATIONS

The followings are the names and the qualifications of the professional advisers whose letters, opinions or advice are contained or referred to in this circular ("Experts"):

Name	Qualifications
Commerce & Finance Law Offices	Legal advisers as to the laws of the PRC
KPMG	Certified Public Accountants
Flagship Consulting (Hong Kong) Limited	Independent professional valuer

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

As at the Latest Practicable Date, all the experts above were not beneficially interested in the share capital of any member of the Enlarged Group (including any company which will become a subsidiary of the Company by reason of an acquisition which has been agreed or proposed since 31 December 2014, being the date to which the latest audited consolidated accounts of the Company have been made up) nor did they have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Enlarged Group (including any company which will become a subsidiary of the Company by reason of an acquisition which has been agreed or proposed since 31 December 2014, being the date to which the latest audited consolidated accounts of the Company have been made up).

As at the Latest Practicable Date, all the experts above did not, directly or indirectly, had any interest in any assets which had since 31 December 2014 (being the date to which the latest published audited financial statements of the Group were made up) been acquired or disposed of by or leased to any member of the Enlarged Group (including any company which will become a subsidiary of the Company by reason of an acquisition which has been agreed or proposed since 31 December 2014, being the date to which the latest audited consolidated accounts of the Company have been made up), or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group (including any company which will become a subsidiary of the Company by reason of an acquisition which has been agreed or proposed since 31 December 2014, being the date to which the latest audited consolidated accounts of the Company have been made up).

9. MISCELLANEOUS

As at the Latest Practicable Date:

(a) The registered office of the Company was situated at Floor 4, Willow House, Cricket Square, PO Box 2804, Grand Cayman KY1-1112, Cayman Islands. The Company's head office and principal place of business in Hong Kong was situated at Room 2603, Harbour Centre, 25 Harbour Road, Wanchai, Hong Kong.

(b) The Board comprised three executive Directors, being Mr. Shi Baodong, Mr. Wang Jianhua and Ms. Xu Yongmei, one non-executive Director, being Mr. Li Yankuan, and three independent non-executive Directors, being Mr. Dong Xiaojie, Mr. He Qi and Mr. Law Wang Chak, Waltery.

(c) The company secretary of the Company was Ip Pui Sum. Mr. Ip is a certified public accountant (practicing) in Hong Kong, a fellow member of the Chartered Association of Certified Accountants, and an associate member of the Hong Kong Institute of Certified Public Accountants, the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries.

(d) The Company's share registrar and transfer office in Hong Kong, Union Registrars Limited, was situated at A18/F., Asia Orient Tower, Town Place, 33 Lockhart Road, Wanchai, Hong Kong.

(e) The registered office of CCBI was situated at 12/F., CCB Tower, 3 Connaught Road Central, Central, Hong Kong.

(f) Commerce and Finance Law Offices was situated 6F NCI Tower, A12 Jianguomenwai Avenue Chaoyang District, Beijing 100022, PRC.

(g) KPMG was situated at 8/F, Prince's Building, 10 Chater Road, Central, Hong Kong.

(h) In the event of inconsistency, the English texts of this circular shall prevail over its respective Chinese texts.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours (9 a.m. to 5 p.m.) on any weekday (public holidays excepted) at the office of the Company at Room 2603, Harbour Centre, 25 Harbour Road, Wanchai, 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 annual reports of the Company for each of the three financial years ended 31 December 2012, 31 December 2013 and 31 December 2014 respectively;

(c) the report from KPMG on the financial information of the Target Group for the three years ended 31 December 2014 and the three months ended 31 March 2015, the text of which is set out in Appendix II to this circular;

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

(e) the letters of consent referred to under the paragraph headed "Consents and Qualifications" in this Appendix;

(f) the valuation report issued by Flagship Consulting (Hong Kong) Limited on 49% equity interest in the Target Company, the text of which is set out in Appendix V;

(g) the valuation report issued by Flagship Consulting (Hong Kong) Limited on the trademark and distribution network of the Target Group, the text of which is set out in Appendix VI;

(h) the material contracts referred to under the paragraph headed “Material Contracts” in this Appendix;

(i) the Equity Transfer Agreement;

(j) the Framework Agreement;

(k) the Subscription Agreement; and

(l) this circular.

ORIENT VICTORY CHINA HOLDINGS LIMITED
東勝中國控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 265)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting ("EGM") of Orient Victory China Holdings Limited ("Company") will be held at Conference room 3-5, 10th Floor, United Conference Centre, United Centre, 95 Queensway, Hong Kong on Tuesday, 8 September 2015 at 11:00 a.m. for the purposes of considering and, if thought fit, passing, with or without amendments or modifications, the following resolutions of the Company:

ORDINARY RESOLUTIONS

(1) "**THAT**:

(a) the equity transfer agreement dated 26 March 2015 ("**Equity Transfer Agreement**") entered into among 36 natural persons (including Mr. Li Jilie* (李繼烈)) ("**Vendors**") as vendors, 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 ("**Purchaser**") as purchaser, and China Comfort Travel Group Company Limited* (中國康輝旅行社集團有限責任公司) ("**Target Company**"), in respect of the acquisition of 49% equity interest in the Target Company at a consideration of RMB441,000,000 (approximately HK$554,820,000) subject to the terms and conditions stipulated therein ("**Acquisition**"), a copy of which has been produced to the meeting and marked "A" and initialled by the Chairman of the meeting for the purpose of identification, and the execution thereof and implementation of all transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and

(b) any directors of the Company be and is hereby authorized to enter into any agreement, deed or instrument and/or to execute and deliver all such documents and/or to do all such acts on behalf of the Company as he may consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation and completion of the Equity Transfer Agreement and transactions contemplated thereunder."

(2) "**THAT**:

(a) the framework agreement dated 26 March 2015 ("**Framework Agreement**") entered into among the Purchaser, Mr. Li Jilie* (李繼烈) (acting on behalf of the Vendors), Beijing Tourism Group and the Target Company, in respect of the framework upon which the parties thereto will cooperate with one another in developing and managing the Target Company after the Acquisition, a copy of which has been

** For identification purpose only*

produced to the meeting and marked "B" and initialled by the Chairman of the meeting for the purpose of identification, and the execution thereof and implementation of all transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and

(b) any directors of the Company be and is hereby authorized to enter into any agreement, deed or instrument and/or to execute and deliver all such documents and/or to do all such acts on behalf of the Company as he may consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation and completion of the Framework Agreement and transactions contemplated thereunder."

(3) "**THAT:**

(a) the subscription agreement dated 7 July 2015 ("**Subscription Agreement**") entered into between the Company as issuer and various Vendors as set out in the Subscription Agreement and Hwabao Trust Company Limited as subscribers in relation to the subscription of an aggregate of 372,466,100 new shares of HK$0.025 each in the share capital of the Company (each a "**Subscription Share**", and collectively, "**Subscription Shares"**) at the price of HK$0.74 per Subscription Share, a copy of which has been produced to the meeting and marked "C" and initialled by the Chairman of the meeting for the purpose of identification and the execution thereof and implementation of all transactions contemplated thereunder be and are hereby approved, confirmed and ratified;

(b) subject to the fulfillment of the conditions of the Subscription Agreement, the allotment and issue of the Subscription Shares be and is hereby approved;

(c) any directors of the Company be and are hereby granted a specific mandate to exercise the powers of the Company to allot and issue the Subscription Shares pursuant to the terms and conditions of the Subscription Agreement, the Subscription Shares shall rank equally in all respects among themselves and with all fully paid ordinary shares of the Company in issue as at the date of allotment and issue. The specific mandate is in addition to, and shall not prejudice nor revoke any general or special mandate(s) which has/have been granted or may from time to time be granted to the Directors prior to the passing of this resolution; and

(d) any directors of the Company be and is hereby authorized to enter into any agreement, deed or instrument and/or to execute and deliver all such documents and/or to do all such acts on behalf of the Company as he may consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation and completion of the Subscription Agreement and transactions contemplated thereunder."

Yours faithfully,
For and on behalf of
Orient Victory China Holdings Limited
Shi Baodong
Chairman and Executive Director

Hong Kong, 21 August 2015

Head Office and Principal Place of Business in Hong Kong:
Room 2603
Harbour Centre
25 Harbour Road
Wanchai, Hong Kong

Registered office:
Floor 4
Willow House
Cricket Square
PO Box 2804
Grand Cayman KY1-1112
Cayman Islands

Notes:

1. A member entitled to attend and vote at the meeting of the Company convened by the above notice is entitled to appoint one or more proxy to attend and vote on his behalf. A member who is the holder of two or more shares and entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxy to represent him and vote on his behalf. A proxy need not be a member of the Company.

2. To be valid, the form of proxy together with a power of attorney or other authority, if any, under which is it signed or a notarially certified copy of such power or authority must be deposited at the office of the Company's Hong Kong share registrar, Union Registrars Limited at A18/F., Asia Orient Tower, Town Place, 33 Lockhart Road, Wanchai, Hong Kong not later than 48 hours before the time of the holding the meeting of the Company or any adjourned meeting.

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

4. In the case of joint holders of a notice of a share, any one of such holders may vote, either in person or by proxy, in respect of such share as if he/she/it were solely entitled thereto to. If more than one of such joint holders are present at the above meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint meeting.

5. As at the date of this notice, the board of Directors comprised three executive Directors, being Mr. Shi Baodong, Mr. Wang Jianhua and Ms. Xu Yongmei, one non-executive Director, being Mr. Li Yankuan, and three independent non-executive Directors, being Mr. Dong Xiaojie, Mr. He Qi and Mr. Law Wang Chak, Waltery.