



途屹控股

Tu Yi Holding Company Limited

途屹控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock code: 1701

GLOBAL OFFERING



Sole Sponsor



Joint Global Coordinators



CROSBY

Joint Bookrunners and Joint Lead Managers



CROSBY



IMPORTANT

IMPORTANT: If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.



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GLOBAL OFFERING

Number of Offer Shares	: 250,000,000 Shares (subject to the Over-allotment Option)
Number of Hong Kong Offer Shares	: 25,000,000 Shares (subject to reallocation)
Number of International Placing Shares	: 225,000,000 Shares (subject to reallocation and the Over-allotment Option)
Offer Price	: Not more than HK\$0.68 per Offer Share and expected to be not less than HK\$0.52 per Offer Share, plus brokerage fee of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)
Nominal value	: HK\$0.01 per Share
Stock code	: 1701

Sole Sponsor



Joint Global Coordinators



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Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in "Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection" in Appendix VI to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other document referred to above.

The final Offer Price is currently expected to be fixed by an agreement between our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) on the Price Determination Date, which is scheduled on or about Friday, 21 June 2019, or such later date as may be agreed between our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters). The Offer Price will not be more than HK\$0.68 and is currently expected to be not less than HK\$0.52 unless otherwise announced. Applicants for Hong Kong Offer Shares are required to pay, on application, the maximum Offer Price of HK\$0.68 for each Share together with a brokerage fee of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% subject to refund if the Offer Price as finally determined should be lower than HK\$0.68.

The Joint Global Coordinators (for themselves and on behalf of the Underwriters) may, with our consent, extend or reduce the indicative Offer Price range stated in this prospectus (which is HK\$0.52 to HK\$0.68 per Share) at any time on or before the morning of the last day for lodging applications under the Hong Kong Public Offer. In such a case, notices of the extension or reduction in the indicative Offer Price range will be published on the Stock Exchange's website at www.hkexnews.hk and our Company's website at www.tuyigroup.com not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offer. If, for any reason, the Offer Price is not agreed between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company, the Global Offering (including the Hong Kong Public Offer) will lapse and will not proceed. Please see "Structure and Conditions of the Global Offering" and "How to Apply for Hong Kong Offer Shares" in this prospectus for further details.

The Offer Shares have not been and will not be registered under the U.S. Securities Act and may not be offered, sold, pledged or transferred, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and in accordance with any applicable US state securities laws.

Prior to making an investment decision, prospective investors should consider carefully all of the information set forth in this prospectus, including the risk factors set out in "Risk Factors" in this prospectus.

Prospective investors of the Global Offering should note that the Joint Global Coordinators are entitled to terminate their obligations under the Hong Kong Underwriting Agreement by notice in writing to our Company given by the Joint Global Coordinators upon the occurrence of any of the events set out under "Underwriting – Underwriting Arrangements and Expenses – Hong Kong Public Offer – Grounds for termination" of this prospectus, at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Should the Joint Global Coordinators terminate its obligations under the Hong Kong Underwriting Agreement in accordance with the terms of the Hong Kong Underwriting Agreement, the Global Offering will not proceed and will lapse.

18 June 2019

EXPECTED TIMETABLE

If there is any change in the following expected timetable of the Hong Kong Public Offer, we will issue an announcement on the websites of the Stock Exchange at www.hkexnews.hk and our Company at www.tuyigroup.com.

Date⁽¹⁾

Hong Kong Public Offer commences and WHITE and YELLOW Application Forms available from	9:00 a.m. on Tuesday, 18 June 2019
Latest time to complete electronic applications under HK eIPO White Form service through the designated website www.hkeipo.hk ⁽²⁾	11:30 a.m. on Friday, 21 June 2019
Application lists of the Hong Kong Public Offer open ⁽³⁾	11:45 a.m. on Friday, 21 June 2019
Latest time to complete payment of HK eIPO White Form applications by effecting internet banking transfer(s) or PPS payment transfer(s)	12:00 noon on Friday, 21 June 2019
Latest time to give electronic application instructions to HKSCC ⁽⁴⁾	12:00 noon on Friday, 21 June 2019
Latest time to lodge WHITE and YELLOW Application Forms	12:00 noon on Friday, 21 June 2019
Application lists of the Hong Kong Public Offer close ⁽³⁾	12:00 noon on Friday, 21 June 2019
Expected Price Determination Date ⁽⁵⁾	Friday, 21 June 2019
Announcement of the final Offer Price, the level of applications in the Hong Kong Public Offer, the level of indications of interest in the International Placing and the basis of allocation of the Hong Kong Offer Shares to be published on the websites of the Stock Exchange at www.hkexnews.hk and our Company at www.tuyigroup.com on or before	Thursday, 27 June 2019

EXPECTED TIMETABLE

Announcement of results of allocations in the Hong Kong Public Offer (with successful applicants' identification document numbers, or passport number or Hong Kong business registration numbers, where appropriate) to be available through a variety of channels including the websites of the Stock Exchange at www.hkex.com.hk and our Company at www.tuyigroup.com (for further details, please see "How to Apply for Hong Kong Offer Shares – 11. Publication of Results" in this prospectus) from Thursday, 27 June 2019

Results of allocations in the Hong Kong Public Offer will be available at www.tricor.com.hk/ipo/result (or www.hkeipo.hk/IPOResult) with a "search by ID Number/Business Registration Number" function from Thursday, 27 June 2019

Despatch/Collection of **HK eIPO White Form** e-Auto Refund payment instructions/refund cheques in respect of wholly or partially successful applications if the final Offer Price is less than the price payable on application (if applicable) and wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offer on or before^(6 & 8) Thursday, 27 June 2019

Despatch/Collection of Share certificates on or before^(6 & 7) Thursday, 27 June 2019

Dealings in the Shares on the Main Board of the Stock Exchange expected to commence on 9:00 a.m. on Friday, 28 June 2019

Notes:

1. All times and dates refer to Hong Kong local time, except as otherwise stated.
2. You will not be permitted to submit your application through the designated website at www.hkeipo.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
3. If there is a "black" rainstorm warning or a tropical cyclone warning signal number 8 or above in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 21 June 2019, the application lists will not open on that day. For further details, please see "How to Apply for Hong Kong Offer Shares – 10. Effect of Bad Weather on the Opening of the Application Lists" in this prospectus.
4. Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to "How to Apply for Hong Kong Offer Shares – 6. Applying by Giving Electronic Application Instructions to HKSCC via CCASS" in this prospectus.
5. The Price Determination Date is expected to be on or around Friday, 21 June 2019. If, for any reason, the Offer Price is not agreed by 12:00 noon on Thursday, 27 June 2019 between our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters), the Global Offering will not proceed and will lapse accordingly.
6. Share certificates for the Offer Shares are expected to be issued on or before Thursday, 27 June 2019 but will only become valid certificates of title at 8:00 a.m. on Friday, 28 June 2019 provided that (a) the Global Offering has become unconditional in all respects; and (b) none of the Underwriting Agreements has been terminated in accordance with its terms.

EXPECTED TIMETABLE

7. Applicants for 1,000,000 Hong Kong Offer Shares or more on **WHITE** Application Forms or through **HK eIPO White Form** and have provided all information required in their Application Forms may collect their refund cheques (where relevant) and/or Share certificates (where relevant) personally or may collect refund cheques (where relevant) and/or Share certificates (where relevant) from our Hong Kong Branch Share Registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong from 9:00 a.m. to 1:00 p.m. on Thursday, 27 June 2019 or any other day that we publish on the Stock Exchange's website as the date of despatch of Share certificates/e-Refund payment instructions/refund cheques.

Individuals who opt for personal collection must not authorise any other person(s) to make collection on their behalf. Corporate applicants which opt for personal collection must attend by their authorised representative(s) bearing a letter of authorisation from such corporation(s) stamped with the corporation's chop. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to our Hong Kong Branch Share Registrar. Applicants for 1,000,000 Hong Kong Offer Shares or more on **YELLOW** Application Forms may collect their refund cheques, if any, in person but may not elect to collect their Share certificates personally, which will be deposited into CCASS for the credit of their designated CCASS Participants' stock accounts or CCASS Investor Participants' stock accounts, as appropriated. The procedures for collection of refund cheques for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants.

e-Auto Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications and also in respect of successful applications in the event that the Offer Price is less than the initial price per Hong Kong Offer Share payable on application. Part of your Hong Kong identity card number/passport number, or, if you are joint applicants, part of the Hong Kong identity card number/passport number of the first-named applicant, provided by you may be printed on your refund cheque, if any. Such data would also be transferred to a third party to facilitate your refund. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong identity card number/passport number may lead to delay in encashment of your refund cheque or may invalidate your refund cheque. Further information is set out in "How to Apply for Hong Kong Offer Shares" in this prospectus.

Applicants who apply through the **HK eIPO White Form** service and paid their application monies through single bank account may have refund monies (if any) despatched to their application payment bank account, in the form of e-Auto Refund payment instructions. Applicants who apply through the **HK eIPO White Form** service and paid their application monies through multiple bank accounts may have refund monies (if any) despatched to the address as specified in their application instructions to the **HK eIPO White Form** Services Provider, in the form of refund cheques, by ordinary post at their own risk.

Uncollected Share certificates and refund cheques (if any) will be despatched by ordinary post at the applicant's own risk to the address specified in the relevant Application Form. For further information, applicants should refer to "How to Apply for Hong Kong Offer Shares – 14. Despatch/Collection of Share Certificates and Refund Monies" in this prospectus.

8. Refund cheques/e-Auto refund payment instructions will be despatched in respect of wholly or partially unsuccessful applications and in respect of successful applications if the final Offer Price is less than the maximum Offer Price of HK\$0.68 per Offer Share.

You should read carefully the sections "Underwriting", "Structure and Conditions of the Global Offering" and "How to Apply for Hong Kong Offer Shares" in this prospectus for details relating to the structure of the Global Offering, procedures on the applications for Hong Kong Offer Shares and the expected timetable, including conditions, effect of bad weather and the despatch of refund monies and share certificates.

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IMPORTANT NOTICE TO INVESTORS

This prospectus is issued by our Company solely in connection with the Hong Kong Public Offer and the Hong Kong Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares offered by this prospectus pursuant to the Hong Kong Public Offer. This prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong and no action has been taken to permit the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions, and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorised by us, the Joint Global Coordinators, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their affiliates or any of their respective directors, officers, employees or agents or any other person or party involved in the Global Offering.

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. Because this is a summary, it does not contain all the information that may be important to you and is qualified in its entirety by, and should be read in conjunction with, the full text of this prospectus. You should read this prospectus in its entirety, including our financial statements and the accompanying notes, before you decide to invest in the Offer Shares. There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in “Risk Factors” in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares. Various expressions used herein are defined in the sections headed “Definitions” and “Glossary of Technical Terms” in this prospectus.

OVERVIEW

We are a well-established and active outbound travel products and service provider in the PRC, with a particular focus in Japan bound package tours and related FIT Products to customers in Eastern China. For FY2018, we ranked fifth in Eastern China in terms of revenue of outbound tourism to Japan, representing approximately 1.2% of the total revenue of tourism bound to Japan of outbound travel agencies in Eastern China. For FY2016, FY2017 and FY2018, our tours bound for Japan accounted for approximately 63.7%, 85.1% and 78.4% of our total revenue for package tours and day tours, respectively, whilst sales of FIT Products for destinations in Japan accounted for approximately 90.4%, 96.7% and 79.4% of our total revenue from FIT Products in the respective years. Our Directors believe that the sales of these travel products and services related to Japan will continue to contribute a significant proportion of our total revenue in the near future.

According to the F&S Report, Japan is one of the most popular tourism destinations for Chinese outbound tourists due to its abundant tourism resources. Driven by (i) the implementation of several bold initiatives of Japanese government, such as visa relaxation and consumption tax exemption for outbound visitors; and (ii) increasing disposable income and consumption expenditure of Chinese tourists on outbound travelling, the number of Chinese outbound tourists to Japan increased from approximately 3.2 million in 2014 to approximately 8.4 million in 2018, attaining a CAGR of 26.7% which is much higher than the CAGR of approximately 10.9% for increase in total number of outbound tourist visits. Tourists from Eastern China, which refers to Anhui, Fujian, Jiangsu, Jiangxi, Shandong, Zhejiang Provinces and Shanghai, are the largest group travelling to Japan among all other regions in the PRC. The number of outbound tourists visit to Japan from Eastern China witnessed a rapid growth at a CAGR of 32.4% between 2014 and 2018, increased from approximately 0.7 million in 2014 to approximately 2.3 million in 2018, and accounting for approximately 27.3% of the total number of outbound tourists to Japan from the PRC in 2018, compared to 22.9% in 2014. With the coming of 2020 Tokyo Olympics and its long-term impact bringing tourism facilities and infrastructure improvements, the annual number of outbound tourists visit to Japan from Eastern China is projected to reach approximately 5.2 million by 2023, representing approximately 28.6% of the total number of outbound tourists visit to Japan from the PRC in 2023.

In order to capture the business opportunities arising from the growth of outbound tourists visit to Japan from Eastern China and differentiate ourselves from our competitors, we are dedicated to establishing our market presence in Japan and we established our first wholly-owned subsidiary in Japan to facilitate our management of Japan tours operation in 2015. With a view to (i) further strengthen our market presence in Japan tourism market; and (ii) take advantage of the synergistic effect between our tour operation and hotel operation, we have tapped into the hospitality industry in Japan by acquiring the Shizuoka Hotel in 2015 and two plots of land in Tokyo for construction of the Tokyo Hotel in 2016, respectively. The Tokyo Hotel started to generate revenue since its commencement of operation in October 2018. Revenue generated from hotel operation accounted for approximately 5.8%, 7.3% and 6.2% of our total revenue for FY2016, FY2017 and FY2018, respectively. It is expected that there will be an increase in the demand for hotel accommodations in Japan, especially in Tokyo. According to the F&S Report, hotels in Tokyo demonstrated a higher level of annual average occupancy rate as compared to the annual average occupancy rate in Japan, which had reached approximately 85.7% in 2018, and is expected to rise to approximately 87.0% by 2023.

SUMMARY

We believe our commitment towards providing quality travel products and services to our customers have led us to receive numerous awards and recognition over the years. For instance, Fliggy (飛豬旅行), an online travel platform launched by the Alibaba Group, previously known as Taobao Travel (淘寶旅行) and Ali Travel (阿里旅行), has granted us “The Single’s Day Popular Award (雙11人氣大獎)” in 2017. We also received the award of “Outstanding Travel Agency” from Japan Airlines for 2016 and 2017, respectively, and the “Best Sales Award” from All Nippon Airways in 2017 and 2018. In 2019, we were granted the awards of “Top 5 Quality Wholesaler (5大品質批發商)” and “Top 5 Quality Wholesaler/Japan (日本線5大品質批發商)” by guojialvye.com (國家旅業). For details of the major awards received by us, please see “Business – Awards” in this prospectus. We believe our strong market presence and in-depth knowledge on tourism resources in Japan enable us to offer diversified outbound travel products and services to cater for different customers’ needs in the PRC and to further expand our customer base.

OUR BUSINESS MODEL AND KEY OPERATING INDICATORS

We are principally engaged in the followings:

- the design, development and sale of outbound travel package tours and day tours. Our package tours consist of standardised package tours, tailor-made and customised tours for customers with specific requirements, whereas our day tour products consist of day tours ranging from one day to six days;
- the design, development and sale of FIT Products. Our FIT Products include flight-only booking, hotel-only booking, and flight-plus-hotel packages;
- provision of visa application processing services, including but not limited to, issuance of letters of invitation;
- provision of other ancillary travel-related products and services such as stand-alone issuance of letters of invitation to other travel agencies which do not have such qualifications to issue letters of invitation, car-rental services, airport transportation, railway tickets and pocket Wi-Fi rental, etc.; and
- operating our self-owned Shizuoka Hotel and the Tokyo Hotel. Hotel rooms supplied by the Shizuoka Hotel and the Tokyo Hotel during the Track Record Period are included in some of our package tours and FIT Products as well.

In addition to the above, we also derived revenue by receiving commissions paid by duty-free and other retail shops operated by third parties in Japan, representing certain percentage of the purchase value made by our customers at these shops. Please refer to “Business – Our Products and Services – (i) Package tours” in this prospectus for further details.

	FY2016			FY2017			FY2018		
	Revenue RMB'000	Number of travellers	Average revenue per traveller RMB	Revenue RMB'000	Number of travellers	Average revenue per traveller RMB	Revenue RMB'000	Number of travellers	Average revenue per traveller RMB
Sales of package tours and day tours ^{(1), (4)}	181,986	23,731 ⁽⁶⁾	7,669	132,078	21,576 ⁽⁶⁾	6,122	162,767	50,816 ⁽⁶⁾	3,203
Margin income from sales of FIT Products ⁽⁵⁾	15,221	35,522	428 ⁽²⁾	10,071	23,689	425 ⁽²⁾	13,825	73,449	188 ⁽²⁾
Margin income from the provision of visa application processing ^{(3), (5)}	15,672	-	-	11,990	-	-	13,345	-	-
Other income from sales of ancillary travel related products and provision of services ⁽⁴⁾	1,665	-	-	2,474	-	-	2,313	-	-
Hotel operation ⁽⁴⁾	13,286	26,512 ⁽⁷⁾	501	12,254	22,332 ⁽⁷⁾	549	12,801	26,693 ⁽⁷⁾	480
	<u>227,830</u>			<u>168,867</u>			<u>205,051</u>		

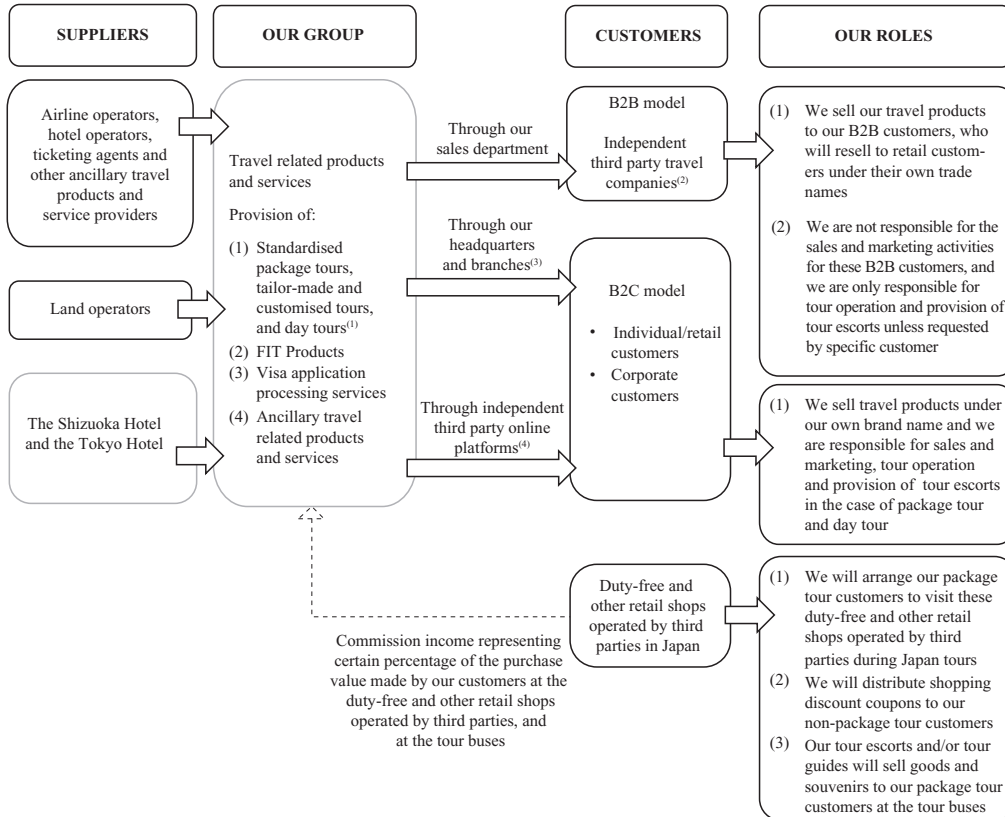
Notes:

- (1) Include revenue of approximately RMB11.7 million, RMB17.0 million and RMB6.8 million derived from commissions received from duty-free and other retail shops operated by third parties, and our tour escorts and/or tour guides in Japan in FY2016, FY2017 and FY2018, respectively. Among the duty-free shops we received commissions from, two of them are listed on the Tokyo Stock Exchange and one of them is listed on KOSDAQ of the Korea Exchange, respectively.
- (2) It represents the average net revenue per traveller based on the sales proceeds from travellers, less our purchase payments to airline operators, hotel operators and/or ticketing agents.
- (3) The revenue generated from visa application processing only includes our fees collected from our non-package tour customers. The fee we charged our package tour customers for visa application processing was included in the price of the package tours.
- (4) Revenue was recognised on a gross basis because our Group acts as the principal and has control over the provision of package tour and day tour services, hotel operation services and sales of ancillary travel related products before they are transferred to the customer.

SUMMARY

- (5) Revenue was recognised on a net basis because our Group acts as an agent and does not obtain control over the service performed by the airline companies and hotels for FIT Products, and the relevant government authorities for visa application processing services.
- (6) Number of travellers comprises our Company's retail customers and end-customers who purchased our Company's package tours and/or day tours from our Company's B2B customers.
- (7) Indicates the number of travellers for Shizuoka Hotel and the number of travellers for Tokyo Hotel from October to December 2018 after the commencement of operation of our Tokyo Hotel.

During the Track Record Period, we procured from various travel service providers such as airline operators, hotel operators, ticketing agents and land operators, etc. for our travel products and services, while our travel products and services are primarily sold to (i) B2B customers such as travel companies and online travel agencies; and (ii) B2C customers such as retail customers to which we sold our travel products and services through our headquarters, our branches and third party online travel platforms. The below diagram sets forth our business model:



Notes:

- (1) Our Group sell cruise tour package to customers and the selling price is generally determined on a cost-plus basis.
- (2) The independent third party travel companies comprise traditional offline travel companies such as Zhejiang China International Travel Service Co., Ltd (浙江省中國國際旅行社有限公司) and online travel agencies such as Ctrip.com (攜程), Ly.com (同程), Lvmama.com (驢媽媽旅遊), Tuniu.com (途牛) and Traveling Bestone (旅遊百事通).
- (3) As at the Latest Practicable Date, our headquarters was at Hangzhou and we have three branches in Wenzhou, Shanghai and Rui'an in the PRC.
- (4) The independent third-party online platforms include various service providers such as, Agoda, Expedia, Booking.com, Ctrip.com (攜程), Rakuten Travel (樂天旅遊), Jalan.net, qyer.com (窮遊), Fliggy (飛豬旅行), Mafengwo(馬蜂窩) and WeChat(微信), etc. These online platforms charge us a fixed amount or a certain percentage of the transaction amounts carried out on its online platform as transaction fees.

SUMMARY

The following tables set out the breakdown of our revenue, gross profit and gross profit margin from sales of products by B2B customers and B2C customers during the Track Record Period:

B2B

	FY2016		FY2017		FY2018	
	Revenue RMB'000	Gross profit RMB'000 %	Revenue RMB'000	Gross profit RMB'000 %	Revenue RMB'000	Gross profit RMB'000 %
Sales of package tours and day tours	155,121	5.7	100,420	17,531	120,571	12,615
Margin income from sales of FIT Products	11,723	N/A ^(Note)	4,525	4,525	11,315	11,315
Margin income from the provision of visa application processing service	11,471	N/A ^(Note)	7,686	7,686	9,593	9,593
Other income from sales of ancillary travel related products and provision of services	661	8.8	998	862	1,513	1,243
Hotel operation	6,935	43.0	5,428	2,348	5,829	2,126
	<u>185,911</u>	<u>18.9</u>	<u>119,057</u>	<u>32,952</u>	<u>148,821</u>	<u>36,892</u>
						<u>24.8</u>

B2C

	FY2016		FY2017		FY2018	
	Revenue RMB'000	Gross profit RMB'000 %	Revenue RMB'000	Gross profit RMB'000 %	Revenue RMB'000	Gross profit RMB'000 %
Sales of package tours and day tours	26,865	4.7	31,658	1,988	42,196	2,683
Margin income from sales of FIT Products	3,498	N/A ^(Note)	5,546	5,546	2,510	2,510
Margin income from the provision of visa application processing service	4,201	N/A ^(Note)	4,304	4,304	3,752	3,752
Other income from sales of ancillary travel related products and provision of services	1,004	90.3	1,476	1,176	800	606
Hotel operation	6,351	40.5	6,826	2,999	6,972	2,543
	<u>41,919</u>	<u>29.7</u>	<u>49,810</u>	<u>16,013</u>	<u>56,230</u>	<u>12,094</u>
						<u>21.5</u>
Total	<u>227,830</u>	<u>20.9</u>	<u>168,867</u>	<u>48,965</u>	<u>205,051</u>	<u>48,986</u>

Note: The calculation of gross profit margin is not applicable for our margin income from the provision of visa application processing service and margin income from sales of FIT Products because the respective revenue is recognised on a net basis.

SUMMARY

The following table sets out a breakdown of our revenue from our sales of our products by sales channels during the Track Record Period:

	FY2016		FY2017		FY2018	
	Revenue <i>RMB'000</i>	Percentage of revenue %	Revenue <i>RMB'000</i>	Percentage of revenue %	Revenue <i>RMB'000</i>	Percentage of revenue %
Headquarters and branches	195,904	86.0	148,554	88.0	181,524	88.5
Online sales platforms	31,926	14.0	20,313	12.0	23,527	11.5
Total	<u>227,830</u>	<u>100.0</u>	<u>168,867</u>	<u>100.0</u>	<u>205,051</u>	<u>100.0</u>

OUR COMPETITIVE STRENGTHS

We believe that the following competitive strengths have contributed to our success to date and will continue to promote our expansion:

- we are well positioned to capitalise on market opportunities arising from the growth of outbound travel in the PRC;
- we have an established presence and brand name in the PRC and we have maintained good business relationships with airlines and other suppliers;
- through our well-established sales network with several online sales platforms and online travel agencies in the PRC, we are able to offer a variety of outbound travel products and services to our end customers in different geographical locations; and
- we have an experienced and dedicated management team with proven track record of leadership and execution.

OUR BUSINESS STRATEGIES

We plan to further grow our business and to strengthen our position as a well-established and active outbound travel products and service provider in the PRC. Our key strategies for reaching our goals are as follows:

- continue to enhance our product portfolio by developing new products and services;
- purchase tour buses and establish our own bus fleet to exclusively serve our Japan tours including local tours;
- establish sales network in Hong Kong and to expand our customer base;
- identify and pursue hospitality asset acquisition opportunities in Kyoto, Japan;
- strengthen our market position and increase our market share by investing in a travel agency company in Tokyo, Japan; and
- continue to attract experienced personnel through recruitment and provide trainings and professional development to our existing personnel.

OUR CUSTOMERS

Our customers primarily comprise (i) B2B customers such as travel companies and online travel agencies; and (ii) B2C customers such as retail customers to which we sold our travel products and services through our headquarters, our branches and third party online travel platforms. We do not rely on any major customers. Revenue with our five largest customers, which are mainly our travel company customers and online travel agencies, accounted for approximately 16.4%, 12.6% and 9.3% of our total revenue for FY2016, FY2017 and FY2018, respectively. For more details, please see “Business – Customers” in this prospectus.

OUR SUPPLIERS

Our suppliers mainly include (i) suppliers for the provision of travel elements used in our travel products, such as ticketing agents, airline operators, hotel operators, land operators, tour bus and other local transportation operators, restaurants and attraction operators; and (ii) suppliers for the provision of sales and marketing services, such as online travel platforms. We purchased flight tickets from both ticketing agents and airline operators during the Track Record Period. Purchases from our five largest suppliers accounted for approximately 22.6%, 20.0% and 25.4% of our total cost of sales for FY2016, FY2017 and FY2018, respectively, whilst purchases from our largest supplier accounted for approximately 5.1%, 5.0% and 8.9% of our total cost of sales for FY2016, FY2017 and FY2018, respectively. For more details, please see “Business – Suppliers” in this prospectus.

SUMMARY

RISK FACTORS

Our business is subject to numerous risks and there are risks relating to an investment in the Offer Shares. A summary of these certain risk factors is set forth below. This summary should be read together with “Risk Factors” in this prospectus in its entirety. Any of the following developments may have a material and adverse effect on our business, financial condition, results of operations and prospects:

- Japan is the most popular destination of our package tours and FIT Products and any material adverse change in the economic, political or social conditions relating to Japan, deterioration of diplomatic relationships between the PRC and Japan, negative developments related to the Japan tourism market, or natural or other disasters occurring in Japan may materially and adversely affect our business and operating results;
- our business and revenue may be adversely affected by any future changes to the respective visa application policies of the PRC government and the Japanese government;
- changes in the foreign exchange rate for Japanese Yen would impact our operating performance and our financial condition;
- our Group derives material portion of our revenue from customers in the PRC and any downturn in the PRC economy could have a material adverse effect on our business and operating results;
- we derive a considerable portion of our total gross profit from commission revenue and our profitability may be adversely affected should our commission revenue decreases;
- we faced increased market competition from competing agents, hotel/flight providers, online travel platforms and alternative travel booking media;
- natural disasters, acts or threats of terrorism, wars, travel-related accidents, outbreak of contagious diseases or other catastrophic events which affect consumer demand for travel activities or a general apprehension of such events may significantly and adversely impact on our business and operating results;
- we may experience weak liquidity because of our net current liability and negative cash flow from our operating activities; and
- the PRC government may determine that the Contractual Arrangements are not in compliance with applicable PRC laws, rules, regulations or policies and may take actions against us or our operation.

SUMMARY FINANCIAL INFORMATION AND OPERATIONAL DATA

Key Consolidated Statements of Profit or Loss Information

	FY2016	FY2017	FY2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	227,830	168,867	205,051
Gross profit	47,512	48,965	48,986
Profit before tax	21,980	29,660	10,771
Profit for the year	<u>14,961</u>	<u>21,643</u>	<u>7,069</u>

Non-HKFRS measures

The following table sets forth our adjusted net profit for the years indicated:

	FY2016	FY2017	FY2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the year	14,961	21,643	7,069
Add: non-recurring listing expenses	–	–	15,539
Adjusted net profit for the year ^(Note)	<u>14,961</u>	<u>21,643</u>	<u>22,608</u>

Note: “Adjusted net profit for the year” is calculated by profit for the year excluding the non-recurring listing expenses charged in the respective year, which is non-HKFRS measure and is not defined in HKFRS. We believe that these non-HKFRS measures provide additional information to investors and others in understanding and evaluating our combined results of operations in the same manner as our management and in comparing financial results across accounting periods.

As at 1 January 2016, we had approximately RMB9.0 million accumulated losses primarily due to (i) the distribution of a total of RMB11.4 million dividends for the years ended 31 December 2009 and 2010, in which we recorded net profit for the corresponding

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years; and (ii) partially offset by the aggregate profits of approximately RMB2.4 million from the establishment of our main operating subsidiary, Tuyi Group, in 2008 to 2015, except for the years ended 31 December 2009, 2010, 2014 and 2015, in which we recorded net profit. The losses recorded in the previous years, except for the years ended 31 December 2009, 2010, 2014 and 2015 were mainly due to (i) our revenue were relatively low during our early stage of operations, while we incurred set up costs for our business, and as a result we incurred losses for the year ended 31 December 2008; (ii) earthquake and tsunami happened in Japan in March 2011 (the “**2011 Tsunami**”), as a result, many tourists refrained from going to Japan; (iii) we reduced Japan-bound package tour prices and lowered our gross profit margins after the 2011 Tsunami in order to attract more customers to visit Japan for the years ended 31 December 2012 and 2013; (iv) the expenses incurred on developing online businesses on online travel platforms to broaden our Group’s source of revenue; and (v) number of Chinese visitors to Japan recorded decline in 2013 which was affected by Senkaku Islands incident in September 2012, which intensified the diplomatic relationships between Japan and China. We recorded net profit for the year ended 31 December 2014 and 2015 and our performance had turned around since then.

Our revenue decreased by approximately RMB58.9 million or 25.9% from FY2016 to FY2017 mainly as a result of the decrease in revenue from package tours bound for Australia and New Zealand as we streamlined travel routes bound for Australia and New Zealand by cutting several routes with unsatisfactory profitability, and the decrease in revenue from package tours and FIT Products bound for Japan due to the lower average spending per traveller and the general unfavourable sentiment in the PRC for Chinese tourists to travel to Japan caused by the social and media pressure during FY2017. Our revenue increased by approximately RMB36.2 million or approximately 21.4% from FY2017 to FY2018 mainly as a result of (i) the increase in revenue from package tours bound for Japan because of the increase in number of travellers; (ii) the increase in revenue from our day tour products; (iii) additional revenue derived from package tours bound for South Korea and Southeast Asia countries during FY2018, and (iv) the increase in revenue from FIT Products mainly because of the increase in number of travellers.

Our gross profit margin increased by approximately 8.1 percentage points from approximately 20.9% for FY2016 to approximately 29.0% for FY2017 mainly because of (i) the increase in commissions received from duty-free and other retail shops operated by third parties in Japan and from our tour escorts and/or tour guides by approximately RMB5.3 million; and (ii) our business strategy to streamline travel routes bound for Australia and New Zealand by cutting several routes with unsatisfactory profitability. Our gross profit margin decreased by approximately 5.1 percentage points from approximately 29.0% for FY2017 to approximately 23.9% for FY2018 mainly because of the decrease in commissions received from duty-free and other retail shops operated by third parties in Japan and from our tour escorts and/or tour guides, which generally derived higher gross profit margin.

Key Consolidated Statements of Financial Position Information

	As at 31 December		
	2016	2017	2018
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Non-current assets	122,833	149,422	209,602
Current assets	119,162	62,291	68,406
Current liabilities	121,647	75,530	93,290
Net current liabilities	(2,485)	(13,239)	(24,884)
Non-current liabilities	22,911	21,826	61,162
Net assets	97,437	114,357	123,556

As at 31 December 2016, 2017 and 2018, we had net current liabilities of RMB2.5 million, RMB13.2 million and RMB24.9 million, respectively, primarily due to the significant current portion of the interest-bearing bank borrowings of RMB86.2 million as at 31 December 2016, RMB53.5 million as at 31 December 2017 and RMB54.4 million as at 31 December 2018, representing approximately 70.9%, 70.9% and 58.3% of our total current liabilities, respectively. Such loans were obtained primarily for the acquisition of Shuzenji Takitei, being the subsidiary holding and operating the Shizuoka Hotel and purchase of land and construction of the Tokyo Hotel, respectively.

Our net current liabilities position improved from RMB24.9 million as at 31 December 2018 to RMB15.1 million as at 30 April 2019 mainly due to (i) the increase in trade receivables of approximately RMB5.5 million resulted from our business growth; (ii)

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increase in financial assets at fair value through profit or loss of approximately RMB5.0 million, representing our investment in structured deposits from two PRC licensed banks in 2019, which has been fully redeemed as at Latest Practicable Date; (iii) the decrease in interest-bearing bank borrowings of approximately RMB7.0 million resulting from the net effect of our repayment of bank loans of approximately RMB50.0 million and renewal of bank loans of approximately RMB43.0 million during January 2019 to April 2019; partially net off by (iv) the decrease in prepayments, deposits and other receivables of approximately RMB3.2 million primarily resulted from the decrease in prepayments paid for air tickets and prepaid land operator expenses subsequent to Spring Festival in February 2019; (v) the increase in lease liabilities of approximately RMB1.5 million upon the adoption of HKFRS 16 from 1 January 2019. Our Directors are of the view that we have sufficient working capital for our present requirements and for at least the next 12 months commencing from the date of this prospectus after considering the following factors: (i) our Group had unutilised banking facility of RMB5.0 million as at 30 April 2019; (ii) based on the written confirmations provided by relevant banks in PRC, it is further confirmed that, if there is no material adverse circumstances to our Group, the banks will continue to support and renew our two banking facilities of RMB47.0 million upon the expiry of their respective one year term, which we have successfully renewed for another one year term in January 2019 and February 2019, respectively; (iii) we had cash and cash equivalents of RMB9.6 million as at 30 April 2019; and (iv) we had no material default in the repayment of bank borrowings and we had not experienced any withdrawal of facilities nor request for early repayment of bank borrowings during the Track Record Period. In order to further improve our net current liabilities position, our Directors will first consider methods other than short-term loans, such as equity financing or long-term loans in the event that financing is required for our Group's future expansion or operation, in order to minimise any impact on our Group's net current liabilities position. With the listing status, our Directors are of the view that it will be easier to negotiate with banks for long-term loans.

For details, please see “Financial Information – Liquidity and Capital Resources” and for risks associated with our net current liabilities position, please see “Risk Factors – Risks Relating to our Business and Industry – We may experience weak liquidity because of our net current liability and negative cash flow from our operating activities.”

Key Consolidated Statements of Cash Flows

	FY2016	FY2017	FY2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax	21,980	29,660	10,771
Adjustments for:			
Depreciation of property, plant and equipment	2,822	2,241	2,622
Amortisation of intangible assets	54	51	49
Bank interest income	(823)	(804)	(164)
Finance costs	2,488	2,889	2,461
Gain on disposal of items of property, plant and equipment	(95)	–	–
Foreign exchange gains, net	(185)	(271)	(361)
Gain on bargain purchase of subsidiaries	(405)	–	–
Changes in fair value of investment properties	–	(627)	(225)
Other interest income from financial assets at fair value through profit or loss	–	–	(113)
Equity-settled share award expenses	1,375	321	–
Operating cash flows before movements in working capital	27,211	33,460	15,040
Net cash flows generated from/(used in) operating activities	(22,462)	20,994	3,153
Net cash flows generated from/(used in) investing activities	(48,740)	16,222	(56,730)
Net cash flows generated from/(used in) financing activities	79,045	(35,306)	34,588
Net increase/(decrease) in cash and cash equivalents	7,843	1,910	(18,989)
Net foreign exchange difference	(3,280)	(2,085)	1,488
Cash and cash equivalents at beginning of year	24,409	28,972	28,797
Cash and cash equivalents at end of year	<u>28,972</u>	<u>28,797</u>	<u>11,296</u>

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We recorded net cash flows used in operating activities of approximately RMB22.5 million for FY2016 primarily due to (i) the profit before tax of approximately RMB22.0 million, negatively adjusted for (ii) the increase in trade receivables of approximately RMB8.7 million, which was in line with our sales performance; (iii) the increase in prepayments, deposits and other receivables of approximately RMB13.3 million, which was attributable to the increase in prepayments placed with travel companies, airline operators and hotels operators for air tickets and hotel accommodation due to our business growth, and the increase in other receivables and receivables from tour escorts; (iv) the increase in amounts due from directors of approximately RMB7.2 million; and (v) the decrease in amounts due to the directors of approximately RMB14.3 million.

The net cash flows generated from operating activities decreased from approximately RMB21.0 million for FY2017 to approximately RMB3.2 million for FY2018 mainly due to the lower profits before tax as a result of the listing expenses of approximately RMB15.5 million incurred for the preparation of the Listing for FY2018, adjusted for (i) the increase in trade receivables of approximately RMB17.2 million; (ii) the increase in prepayments, deposits and other receivables of approximately RMB6.9 million; and (iii) the income tax paid of approximately RMB5.2 million, which was partly offset by (i) the increase in advance from customers, other payables and accruals of approximately RMB10.4 million; and (ii) the increase in trade payables of approximately RMB8.3 million.

We recorded net cash flows used in investing activities of approximately RMB48.7 million for FY2016, respectively, for the acquisition of Shuzenji Takitei, being the subsidiary holding and operating the Shizuoka Hotel, and the purchase of land for the construction of the Tokyo Hotel.

We recorded net cash flows used in investing activities of approximately RMB56.7 million for FY2018 primarily attributable to the purchases of items of property, plant and equipment of approximately RMB57.3 million, which mainly represented the increase in construction cost of the Tokyo Hotel.

Having considered that (i) the Listing is expected to complete in June 2019; (ii) the commencement of operation of the Tokyo Hotel in October 2018; and (iii) the expected growth from sales of package tours, day tours and FIT Products, the cash flow position is expected to improve for FY2019. Going forward, to better manage our working capital and to improve our cash flow position, we will (i) closely monitor the collection of receivables; (ii) better utilise the credit period provided by our suppliers; and (iii) make use of the unutilised banking facilities if necessary.

Key Financial Ratios

	FY2016	FY2017	FY2018
Gross profit margin	20.9%	29.0%	23.9%
Net profit margin	6.6%	12.8%	3.5%
Return on equity	25.2%	20.4%	5.9%
Return on total assets	7.6%	9.5%	2.9%
Interest coverage	9.8 times	11.3 times	5.4 times

	As at 31 December		
	2016	2017	2018
Current ratio	1.0 times	0.8 times	0.7 times
Quick ratio	1.0 times	0.8 times	0.7 times
Gearing ratio ^(Note)	107.5%	61.5%	90.0%
Net debt to equity ratio	77.8%	36.3%	80.9%

Note: Gearing ratio as at 31 December 2016, 2017 and 2018 was calculated based on total debts (being interest-bearing bank borrowings) divided by total equity as at the end of the respective year and multiplied by 100%.

Fluctuations in foreign exchange rates

For FY2016, FY2017 and FY2018, approximately 53.0%, 50.7% and 44.2% of our costs were denominated in currencies other than the units' functional currencies, and within which, approximately 41.3%, 46.4% and 43.4% of our costs were denominated in JPY. Please see "Financial Information – Key Factors Affecting Our Results of Operations – Fluctuations in foreign exchange rates" for the breakdown of our cost of sales by currencies, and the sensitivity analysis of the impact of exchange rate fluctuation between JPY and RMB on our cost of sales and profit before tax.

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Listing Expenses

Assuming an Offer Price of HK\$0.60 per Share, being the mid-point of the indicative Offer Price range of HK\$0.52 to HK\$0.68 per Offer Share, the total estimated listing expenses in connection with the Global Offering (including underwriting commission) was approximately HK\$45.0 million.

During FY2018, listing expenses of approximately HK\$18.0 million were charged to our consolidated statements of profit or loss. For FY2019, we estimate that listing expenses of approximately HK\$9.1 million, will be charged to profit or loss account. For FY2019, we estimate that listing expenses of approximately HK\$17.9 million will be accounted for as a deduction from equity upon the Listing under relevant accounting standards.

CONTROLLING SHAREHOLDERS

Immediately after completion of the Capitalisation Issue and the Global Offering, York Yu BVI, David Xu BVI, King Pan BVI and Jeffery Xu BVI will together legally and beneficially own an aggregate of 75% of the issued share capital of our Company (without taking into account any Shares which may be issued under the Over-allotment Option or the exercise of any options which may be granted under the Share Option Scheme). Each of York Yu BVI and David Xu BVI is wholly owned by Mr. Yu, our chairman and an executive Director. King Pan BVI is wholly owned by Mr. Pan, an executive Director. Jeffery Xu BVI is wholly owned by Mr. Xu, an executive Director. Mr. Yu, Mr. Pan and Mr. Xu entered into a concert party agreement dated 13 April 2018 pursuant to which they agreed to act unanimously towards the governing of Tuyi Group and our Company. Accordingly, Mr. Yu, Mr. Pan, Mr. Xu, York Yu BVI, David Xu BVI, King Pan BVI and Jeffery Xu BVI are taken as our Controlling Shareholders. Please see “Relationship with our Controlling Shareholders” in this prospectus for further details.

PRE-IPO INVESTMENT

Pursuant to the capital injection agreement dated 23 March 2018 between Tuyi Group, Mr. Chao Chi Keong (周志强) and Tuyi Investment, Mr. Chao Chi Keong agreed to make capital contribution of RMB20,408 to Tuyi Investment for 2% of the enlarged registered share capital of Tuyi Investment, our non-wholly-owned subsidiary. The amount of capital contributed by Mr. Chao Chi Keong was determined based on the registered capital of Tuyi Investment after considering the net liability value of Tuyi Investment as appraised by an independent valuer in the PRC, the uncertainty of the operation and financial performance of the Tokyo Hotel at the time of Mr. Chao Chi Keong’s pre-IPO investment, the historical financial information and performance of Tuyi Investment (including its subsidiaries), and the strategic benefits from Mr. Chao Chi Keong’s pre-IPO investment. The capital contribution in Tuyi Investment under the capital injection agreement had been fully settled by Mr. Chao Chi Keong on 23 March 2018. Mr. Chao Chi Keong was not given any special rights with respect to his investment in Tuyi Investment or our Company and the terms of the capital injection agreement did not impose any lock-up obligations over the equity interests of Tuyi Investment held by Mr. Chao Chi Keong. Mr. Chao Chi Keong had about 20 years of experience in collection, promotion and sales of stone carving craft. To the best knowledge of our Directors, Mr. Chao Chi Keong is optimistic about the growth of the Japanese tourism market. While Mr. Chao Chi Keong had no previous experience in investment in tourism industry, as an initial attempt, Mr. Chao Chi Keong decided to make only a small amount of investment at the level of Tuyi Investment, which holds our Japanese operations, but not to reflect his investment at our Company’s level. Please see “History, Reorganisation and Corporate Structure – Pre-IPO Investment” in this prospectus for further details.

LEGAL COMPLIANCE AND PROCEEDINGS

During the Track Record Period and up to the Latest Practicable Date, our Directors confirm that our Group has obtained all material licences, permits and approvals required for carrying on our business activities. During the Track Record Period, our Group experienced one legal proceeding and two non-compliance incidents, including:

- (i) a litigation against our Group with a land operator in the ordinary and usual course of our Group’s business in respect of payment of land operator fees for tours bound for destinations in Australia. In June 2018, the court awarded the plaintiff the claimed amount of AUD346,474.0 (equivalent to approximately RMB1,800,625.38) (“**Claimed Amount**”), accrued interest at the rate of 4.35% since January 2017 on the late payment of the Claimed Amount and the related

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legal costs. On 12 July 2018, we filed an appeal with the court of second instance, and the case was heard at the court of second instance on 12 September 2018 and 14 December 2018, respectively. As of the Latest Practicable Date, the court of second instance is still reviewing the relevant facts and the application of the law, and has yet to hand down any ruling or judgment;

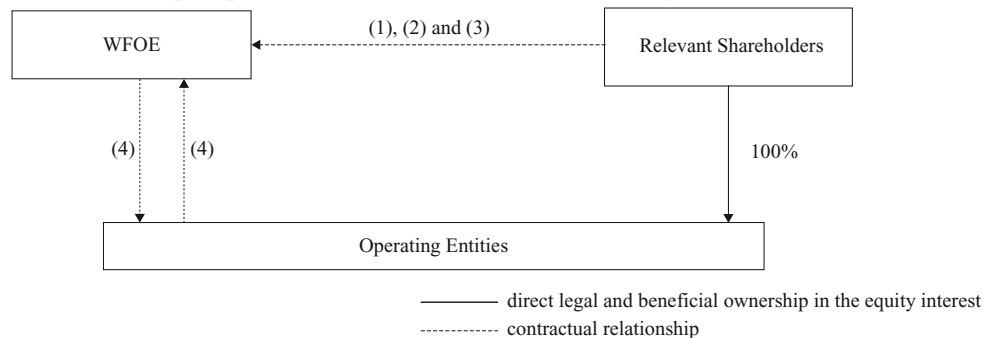
- (ii) failure to pay corporation tax, corporate district tax and corporate local taxes as small enterprise in Japan; and
- (iii) failure to make social insurance and housing provident fund contribution in full in the PRC.

Please see “Business – Legal Compliance and Proceedings” in this prospectus for further details. Save as disclosed in the “Business – Legal Compliance and Proceedings” in this prospectus, our Directors confirm that our Group has complied with all applicable laws and regulations in all material respects and was not involved in any other legal proceedings or disputes or subject to any material claims, damages or losses during the Track Record Period and up to the Latest Practicable Date.

CONTRACTUAL ARRANGEMENTS

We are primarily engaged in the provision of outbound travel products and services (the “**Outbound Travel Business**”) through our Operating Entities. According to the relevant provisions of the Regulations on Travel Agencies (Revision 2017) (《旅行社條例》) promulgated by the State Council of the PRC, and as confirmed by the interview with the Tourism Bureau of Zhejiang Province (浙江省旅遊局) and advised by our PRC Legal Advisers, our Outbound Travel Business is prohibited from foreign ownership. Accordingly, we cannot acquire equity interest in our Operating Entities, which hold, or in the course of application for, Travel Agency Business License (旅行社業務經營許可證) with the scope to conduct outbound travel business for the operation of our Outbound Travel Business. For further details of the limitations on foreign ownership in PRC companies conducting outbound travel business and the licensing and approval requirements applicable to our Outbound Travel Business under PRC laws and regulations, please see “Regulatory Overview – PRC Regulatory Overview – Regulations on Outbound Travel Business” in this prospectus. Due to these restrictions, we conduct all our operations in the PRC through the Contractual Arrangements with the Operating Entities and the Relevant Shareholders. The Contractual Arrangements allow the Operating Entities’ financials and results of operations to be consolidated into our financials as if they were wholly-owned subsidiaries of our Group. Please see “Contractual Arrangements” in this prospectus for further details.

The following diagram illustrates the flow of the economic benefit from the Operating Entities to our Group stipulated under the Contractual Arrangements:



Notes:

1. WFOE is entrusted with the shareholders’ rights of the Relevant Shareholders in the Operating Entities. Please see “Contractual Arrangements – Details of Contractual Arrangements – Shareholders’ Rights Entrustment Agreement” in this prospectus for further details.
2. WFOE is granted exclusive options to acquire all or part of the equity interest in the Operating Entities from the Relevant Shareholders. Please see “Contractual Arrangements – Details of Contractual Arrangements – Exclusive Option Agreement” in this prospectus for further details.
3. WFOE is granted priority security interests over the entire equity interest in the Operating Entities as held by the Relevant Shareholders. Please see “Contractual Arrangements – Details of Contractual Arrangements – Equity Interest Pledge Agreement” in this prospectus for further details.
4. WFOE provides services on an exclusive basis to the Operating Entities in return for service fees. Please see “Contractual Arrangements – Details of Contractual Arrangements – Exclusive Business Cooperation and Service Agreement” in this prospectus for details.

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On 19 January 2015, the MOFCOM promulgated the 2015 Draft Foreign Investment Law to solicit public comment. As at the Latest Practicable Date, the 2015 Draft Foreign Investment Law has not been enacted as proposed. The 2015 Draft Foreign Investment Law, if finally adopted in the current draft form, will have significant impact on the foreign investment regime of the PRC. In the event that our Contractual Arrangements under which we operate our travelling business are not treated as a domestic investment and our travelling business is classified as “prohibited business” in relevant laws and regulations, such Contractual Arrangements may be deemed as invalid and illegal and we may be required to unwind the Contractual Arrangements and/or dispose of such business. As we primarily conduct our travelling business and operate in the PRC, the occurrence of such an event could have a material and adverse effect on our business, financial condition and results of operations such that our Operating Entities would no longer be able to consolidate their financial results into our Group’s financial results and we would have to derecognise their assets and liabilities according to the relevant accounting standards. An investment loss would be recognised as a result of such derecognition. In such case, the Stock Exchange may also consider our Company to be no longer suitable for listing on the Stock Exchange and delist our Shares. Please see “Risk Factors – Risks Relating to our Contractual Arrangements – There are substantial uncertainties with respect to the enactment timetable, interpretation and implementation of the 2015 Draft Foreign Investment Law.” in this prospectus for further details.

On 23 December 2018, the seventh meeting of the 13th SCNPC reviewed the Foreign Investment Law of the People’s Republic of China (Draft) (中華人民共和國外商投資法(草案)), which was promulgated by the NPC on its official website on 26 December 2018 for public consultation until 24 February 2019. On 15 March 2019, the Foreign Investment Law adopted at the Second Session of the 13th NPC is hereby promulgated, effective as of 1 January 2020. When being effective, the Foreign Investment Law will become the legal foundation for foreign investment in the PRC. The Foreign Investment Law does not explicitly stipulate contractual arrangements as a form of foreign investment, and if the Foreign Investment Law becomes effective, and the then laws, regulations and rules do not incorporate contractual arrangements as a form of foreign investment, our PRC Legal Advisers are of the view that our Contractual Arrangements as a whole and each of the agreements comprising the Contractual Arrangements will not be materially affected and will continue to be legal, valid and binding on the parties. However, the Foreign Investment Law stipulates that foreign investment includes foreign investors’ investment in China through any other methods under laws, administrative regulations, or provisions prescribed by the State Council of the PRC. There is the possibility that future laws, administrative regulations or provisions of the State Council of the PRC may stipulate that contractual arrangements are a form of foreign investment. As a result, whether our Contractual Arrangements will be recognised as foreign investment, whether our Contractual Arrangements will be deemed to be in violation of the foreign investment access requirements and how our Contractual Arrangements will be handled are uncertain. For details of the Foreign Investment Law and its potential impact on our Company, please see “Risk Factors – Risks Relating to our Contractual Arrangements – There are substantial uncertainties with respect to the interpretation and implementation of the Foreign Investment Law.” in this prospectus for further details.

We will disclose, as soon as possible: (i) updates of changes to the 2015 Draft Foreign Investment Law (if applicable) and interpretations or implementing rules of the Foreign Investment Law (if applicable) that will materially and adversely affect our Company as and when they occur; and (ii) a clear description and analysis of any new PRC laws, rules or regulations relating to contractual arrangements adopted in the future, specific measures taken by our Company to fully comply with the aforesaid new PRC laws, rules or regulations supported by a PRC legal opinion and any material impact of the aforesaid new PRC laws, rules or regulations on our operations and financial position. Please see “Contractual Arrangements – Development in the PRC Legislation on Foreign Investment” in this prospectus for further details.

RECENT DEVELOPMENT

In order to further expand our customer base, we began to provide domestic day tour products in Zhejiang Province, PRC in April 2019. As at the Latest Practicable Date, we provided 13 domestic day tours. With a view to support our strategy in establishing sales network in Hong Kong, we have also entered into two business cooperation agreements with

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two Hong Kong local travel agency companies, one of which is listed on the GEM of the Stock Exchange and also one of the leading travel agency companies in Hong Kong according to the F&S Report, in March 2019, pursuant to which and to benefit from each other's established customer base, either we or the local travel agency will supply travel products in Hong Kong and/or PRC, and the other party shall be responsible for promoting the other party's travel products and liaising with the travellers. Please refer to "Business – Our Business Strategies – Establish sales network in Hong Kong and to expand our customer base" for further details.

To maximise our advantage of owning the Tokyo Hotel and to broaden our revenue source, we also opened a duty-free shop on the ground floor of our Tokyo Hotel with a gross floor area of approximately 65.2m² (the "Tokyo Duty-free Shop") in January 2019 for the sale of over-the-counter medicines cosmetics and daily necessities to our FIT and package tour customers, and any other walk-in visitors or tourists. In March 2019, we opened a virtual store on an online platform for the sale of our Tokyo Duty-free Shop products to customers who have registered and signed up as members of our virtual store. In accordance with the applicable Japanese laws and regulations, we have obtained the relevant permissions and licences required for operating the Tokyo Duty-free Shop and the restaurant at the Tokyo Hotel. For details, please refer to "Business – Permits, Licences and Approvals".

Our Directors are responsible for the preparation and fair presentation of our unaudited consolidated financial statements of our Group for the three months ended 31 March 2018 and 31 March 2019, which have been reviewed by our reporting accountants in accordance with the Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

For the three months ended 31 March 2019, our unaudited revenue amounted to approximately RMB64.1 million, representing an approximately 40.6% increase from RMB45.6 million for the same period in 2018. Such increase was mainly resulted from (i) RMB10.9 million increase from sales of package tours and day tours; and (ii) RMB 5.9 million increase from hotel operation primarily due to the commencement of the Tokyo Hotel in October 2018, which recorded high average occupancy rate of approximately 84% for the three months ended 31 March 2019.

The significant growth in sales of package tours and day tours was primarily driven by (a) approximately RMB6.8 million increase in revenue from the expansion of day-tour routes in Japan from five routes options as at 31 March 2018 to 54 routes options as at the Latest Practicable Date; (b) the increase in revenue from package tours bound for Japan of approximately RMB3.0 million or 10.6% during the three months 31 March 2018 as compared to the same period in 2019 mainly due to the higher proportion of tailor-made and customised tours from 35.8% of total revenue from sales of package tours and day tours during the three months ended 31 March 2018 to 47.4% for the same period in 2019. In January 2019, we organised two large-scale package tours with over 100 travellers per tour, one of which being a customised tour designed and developed by our Group as a corporate event for the customers of the New B2B Customers and another was a customised sightseeing tour; (c) the expanded customer base built up by the three branches which have been in operation for at least over a year and their enhanced marketing efforts on both package tour bound for Japan and other destinations, together resulting in the significant increase in total number of travellers from approximately 7,920 during the three months ended 31 March 2018 to approximately 33,368 during the same period for 2019.

Having considered that our Group's gross profit margin from our hotel operation increased from approximately 36.5% for FY2018 to approximately 55.5%, for the three months ended 31 March 2019 which was mainly driven by (i) the significant increase in contribution from the Tokyo Hotel to the total gross profit and recorded gross profit margin of 63.1% for the three months ended 31 March 2019 upon the commencement of operation since October 2018; (ii) the cost of sales of the Tokyo Hotel remained relatively stable, which mainly consisted of staff cost and depreciation expenses; and (iii) the average occupancy rate of the Tokyo Hotel reached approximately 84.0% for the three months ended 31 March 2019, which was in line with the expected growth of the annual average occupancy rate in Tokyo to 86.0% for FY2019 according to the F&S Report; while the average occupancy rate of the Shizuoka Hotel remained relatively stable for the three months ended 31 March 2019 as compared to that during the Track Record Period. Given

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that (i) our Group is able to maintain the occupancy rates of the Shizuoka Hotel and Tokyo Hotel and (ii) there are no unforeseen adverse circumstances or change in government policy, our Directors believe that the gross profit margin of its hotel operation is expected to remain stable in the near future.

In addition to the above, our Directors believe the aforementioned increases are also driven by (i) the sustainable growth of outbound tourism demand with an increasing disposal income and consumption expenditure of Chinese tourists on outbound travelling according to the F&S Report; and (ii) the improvement of Sino-Japanese political and diplomatic relations which resulted in favourable visa relaxation policy that commenced from 1 January 2019. Since our Group was granted the qualification by Japan Council of Travel Agents for Chinese Visitors to issue letters of invitation required for Japan visa application in 2016, majority of the income from sales of ancillary travel related products and provision of services was derived from the service fee charged by our Group for the issuance of letters of invitation to other travel agencies that do not have the qualification to issue such letters of invitation, while such services recorded gross profit margin of more than 90% for the three months ended 31 March 2019.

Being one of the outbound travel agencies in the Eastern China area which have obtained the qualification to issue letters of invitation, our Directors believe that the income from the issuance of letters of invitation will continue to contribute positively to our Group in the near future. Our Directors believe that unless our Registration as a Travel Agency (旅行業の登録) under Travel Agency Act (旅行業法) is revoked by the relevant authority in Japan thereby affecting our qualification to issue letters of invitation, and that there are no unforeseen adverse circumstances or change in government policy, our gross profit margin from the issuance of letters of invitation is expected to remain stable in the near future.

As a result of our business growth, we recorded unaudited profit after tax of approximately RMB7.5 million for the three months ended 31 March 2019 from an unaudited loss of RMB0.4 million for the same period in 2018. Our unaudited adjusted net profits after excluding listing expenses increased significantly from approximately RMB4.2 million for the three months ended 31 March 2018 to approximately RMB11.3 million for the same period in 2019. Such robust growth in unaudited profit after tax and unaudited adjusted profit for the three months ended 31 March 2019 was primarily due to the significant growth in our gross profit as a result of (i) the abovementioned increase in revenue arising from the sales of package tours and day tours; (ii) increase in revenue and gross profit arising from hotel operation since the opening of Tokyo Hotel during October 2018 and (iii) increase in gross profit margin arising from (a) the higher proportion of tailor-made and customised tours during the three months ended 31 March 2019 as compared to the same period in 2018; and (b) the higher proportion of the provision of day-tour in Japan, which generally recorded higher gross profit margin than package tours, from less than 2% of total revenue for the three months ended 31 March 2018 to more than 10% for the same period in 2019 because less third parties service providers (such as hotels and flight tickets) were involved compared to package tours.

Our Directors also expect that there will be an increase in sale of travel products bound for Japan for the year ending 31 December 2019, in light of the recent improvement of Sino-Japanese relations after the first official visit to China by the Japanese prime minister on 25 October 2018 since 2011 and the simplification of Japan visa application procedure. For instance, the Japanese government has implemented a new visa application policy which provided that commencing from 1 January 2019, any Chinese citizens who have travelled to Japan at least twice in the past three years using individual tourist visas can be exempted from submitting financial documents when applying for a multiple entry visa. In addition, Japan decided to relax the preferential policies for individual tourist visas for undergraduates and postgraduates from universities under the Ministry of Education in the PRC, from the previous 75 colleges and universities to 1,243 in 2019. Save as disclosed on the above, to the best information and knowledge of our Directors, up to the date of this prospectus, there are no material changes to the market condition which would materially affect the operation or performance of our principal business.

Our Directors confirmed that, up to the date of this prospectus, save for the impact of listing expenses, there has been no material adverse change in our financial or trading position or prospect of our Company or its subsidiaries since 31 December 2018, being the end of the reporting period in the Accountants' Report set out in Appendix I to this

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prospectus, and there has been no event since 31 December 2018 which would materially affect the information shown in the Accountants' Report set out in Appendix I to this prospectus.

USE OF PROCEEDS

Assuming an Offer Price of HK\$0.60, being the mid-point of the proposed Offer Price range of HK\$0.52 to HK\$0.68 per Offer Share, we estimate that we will receive net proceeds of approximately HK\$105.0 million from the Global Offering after deducting the underwriting commissions and other estimated expenses in connection with the Global Offering if the Over-allotment Option is not exercised. We intend to use the net proceeds from the Global Offering for the following purposes:–

- approximately 2%, or HK\$2.1 million, to be used to enhance our product portfolio by developing new products and services;
- approximately 13%, or HK\$13.7 million to be used to purchase tour buses and for the engagement of third party tour bus operators, of which approximately HK\$11.3 million is used to purchase such tour buses and approximately HK\$2.4 million is used for the engagement of the third party tour bus operators;
- approximately 20%, or HK\$21.0 million, to be used (i) to establish sales network in Hong Kong; (ii) to expand our customer base by opening new office(s) in Hong Kong in the next two years; (iii) for the operation of our new Hong Kong office(s); and (iv) for hiring of personnels to be based at our Hong Kong office(s);
- approximately 20%, or HK\$21.0 million, to be used to acquire hospitality asset in Kyoto, Japan;
- approximately 20%, or HK\$21.0 million, to be used to invest in a travel agency company in Tokyo, Japan;
- approximately 15%, or HK\$15.7 million, to be used to engage more personnel in Japan as we plan to strengthen our land operation capability and in view of the commencement of operation of the Tokyo Hotel in October 2018; and
- approximately 10%, or HK\$10.5 million, to be used as general working capital.

For details, please see “Future Plans and Use of Proceeds” in this prospectus.

STATISTICS OF THE GLOBAL OFFERING

	Based on an Offer Price of HK\$0.52	Based on an Offer Price of HK\$0.68
Market capitalisation of the Shares ⁽¹⁾	HK\$520.0 million	HK\$680.0 million
Unaudited pro forma adjusted consolidated net tangible assets per Share ⁽²⁾	HK\$0.23	HK\$0.27

Notes:

- (1) The calculation of market capitalisation is based on each indicative Offer Price and 1,000,000,000 Shares in issue immediately after completion of the Global Offering but takes no account of any Shares which may fall to be issued upon the exercise of the Over-allotment Option or any Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme or any Shares which may be allotted, issued or repurchased by our Company pursuant to the general mandates for the allotment and issue or repurchase of Shares referred to in “A. Further information about the Company and its Subsidiaries – 3. Written resolutions of all the Shareholders passed on 1 March 2019” in Appendix V to this prospectus.
- (2) Please refer to Appendix II to this prospectus for the calculation of the unaudited proforma adjusted consolidated net tangible assets per Share.

DIVIDENDS

No dividends have been paid or declared by our Group during the Track Record Period and up to the Latest Practicable Date. We do not have a fixed dividend policy. The declaration of dividends is subject to the discretion of our Board and the approval of our Shareholders. For details, please see “Financial Information – Dividends” in this prospectus.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following expressions shall have the following meanings.

“Accountants’ Report”	the accountants’ report set out in Appendix I to this prospectus
“Application Form(s)”	the WHITE Application Form(s), YELLOW Application Form(s) and GREEN Application Form(s) or, where the context so requires, any of such forms as used in the Hong Kong Public Offer
“Articles” or “Articles of Association”	the amended and restated articles of association of our Company conditionally adopted on 1 March 2019 and effective on the Listing Date, as amended or supplemented from time to time, a summary of which is contained in Appendix IV to this prospectus
“AUD”	Australian dollars, the lawful currency of Australia
“BOA International Securities”	BOA International Securities Limited, a licensed corporation under the SFO permitted to carry out Type 1 (Dealing in Securities) and Type 2 (Dealing in Future Contracts) regulated activities (as defined under the SFO), being one of the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters
“Board” or “our Board” or “Board of Directors”	the board of directors of our Company
“business day”	any day (other than a Saturday, Sunday or public holiday) on which banks in Hong Kong are generally open for normal banking business
“BVI”	British Virgin Islands
“Capitalisation Issue”	the issue of 749,990,000 Shares to be made upon capitalisation of an amount of HK\$7,499,900 standing to the credit of the share premium account of our Company as referred to under “A. Further information about our Company and its Subsidiaries – 3. Written resolutions of all our Shareholders passed on 1 March 2019” in Appendix V to this prospectus
“Cayman Companies Law” or “Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961) of the Cayman Islands, as amended or supplemented from time to time

DEFINITIONS

“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Operational Procedures”	the operational procedures of HKSCC in relation to CCASS, containing the practices, procedures and administrative requirements relating to the operations and functions of CCASS, as from time to time in force
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“Chuangyi Advertising”	杭州創屹廣告有限公司 (Hangzhou Chuangyi Advertising Company Limited*), a limited liability company established in the PRC on 4 January 2018, which ceased to be our subsidiary upon completion of the Reorganisation
“Citizen Holiday”	Citizen Holiday Co., Ltd., a limited liability company incorporated in the BVI on 6 March 2018 and a direct wholly-owned subsidiary of our Company
“Company”, “our Company” or “the Company”	Tu Yi Holding Company Limited (途屹控股有限公司), an exempted company with limited liability incorporated under the laws of the Cayman Islands on 27 February 2018, and registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on 10 May 2018
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Companies (WUMP) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time

DEFINITIONS

“Contractual Arrangements”	the series of contractual arrangements entered into by, among others, WFOE, Tuyi Group and the Relevant Shareholders, details of which are set out in “Contractual Arrangements”
“Controlling Shareholder(s)”	has the meaning ascribed thereto under the Listing Rules and, in the context of this prospectus, refers to Mr. Yu, Mr. Pan, Mr. Xu, York Yu BVI, David Xu BVI, King Pan BVI and Jeffery Xu BVI
“Corporate Governance Code”	the Code on Corporate Governance Practises as set out in Appendix 14 to the Listing Rules
“Crosby Securities”	Crosby Securities Limited, a licensed corporation under the SFO permitted to carry out Type 1 (Dealing in Securities), Type 4 (Advising on Securities), Type 6 (Advising on Corporate Finance) and Type 9 (Asset Management) regulated activities (as defined under the SFO), being one of the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters
“David Xu BVI”	David Xu Co., Ltd., a limited liability company incorporated in the BVI on 8 February 2018 and is directly wholly owned by Mr. Yu, and being one of the Controlling Shareholders
“Deed of Indemnity”	the deed of indemnity dated 1 March 2019 entered into by our Controlling Shareholders in favour of our Company to provide certain indemnities, further details are set out in “F. Other Information – 1. Estate Duty, Tax and Other Indemnity” in Appendix V to this prospectus
“Deed of Non-competition”	a deed of non-competition dated 1 March 2019 and executed by our Controlling Shareholders in favour of our Company, further details are set out in “Relationship with our Controlling Shareholders”
“Directors” or “our directors”	the directors of our Company
“Foreign Investment Law”	The PRC foreign investment law* (《中華人民共和國外商投資法》) adopted by the NPC on 15 March 2019 and effective from 1 January 2020
“Frost & Sullivan”	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., an industry research consultant and an Independent Third Party

DEFINITIONS

“F&S Report”	the industry report issued by Frost & Sullivan, details of which are set out in “Industry Overview”
“FY2015”	the financial year ended 31 December 2015
“FY2016”	the financial year ended 31 December 2016
“FY2017”	the financial year ended 31 December 2017
“FY2018”	the financial year ended 31 December 2018
“FY2019”	the financial year ending 31 December 2019
“Global Offering”	Hong Kong Public Offer and International Placing
“ GREEN Application Form(s)”	the application form(s) to be completed by the HK eIPO White Form Service Provider designated by our Company
“Group”, “our Group”, “we” or “us”	our Company and its subsidiaries or, where the context requires, in respect of the period prior to our Company becoming the holding company of its present subsidiaries, such subsidiaries as if they were subsidiaries of our Company at the relevant time
“Guge Travel”	杭州谷歌旅行社有限公司 (Hangzhou Guge Travel Company Limited*), a limited liability company established under the laws of the PRC on 23 April 2010 and is deemed to be an indirect wholly-owned subsidiary of our Company pursuant to the Contractual Arrangements
“Haitong International Securities”	Haitong International Securities Company Limited, a licensed corporation under the SFO permitted to carry out Type 1 (Dealing in Securities), Type 3 (Leveraged Foreign Exchange Trading) and Type 4 (Advising on Securities) regulated activities, being one of the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters
“Haizhilv Travel”	杭州海之旅假日旅行社有限公司 (Hangzhou Haizhilv Holidays Travel Company Limited*), a limited liability company established under the laws of the PRC on 14 January 2003 and is deemed to be an indirect wholly-owned subsidiary of our Company pursuant to the Contractual Arrangements
“HK\$” or “Hong Kong dollars”	Hong Kong dollars, the lawful currency of Hong Kong

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“ HK eIPO White Form ”	the application for Hong Kong Offer Shares to be registered in the applicant’s own name by submitting applications online through the designated website of HK eIPO White Form at www.hkeipo.hk
“ HK eIPO White Form Service Provider ”	the HK eIPO White Form service provider designated by our Company as specified on the designated website at www.hkeipo.hk
“HKFRSs”	Hong Kong Financial Reporting Standards, as issued by the HKICPA
“HKICPA”	Hong Kong Institute of Certified Public Accountants
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Legal Counsel”	Tse Siu Chung Dixon, barrister-at-law of Hong Kong
“Hong Kong Offer Shares”	25,000,000 new Shares being initially offered by us for subscription pursuant to the Hong Kong Public Offer
“Hong Kong Public Offer”	the offer by us of the Hong Kong Offer Shares to the public in Hong Kong for subscription at the Offer Price, on and subject to the terms and conditions set out in this prospectus and the Application Forms, as further described in “Structure and Conditions of the Global Offering”
“Hong Kong Branch Share Registrar”	Tricor Investor Services Limited, our branch share registrar and transfer agent in Hong Kong
“Hong Kong Underwriters”	the underwriters listed in “Underwriting – Hong Kong Underwriters”, being the underwriters of the Hong Kong Public Offer
“Hong Kong Underwriting Agreement”	the underwriting agreement dated 17 June 2019 relating to the Hong Kong Public Offer entered into by, among others, our Company and the Hong Kong Underwriters, as further described in “Underwriting”

DEFINITIONS

“independent third party(ies)”	an individual or a company which is independent from and not connected with (within the meaning of Listing Rules) any Directors, chief executive, substantial shareholders of our Company, its subsidiaries or any of their respective associates
“Innovax Capital” or “Sole Sponsor”	Innovax Capital Limited, a corporation licensed to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) of the regulated activities under the SFO, and acting as the Sole Sponsor for the Global Offering
“Innovax Securities”	Innovax Securities Limited, a licensed corporation under the SFO permitted to carry out Type 1 (Dealing in Securities) and Type 4 (Advising on Securities) regulated activities (as defined under the SFO), being one of the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters
“International Placing”	the conditional placing of the International Placing Shares by the International Underwriters for and on behalf of our Company to institutional, professional, corporate and other investors in Hong Kong and elsewhere in the world outside the United States at the Offer Price, on and subject to the terms and conditions under the International Underwriting Agreement, as further described in “Structure and Conditions of the Global Offering”
“International Placing Shares”	225,000,000 new Shares being initially offered by us for subscription pursuant to the International Placing together with, where relevant, any additional Shares which may be issued by our Company pursuant to the exercise of the Over-allotment Option
“International Underwriters”	the underwriters for the International Placing who are expected to enter into the International Underwriting Agreement
“International Underwriting Agreement”	the underwriting agreement relating to the International Placing to be entered into by, among others, our Company and the International Underwriters on or about the Price Determination Date, as further described in “Underwriting”
“Japan Legal Advisers”	Soga Law Office, legal advisers of our Company as to the laws of Japan

DEFINITIONS

“Jeffery Xu BVI”	Jeffery Xu Co., Ltd., a limited liability company incorporated in the BVI on 8 February 2018 and is directly wholly owned by Mr. Xu, and being one of the Controlling Shareholders
“Joint Bookrunners”, or “Joint Lead Managers”	Innovax Securities, Crosby Securities, Mason Securities, BOA International Securities and Haitong International Securities
“Joint Global Coordinators”	Innovax Securities and Crosby Securities
“JPY” or “Japanese Yen”	Japanese yen, the lawful currency of Japan
“Kaida Ticketing”	浙江凱達票務有限公司 (Zhejiang Kaida Ticketing Company Limited*), a limited liability company established in the PRC on 18 August 2010 and an indirect non-wholly-owned subsidiary of our Company
“King Pan BVI”	King Pan Co., Ltd., a limited liability company incorporated in the BVI on 8 February 2018 and is directly wholly owned by Mr. Pan, and being one of the Controlling Shareholders
“Latest Practicable Date”	11 June 2019, being the latest practicable date for the purpose of ascertaining certain information contained in this prospectus prior to its publication
“Listing”	the listing of the Shares on the Main Board of the Stock Exchange
“Listing Committee”	the listing committee of the Stock Exchange
“Listing Date”	the date expected to be on or around 28 June 2019, on which the Shares are first listed and from which dealings in the Shares are permitted to take place on the Main Board of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended or supplemented from time to time
“Main Board”	the stock market (excluding the option market) operated by the Stock Exchange, independent from and operated in parallel with GEM of the Stock Exchange

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“Mason Securities”	Mason Securities Limited, a licensed corporation under the SFO permitted to carry out Type 1 (Dealing in Securities), Type 4 (Advising on Securities) and Type 9 (Asset Management) regulated activities (as defined under the SFO), being one of the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters
“Memorandum” or “Memorandum of Association”	the amended and restated memorandum of association of our Company, as amended or supplemented from time to time, a summary of which is contained in Appendix IV to this prospectus
“MOFCOM”	Ministry of Commerce of the PRC (中華人民共和國商務部)
“Mr. Pan”	Mr. Pan Wei (潘渭), an executive Director, one of our Controlling Shareholders, and one of the Relevant Shareholders
“Mr. Xu”	Mr. Xu Jiong (徐炯), an executive Director, one of our Controlling Shareholders, and one of the Relevant Shareholders
“Mr. Yu”	Mr. Yu Dingxin (虞丁心), an executive Director, our chairman, one of our Controlling Shareholders, and one of the Relevant Shareholders
“New Zealand Dollar” or “NZD”	New Zealand dollar, the lawful currency of New Zealand
“Ningce Trading”	杭州寧策貿易有限公司 (Hangzhou Ningce Trading Company Limited*), a limited liability company established under the laws of the PRC on 14 March 2012, which ceased to be our subsidiary upon completion of the Reorganisation
“NPC”	the National People’s Congress of the PRC (中華人民共和國全國人民代表大會)

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“Offer Price”	the final offer price per Offer Share (exclusive of brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) of not more than HK\$0.68 and expected to be not less than HK\$0.52, such price to be determined by agreement between our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) on or before the Price Determination Date
“Offer Shares”	the Hong Kong Offer Shares and the International Placing Shares including the additional Shares that might be issued under any exercise of the Over-allotment Option
“Operating Entities”	collectively, Tuyi Group, Guge Travel and Haizhilv Travel, the financial results of which have been consolidated and accounted for as subsidiaries of our Company by virtue of the Contractual Arrangements
“Over-allotment Option”	the option expected to be granted by us to the International Underwriters under the International Underwriting Agreement, exercisable by the Joint Global Coordinators (on behalf of the International Underwriters), pursuant to which we may be required to allot and issue up to 37,500,000 additional Shares (representing 15% of the number of Offer Shares initially being offered under the Global Offering) at the Offer Price, to cover over-allocations in the International Placing, if any, as further described in “Structure and Conditions of the Global Offering”
“PRC” or “China” or “State”	People’s Republic of China which, for the purposes of this prospectus only, excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“PRC government”	the government of the PRC including all political subdivisions (including provincial, municipal and other regional or local government entities) and their instrumentalities thereof or where the context requires, any of them
“PRC Legal Advisers”	Zhejiang T&C Law Firm, legal advisers of our Company as to the laws of the PRC

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“Price Determination Date”	the date expected to be on or around 21 June 2019, but no later than 27 June 2019, on which our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) determine the Offer Price for the purpose of the Global Offering
“property ownership certificate”	房屋所有權證 (property ownership certificate), a certificate issued by relevant PRC government authorities with respect to the ownership rights of buildings
“Regulation S”	Regulation S under the U.S. Securities Act
“Relevant Shareholder(s)”	Mr. Yu, Mr. Pan, Mr. Xu and Tuyi Management LLP, being the registered shareholders of Tuyi Group
“Reorganisation”	the corporate reorganisation of our Group in preparation for the Listing as described in “History, Reorganisation and Corporate Structure – Reorganisation” and “A. Further information about the Company and its Subsidiaries – 4. Corporate Reorganisation” in Appendix V to this prospectus
“RMB”	Renminbi, the lawful currency of the PRC
“SAFE”	the State Administration for Foreign Exchange (國家外匯管理局)
“SAIC”	State Administration of Industry and Commerce of PRC (中華人民共和國國家工商行政管理總局) or State Administration for Market Regulation of PRC (中華人民共和國國家市場監督管理總局)
“SCNPC”	the Standing Committee of the NPC
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
“Shareholder(s)”	holder(s) of our Share(s)
“Share(s)”	ordinary share(s) with a nominal value of HK\$0.01 each in the share capital of our Company

DEFINITIONS

“Share Option Scheme”	the share option scheme conditionally adopted by our Shareholders on 1 March 2019, the principal terms of which are summarised in “E. Share Option Scheme” in Appendix V to this prospectus
“Shizuoka Hotel”	Shuzenji Onsen Hotel Takitei (伊豆修善寺滝亭酒店), located in 722, 753, 3655-1 Shuzenji, Izu-shi, Shizuoka, Japan; a hotel owned, managed and operated by our Company
“Shuzenji Takitei”	修善寺滝亭株式会社 (Shuzenji Takitei Company Limited*), a limited liability company incorporated in Japan on 15 March 2010 and an indirect non-wholly-owned subsidiary of our Company
“Stabilising Manager”	Innovax Securities
“Stock Borrowing Agreement”	The stock borrowing agreement to be entered into between the Stabilising Manager and York Yu BVI, pursuant to which the Stabilising Manager may borrow up to 37,500,000 Shares to cover any over-allotment in the International Placing
“Stock Exchange” or “HKEx”	The Stock Exchange of Hong Kong Limited
“Special Administrative Measures”	the Special Administrative Measures on Access of Foreign Investment (Negative List) (2018 Edition) (外商投資准入特別管理措施(負面清單)(2018年版)) promulgated by the National Development and Reform Commission and MOFCOM on 28 June 2018 and effective from 28 July 2018
“Structured Contracts”	collectively, the Exclusive Business Cooperation and Service Agreement, the Exclusive Option Agreement, the Equity Interest Pledge Agreement and the Shareholders’ Rights Entrustment Agreement, being the underlying contracts for the Contractual Arrangements, further details of which are set out in “Contractual Arrangements”
“Takeovers Code”	the Hong Kong Codes on Takeovers and Mergers and Share Repurchases issued by the SFC, as amended or supplemented from time to time
“Tokyo Hotel”	Hotel Comfact, located in Lot Nos. 126-1 and 126-4, Shitaya I-chome, Taito-ku, Tokyo, Japan; a hotel managed and operated by our Company

DEFINITIONS

“Tongyuan Youke”	杭州通元優科創業投資合夥企業(有限合夥)(Hangzhou Tongyuan Youke Business Development Investment Partnership Enterprise (A Limited Partnership)*), a limited liability company established in the PRC, an independent third party
“Track Record Period”	the financial years ended 31 December 2016, 2017 and 2018
“Tuyi Group”	途益集團有限公司 (Tu Yi Group Company Limited*) (formerly known as 途益集團股份有限公司 (Tu Yi Group Holding Company Limited*), 杭州途易旅行社有限公司 (Hangzhou Tu Yi Travel Company Limited*), 浙江途易國際旅行社有限公司 (Zhejiang Tu Yi International Travel Company Limited*), 浙江杭州途易旅遊集團有限公司 (Zhejiang Hangzhou Tu Yi Travel Group Company Limited*), 浙江途易旅遊集團有限公司 (Zhejiang Tu Yi Travel Group Company Limited*) and 途易集團有限公司 (Tu Yi Group Company Limited*)), a limited liability company established under the laws of the PRC on 29 April 2008 and is deemed to an indirect wholly-owned subsidiary of our Company pursuant to the Contractual Arrangements
“Tuyi Group Japan”	途易集團日本株式会社 (Tuyi Group Japan Company Limited)*, a limited liability company incorporated in Japan on 31 March 2015 and an indirect wholly-owned subsidiary of our Company
“Tuyi HK”	Tuyi HK Co., Limited (途易香港有限公司), a limited liability company incorporated in Hong Kong on 29 September 2015, which ceased to be our subsidiary upon completion of the Reorganisation
“Tuyi Investment”	杭州途易投資管理有限公司 (Hangzhou Tuyi Investment Management Company Limited*), a limited liability company established in the PRC on 2 June 2015 and an indirect wholly-owned subsidiary of our Company

DEFINITIONS

“Tuyi Management LLP”	杭州途詣投資管理合夥企業(有限合夥) (Hangzhou Tuyi Investment Management Partnership Enterprise (A Limited Partnership)*), one of the Relevant Shareholders, a limited partnership established in the PRC on 13 March 2016, the general partner of which is Mr. Yu and the remaining five limited partners of which are Mr. An Jiajin (the nephew of Mr. Yu and an executive Director), Mr. Peng Ying (an executive Director) and three employees of our Group who are independent third parties
“Tuyi Tourism Development”	途易觀光開發株式會社 (Tuyi Tourism Development Company Limited*), a limited liability company incorporated in Japan on 7 May 2015 and an indirect non-wholly-owned subsidiary of our Company
“TYHK”	Tuyi HK Group Co., Limited (途益香港有限公司), a limited liability company incorporated in Hong Kong on 19 March 2018 and an indirect wholly-owned subsidiary of our Company
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“US\$” or “USD”	United States dollar, the lawful currency of the United States
“U.S.” or “United States” or “US” or “USA”	the United States of America, its territories and possessions, any state of the United States and the District of Columbia
“U.S. Securities Act”	the United States Securities Act 1933, as amended or supplemented from time to time
“VIE” or “VIEs”	variable interest entity or variable interest entities
“WFOE”	杭州途屹信息技術有限公司 (Hangzhou Tuyi Information Technology Company Limited*) , a limited liability company established in the PRC on 3 April 2018 and is an indirect wholly-owned subsidiary of our Company
“WHITE Application Form(s)”	the application form(s) for use by the public who require such Hong Kong Offer Shares to be issued in the applicant’s own name(s)

DEFINITIONS

“YELLOW Application Form(s)”	the application form(s) for use by the public who require such Hong Kong Offer Shares to be deposited directly in CCASS
“York Yu BVI”	York Yu Co., Ltd., a limited liability company incorporated in the BVI on 8 February 2018 and is directly wholly owned by Mr. Yu, and being one of the Controlling Shareholders
“2015 Draft Foreign Investment Law”	draft Foreign Investment Law of the People’s Republic of China (Exposure Draft) (中華人民共和國外國投資法(草案征求意见稿)) issued by MOFCOM on 19 January 2015
“%”	per cent

Unless expressly stated or otherwise required by the context, all data contained in this prospectus are as at the Latest Practicable Date.

In this prospectus, unless the context otherwise requires, the terms “associate”, “close associate”, “connected person”, “connected transaction”, “controlling shareholder”, “core connected person”, “subsidiary” and “substantial shareholder” shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.

For ease of reference, the names of Chinese laws and regulations, governmental authorities, institutions, natural persons or other entities (including certain of our subsidiaries) have been included in this prospectus in both the Chinese and English languages and in the event of any inconsistency, the Chinese versions shall prevail. English translations of company names and other terms from the Chinese language or where applicable, Japanese language, are marked with “” and are provided for identification purposes only.*

GLOSSARY OF TECHNICAL TERMS

This glossary of technical terms contains explanations of certain terms used in this prospectus as they relate to our Company and are used in this prospectus in connection with our business or us. These terms and their given meanings may not correspond to standard industry definitions.

“B2B”	business to business
“B2C”	business to consumer
“CAGR”	compound annual growth rate
“charter flight”	refers to a flight where the travel agency(ies) takes risk on the inventory (or hires/leases the plane) and, usually, sells the seats to customers
“day tour”	a travel service which includes the provision to a group or a person of services relating to local transport, meals, activities, tour escorts and/or accommodation ranging from one day to six days
“destination countries”	the countries to which customers can travel by purchasing the products and services offered by our Group
“distribution channel”	a channel through which our Group makes its products and services available to customers or potential customers (including through our headquarters, our branches and online sales platform as well as through third parties)
“dynamically-packaged tour”	a package tour (other than standardised package tour) where two or more individual travel elements, travel products or travel services are bundled together to meet the customer’s personal requirements (for example, as to destination, duration, variety, quality and price)
“Eastern China”	Anhui, Fujian, Jiangsu, Jiangxi, Shandong, Zhejiang and Shanghai
“FIT”	free and independent travellers which generally refer to a small group of travellers who purchase independent travel products (instead of standardised package holiday) and do not require a travel escort

GLOSSARY OF TECHNICAL TERMS

“FIT Products”	include dynamically-packaged tours, one or more individual travel elements (such as airline tickets, hotels and accommodation), airline holidays and cruise holidays
“GFA”	gross floor area
“inbound”	travel to China from overseas country
“Japan Tour(s)”	tour(s) designed, sold and operated by us which are bound for destinations in Japan
“land operator”	a handling agent providing services including hotel booking, local transportation and other travel related arrangements to tour operators and travel agents
“minshuku”	a small inn, which usually has Japanese style bed and breakfast
“onsen”	a Japanese hot spring with bathing facilities which could be indoor or outdoor
“outbound”	travel to overseas countries from China
“package tour”	a travel service which includes the provision to a group or a person of services relating to transport, accommodation, meals, activities and tour escorts
“peak season”	refers to summer holidays in July and August
“sq. m.” or “m ² ”	square metre
“tour escort”	staff appointed by a tour operator to accompany tour groups and to take care of the participants throughout the journey of a tour
“tour guide”	a person employed to show tourists around places of interests in different countries
“Yangtze River Delta Economic Zone”	Shanghai, Jiangsu, Anhui and Zhejiang Province

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. The forward-looking statements are contained principally in “Summary”, “Risk Factors”, “Industry Overview”, “Business”, “Financial Information” and “Future Plans and Use of Proceeds”. These statements relate to events that involve known and unknown risks, uncertainties and other factors, including those listed under “Risk Factors”, which may cause our actual results, performance or achievements to be materially different from performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements include, without limitation, statements relating to:

- our business strategies and operating plans;
- our capital expenditure and expansion plans;
- our objectives and expectations regarding our future operations, profitability, liquidity and capital resources;
- our ability to identify and successfully take advantage of new business development opportunities; and
- the regulatory environment and industry outlook for the industries in which we operate.

The words “anticipate”, “believe”, “could”, “estimate”, “expect”, “intend”, “may”, “plan”, “seek”, “will”, “would” and the negative of these terms and other similar expressions, as they relate to us, are intended to identify a number of these forward-looking statements. These forward-looking statements reflect our current views with respect to future events and are not a guarantee of future performance. Actual results may differ materially from information contained in the forward-looking statements as a result of a number of uncertainties and factors, including but not limited to:

- any changes in the laws, rules and regulations of the central and local governments in PRC or Japan relating to any aspect of our business or operations;
- general political, economic, market and business conditions in PRC or Japan;
- inflationary pressures or changes or volatility in interest rates, foreign exchange rates or other rates or prices in PRC or Japan;
- various business opportunities that we may pursue; and
- the risk factors discussed in this prospectus as well as other factors beyond our control.

Subject to the requirements of applicable laws, rules and regulations, we do not have any obligation to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and

FORWARD-LOOKING STATEMENTS

circumstances discussed in this prospectus might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set forth in this section as well as the risks and uncertainties discussed in “Risk Factors”.

RISK FACTORS

You should carefully consider all information set out in this prospectus, including the risks and uncertainties described below before making an investment in our Shares. You should pay particular attention to the fact that we are incorporated in the Cayman Islands.

Our business, financial condition and results of operations could be materially and adversely affected by the occurrence of any of these risks. The trading price of our Shares could decline due to any of these risks, and you may lose all or part of your investment. You should seek professional advice from your relevant advisers regarding your prospective investment in the context of your particular circumstances.

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

Japan is the most popular destination of our package tours and FIT Products and any material adverse change in the economic, political or social conditions relating to Japan, deterioration of diplomatic relationships between the PRC and Japan, negative developments related to the Japan tourism market, or natural or other disasters occurring in Japan may materially and adversely affect our business and operating results.

For FY2016, FY2017 and FY2018, our package tours bound for Japan accounted for approximately 63.7%, 84.8% and 74.4% of our total revenue for package tours and day tours, respectively, whilst sales of FIT Products for destinations in Japan accounted for approximately 90.4%, 96.7% and 79.4% of our total revenue from FIT Products in the respective year. Our Directors believe that the sales of these travel products and services related to Japan will continue to represent a significant proportion of our total revenue in the near future. In addition, we invested in and currently own two hotels in Japan, namely, the Shizuoka Hotel and the Tokyo Hotel (which has commenced operation in October 2018), and revenue generated from hotel operation accounted for approximately 5.8%, 7.3% and 6.2% of our total revenue for FY2016, FY2017 and FY2018, respectively.

Our business and operating results might be adversely affected if there are any material adverse changes in the economic, political or social conditions relating to Japan, including its foreign relationship with other Asian countries, changes in the preference of the customers in the PRC or the exchange rate of JPY against RMB, or if there are any serious natural disasters or disastrous accidents occurring in Japan, such as Tohoku tsunami in 2011 and Senkaku Islands incident in 2013, which may adversely impact customer demands for our travel products and services related to Japan. For the risk relating to the effects of natural disasters on our Group in general, please see “– Natural disasters, acts or threats of terrorism, wars, travel-related accidents, outbreak of contagious diseases or other catastrophic events which affect consumer demand for travel activities or a general apprehension of such events may significantly and adversely impact on our business and operating results” below.

Furthermore, as the sales of Japan related travel products and services represent a large proportion of our total revenue, we may not be able to maintain our current profitability if there are any negative developments related to the Japan tourism market such as intensified

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competition in the market or decrease in customer demands for our package tours or FIT Products bound for Japan, as we may need to reduce our prices accordingly thereby lowering the gross profit margin and profitability of our Japan package tours and FIT Products.

In addition, even though the PRC economy has been in transition from a planned economy to a more market-oriented economy, the PRC government continues to play a highly significant role in regulating industries by imposing industrial policies. Any deterioration of China's diplomatic relationships with Japan, for example, war or territorial disputes leading to travel restrictions, may have an adverse effect on our business. There was a significant decrease in the number of package tour and FIT travellers from 2016 to 2017 due to the tension in China-Japan political and diplomatic relations. We cannot predict whether changes in China's diplomatic relationship with Japan will have any adverse effect on our current or future business, results of operations or financial condition.

Our business and revenue may be adversely affected by any future changes to the respective visa application policies of the PRC government and the Japanese government.

For FY2016, FY2017 and FY2018, our revenue generated from visa application accounted for approximately RMB15.7 million, RMB12.0 million and RMB13.3 million, representing approximately 6.9%, 7.1% and 6.5% of our total revenue, respectively. We are unable to predict whether there will be any future changes to the Japanese government's policy on the issuance of invitation letters for visa applications or approval of visa applications, or if the PRC government will tighten the requirements for PRC outbound travel visa applications. The diplomatic relationship between PRC and Japan may also affect or cause changes to these policies. Since our Group derives a considerable portion of its revenue from processing Japan visa applications of and organising Japan tours for customers in the PRC, any changes to these policies may negatively impact our Group's business and revenue and we may not be able to estimate the cost for complying with these policy changes.

Changes in the foreign exchange rate for Japanese Yen would impact our operating performance and our financial condition.

As over 60% of package tour revenue and over 75% of FIT Products revenue were derived from tours bound for Japan during the Track Record Period, the fluctuations in JPY foreign exchange rate would certainly affect our operating performance. During the Track Record Period, we have experienced fluctuations in the foreign exchange rate of RMB and Japanese Yen. For FY2016, FY2017 and FY2018, our net foreign exchange gains amounted to approximately RMB185,000, RMB271,000 and RMB361,000, respectively. With the depreciation of RMB, the costs of a holiday to Japan will generally increase since the costs of local services, amenities (such as land operators fees and hotel tariffs) and tourist points have become higher. Customer demand for our products and services related to Japan may materially decrease, which may in turn materially and adversely affect our business, results of operations and financial condition.

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Further, we have also recognised exchange differences on translation of foreign operations in other comprehensive income/(loss) during the Track Record Period, which amounted to a loss of approximately RMB4.8 million, RMB1.8 million and a gain of approximately RMB2.8 million, respectively, as our business is predominantly related to Japan, we generally need to maintain a certain level of JPY cash balance and carry other JPY denominated assets (such as deposits to hotel operators in Japan) and liabilities (such as trade payables and accruals). If the amount of our JPY denominated monetary assets exceeds the amount of our JPY denominated monetary liabilities and JPY weakens, we would record translational foreign exchange loss when revaluating such items at the end of each financial year with the then prevailing rate and our financial condition would also be adversely affected.

Our Group derives material portion of our revenue from customers in the PRC and any downturn in the PRC economy could have a material adverse effect on our business and operating results.

Our Group's business is largely dependent on the outbound travel decisions and preferences of the customers in the PRC which in turn are affected by changes in the economic condition in the PRC. There may be uncertainties relating to the economic condition in the PRC in the future and any prolonged downturn in the PRC economy in the future may bring material adverse effect on the travelling demand which may in turn lead to decline in demand for our products and services and hence adversely impact on our business, results of operations and prospect.

We derive a considerable portion of our total gross profit from commission revenue and our profitability may be adversely affected should our commission revenue decreases.

Our gross profit derived from commissions received from duty-free and other retails shops operated by third parties, and our tour escorts and/or tours guides accounted for approximately 61.7%, 71.9% and 38.9% of our total gross profit from sales of package tours and day tours for FY2016, FY2017 and FY2018, respectively. Our gross profit derived from such commission also represented approximately 13.1%, 28.7% and 12.1% of our total gross profit for FY2016, FY2017 and FY2018, respectively. Since a considerable portion of the gross profit of our package tour business and our total gross profit was derived from such commission revenue during the Track Record Period, our profitability may be adversely affected should our commission revenue decreases.

We face increased market competition from competing agents, hotel/flight providers, online travel platforms and alternative travel booking media.

The travel industry in the PRC and Japan is highly competitive. With increased popularity of internet use, apart from facing competition from other travel agents which provide online sales platforms, we also face fierce competition from international and local online travel agencies and online booking platforms operated by airlines and hotels which have aggressive marketing campaigns and promotion programmes from time to time. According to the F&S Report, there were more than 29,000 licensed travel agents and 4,500 outbound travel agencies in the PRC by the end of 2018. Revenue of top five licensed outbound travel agencies accounted for approximately 18.8% of total revenue of outbound

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travel agencies in China for 2018. Some of our competitors may possess stronger brand recognition, higher sales volume, larger consumer bases, or greater financial, marketing and/or other resources than us. However, there is no assurance that we will be able to remain competitive and to compete successfully against current and future competitors which may have a material adverse effect on our business, growth prospects, financial condition and results of operations.

We require various licences and permits to commence, operate and expand our business. Any revocation of or failure to obtain or renew any or all of these licences and permits or any enforcement action taken against us for non-compliance incident may materially and adversely affect our business and expansion plans.

In accordance with the applicable PRC and Japanese laws and regulations, we are required to obtain and maintain various licences and permits in order to commence and continue our business operations.

For details relating to the licences and permits possessed by our Group, please see “Business – Permits, Licences and Approvals”. As at the Latest Practicable Date, we have satisfied all criteria for licensing. However, we are not able to guarantee that our licences and permits will be renewed upon expiry. The revocation of or failure to obtain or renew our licences and permits could cause us to temporarily or permanently suspend some or all of our business operations, which could disrupt our operations and may materially and adversely affect our business, financial condition, results of operations and reputation.

Natural disasters, acts or threats of terrorism, wars, travel-related accidents, outbreak of contagious diseases or other catastrophic events which affect consumer demand for travel activities or a general apprehension of such events may significantly and adversely impact on our business and operating results.

The demand for our travel products and services may be materially and adversely affected by natural disasters, acts or threats of terrorism, wars, travel-related accidents, outbreak of contagious diseases or other catastrophic events. Such events, or a general apprehension of such events, may significantly and adversely affect customer sentiments and demand for travel products and services to the affected destinations or for travel activities in general. For example, if any contagious or infectious disease, such as Severe Acute Respiratory Syndrome, Ebola virus disease, H1N1 influenza and H7N9 influenza, or any other contagious disease or epidemic breaks out in Japan, South Korea, Southeast Asia, New Zealand, Australia or other major travel destinations, or if there is a general apprehension of such outbreaks, consumer demands for travel to the affected destinations or in general may be reduced. Ongoing concerns regarding epidemic or contagious diseases and government advices related to, or restrictions on, travel to and from regions on account of an outbreak of any epidemic or contagious diseases may significantly reduce the demand for travel products and services. Travel-related accidents, terrorist attacks against airline flights and tourist attractions or other catastrophic events may also have material adverse effects on our business operation and financial condition. For example, the missing aircraft of Malaysia Airlines during its flight from Kuala Lumpur to Beijing in March 2014, the plane crashes near Ukraine in July 2014 and Russia in March 2016, and other similar accidents or events may continue to affect consumer demand for travelling. The occurrence and timing of such

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events cannot be predicted or controlled by us and may have significant and adverse impact on our business operations and operating results, particularly if we are, or are perceived to be, not reacting appropriately in the wake of any such event.

We may experience weak liquidity because of our net current liability and negative cash flow from our operating activities.

As at 31 December 2016, 2017 and 2018, we had net current liabilities of RMB2.5 million, RMB13.2 million and RMB24.9 million, respectively, as a result of the significant interest-bearing bank borrowings of RMB86.2 million, RMB53.5 million, and RMB54.4 million as at 31 December 2016, 2017 and 2018, respectively, representing approximately 70.9%, 70.9% and 58.3% of our total current liabilities, respectively. Such loans are obtained for the acquisition of Shuzenji Takitei being the subsidiary holding and operating the Shizuoka Hotel, and purchase of land and construction of the Tokyo Hotel, respectively. An interest-bearing bank loan of JPY700.0 million, representing approximately RMB40.5 million was included in the net current liabilities as at 31 December 2017. Upon the completion of our Tokyo Hotel, an interest-bearing bank loan of JPY700.0 million, representing approximately RMB40.5 million, has been converted into a long-term loan for approximately 14 years on 25 October 2018. Please refer to “Financial Information – Liquidity and Capital Resources – Net current liabilities” for further analysis on our net current liability position. In addition, we recorded a negative cash flow from operating activities of RMB22.5 million in FY2016. The negative cash flow from operating activities in FY2016 was due to (i) the profit before tax of approximately RMB22.0 million, negatively adjusted for (ii) the increase in trade receivables of approximately RMB8.7 million; (iii) the increase in prepayments, deposits and other receivables of approximately RMB13.3 million; (iv) the increase in amounts due from directors of approximately RMB7.2 million; and (v) the decrease in amounts due to the directors of approximately RMB14.3 million. We may have ongoing net current liabilities and negative operating cash flow in the future. Having significant net current liabilities could constrain our operational flexibility and adversely affect our planned expansion plan. If we fail to generate sufficient cash flow from our operations to meet our present and future financial needs, we may need to finance from external sources. If we fail to raise adequate capital, we may be forced to delay or abandon our development and planned upgrade and/or expansion, and our liquidity, our operations and financial condition may be materially and adversely affected.

Our package tours may be subject to cancellation due to various reasons which may result in complaints from customers.

Our package tours may be subject to cancellation before the departure date due to various reasons, including but not limited to safety issues relating to the tour destinations, outbreak of any severe epidemic or contagious diseases and the insufficient number of customers enrolled to a tour. Under such circumstances, we are entitled to cancel the tour at our discretion provided that the full amount of the deposit or the package price is refunded to the customers with compensation made in accordance with the applicable codes of business practice in relation to refund arrangement. Despite our refund and payment of the compensation are in compliance with the relevant codes, customers may be dissatisfied with the arrangement and may file complaints to our Group, relevant regulatory authorities in the PRC and/or Japan or the media. If we fail to deal with those complaints properly, whether

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meritorious or not, this may lead to negative publicity and may materially damage our reputation and goodwill, which may in turn materially and adversely affect our business and operating results.

Any disruption to the supply of flight, hotel accommodation, land operator services or other travel elements or related services, or increase in the prices of travel elements or unsatisfactory performance of these service providers could adversely affect our reputation, operation, turnover and profitability.

Our business, in particular our package tour operation, depends on a number of travel elements including flight, hotel accommodation, service of land operators and ground transportation, and we rely on our suppliers or service providers to provide us with such services. For all of our non-Japan tours and some of our Japan tours, we generally rely on land operators at the tour destinations to provide local touring services including, without limitation, the provision of tour guides, local transportation, and arrangements for meals, accommodation and sightseeing activities. The service standard of land operators engaged by us will directly affect the quality of our tours. For details on our selection of land operators, please see “Business – Quality Control and Customer Service”.

We have a long term relationship with some of our major suppliers such as hotel operators and land operators. For details on our major suppliers, please see “Business – Suppliers”. However, it is possible that our suppliers may reduce or cease their provision of travel products or services to us at any time, which could materially and adversely affect our business and operating results. We may experience shortages in the supply of these services in the future due to various factors including the market conditions in the relevant industries or the operation of the relevant suppliers or service providers, which could materially and adversely affect our operation. If any supplier or service provider is unwilling or unable to provide us with the relevant products or services in required quantities and at acceptable prices, we may be unable to find alternative sources at commercially acceptable prices, on satisfactory terms, in a timely manner, or at all. Our inability to secure alternative sources could result in delay in our operation and adversely affect our revenue. We cannot ensure that there will not be any non-performance, sub-standard performance or misconduct of the service providers which may materially and adversely affect the quality of our tours, as well as our reputation.

Furthermore, strikes or industrial actions by pilots, cabin and ground crew of airlines, airport staff, ground transportation crew or land operators causing flights cancellation or delay or disruption to travelling may materially and adversely affect our operation and may adversely affect consumer sentiments and demand for travel products for the affected destinations or travel activities in general. In addition, we are exposed to fluctuations in airfares, hotel tariffs and land operator fees and other costs especially during the peak season. The prices of these products and services are determined principally by market forces and our bargaining power against our suppliers and service providers. For a discussion of changes in our costs during the Track Record Period, please see “Financial Information – Review of Historical Results of Operations – Cost of sales”. Our cost of sales may change as a result of inflation or market dynamics in the future. We may not be able to offset all increases in prices of our supplies by raising the prices of our products and services. If we increase our prices significantly, we may lose our competitiveness, and if we

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cannot pass on such increases to our consumers, we may not be able to maintain our current gross profit margins, and our business and results of operations may be materially and adversely affected.

Our business and operating results may be materially and adversely affected if we fail to deal with customer complaints or negative media publicity.

Our business can be adversely affected by customer complaints or allegations relating to our products and services, our operations, the non-performance or sub-standard performance of land operators, or negative media publicity thereof, whether meritorious or not.

Our quality control system will not completely eliminate the risk of substandard quality or safety issues relating to our products and services. For FY2016, FY2017 and FY2018, we recorded one, nil and nil negative customer feedbacks or complaints, respectively, based on our internal records. This complaint relates to service quality. According to the confirmation issued by Tourism Quality Supervision Management Office of Hangzhou (杭州市旅遊質量監督管理所), our Group did not receive any administrative penalty from Hangzhou Tourism Commission (杭州市旅遊委員會) during the Track Record Period. In respect of the negative feedbacks or complaints received by our Group, all were resolved amicably by our customer services department. Negative customer feedbacks, complaints or claims against our Group, whether meritorious or not, will place burden on our Group to divert management and other resources from other business concerns, which may adversely affect our business operations. Negative publicity resulting from such feedbacks, complaints or allegations could materially damage our reputation, goodwill and impact consumers' perception of our brand, which may in turn materially and adversely affect our business and operating results.

We did not pay social welfare contributions or housing provident fund contributions for certain of our employees and may be subject to fines or penalties.

PRC labour laws and regulations require us to provide for social insurance and housing provident fund payments for our employees. Prior to June 2018, we had not fully paid relevant social insurance to all of our employees as required by PRC laws and regulations. According to our PRC Legal Advisers, under the relevant PRC laws and regulations, if an employer does not pay the full amount of social insurance premiums, the social insurance premium collection institution shall order it to make the payment or make up the difference within the stipulated period and impose a daily surcharge equivalent to 0.05% of the overdue payment from the date on which the payment is overdue. If payment is not made within the stipulated period, the relevant administration department shall impose a fine from one to three times the amount of overdue payment. In addition, we had not fully contributed housing provident fund contributions for all of our employees prior to June 2018 as required by PRC laws and regulations. According to our PRC Legal Advisers, we may be ordered by the relevant authority to pay the outstanding housing provident fund contributions within a prescribed time limit. If we fail to do so within the given period, the relevant authorities may apply to a PRC court for an order to enforce the payment. We cannot assure you that we will not be subject to such an order, fines or penalties in the future. Please see "Business – Legal Compliance and Proceedings" for further details.

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Any future changes in laws or regulations or enforcement policies could materially and adversely affect our business, financial condition and results of operations.

We are unable to predict future changes in laws or regulations or enforcement policies that may affect our business or operations or to estimate the ultimate cost of compliance with such laws and regulations. Further, if stricter laws or regulations or enforcement policies are imposed, we may be adversely affected as a result of new or revised laws or regulations or by changes in the interpretation or enforcement of existing laws and regulations.

We could be adversely affected by changes in consumer preferences and spending habits and failure to develop successful products and services could have a negative effect on our business.

The travel industry in general is subject to changes in consumer preferences and spending habits. Any failure to adapt our product and service offerings to respond to such changes may result in decrease in our sales. Any changes in consumer preferences could result in lower sales of certain types or all of our products, put pressure on pricing or lead to increased levels of selling and promotional expenses, resulting in a material adverse effect on our business, financial conditions or results of operations. The success of our products depends on a number of factors including our ability to accurately anticipate changes in market demand and consumer preferences and our ability to differentiate the quality of our products and services from those of our competitors. It is uncertain whether we will continue to be successful in identifying trends in consumer preferences, developing travel products and services that respond to such trends in a timely manner and promoting our products effectively. If our products and services fail to gain market acceptance, we may not be able to fully recover our costs and expenses incurred in the product development and marketing process, and our business prospects, financial condition or results of operations may be materially and adversely affected.

We were involved in one ongoing legal proceeding against us as at the Latest Practicable Date. If we are found liable, we may have to make compensations, incur financial loss and suffer damage to our reputation.

As at the Latest Practicable Date, we were involved in one ongoing legal proceeding against us. In June 2018, the court awarded the plaintiff the claimed amount of AUD346,474.0 (equivalent to approximately RMB1,800,625.38) (“**Claimed Amount**”), accrued interest at the rate of 4.35% since January 2017 on the late payment of the Claimed Amount and the related legal costs. On 12 July 2018, we filed an appeal with the court of second instance, and the case was heard at the court of second instance on 12 September 2018 and 14 December 2018, respectively. As of the Latest Practicable Date, the court of second instance is still reviewing the relevant facts and the application of the law, and has yet to hand down any ruling or judgment. For details, please see “Business – Legal Compliance and Proceedings”. There is no assurance that the outcomes of the above proceedings would be favourable to us. If we are liable to make substantial amount of damages and legal costs, it will result in financial loss, damage to our reputation in the industry, and adversely affect our financial conditions. In addition, we may have to incur expenditures in defending ourselves in such proceeding.

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Our business is subject to seasonality factors.

Seasonality is one of the most significant features of the travel industry business. Demand for our travel products will generally increase during holiday periods such as summer holidays in July and August. Further, the prices of our products and thus our revenue are generally higher in peak seasons than low seasons. As such, our operating results are subject to fluctuations due to seasonal factors from time to time.

Our Group's continuing success depends on our ability to retain our senior management and key personnel.

We rely on the experience, expertise, business insight and leading skills of the senior management and key personnel who are responsible for our Group's overall business development and strategic planning as well as the operation and management in general. Our Group's continuing success depends on our ability to retain our senior management and key personnel. However, competition in the travel industry for experienced and appropriate personnel is intense as it is difficult to recruit person with relevant professional skills and experience in the travel industry. If one or more of the senior management or key personnel is or are unable or unwilling to continue in their present positions, we may not be able to replace them promptly or at all in the future and hence our business and results of operations may be adversely affected.

Our goodwill and business may be harmed by any infringement or unauthorised use of our intellectual property.

As at the Latest Practicable Date, we were the registered owner of 14 trademarks in the PRC and Hong Kong. For details of our Group's registered trademarks, please see "B. Further Information about our Business – 2. Intellectual Property of our Group" in Appendix V to this prospectus.

Our Directors consider our success depends in part on the protection of our trademarks and intellectual property rights. Any infringement or unauthorised use of our trademarks or our brand name could harm our goodwill and business. There can be no assurance that we can prevent or deter infringement or other misappropriation of our intellectual property rights. We may not be able to detect any infringement or take appropriate steps to enforce our intellectual property rights. We may be required to institute legal proceedings to enforce our intellectual property rights which may be costly, unsuccessful, and divert the efforts of our management away from our business and thereby adversely affect our business, financial position and our results of operations.

Our future expansion plans are subject to uncertainties and risks and could result in fluctuations in our financial performance. We may not be successful in the implementation of our future plans.

We have formulated our future plans with the view to increase our market share and sustain business growth. It is intended that the proceeds from the Global Offering will be used in establishing sales network in Hong Kong, acquiring hospitality asset in Kyoto, Japan and investing in a travel agency company in Tokyo, Japan. In particular, our strategy to tap

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into the Hong Kong market may not be successful. There may be different regulatory requirements, competitive conditions, customer needs and preferences for the Hong Kong market. The existing players in the Hong Kong market may have better understanding and insights of market trend, access to resources and customer base than we do. Customers in the Hong Kong market may be unfamiliar with our brand and services and we may need to build or increase brand recognition by increasing investments in marketing and promotional activities which might exceed our original plans. As a result, it may cost more and/or take longer for us to reach expected sales and profit levels for our products and services introduced into the Hong Kong market than those in our existing markets. If we fail to introduce new services or products that meet our customers' evolving needs, we may not be able to compete effectively in the Hong Kong market. Details of our future plans are set out in "Future Plans and Use of Proceeds".

The continued expansion of our business may place significant strain on our managerial, operational and financial resources. We may not be able to identify suitable target for our new hospitality asset and our investment in a travel agency company in Japan. The investment payback period and/or breakeven may be longer than expected. Further, we may not be able to successfully manage the growth of our business despite adopting various measures and strategies to do so including, among others, the need to raise working capital, to identify, recruit, train and integrate additional staff and employees and to oversee the coordination and cooperation with our existing offices. Therefore, there is no assurance that the intended growth of our business can be achieved or will become profitable. In addition, our operating results in the future may continue to be influenced by the timing of opening of new office(s) and the acquisition of asset, including initially lower sales and higher operating costs. New office(s) in Hong Kong also incur expenses before opening such as rental expenses and other capital expenditures. Accordingly, our expansion plan may have material impact on our profitability and cost structure, and our results of operations may fluctuate significantly from period to period.

Whether our future plans can be implemented successfully may be affected by various factors which are beyond our control, such as increase in costs related to the establishment, furnishing and other capital expenditure for our new office(s) in Hong Kong, business environment, economic conditions, market demand and regulatory framework, and other contingencies which are beyond our control. Such uncertainties and contingencies may lead to postponement of our future plans or may increase the costs of implementation. There can be no assurance that our future plans will materialise.

Sustainability of gross profit margin of our hotel operation and sales of ancillary travel products and provision of services.

For FY2016, FY2017 and FY2018, we attained a gross profit margin of approximately 41.7%, 43.6% and 36.5%, respectively, for our hotel operation, and approximately 58.0%, 82.4% and 79.9%, for our sales of ancillary travel products and provision of services, respectively. There is no assurance that we will be able to maintain a gross profit margin in the level similar to those during the Track Record Period. Should we fail to maintain such level of gross profit margin, our financial results may be adversely affected.

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The revaluation of investment properties is subject to uncertainties in accounting estimates which may affect our financial performance.

The revaluation of investment properties is subject to uncertainties in accounting estimates due to the application of significant unobservable inputs such as (i) estimated market rent; and (ii) term yield. Any change in the accounting estimates will affect the valuation. Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the year in which they arise. If the revaluation of investment properties results in a decrease in value which affect our profit or loss, our financial performance may be adversely affected.

Our goodwill is subject to impairment review and any goodwill impairment may negatively affect our reported results.

Our goodwill amounted to approximately RMB13.7 million as at 31 December 2016, 2017 and 2018, respectively. Our goodwill was attributable to the acquisition of Shuzenji Takitei, being the subsidiary holding and operating the Shizuoka Hotel. Goodwill represents the residual amount of the consideration under business combination after the purchase price allocation. After initial recognition, goodwill is subject to impairment test at least annually. Testing for impairment requires an estimation of the value in use of the cash-generating unit, namely the Shizuoka Hotel, to which the goodwill is allocated. Estimating the value in use requires us to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those expected future cash flows.

We determine the recoverable amount of the Shizuoka Hotel cash-generating unit based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period. If the pre-tax discount rate rose to 11%, the gross profit margin decreased to 82%, or the compound growth rate of revenue became 0.8% (with other assumptions remaining unchanged), the recoverable amount of the Shizuoka Hotel cash-generating unit would be decreased to its carrying amount of the cash-generating unit. In case there is any significant decrease in the future growth rate of the Shizuoka Hotel cash-generating unit, we may be required to recognise impairment loss on our goodwill and our reported results would be adversely affected.

We are exposed to credit risk of our customers.

Our trade receivables as at 31 December 2016, 2017 and 2018 amounted to approximately RMB13.7 million, RMB8.2 million and RMB25.4 million respectively, accounted for approximately 5.7%, 3.9% and 9.1% of our Group's total assets respectively. For FY2016, FY2017 and FY2018, the average turnover days of trade receivables was approximately 15.0 days, 23.8 days and 29.9 days respectively.

Should the credit worthiness of our customers deteriorate or should a significant number of our customers fail to settle their trade receivables in full for any reason, we may incur impairment losses and our results of operations and financial position could be materially and adversely affected. In addition, there may be a risk of delay in payment by our Group's customers from their respective credit period, which in turn may also result in

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an impairment loss provision and may affect our cash flows. There is no assurance that we will be able to fully recover our trade receivables from the customers or that they will settle our trade receivables in a timely manner. In the event the settlements from the customers are not made in a timely manner, the financial position, profitability and cash flows of our Group may be adversely affected.

Our Group's insurance coverage may not adequately protect our Group against all our risks.

We may be subject to third party claim for injury suffered in our business premises or the Shizuoka Hotel and the Tokyo Hotel in which we operate our business. Any third party claim may have a material and adverse effect on our business and operating results as well as damage to our reputation. We may also be subject to claims for losses and damage and accidents arising in the course of our tour operations. There can be no assurance that the insurance policies maintained by us will be sufficient to cover all our risks in connection with our operations. Losses incurred which are not covered by our insurance policies may have material adverse effect on our business, financial position and results of operations.

Our operation in Hong Kong may not be successful due to fierce competition of outbound tourism in Hong Kong.

We intend to apply 20% of the net proceeds from the Global Offering to establish new office(s) and to recruit new talents to capture new market share of outbound tourism in Hong Kong. In 2018, there were approximately 1,764 licensed travel agencies in Hong Kong with several of them representing large shares of the tourism market in Hong Kong and contributing to a relatively concentrated competitive landscape of tourism market in Hong Kong. The market shares of the top five players in Hong Kong's outbound tourism market in terms of revenue of outbound tourism for FY2018 was approximately 51.7%. Some competitors may be larger in scale and have greater financial and resources, greater pricing flexibility and marketing effort, longer track record and greater name recognition than our Group. There is no assurance that we will be able to compete effectively with the existing competitors or new competitors, or that the level of competition will not adversely affect our business, results of operations, financial condition and prospects.

RISKS RELATING TO OUR CONTRACTUAL ARRANGEMENTS

The PRC government may determine that the Contractual Arrangements are not in compliance with applicable PRC laws, rules, regulations or policies and may take actions against us or our operation.

The majority of our Group's total revenue and total net profit for each year during the Track Record Period were generated from the Operating Entities.

In order for us to operate our outbound travelling business in China, separate sets of agreements that constitute the Contractual Arrangements have been entered into, under which substantially all the economic benefits and risks arising from the business of the Operating Entities are transferred to the WFOE by means of accrual and payment of service operation fees. As our equity-owned subsidiaries currently may not be granted the necessary licences

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to operate outbound travel business for PRC citizens, we rely on the Operating Entities to hold and maintain the licences necessary to operate our travelling business and operation in China. Further information on the Contractual Arrangements is set out in “Contractual Arrangements”.

As advised by our PRC Legal Advisers, (i) the ownership and contractual structures of the Contractual Arrangements are not in violation of the existing PRC laws and regulations, (ii) the Contractual Arrangements are legally valid, binding and enforceable; and (iii) the business operations of our Group and the Operating Entities, as described in this prospectus, are not in any violation of the existing PRC laws and regulations in any material respect. There are, however, substantial uncertainties regarding the interpretation and application of current or future PRC laws and regulations. In particular, any future acquisition of rights, benefits or assets of or equity interests in the Operating Entities pursuant to the Contractual Arrangements will be subject to the laws and regulations then applicable. Accordingly, we cannot assure you that some of the PRC regulatory authorities will not ultimately take a view which is contrary to that of our PRC Legal Advisers. If we are found to be in violation of any existing or future PRC laws or regulations, the relevant regulatory authorities may exercise its discretion to deal with such violations, including possibly:

- revoking the business and operating licences held by the Operating Entities;
- ruling the Structured Contracts as unlawful, invalid or unenforceable;
- imposing economic penalties;
- restricting our right to collect revenues;
- discontinuing or restricting the operations of the Operating Entities or our Group;
- imposing conditions or requirements with which we or the Operating Entities may not be able to comply;
- requiring us or the Operating Entities to restructure our ownership or operations;
or
- taking other regulatory or enforcement actions, including levying fines, that may be prejudicial to our business.

Any of the above possible actions which may be taken by the PRC regulatory authorities may hamper or even terminate the flow of economic benefits from the Operating Entities to our Group as stipulated under the Contractual Arrangements. It may result in the diversion of management attention and the incurring of substantial operating and remedial costs which may adversely affect our business, financial condition or results of operations.

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There are substantial uncertainties with respect to the enactment timetable interpretation and implementation of the 2015 Draft Foreign Investment Law.

On 19 January 2015, MOFCOM published the 2015 Draft Foreign Investment Law. The 2015 Draft Foreign Investment Law proposes significant changes to the PRC foreign investment legal regime and, when enacted as proposed, may have a significant impact on businesses in China controlled by foreign invested enterprises primarily through contractual arrangements, such as our business. While MOFCOM solicited comments on the 2015 Draft Foreign Investment Law in early 2015, substantial uncertainties exist with respect to its final content, interpretation, adoption timeline or effective date.

In the event that our Contractual Arrangements under which we operate our travelling business is not treated as a domestic investment and is classified as “prohibited business” in the Prohibited List under the 2015 Draft Foreign Investment Law as finally enacted, such Contractual Arrangements may be deemed as invalid and illegal and we may be required to unwind the Contractual Arrangements and/or dispose of such business. As we primarily conduct our travelling business and operate in the PRC, the occurrence of such an event could have a material and adverse effect on our business, financial condition and results of operations such that our Operating Entities would no longer be able to consolidate their financial results into our Group’s financial results and we would have to derecognise their assets and liabilities according to the relevant accounting standards. An investment loss would be recognised as a result of such derecognition.

To ensure that our Contractual Arrangements remain a domestic investment so that our Group can maintain control over and receive all economic benefits derived from the Operating Entities, among others, our Memorandum and Articles of Association will include provisions to the effect that our Board will continue to be comprised of a majority of PRC nationals and the terms of reference of the nomination committee will contain a restriction that majority of our Directors must be PRC nationals (subject to their fiduciary duties and compliance with applicable legal and regulatory requirements). Please see “Contractual Arrangements – Development in the PRC Legislation on Foreign Investment – Measures to Maintain Control by PRC Citizens” for further details. Our compliance with the 2015 Draft Foreign Investment Law depends on our adherence to such measures. In the event of any failure to comply with such measures, the Contractual Arrangements may be deemed invalid and illegal and we may be required to unwind the Contractual Arrangements and/or dispose of our Operating Entities, which could have a material and adverse effect on our business, financial condition and results of operations.

In addition, it is uncertain whether the measures to be adopted by us to maintain control over and receive economic benefits from our Operating Entities alone will be effective in ensuring compliance with the 2015 Draft Foreign Investment Law (if and when it becomes effective). In the event that such measures are not complied with, the Stock Exchange may take enforcement actions against us, such as suspension of trading in our Shares, which may have a material adverse effect on the trading and liquidity of our Shares. For details of the 2015 Draft Foreign Investment Law and the negative list, its potential impact on our Company, and our measures to maintain control over and receive economic benefits from our Operating Entities, please see “Contractual Arrangements – Development in the PRC Legislation on Foreign Investment” for further details.

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There are substantial uncertainties with respect to the interpretation and implementation of the Foreign Investment Law.

On 15 March 2019, the NPC adopted the Foreign Investment Law at the closing meeting of the second session of the 13th NPC. Upon taking effect on 1 January 2020, the Foreign Investment Law will replace the Law on Chinese-Foreign Equity Joint Ventures, the Law on Chinese-Foreign Contractual Joint Ventures and the Law on Wholly Foreign-Owned Enterprises. The Foreign Investment Law stipulates certain forms of foreign investment, but does not explicitly stipulate the contractual arrangements as a form of foreign investment. For more information, please see “Contractual Arrangements – Development in the PRC Legislation on Foreign Investment – The Foreign Investment Law”. If the Foreign Investment Law becomes effective, and the then laws, regulations and rules do not incorporate contractual arrangements as a form of foreign investment, our Contractual Arrangements as a whole and each of the agreements comprising the Contractual Arrangements will not be materially affected and will continue to be legal, valid and binding on the parties.

Notwithstanding the above, the Foreign Investment Law stipulates that foreign investment includes “foreign investors invest in China through any other methods under laws, administrative regulations or provisions prescribed by the State Council of the PRC”. There are possibilities that future laws, administrative regulations or provisions prescribed by the State Council of the PRC may regard contractual arrangements as a form of foreign investment, at which time it will be uncertain whether the Contractual Arrangements will be deemed to be in violation of the foreign investment access requirements and how the above-mentioned Contractual Arrangements will be handled. Our Group may not be able to operate our Operating Entities through the Contractual Arrangements and we would lose our rights to receive the economic benefits of our Operating Entities. As a result, the financial results of our Operating Entities would no longer be consolidated into our Group’s financial results and we would have to derecognise their assets and liabilities according to the relevant accounting standards. We may recognise an investment loss as a result of such derecognition.

Furthermore, there remains substantial uncertainties regarding the interpretation and the implementation of the Foreign Investment Law and the relevant government authorities may have broad discretion in interpreting the law and may ultimately take a view that is inconsistent with our PRC Legal Advisers’ understanding. Therefore, there is no guarantee that the Contractual Arrangements and the business of the Operating Entities will not be materially and adversely affected in the future due to changes in PRC laws and regulations.

If future laws, administrative regulations or provisions prescribed by the State Council of the PRC mandate further actions to be completed by companies with existing contractual arrangements, we may face substantial uncertainties as to the timely completion of such actions. In the extreme case scenario, we may be required to unwind the Contractual Arrangements and/or dispose of the Operating Entities, which could have a material and adverse effect on our business, financial conditions and results of operations. In the event that our Company no longer has a sustainable business after the aforementioned unwinding or disposal or when such requirements are not complied with, the Stock Exchange may consider us to be no longer suitable for listing on the Stock Exchange and delist our Shares.

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For details of the Foreign Investment Law and its potential impact on our Company, please see “Contractual Arrangements – Development in the PRC Legislation on Foreign Investment – The Foreign Investment Law” in this prospectus.

Our Contractual Arrangements may not be as effective in providing control over our Operating Entities as equity ownership.

We have relied and expect to continue to rely on our Contractual Arrangements to operate the majority of our travelling business in China. Please see “Contractual Arrangements” for further details of a description of these Contractual Arrangements. These Contractual Arrangements may not be as effective in providing us with control over our Operating Entities as equity ownership. If we had equity ownership of our Operating Entities, we would be able to exercise our rights as a direct or indirect shareholder to effect changes in the board of directors of our Operating Entities, which in turn could effect changes, subject to any applicable fiduciary obligations, at the management level. However, as these Contractual Arrangements stand now, if our Operating Entities or their shareholders fail to perform their respective obligations under these Contractual Arrangements, we cannot exercise shareholders’ rights to direct corporate actions as direct ownership would otherwise entail. If the parties under such Contractual Arrangements refuse to carry out our directions in relation to daily business operations, we will be unable to maintain effective control over our operations in China. If we were to lose effective control over our Operating Entities, certain negative consequences would result, including our being unable to consolidate the financial results of our Operating Entities with our financial results. Given that we derived all of our revenue from our Operating Entities for FY2016, FY2017 and FY2018, and substantially all of the assets of our Group in the PRC are held by our Operating Entities (including our permits and licences, real estate leases, buildings and other facilities related to our business), our financial position would be materially and adversely affected if we were to lose effective control over our Operating Entities or if our Contractual Arrangements are invalidated or nullified. In addition, losing effective control over our Operating Entities may negatively impact our operational efficiency and brand image. Further, losing effective control over our Operating Entities may impair our access to their cash flow from operations, which may reduce our liquidity.

The owners of our Operating Entities may have conflicts of interest with us, which may materially and adversely affect our business, financial condition and results of operations.

Our control over our Operating Entities is based upon the Contractual Arrangements with our Operating Entities. Mr. Yu, Mr. Pan and Mr. Xu, who are three of the registered shareholders of Tuyi Group, are also our executive Directors and Controlling Shareholders. Either of them may potentially have conflict of interest with us and breach any of their contracts or undertakings with us if it would further any of their own interests or if any of them otherwise acts in bad faith. We cannot assure you that when conflict of interest arise between our Company and the beneficial owners of our Operating Entities, any of them will act completely in our interest or that the conflict of interest will be resolved in our favour. In the event that such conflict of interest cannot be resolved in our favour, we may have to

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rely on legal proceedings which may disrupt our business operations and subject us to uncertainties as to the outcome of such legal proceedings. As a result, our business, financial condition and results of operations may be materially and adversely affected.

We may have to incur additional costs and expend substantial resources to enforce our Contractual Arrangements, temporarily or permanently lose control over our primary operations or lose access to our primary sources of revenue, if our Operating Entities or their respective ultimate shareholders fail to perform their obligations under our Contractual Arrangements.

Under the current Contractual Arrangements, if any of our Operating Entities or their ultimate shareholders fails to perform its or his respective obligations under these Contractual Arrangements, we may incur substantial costs and resources to enforce such arrangements and rely on legal remedies under PRC laws, including seeking specific performance or injunctive relief and claiming damages.

Our Contractual Arrangements described above are governed by PRC laws and provide for the resolution of disputes through arbitration in China. Accordingly, these contracts would be interpreted in accordance with PRC laws and any disputes would be resolved in accordance with PRC legal procedures. Under PRC laws, rulings by arbitrators are final and the parties to a dispute cannot appeal the arbitration results in any court based on the substance of the case. The prevailing party may enforce the arbitration award by instituting arbitration award recognition proceedings with the competent PRC court. The legal environment in the PRC is not as developed as in other jurisdictions, such as Hong Kong and the United States. As a result, uncertainties in the PRC legal system could limit our ability to enforce these Contractual Arrangements. In the event that we are unable to enforce these Contractual Arrangements, we may not be able to exert effective control over our Operating Entities for an extended period of time or we may be permanently unable to exert control over our Operating Entities. If this were to occur, we would be unable to consolidate the financial results of our Operating Entities with our financial results, which may materially and adversely affect our business, financial condition and results of operations and may therefore decrease the value of our Shareholders' investments in our Company.

In addition to the enforcement costs outlined above, during the course of disputes regarding such enforcement action, we may temporarily lose effective control over our operation in China, which may lead to loss of revenue or potentially lead to us having to incur additional costs and expend substantial resources to operate our business in the absence of effective enforcement of these Contractual Arrangements. If this were to occur, our business, financial condition and results of operations may be materially and adversely affected and the value of our Shareholders' investments in our Company may therefore decrease.

Certain terms of our Contractual Arrangements may not be enforceable under PRC laws.

Our Contractual Arrangements provide for the resolution of disputes through arbitration in accordance with the arbitration rules of the Shanghai International Economic and Trade Arbitration Commission. Our Contractual Arrangements contain provisions to the effect that

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the arbitral body may award remedies over the shares and/or assets of our Operating Entities, injunctive relief and/or winding up of our Operating Entities. In addition, our Contractual Arrangements contain provisions to the effect that courts in Hong Kong and the Cayman Islands are empowered to grant interim remedies in support of the arbitration pending the formation of an arbitral tribunal. However, we have been advised by our PRC Legal Advisers that the abovementioned provisions may not be enforceable. Under PRC laws, an arbitral body granting any injunctive relief or provisional or final liquidation order to preserve the assets of or any equity interest in Chinese legal entities in case of disputes must submit the application to the court in China. Therefore, such remedies may not be available to us, notwithstanding the relevant contractual provisions contained in our Contractual Arrangements. PRC laws allow an arbitral body to award the transfer of assets of or an equity interest in China in favour of an aggrieved party. In the event of non-compliance with such award, enforcement measures may be sought from the court. However, the court may or may not support the award of an arbitral body when deciding whether to take enforcement measures. Under PRC laws, courts of judicial authorities in the PRC generally would not grant injunctive relief or the winding-up order against an entity as interim remedies to preserve the assets or shares in favour of any aggrieved party.

The Contractual Arrangements may be considered by the PRC tax authorities as requiring transfer pricing adjustments.

Under applicable PRC tax laws and regulations, arrangements and transactions between related parties may be subject to audit or scrutiny by the PRC tax authorities not exceeding 10 years after the taxable year when the arrangements or transactions are conducted. The Structured Contracts were negotiated and executed based on an equal standing and reflect the true commercial intention of the Operating Entities, the relevant equity-owned subsidiaries of our Company and other relevant parties thereto. Further, we entered into the Contractual Arrangements only in respect of those businesses which are subject to foreign ownership restrictions under the laws and/or regulations of PRC. However, if the PRC tax authorities determine that the Structured Contracts were not entered into based on arm's length negotiations and therefore constitute unfavourable transfer pricing arrangements, we may face material adverse tax consequences. Unfavourable transfer pricing arrangements may, among other things, result in an upward adjustment of the amount of tax we are required to pay. In addition, the PRC tax authorities may impose interest on late payments on the Operating Entities or our Group for the adjusted but unpaid taxes.

We are not in a position to predict what position the PRC tax authorities may take in connection with the Contractual Arrangements. Our results of operations may be materially and adversely affected if the Operating Entities' or WFOE's tax liabilities increase significantly or if they are required to pay interest on late payments.

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We may lose the ability to use and enjoy certain important assets, which could reduce the size of our operations, impair our ability to generate revenue and materially affect the market price of our Shares, if any of our Operating Entities becomes the subject of a bankruptcy or liquidation proceeding.

We currently conduct the majority of our operations in the PRC through the Contractual Arrangements. As part of these arrangements, our Operating Entities hold a majority of the assets that are important to the operation of our business, including operating permits and licences, real estate leases, buildings and other facilities related to our operation. Under the Contractual Arrangements, the Relevant Shareholders may not unilaterally, without our consent, decide to voluntarily liquidate our Operating Entities.

If any of these entities goes bankrupt and all or part of their assets become subject to liens or rights of third party creditors, we may not be able to continue some or all of our business activities, which could materially and adversely affect our business, financial condition, results of operations and price of our Shares. If any of our Operating Entities undergoes a voluntary or compulsory liquidation proceeding, its shareholders or unrelated third party creditors may claim rights to some or all of these assets, thereby hindering our ability to operate our business.

Our ability to acquire the entire equity interest and/or assets of the Operating Entities is subject to restrictions.

We have entered into the Contractual Arrangements in order to manage our businesses in China, and we will unwind the Contractual Arrangements when PRC laws and regulations allow our businesses to be directly operated by us through the acquisition of the entire equity interest and/or all assets of the Operating Entities. However, our acquisition of the Operating Entities' equity interest and/or assets may only be conducted to the extent as permitted by applicable PRC laws and may be subject to obtaining the prerequisite approvals and procedures under applicable PRC laws. In addition, our acquisition may be subject to a minimum price limitation (such as an appraised value for the entire equity interest or all assets of the Operating Entities) or other limitations as imposed by applicable PRC laws, and may also be subject to substantial costs. The respective shareholders of the Operating Entities have undertaken to us that if any minimum price is required to be paid by WFOE or its nominee(s) to any of them, such price will be reimbursed to WFOE or its nominee(s). However, the legality and enforceability of such undertakings are subject to the then applicable PRC laws and regulations. As long as the Contractual Arrangements have to be maintained, we will continue to face those risks relating to Contractual Arrangements as outlined above.

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RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC AND JAPAN

We are subject to the political, economic and social development as well as laws, rules, regulations and licensing requirements in the PRC and Japan.

Most of our businesses, assets, operations and our revenue are located in or derived from our operations in the PRC and Japan, and as a result, our business, financial condition and results of operations are subject to the economic, political, social and regulatory environment in the PRC and Japan.

The economy of the PRC differs from the economies of most developed countries in many respects, including, among others, the extent of government involvement, level of development, growth rate, and control of foreign exchange and the allocation of resources.

The PRC economy has been undergoing a transition from a planned economy to a market-oriented economy. The PRC government has in recent years implemented measures emphasising the utilisation of market forces for economic reform and the establishment of sound corporate governance in business enterprises. However, the PRC government still retains significant control over the PRC's economic growth through the allocation of resources, controlling payment of foreign currency – denominated liabilities, setting monetary policy and providing preferential treatment to particular industries or enterprises.

Any unfavourable political, economic or social development in the PRC and Japan, or an unfavourable change in the laws, regulations, rules and licensing requirements in the PRC and Japan, may adversely affect our business, financial condition and results of operations. We are not able to accurately predict the precise nature of all the risks and uncertainties that we face as current economic, political, social and regulatory conditions and many of the associated risks are beyond our control.

Uncertainties with respect to the PRC legal system could have an adverse effect on us.

Our business and operations in the PRC are governed by the legal system of the PRC. The PRC legal system is based on written statutes, and prior court decisions can only be cited as reference. The PRC government has promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organisation and governance, commerce, taxation, finance, foreign exchange and trade with a view to develop a comprehensive system of commercial law.

However, the PRC has not developed a fully-integrated legal system. The recently enacted laws and regulations may not sufficiently cover all aspects of economic activities in the PRC, or may be unclear or inconsistent. Due to the limited volume of published decisions and their non-binding nature, the interpretation and enforcement of PRC laws and regulations involve uncertainties and can be inconsistent.

Even where adequate laws exist in the PRC, the enforcement of existing laws or contracts may be uncertain or sporadic, and it may be difficult to obtain swift and equitable enforcement of a judgment by a court. In addition, the PRC legal system is based in part on government policies and internal rules (some of which are not published on a timely basis or

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at all) that may have a retroactive effect. As a result, we may not be aware of our violation of these policies and rules until sometime after the violation. Any litigation in the PRC may also be protracted, resulting in substantial costs being incurred and the diversion of resources and management's attention. In addition, we cannot predict future developments in the PRC legal system or the effects of such developments. The materialisation of all or any of these uncertainties could have an adverse effect on our financial position and results of operations.

Governmental control of currency conversion may limit our ability to utilise our cash effectively, which may adversely affect the value of your investment.

The PRC government imposes controls on the convertibility of the RMB into foreign currencies and, in certain cases, the remittance of foreign currency out of the PRC. We receive significant portion of our revenue in RMB, which is currently not a freely convertible currency. As a Cayman Islands holding company, we may, to a certain extent, rely on dividend payments from our PRC subsidiary to fund any cash and financing requirements we may have. Shortages in the availability of foreign currency may restrict our ability to remit sufficient foreign currency to pay dividend, or otherwise satisfy foreign currency denominated obligations.

Under the existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditure from the trade-related transactions, can be made in foreign currencies without the prior approval from the SAFE, by complying with certain procedural requirements. However, payments under the capital account items, including capital transfers, direct investment, securities investment, and the repayment of the principal amount of the borrowings, are subject to significant foreign exchange controls and require the prior approval from the SAFE or the registration with the SAFE or the banks. Furthermore, the PRC government may also at its discretion restrict access to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to pay certain of our expenses as they come due.

It may be difficult to enforce any judgements obtained from non-PRC courts against our Company or our Directors or senior executive officers residing in China.

All of our Directors and executive officers reside in China. The PRC does not have treaties providing for the reciprocal recognition and enforcement of judgements of courts with Australia, Japan, New Zealand, the United Kingdom, the United States and many other countries. As a result, it may not be possible for investors to serve process upon those persons in the PRC, or to enforce against them in the PRC, any judgments obtained from non-PRC courts. In addition, judgments of a court of any other jurisdiction related to any matter not subject to a binding arbitration provision may be difficult or impossible to enforce.

Under the current arrangement for reciprocal enforcement of arbitral awards between the PRC and Hong Kong, awards made by the PRC arbitral authorities that are recognised under the Arbitration Ordinance can be enforced in Hong Kong. Hong Kong arbitration awards are also enforceable in the PRC. On 14 July 2006, the Supreme People's Court of

RISK FACTORS

the PRC and the Government of the Hong Kong Special Administrative Region signed an Arrangement on Reciprocal Recognition and Enforcement of Judgements in Civil and Commercial Matters. Under this arrangement, where any designated People's Court or Hong Kong court has made an enforceable final judgement requiring payment of money in a civil and commercial case pursuant to a choice of court agreement, any party concerned may apply to the relevant People's Court or Hong Kong court for recognition and enforcement of the judgement. Although this arrangement became effective on 1 August 2008, the outcome and effectiveness of any action brought under the arrangement remain uncertain.

RISKS RELATING TO THE GLOBAL OFFERING

There is no prior public market for our Shares and an active trading market may not develop or be sustained after the Listing and market price and trading volume of the Shares may fluctuate significantly.

Prior to the Listing, there has been no public market for the Shares. The indicative range of the Offer Price was determined as a result of negotiations between the Joint Global Coordinators and our Company. The Offer Price may differ significantly from the market price of our Shares following the Global Offering. We have applied for the listing of and permission to deal in our Shares on the Main Board. However, even if approved, being listed on the Main Board does not guarantee that an active trading market for our Shares will develop following the Global Offering or that our Shares will always be listed and traded on the Main Board. We cannot assure you that an active trading market will develop or be maintained following completion of the Global Offering, nor that the market price of our Shares will not decline below the Offer Price.

The market price and trading volume of our Shares may be highly volatile. Factors such as variations in our revenue, earnings and cash flow and announcements of new investments, strategic alliances and/or acquisitions, fluctuations in market prices for our products and services or fluctuations in market prices for comparable companies could cause the market price of our Shares to change substantially. Any such developments may result in large and sudden changes in the volume and price at which our Shares will trade.

Investors for our Offer Shares will experience immediate dilution and may experience further dilution if we issue additional Shares in the future.

One of the benefits to our Company upon Listing is the access to the capital market and our Group may raise additional funds to finance future expansion of our business, operations or acquisitions. Our Company will comply with Rule 10.08 of the Listing Rules, which specifies that no further Shares or securities convertible into equity securities of our Company (subject to certain exceptions) may be issued or form the subject of any agreement to be issued within six months from the Listing Date. Upon expiry of such six-month period, our Group may raise additional funds by issuing new equity or equity-linked securities of our Company and such fund-raising exercises may not be conducted on a pro rata basis to our then existing Shareholders. As such, the shareholding of our then Shareholders may be reduced or diluted and subject to the terms of the issue of the new securities, the new securities may confer rights and privileges that have priority over those conferred by the issued Shares.

RISK FACTORS

In addition, we may consider offering and issuing additional Shares in the future for expansion of our business or to the extent that our ordinary shares are issued upon the exercise of share options under the Share Option Scheme. In this regard, you may experience further dilution in the net tangible asset book value per Share if we issue additional Shares in the future at a price which is lower than the net tangible book value per Share.

Any disposal by our Controlling Shareholders of a substantial number of Shares in the public market could materially and adversely affect the market price of the Shares.

There is no guarantee that our Controlling Shareholders will not dispose of their Shares following the expiration of the respective lock-up periods after the Listing. We cannot predict the effect, if any, of any future disposal of the Shares by any of our Controlling Shareholders, or that the availability of the Shares for disposal by any of our Controlling Shareholders may have on the market price of the Shares. Disposal of a substantial number of Shares by any of our Controlling Shareholders or the market perception that any such disposal may occur could materially and adversely affect the prevailing market price of the Shares.

The interests of our Controlling Shareholders may not always coincide with the interests of our Group and those of our other Shareholders.

Upon completion of the Global Offering (but not taking into account the Shares which may be issued pursuant to the exercise of the Over-allotment Option or options which may be granted under the Share Option Scheme), our Controlling Shareholders will own, in aggregate, 75% of our Shares. Our Controlling Shareholders will therefore have significant influence over the operations and business strategies of our Group, and may have the ability to require our Group to effect corporate actions according to their own desires. The interests of our Controlling Shareholders may not always coincide with the best interests of other Shareholders. If the interests of any of our Controlling Shareholders conflict with the interests of other Shareholders, or if any of our Controlling Shareholders chooses to cause our Group's business to pursue strategic objectives that conflict with the interests of other Shareholders, the interests of our Group or of those other Shareholders may be adversely affected as a result.

There is no assurance if and when we will pay dividend in the future.

Distribution of dividend will be at the discretion of our Board and subject to Shareholders' approval. A decision to declare or pay dividend and the amount of such dividend will depend on various factors, including but not limited to our business performance, financial condition, operating and capital expenditure requirements, distributable profits as determined under PRC Generally Accepted Accounting Principles, the Articles of Association, applicable laws and regulations of the PRC and Hong Kong, market conditions, our strategic plans and prospects of business development, contractual limits and obligations, payment of dividend to us by our operating subsidiaries, taxation, and other factors determined by our Board from time to time to be relevant to the declaration or suspension of dividend payments. As a result, there is no assurance whether, when and in what manner we will pay dividend in the future.

RISK FACTORS

You may face difficulties in protecting your interests under Cayman Islands.

Our corporate affairs are governed by, among other things, our Memorandum of Association and Articles of Association and by the Companies Law and common law of the Cayman Islands. The laws of the Cayman Islands relating to the protection of interests of minority shareholders, in some respects, differ from those established under statutes or judicial precedent in existence in Hong Kong. The rights of Shareholders to take action against our Directors, the rights of minority shareholders to institute actions and the fiduciary responsibilities of our Directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. A summary of Cayman Islands company law is set out in Appendix IV to this prospectus.

RISKS RELATING TO STATEMENTS MADE IN THIS PROSPECTUS

Prospective investors should not place undue reliance on industry and market overview and statistics derived from official government publications contained in this prospectus.

Certain statistics, facts, data and forecasts presented in “Industry Overview” and elsewhere in this prospectus including those relating to the PRC and Japan, their economy and the travel industry have been derived, in part, from various publications and industry-related sources prepared by government officials or Independent Third Parties. Our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, officers, employees, advisers, agents, representatives or affiliates of any of them or any other persons or parties involved in the Global Offering have not verified such statistics, facts, data and forecasts and give no representation as to their accuracy and completeness. As such, potential investors should not place undue reliance on such information.

Our Group’s future results could differ materially from those expressed in or implied by the forward-looking statements.

This prospectus includes various forward-looking statements that are based on various assumptions. Our Group’s future results could differ materially from those expressed in or implied by such forward-looking statements. For details of these statements and the associated risks, please see “Forward-looking Statements”.

Shareholders should read this prospectus in detail.

There may have been coverage in the media regarding the Listing and our operations. We do not accept any responsibility for the accuracy or completeness of the information and make no representation as to the appropriateness, accuracy, completeness or reliability of any information disseminated in the media. To the extent that any of the information in the media is inconsistent or conflicts with the information contained in this prospectus, we disclaim it. Accordingly, prospective investors should not rely on any of the information in press articles or other media coverage.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

Our Company has sought the following waivers from strict compliance with the relevant provisions of the Listing Rules.

MANAGEMENT PRESENCE

Pursuant to Rule 8.12 of the Listing Rules, an issuer must have a sufficient management presence in Hong Kong. This normally means that at least two of the executive Directors must be ordinarily resident in Hong Kong. Given that our business and operation are primarily located, managed and conducted in the PRC, it would be practically difficult and commercially unfeasible for us to either relocate two of our executive Directors to Hong Kong or to appoint two additional executive Directors who are ordinarily resident in Hong Kong in order to comply with the requirements under Rule 8.12 of the Listing Rules.

Accordingly, our Company has applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from compliance with the requirements under Rule 8.12 of the Listing Rules on the following conditions:

- (a) our Company will appoint two authorised representatives pursuant to Rule 3.05 of the Listing Rules, namely, Ms. Qiu Xiang (邱香), an executive Director and Ms. Yeung Josephine Yan (楊昕), our Company's company secretary, who will act as Company's principal channel of communication with the Stock Exchange. Ms. Yeung Josephine Yan is ordinarily resident in Hong Kong. Each of the authorised representatives will be available to meet with the Stock Exchange in Hong Kong within a reasonable time frame upon the request of the Stock Exchange and will be readily contactable by telephone, facsimile and email. Each of the two authorised representatives is authorised by our Board to communicate on behalf of our Company with the Stock Exchange. Our Company has been registered as a non-Hong Kong company under Part 16 of the Companies Ordinance, and Ms. Yeung Josephine Yan has been authorised to accept service of legal process and notice in Hong Kong on behalf of our Company;
- (b) each of our Company's authorised representatives has means to contact all members of our Board (including the independent non-executive Directors) and of the senior management team promptly at all times as and when the Stock Exchange wishes to contact them or any of them for any matters. To enhance the communication between the Stock Exchange, the authorised representatives and our Directors, our Company will implement a number of policies whereby (i) each Director shall provide his/her mobile phone numbers, office phone numbers, fax numbers and email addresses to the authorised representatives; (ii) in the event that such Director expects to travel and be out of office, he/she shall provide the phone number of the place of his/her accommodation to the authorised representatives; and (iii) all our Directors and authorised representatives will provide their respective mobile phone numbers, office phone numbers, fax numbers and email addresses to the Stock Exchange. We shall promptly inform the Stock Exchange of any changes to the contact details of the authorised representatives of our Company and our Directors;

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

- (c) Innovax Capital Limited has been appointed as our Company's compliance adviser, pursuant to Rule 3A.19 of the Listing Rules, to provide our Company with professional advice on continuing obligations under the Listing Rules, and to act at all times, in addition to the two authorised representatives of our Company, as our Company's additional channel of communication with the Stock Exchange for the period commencing on the Listing Date and ending on the date on which our Company complies with Rule 13.46 of the Listing Rules and publishes its annual report in respect of its first full financial year commencing after the Listing Date. The contact person of the compliance adviser will be fully available to answer enquiries from the Stock Exchange;
- (d) each of our Directors (including independent non-executive Directors) not ordinarily resident in Hong Kong has confirmed that they possess or can apply for valid travel documents to visit Hong Kong and would be able to meet with the Stock Exchange in Hong Kong upon reasonable notice; and
- (e) our Company will also appoint other professional advisors (including its legal advisers in Hong Kong) after the Listing to assist our Company in addressing any enquiries which may be raised by the Stock Exchange and to ensure that there will be prompt and effective communication with the Stock Exchange.

WAIVER IN RELATION TO CONTINUING CONNECTED TRANSACTIONS

We have entered into the Contractual Arrangements which would constitute continuing connected transactions of our Company under Chapter 14A of the Listing Rules following completion of the Global Offering. We have applied for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements under Chapter 14A of the Listing Rules in relation to the non-exempt continuing connected transactions. Details of such non-exempt continuing connected transactions and the waiver are set out in "Contractual Arrangements" and "Connected Transactions".

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (WUMP) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information to the public with regard to our Group. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief that (i) the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive; (ii) there are no other matters the omission of which would make any statement herein or this prospectus misleading; and (iii) all opinions expressed in this prospectus have been arrived at after due and careful considerations, and are founded on bases and assumptions that are fair and reasonable.

PROSPECTUS ISSUED IN CONNECTION WITH HONG KONG PUBLIC OFFER ONLY

This prospectus is published solely in connection with the Hong Kong Public Offer, which forms part of the Global Offering.

The Hong Kong Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorised to give any information in connection with the Hong Kong Public Offer or to make any representation not contained in this prospectus and the relevant Application Forms, and any information or representation not contained herein and therein must not be relied upon as having been authorised by us, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their respective directors, agents, employees or advisers, or any other person or party involved in the Global Offering.

Neither the delivery of this prospectus nor any subscription or acquisition made under it shall, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in our affairs since the date of this prospectus or imply that the information contained in this prospectus is correct as at any date subsequent to the date of this prospectus.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Global Offering are recommended to consult their professional advisers as to the taxation implications of subscribing for, purchasing, holding or disposal of, and/or dealing in the Shares or exercising rights attached to them. None of us, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their respective directors, agents, employees or advisers, or any other person or party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, purchase, holding, disposition of, or dealing in, the Shares or exercising any rights attached to them.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

LANGUAGE

If there is any inconsistency between this prospectus and its Chinese or Japanese translation, this prospectus shall prevail. For ease of reference, the names of Chinese or Japanese laws and regulations, government authorities, institutions, natural persons or other entities (including certain of our subsidiaries) have been included in this prospectus in the Chinese, English and Japanese languages, and in the event of any inconsistency, the Chinese and Japanese versions shall prevail.

ROUNDING

Amounts and percentage figures, including share ownership and operating data in this prospectus, may have been subject to rounding adjustments. In this prospectus, where information is presented in thousands or millions, amounts of less than one thousand or one million, as the case may be, have been rounded to the nearest hundred or hundred thousand, respectively, unless otherwise indicated or the context requires otherwise. Amounts presented as percentages have been rounded to the nearest tenth of a percent, unless otherwise indicated or the context requires otherwise. Accordingly, totals of rows or columns of numbers in tables may not be equal to the apparent total of the individual items.

EXCHANGE RATE CONVERSION

In this prospectus, unless otherwise stated, amounts denominated in RMB, AUD, JPY and USD have been translated into Hong Kong dollars at an exchange rate of RMB1.00 = HK\$1.16, AUD1.00 = HK\$5.59, JPY1.00 = HK\$0.07 and USD1.00 = HK\$7.85, respectively, for illustrative purposes only. Such conversions shall not be construed as representations that amounts in RMB, JPY, AUD and USD were or could have been or could be converted into Hong Kong dollars at such rates or any other exchange rates on such date or any other date.

INFORMATION ABOUT THE GLOBAL OFFERING

Issuer	Tu Yi Holding Company Limited (途屹控股有限公司)
Global Offering	Global Offering of initially 250,000,000 Offer Shares (subject to adjustment and excluding the Shares to be issued pursuant to the exercise of the Over-allotment Option) comprising (i) Hong Kong Public Offer of initially 25,000,000 Offer Shares (subject to adjustment) and (ii) International Placing of initially 225,000,000 Offer Shares (subject to adjustment and excluding the Shares to be issued pursuant to the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme)
Maximum offer price	HK\$0.68

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

Over-allotment Option and stabilisation	Up to 37,500,000 additional Shares to be offered by our Company. Details of the arrangements for the Over-allotment Option and related stabilisation exercise are set out in “Structure and Conditions of the Global Offering”.
Lock-up undertakings by our Controlling Shareholders	Please see “Underwriting – Underwriting Arrangements and Expenses – Undertakings given to the Stock Exchange pursuant to the Listing Rules – By our Controlling Shareholders”.
Board lot	4,000 Shares
Dividend policy	<p>Please see “Financial Information – Dividends”.</p> <p>Unless we determine otherwise, dividend, if declared, will be paid in Hong Kong dollars to our Shareholders, as recorded in our register of members, by ordinary post, at our Shareholders’ own risks, to the registered address of each such Shareholder, or in the case of joint holders, the first-named holder.</p>
Voting rights	Each Share entitles its holder to one vote at our Shareholders’ meeting. Please see “Summary of the Constitution of the Company and Cayman Islands Companies Law” in Appendix IV to this prospectus.
Stamp duty	Dealings in the Shares registered in our register of members will be subject to Hong Kong stamp duty. The current ad valorem rate of Hong Kong stamp duty is 0.1% on the higher of the consideration for or the market value of the Shares and it is charged on the purchaser on every purchase and on the seller on every sale of the Shares. In other words, a total stamp duty of 0.2% is currently payable on a typical sale and purchase transaction involving the Shares.
Register of members	Our Company’s register of members will be maintained by the Hong Kong Branch Share Registrar. All of the Shares issued pursuant to the Global Offering will be registered on our register of members.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

Application for the Listing on the Stock Exchange

We have applied to the Listing Committee for the granting of the listing of, and permission to deal in, the Shares to be issued by us pursuant to the Global Offering (including the additional Shares which may be issued pursuant to the exercise of the Over-allotment Option and the Shares to be issued upon the exercise of the options which may be granted under the Share Option Scheme).

Dealings in the Shares on the Stock Exchange are expected to commence on 28 June 2019. Except as disclosed in this prospectus, no part of our share or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought on the Stock Exchange or any other stock exchange as at the date of this prospectus. All the Offer Shares will be registered on our register of members maintained by the Hong Kong Branch Share Registrar in order to enable them to be traded on the Stock Exchange.

Under section 44B(1) of the Companies (WUMP) Ordinance, any allotment made in respect of any application will be invalid if the listing of, and permission to deal in, the Shares on the Stock Exchange is refused before the expiration of three weeks from the date of the closing of the application lists, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to our Company by or on behalf of the Stock Exchange.

Restrictions on offers and sale of the Offer Shares

Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offer will be required to, or be deemed by his acquisition of the Offer Shares to, confirm that he is aware of the restrictions on offers and sales of the Offer Shares described in this prospectus and the relevant Application Forms.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus and/or the Application Forms in any jurisdiction other than Hong Kong. Accordingly, without limitation to the following, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom. In particular, the Offer Shares have not been publicly offered or sold, directly or indirectly, in the PRC or the United States.

Fully underwritten

The listing of the Shares on the Stock Exchange is sponsored by the Sole Sponsor and the Global Offering is managed by the Joint Global Coordinators. The Hong Kong Public Offer is fully underwritten by the Hong Kong Underwriters pursuant to the Hong Kong Underwriting Agreement. The International Underwriting Agreement relating to the International Placing is expected to be entered into on or about the Price Determination Date, subject to determination of the pricing of the Offer Shares. Please see “Underwriting” for further information regarding the Underwriters and the underwriting arrangements.

Price Determination Date

On or around 21 June 2019, and in any event, no later than 27 June 2019. If, for any reason, the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company are unable to reach an agreement on the Offer Price by 12:00 noon on 27 June 2019, the Global Offering will not become unconditional and will not proceed and will lapse.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

Admission to CCASS

Subject to the granting of the listing of, and permission to deal in, the Shares on the Stock Exchange and compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or on any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangements as such arrangements may affect their rights and interests.

Procedures for applying for Hong Kong Offer Shares

Please see “How to Apply for Hong Kong Offer Shares”

Conditions of the Global Offering

Please see “Structure and Conditions of the Global Offering – Conditions of the Hong Kong Public Offer”

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

Name	Address	Nationality
Executive Directors		
Yu Dingxin (虞丁心)	Room 201, Unit 1, Building 7 Ziting Garden Hangzhou City Zhejiang Province PRC	Chinese
Pan Wei (潘渭)	Room 502, Unit 1, Building 2 Lizi City Apartment Hangzhou City Zhejiang Province PRC	Chinese
Xu Jiong (徐炯)	Room 701, Unit 3 Xiacheng District No. 298 Huancheng East Road Hangzhou City Zhejiang Province PRC	Chinese
An Jiajin (安家晋)	Room 602, Unit 1, Building 1 Chaohui the Forth District Hangzhou City Zhejiang Province PRC	Chinese
Peng Ying (彭鹰)	Room 1102, Unit 2, Building 4 Beijing Fengdan Xiacheng District Hangzhou City Zhejiang Province PRC	Chinese
Qiu Xiang (邱香)	Room 602, Building 6 Zhongjiang Garden Xiacheng District Hangzhou City Zhejiang Province PRC	Chinese

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Name	Address	Nationality
Independent Non-executive Directors		
Gu Jiong (顧炯)	A28-2, Jianian Villa No. 3333, Hongmei Road Minhang District Shanghai PRC	Chinese
Zhao Jianbo (趙劍波)	Room 5-1-1002 Beiguozhichun Hangzhou City Zhejiang Province PRC	Chinese
Zhou Li (周禮)	Room 15A, Building 5 Xindeya Apartment Hangzhou City Zhejiang Province PRC	Chinese

Please see “Directors and Senior Management” for further details of our Directors.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

PARTIES INVOLVED IN THE GLOBAL OFFERING

Sole Sponsor

Innovax Capital Limited
Room 2002, 20/F
Chinachem Century Tower
178 Gloucester Road
Wan Chai
Hong Kong

**Joint Global Coordinators,
Joint Bookrunners and Joint
Lead Managers**

Innovax Securities Limited
Unit A-C, 20/F
Neich Tower
128 Gloucester Road
Wan Chai
Hong Kong

Crosby Securities Limited
5/F Capital Centre
151 Gloucester Road
Wanchai
Hong Kong

**Joint Bookrunners and Joint
Lead Managers**

Mason Securities Limited
Portion 1, 12/F
The Center
99 Queen's Road Central
Hong Kong

BOA International Securities Limited
Flat A, 9th Floor
CKK Commercial Centre
289 Hennessy Road
Wanchai
Hong Kong

Haitong International Securities Company Limited
22/F, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Hong Kong Underwriters

Innovax Securities Limited

Unit A-C, 20/F
Neich Tower
128 Gloucester Road
Wanchai
Hong Kong

Crosby Securities Limited

5/F
Capital Centre
151 Gloucester Road
Wanchai
Hong Kong

Mason Securities Limited

Portion 1, 12/F
The Center
99 Queen's Road Central
Hong Kong

BOA International Securities Limited

Flat A, 9th Floor
CKK Commercial Centre
289 Hennessy Road
Wanchai
Hong Kong

Haitong International Securities Company Limited

22/F
Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

Legal Advisers to our Company

As to Hong Kong law

Jingtian & Gongcheng LLP

Suites 3205-3207, 32/F
Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

Mr. Tse Siu Chung Dixon

14/F, Tower One
Lippo Centre
Queensway
Admiralty
Hong Kong
Barrister-at-law, Hong Kong SAR

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

As to PRC law

Zhejiang T&C Law Firm

8/F, Block A
Dragon Century Square
No. 1 Hangda Road
Hangzhou
Zhejiang
PRC

As to Cayman Islands law

Conyers Dill & Pearman

Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman KY1-1111
Cayman Islands

As to Japanese law

Soga Law Office

4/F, Kojimachi MK Bldg.
4-3-30 Kojimachi
Chiyoda-ku, Tokyo 102-0083
Japan

**Legal Advisers to the Sole
Sponsor and the Underwriters**

As to Hong Kong law

Deacons

5th Floor, Alexandra House
18 Chater Road
Central
Hong Kong

As to PRC law

Jingtian & Gongcheng

45/F, K. Wah Centre
1010 Huaihai Road
Xuhui District
Shanghai
PRC

**Auditors and reporting
accountants**

Ernst & Young

Certified Public Accountants

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

Industry Consultant

Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.

1018, Tower B
500 Yunjin Road
Shanghai, 200232
PRC

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Internal control consultant	Corporate Governance Professionals Limited (formerly known as “Baker Tilly Hong Kong Risk Assurance Limited”) 2nd Floor 625 King’s Road North Point Hong Kong
Property Valuer	Jones Lang LaSalle Corporate Appraisal and Advisory Limited 7/F, One Taikoo Place 979 King’s Road Hong Kong
Receiving Bank	Bank of China (Hong Kong) Limited 1 Garden Road Hong Kong

CORPORATE INFORMATION

Registered Office in the Cayman Islands	Cricket Square Hutchins Drive PO Box 2681 Grand Cayman KY1-1111 Cayman Islands
Head Office and Principal Place of Business in the PRC	Room 303 Jia Lian Hua Ming Zuo Commercial Building No. 586 Jianguo North Road Xiacheng District Hangzhou City Zhejiang Province PRC
Principal Place of Business in Hong Kong	Unit 402, 4/F, Fairmont House No. 8 Cotton Tree Drive Admiralty Hong Kong
Company's Website Address	www.tuyigroup.com <i>(The contents on this website do not form part of the prospectus)</i>
Company Secretary	Ms. Yeung Josephine Yan (<i>FCPA</i>) (<i>practising</i>) 13/F, Wah Yuen Building 149 Queen's Road Central Central Hong Kong
Authorised Representatives	Ms. Qiu Xiang Room 602, Building 6 Zhongjiang Garden Xiacheng District Hangzhou City Zhejiang Province PRC Ms. Yeung Josephine Yan Flat G, 16/F, Tower 2 The Belcher's 89 Pok Fu Lam Road Pok Fu Lam Hong Kong
Audit Committee	Mr. Gu Jiong (<i>Chairman</i>) Mr. Zhao Jianbo Ms. Zhou Li

CORPORATE INFORMATION

Remuneration Committee	Ms. Zhou Li (<i>Chairperson</i>) Mr. Zhao Jianbo Mr. Yu Dingxin
Nomination Committee	Mr. Yu Dingxin (<i>Chairman</i>) Mr. Zhao Jianbo Ms. Zhou Li
Cayman Islands Principal Share Registrar and Transfer Office	Conyers Trust Company (Cayman) Limited Cricket Square Hutchins Drive PO Box 2681 Grand Cayman KY1-1111 Cayman Islands
Hong Kong Branch Share Registrar and Transfer Office	Tricor Investor Services Limited Level 22 Hopewell Centre 183 Queen's Road East Hong Kong
Compliance Adviser	Innovax Capital Limited Room 2002, 20/F Chinachem Century Tower 178 Gloucester Road Wan Chai Hong Kong
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The information contained in this section and elsewhere in this prospectus have been derived from various official government and other publications generally believed to be reliable and the market research report prepared by Frost & Sullivan which we commissioned.

We believe that the sources of such information and statistics are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. Such information has not been independently verified by us, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their respective directors, agents, employees or advisers, or any other person or party involved in the Global Offering and no representation is given as to its accuracy (except Frost & Sullivan). Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice, the facts and statistics in this section and elsewhere in this prospectus may be inaccurate or may not be comparable to facts and statistics produced with respect to other economies. Further, we cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy (as the case may be) in other jurisdictions. As a result, you should not unduly rely upon such facts and statistics contained in this prospectus.

SOURCE OF INFORMATION

We commissioned Frost & Sullivan, an independent market researcher and consultant, to produce a report on the China outbound tourism market at a fee of RMB680,000. Frost & Sullivan is an independent global consulting firm founded in 1961. It offers industry research, market strategies and provides growth consulting and corporate training. Its industry coverage includes automotive and transportation, chemicals, materials and food, commercial aviation, consumer products, energy and power systems, environment and building technologies, healthcare, industrial automation and electronics, industrial and machinery, and technology, media and telecom. The F&S Report includes information on data of China outbound tourism market.

Frost & Sullivan has conducted detailed primary research which involved discussing the status of the industry with certain leading industry participants. Frost & Sullivan has also conducted secondary research which involved reviewing company reports, independent research reports and data based on its own research database. Frost & Sullivan has obtained the figures for the estimated total market size from historical data analysis plotted against macroeconomic data as well as considered certain industry key drivers.

In preparing the F&S Report, Frost & Sullivan has adopted a market engineering forecasting methodology which integrates several forecasting techniques with its market engineering measurement-based system. It relies on the expertise of its analyst team in integrating the critical market elements investigated during the research phase of the F&S Report. These elements include: expert-opinion forecasting methodology, integration of market drivers and restraints, integration with the market challenges, integration of the market engineering measurement trends and integration of econometric variables.

The bases and assumptions for the projections in the F&S Report include the following:

- (i) the social, economic and political environment is likely to remain stable in the forecast period, which ensures the stable and healthy development of China outbound tourism market; and
- (ii) the related industry key drivers are likely to drive the China outbound tourism market in the forecast period, such as the sustainable growth of macro economy, increasing consumption demand, and increasing number of outbound tourist visits, etc.

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Based on the above, our Directors consider that the payment of the commission fee does not affect the fairness of conclusion drawn in the F&S Report and are satisfied that the disclosure of future projection and industry data included in this section is reliable and not misleading. Also, after taking reasonable care, our Directors are of the view that there has been no adverse change in the market information since the date of the F&S Report which may qualify, contradict or have an impact on the information in this section.

OVERVIEW OF CHINA MACRO ECONOMY

Per Capita Annual Consumption Expenditure in Tourism

China has stepped into a new era of economic growth under the “new norm”, in which the economic growth model has begun to shift from an investment-driven model towards a consumption-driven model. Personal consumption expenditure has gradually overtaken the dominant role of investment and become the important driving force behind the economy development. In 2017, personal consumption expenditure reached approximately RMB31.8 trillion, accounting for approximately 38.4% of nominal GDP. Along with the increase in personal consumption expenditure, per capita annual consumption on tourism of Chinese tourists has also demonstrated stable growth between 2014 and 2018, increasing from approximately RMB963.4 to RMB1,046.8 with a CAGR of 2.1%.

Meanwhile, prompted by continuous urbanisation and increasing disposable income of urban residents, per capita annual consumption expenditure of urban residents experienced stable growth between 2014 and 2018, increasing from approximately RMB20.0 thousand to RMB26.01 thousand at a CAGR of 6.9%. Looking forward, urban residents would remain strong demand for consumptions, which are expected to drive their per capita annual consumption expenditure to reach approximately RMB34.4 thousand by 2023 with a CAGR of 5.5% in the next five years. As consumption continues to increase in China, it is estimated that there is substantial room for the growth of China’s outbound tourism market.

OVERVIEW OF CHINA OUTBOUND TOURISM MARKET

China outbound tourism refers to a type of travelling pattern where the tourists visit the scenic spots located outside the mainland China. Online outbound tourism refers to outbound tourism with at least one item of travel-related transactions being issued via online tourism service providers, who offer comprehensive services including travel information sharing, reservation for accommodation, transportation and package tours. Tourists who will visit abroad can choose either package tours or FIT tours.

As the result of economic transformation and accumulative effects of decades of rising disposable income, the consumption upgrade caused the changes in Chinese consumption patterns where the consumers prefer to choose non-necessity products to improve their living standards. As an effective way to experience different cultures and wonderful landscapes, travelling to overseas has gradually become a significant component of high-quality living style. The number of outbound tourist visits in China experienced a moderate growth from 2014 to 2018, increasing from approximately 107.0 million to approximately 162.0 million and attaining a CAGR of 10.9%. Fuelled by the convenience of outbound tourism and customisation of high-level outbound tourism services, the number of outbound tourist visits in China is projected to reach approximately 251.0 million by 2023, attaining a CAGR of 8.6% between 2019 and 2023.

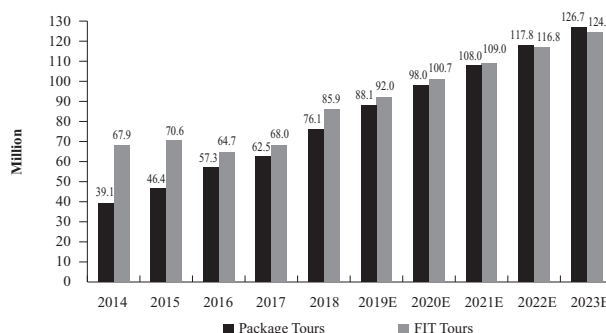
Under the positive development trend of China outbound tourism market, along with continuously rising penetration rates of the internet and mobile internet, online travel agencies are become more popular among outbound tourists. Between 2014 and 2018, the number of online outbound tourist visits increased from approximately 15.5 million to 44.5 million with a CAGR of 30.2%. Based on stable outlook of China economic growth, the number is expected to continue to increase to approximately 104.4 million by 2023, attaining a CAGR of 19.3% in the next five years.

Since short-distance outbound tours such as those to Hong Kong, Macau etc. accounted for major component of China mainland outbound tourist visits, outbound FIT tours have been more popular than outbound package tours since 2014. Considering that outbound package tours are able to help smooth the travel preparation process, overcome language barriers and improve the level of travel security, a growing group of long-distance or unfamiliar outbound tourists tend to choose travel abroad in groups, driving the increase of outbound tourist visits of package tours. This is shown in the number of outbound package

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tourist visits, which raised from approximately 39.1 million in 2014 to 26.1 million in 2018 with a CAGR of 18.1%, and is expected to maintain increase to reach approximately 126.7 million by 2023. With a large base of emerging outbound tourists each year, the number of outbound FIT tourist visits saw more moderate increase from approximately 67.9 million in 2014 to 85.9 million in 2018 with a CAGR of 6.1%. By 2023, the number of outbound tourist visits of FIT tours is forecasted to reach approximately 124.2 million, with a CAGR of 7.8% between 2019 and 2023.

Number of Outbound Tourist Visits by Type (China), 2014-2023E

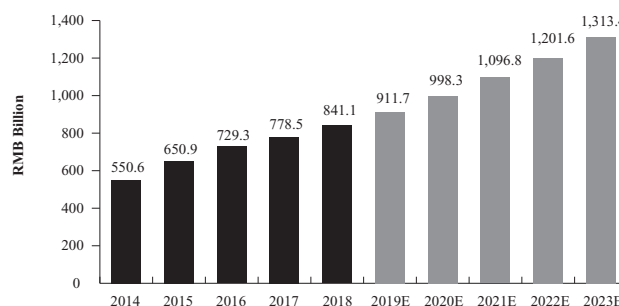


CAGR	2014-2018	2019E-2023E
<i>Number of Outbound Tourist Visits of Package Tours</i>	18.1%	9.5%
<i>Number of Outbound Tourist Visits of FIT Tours</i>	6.1%	7.8%

Source: China National Tourism Administration; Frost & Sullivan Analysis

The cumulative effect of decades of rising disposable income and living standards has caused seismic changes in general consumption patterns. Chinese consumers gradually start to focus on high-quality and non-necessity products, rather than the basic living necessities. Such favourable macro circumstances and sustainable growth of leisure demand continuously to stimulate the rapid growth of total outbound tourism consumption of Chinese tourists, which increased from approximately RMB550.6 billion in 2014 to RMB841.1 billion in 2018, attaining a CAGR of 11.2%. Along with the improvement of transportation infrastructures and convenience of visa processing, the total outbound tourism consumption of Chinese tourists is expected to reach approximately RMB1,313.4 billion by 2023, representing a CAGR of 9.6% between 2019 and 2023.

Total Outbound Tourism Consumption of Tourists (China), 2014-2023E



Notes: Total outbound tourism consumption of Chinese tourists consists of shopping, accommodation, transportation, food and entertainment activities.

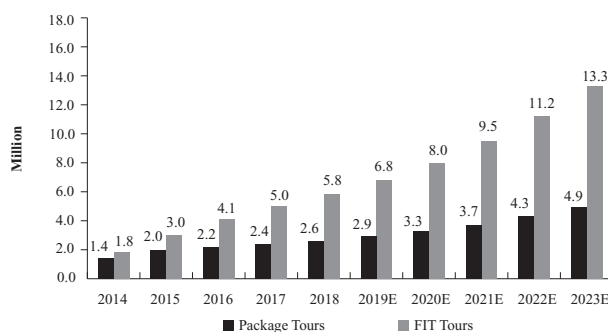
CAGR	2014-2018	2019E-2023E
<i>Total Outbound Tourism Consumption of Tourists</i>	11.2%	9.6%

Source: China National Tourism Administration; Frost & Sullivan Analysis

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As a country which is close to China, Japan and China have frequent international communications in respect of culture, economy, and politics. In past years, Japan has become a popular outbound tourism destination for Chinese tourists attributed to its abundant tourism resources, including rich history, attractive natural sceneries as well as popular commodities, such as cosmetics and household appliances. Besides, the implementation of bold initiatives, such as visa relaxation and consumption tax exemption for outbound visitors, continuously prompt the tourism industry to be the pillar of Japanese economic growth strategy. Outbound tourism industry is significantly influenced by economic and political factors such as capital outflow control and bilateral relationships. In October 2014 and January 2015, Japanese government separately announced new tax reimbursement policy for foreign tourists and visa application relaxation for Chinese tourists, which significantly stimulated the growth of outbound tourist visits to Japan of Chinese tourists. However, in respect to THAAD missile event in 2017, relationship between China and South Korea undertook negative influence to some extent and some Korean tourism products provided by Chinese outbound travel agencies were cancelled. Such circumstances might also post indirect influence on other short-distance outbound travel destinations. Driven by multiple factors including natural development and other economic and political factors, the growth rate of number of outbound tourist visits to Japan has slowed down and returned to stable level since 2016. Between 2014 and 2018, the number of outbound tourist visits to Japan of package tours and FIT tours both experienced rapid growth, with number of outbound tourist visits to Japan by package tours increasing from approximately 1.4 million to 2.6 million with a CAGR of 15.5% and number of outbound tourist visits to Japan of FIT tours increasing from approximately 1.8 million to 5.8 million with a CAGR of 33.9%. Looking forward, with the relaxation of visa application for Chinese tourists travelling to Japan which has been implemented since 2019 and the 2020 Tokyo Olympics, the numbers of tourist visits to Japan of package tours and FIT tours are projected to further grow, reaching approximately 4.9 million and 13.3 million respectively by 2023.

Number of Outbound Tourist Visits to Japan by Type (China), 2014-2023E



CAGR	2014-2018	2019E-2023E
Number of Outbound Tourist Visits to Japan by Package Tours	15.5%	13.9%
Number of Outbound Tourist Visits to Japan by FIT Tours	33.9%	18.2%

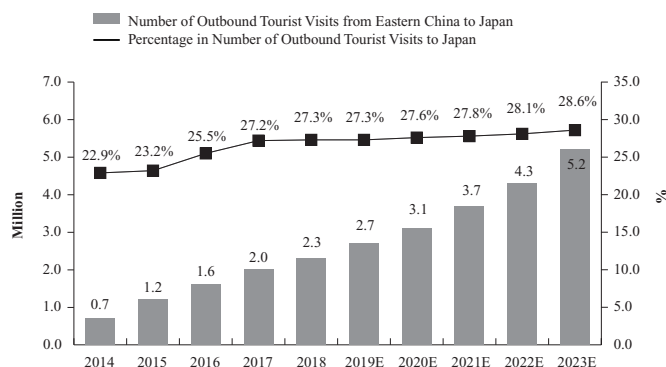
Source: Frost & Sullivan Analysis

In light of relatively developed economic conditions and convenient transportation in Eastern China, which refers to Anhui, Fujian, Jiangsu, Jiangxi, Shandong, and Zhejiang provinces, and Shanghai, as well as the higher disposable income levels of the residents in Eastern China, eastern areas have been the main outbound tourism-generating region to Japan. Tourist visits from Eastern China mainly obtain their Japan visa from Consulate-General of Japan in Shanghai, which takes charge of visa application of Chinese tourists living in Shanghai, Anhui, Zhejiang, Jiangsu and Jiangxi Provinces. This group is the largest group traveling to Japan among all other regions in China, with the Consulate-General of Japan in Shanghai issued the most Japan visas globally in these years. The number of outbound tourist visits to Japan from Eastern China witnessed a rapid growth at a CAGR of 32.4% between 2014 and 2018, increasing from approximately 0.7 million to 2.3 million and accounting for approximately 27.3% of the number of outbound tourist visits to Japan in China in 2018. Driven by the sustainable growth of outbound tourism demand,

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the number of outbound tourist visits to Japan from Eastern China is projected to reach approximately 5.2 million, representing a CAGR of 18.4% between 2019 and 2023 and comprising approximately 28.6% of the total number of outbound tourist visits to Japan in 2023.

Number of Outbound Tourist Visits from Eastern China to Japan (China), 2014-2023E



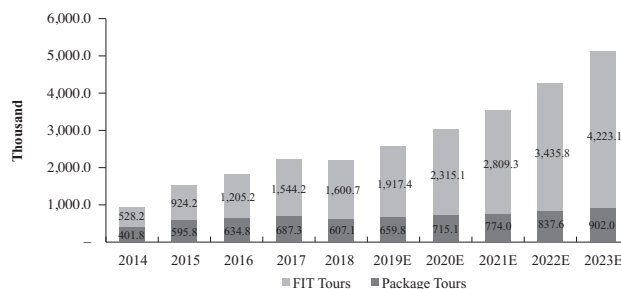
CAGR	2014-2018	2019E-2023E
<i>Number of Outbound Tourist Visits to Japan</i>	26.7%	17.0%
<i>Number of Outbound Tourist Visits from Eastern China to Japan</i>	32.4%	18.4%

Source: Japan National Tourism Organisation; Frost & Sullivan Analysis

In 2018, there were approximately 1,764 licensed travel agencies in Hong Kong with several of them representing large shares of tourism market in Hong Kong and contributing to a relatively concentrated competitive landscape of tourism market in Hong Kong. The market shares of the top five players in Hong Kong's outbound tourism market in terms of revenue of outbound tourism for FY2018 was approximately 51.7%.

As families in Hong Kong pay growing attention on entertainment, they are more willing to increase expenditure on outbound tourism, and Japan is among the most popular choices with its mature tourism industry. In recent years, Japanese government has actively promoted its tourism industry by increasing budget on tourism infrastructure construction and introducing new tourist attractions such as the theme park of Harry Potter opened in 2014 in Osaka, Japan. Moreover, the emergence of online travel agencies has provided outbound tourists with comprehensive travel information, complying with the busy lifestyle of people from Hong Kong. In light of an increasing penetration rate of Internet and mobile Internet in Hong Kong, people in Hong Kong were more involved in online outbound tourism to short haul countries such as Japan. As a result, number of outbound tourist visits from Hong Kong to Japan increased significantly from approximately 0.9 million to 2.2 million between 2014 and 2018 with a CAGR of 24.1%, and is expected to continue to increase to approximately 5.1 million in 2023 with a CAGR of 18.8% between 2019 and 2023. Along with the growth of number of outbound tourist visits from Hong Kong to Japan, total outbound tourism consumption of tourists from Hong Kong to Japan also represented dramatic growth in the same period, increasing from approximately HKD10.1 billion in 2014 to HKD29.5 billion in 2018 with a CAGR of 30.8% and expected to increase to approximately HKD81.0 billion by 2023 with a CAGR of 22.9% between 2019 and 2023.

Number of Outbound Tourist Visits from Hong Kong to Japan By Type, 2014-2023E

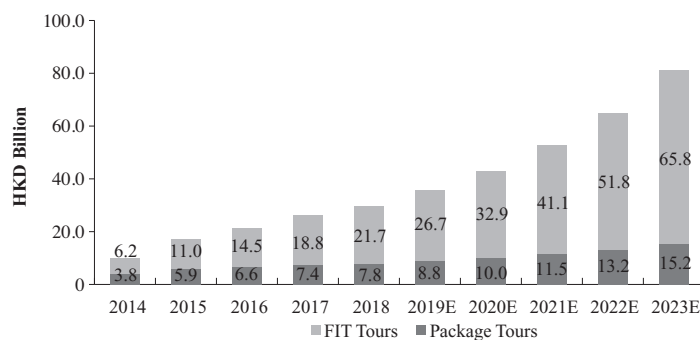


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CAGR	2014-2018	2019E-2023E
Number of Outbound Tourist Visits from Hong Kong to Japan	24.1%	18.8%
Number of Outbound Tourist Visits of Package Tours from Hong Kong to Japan	10.9%	8.1%
Number of Outbound Tourist Visits of FIT Tours from Hong Kong to Japan	31.9%	21.8%

Source: Japan National Tourism Organisation; Frost & Sullivan Analysis

Total Outbound Tourism Consumption from Hong Kong to Japan By Type, 2014-2023E

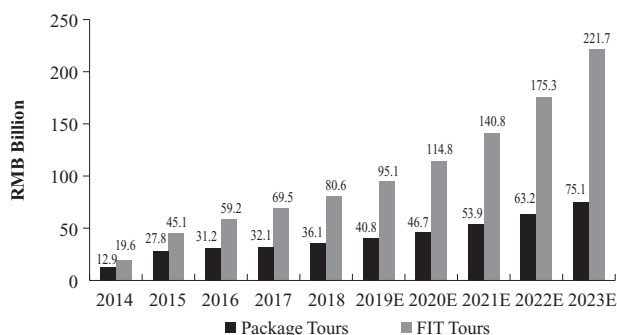


CAGR	2014-2018	2019E-2023E
Total Outbound Tourism Consumption from Hong Kong to Japan	30.8%	22.9%
Total Outbound Tourism Consumption of Package Tours from Hong Kong to Japan	19.2%	14.7%
Total Outbound Tourism Consumption of FIT Tours from Hong Kong to Japan	36.7%	25.3%

Source: Japan National Tourism Organisation; Frost & Sullivan Analysis

Correspondingly the total outbound tourism consumptions of Chinese tourists to Japan experienced a dramatic growth from 2014 to 2018. Total outbound tourism consumptions of tourists to Japan of package tours increased from approximately RMB12.9 billion in 2014 to RMB36.1 billion in 2018 with a CAGR of 29.3%. Similarly, total outbound tourism consumptions of tourists to Japan of FIT tours increased from approximately RMB19.6 billion in 2014 to RMB80.6 billion in 2018 with a CAGR of 42.4%. Driven by the increasing number of Chinese tourists to Japan and their strong purchasing power, total outbound tourism consumptions of tourists to Japan of package tours and FIT tours is expected to continue to increase to approximately RMB75.1 billion and RMB221.7 billion by 2023 respectively.

Total Outbound Tourism Consumptions of Tourists to Japan by Type (China), 2014-2023E



Note: Total Outbound tourism consumption of Chinese tourists to Japan consists of shopping, accommodation, transportation, food and entertainment activities

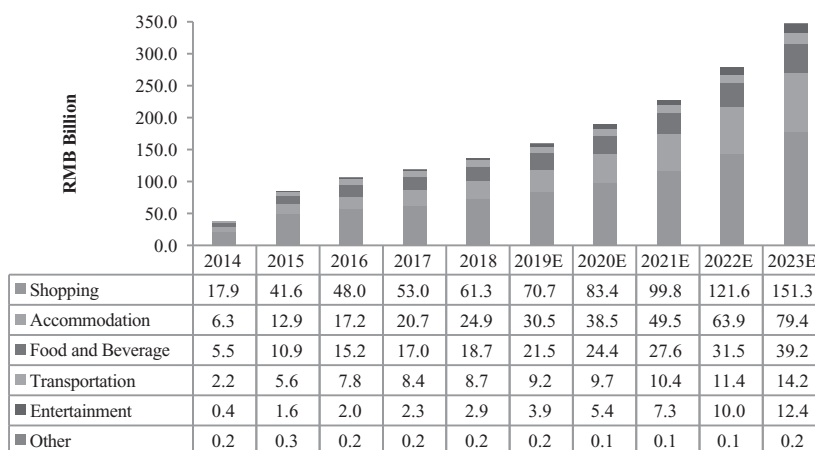
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CAGR	2014-2018	2019E-2023E
<i>Total Outbound Tourism Consumptions of Tourists to Japan by Package Tours</i>	29.3%	16.5%
<i>Total Outbound Tourism Consumptions of Tourists to Japan by FIT Tours</i>	42.4%	23.5%

Source: Frost & Sullivan Analysis

According to the categories of travel expenditure for Chinese outbound visitors to Japan in 2018, the amount spent on shopping was the highest at approximately RMB61.3 billion, increased from approximately RMB17.9 billion in 2014 and is expected to reach approximately RMB151.3 billion by 2023. Accommodation and food & beverage are other items that accounted for a large proportion of total tourism consumption of tourists to Japan, reached approximately RMB24.9 billion and RMB18.7 billion respectively in 2018.

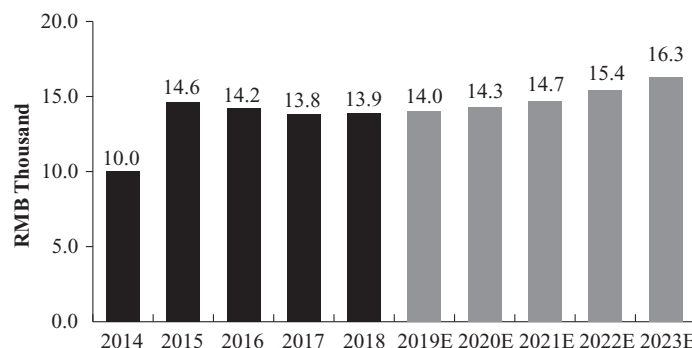
Outbound Tourism Consumption Breakdown of Tourists to Japan (China), 2014-2023E



Source: Japan National Tourism Organisation; Frost & Sullivan Analysis

Overall, per capita outbound tourism consumption of tourists to Japan increased from approximately RMB10.0 thousand in 2014 to RMB13.9 thousand in 2018 with a CAGR of 8.6%. Driven by tourism stimulus policies released by Japanese government and continuous improvement on tourist attractions construction such as the theme park of Harry Potter opened in 2014, the tourism consumption on entertainment is projected to become a more powerful driving force behind the increase of per capita outbound tourism consumption of tourist to Japan and further drive its growth between 2019 and 2023.

Per Capita Outbound Tourism Consumption of Tourists to Japan (China), 2014-2023E



Note: Per capita outbound tourism consumption of tourists to Japan consists of shopping, accommodation, transportation, food and entertainment activities

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CAGR	2014-2018	2019E-2023E
<i>Per Capita Outbound Tourism Consumption of Tourists to Japan</i>	8.6%	3.9%

Source: Japan National Tourism Organisation; Frost & Sullivan Analysis

Major Market Drivers

(1) Increasing income level and consumption expenditures on travelling

With China's rapid economic growth, by 2018, per capita annual disposable income of urban residents reached approximately RMB39,300; per capita annual consumption expenditure of urban residents reached to approximately RMB26,100. Additionally, China's economic growth model has begun shifting from an investment-driven model towards a consumption-driven model. Urban residents show stronger spending power and greater appetite on travelling. On top of that, the increasing consumption expenditure on travelling outbound is expected to further drive market growth.

(2) Growing demand for travelling abroad

Driven by increasing per capita disposable income and consumption expenditure of urban residents, more and more people choose to spend their holiday by travelling abroad. In addition, the number of outbound tourist visits showed a growing trend in the past years and such trend is likely to maintain in the future. Furthermore, people with sufficient budgets tend to travel abroad during their annual leave, in most cases, spending 7-10 days on outbound tourism. Japan, Korea and Thailand are the three most favorable destinations of outbound tourism. As of 2017, Japan and Thailand were among the top five favorable destinations of outbound tourism.

(3) Overseas tourist attractions pay more attention on services to Chinese tourists

Driven by increase in number of Chinese tourists, foreign tourist attractions receive more Chinese visitors than before. To satisfy appeals made by the emerging customers, local tourism administration tend to set up Chinese website, add guidance with Chinese version on famous attractions and provide package tours that preferred by Chinese tourists. The improving service helps them to build a great word of mouth around Chinese visitors, which assists them to seize the Chinese market.

(4) More accessible and convenient products and services from online outbound tourism service providers

Riding the wave of the 'Internet plus' concept advocated by the PRC, a wide range of market players started to participate in the ecosystem of online tourism industry, broadening and diversifying the edge of market players to Internet conglomerate, traditional travel agencies and ambitious start-ups. Based on the "Guiding Opinion on Vigorously Advancing the 'Internet Plus' Action" (《國務院關於積極推進「互聯網+」行動的指導意見》) issued by the State Council in the PRC in July 2015, China National Tourism Administration released the implementing plans on boosting the innovation and infrastructure construction of 'Internet Plus Tourism' market in September 2015. With a series of favourable policies coming out, the online outbound tourism industry will further develop under a sound and supportive environment. With products and services provided by online travel agencies, tourists do not have to drive miles or wait until opening hours to consult a travel expert for crafting their itinerary. Instead, with comprehensive information integrated and well organised, online travel agencies can provide information and services just based on a few clicks and typing. For example, online travel agencies are able to show all-round information of airlines such as the time and places of departure and destination, prices of multiple time as well as operating companies etc., which can better support tourists to compare airlines and make travel decisions. The more accessible and convenient products and services provided by online travel agencies have continuously driven a larger base of users.

(5) Increasing internet and mobile internet penetration rate

With rapid economic development over the last decade, China has been at the forefront of internet technology innovation, leveraging large demand for internet services and fast adoption of internet facilities such as computers and mobile phones. In 2018, the number of China internet users reached approximately 812.5 million with the penetration rate in total population of 58.2%. In addition, the remarkable development of mobile internet also drives the online outbound tourism industry given its growing penetration rate and easy

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accessibility. The number of China mobile internet users has reached approximately 788.3 million in 2018 with penetration rate in internet users of 97.0%, and is expected to continue rising in the future.

Major Entry Barriers

(1) Advanced user acquisition capacity

For outbound travel service providers, building up a large user base which mainly determined by user acquisition capacity is one of their key success factors. As one approach to broaden user base, connections with diverse internet platforms and local scenic spots such as amusement parks can significantly improve brand recognition and page viewership of online travel agencies. In fact, such condition inevitably poses an entry barrier for new entrants since it is critical for the market players to acquire customers effectively and efficiently.

(2) Broad access to upstream resources

As the upstream of industry value chain, developing wide and deep relationships with multiple parts of travel resource providers is one of the decisive factors of providing services smoothly and precisely. Well-established market players who have built up diverse and deep connections with airline companies, transportation companies, hotels, local tourism management agencies and visa issuing organisations are able to provide rich products and services with high cost performance to better meet the needs of customers. For example, it is important for travel agencies to have deep connections with local retail shops as it is an industry norm for travel agencies to derive a material amount of gross profit from commissions paid by duty-free and other retail shops operated by third parties. This capacity requires long-term time and efforts, which has formed an entry barrier for new market players.

(3) Operation qualification acquisition

Outbound travel agencies are required to acquire operation licence to conduct outbound tourism business as regulations of the PRC. To apply for the operation licence, outbound travel agencies need to have more than two years' experience in tourism business and receive no punishment on violating customers' rights. In addition, the outbound travel agency needs to prepare an extra deposit to Consulate-Generals of Japan. On the other hand, outbound tourism service players also need to acquire approval from embassies of some countries to participate in visa application business, which poses an entry barrier for new market players.

(4) Affluent capital support

As increasing market players participate in outbound tourism market, access to affluent sources of funding is a key factor to survive the intensive market competition. To enlarge business scale, travel agencies need large amount of before-hand capital investment in building up downstream sales networks including construction and maintenance of local branches and online platforms, customer service system and provision of user subsidies for occupying larger market share etc. The extensive capital needs has avoided new market players to easily survive in the competitive market.

Market Trends

(1) Appealing upgraded package tours, online consumer finance further stimulates overseas travel industry

Tourists show increasing interests in package tours since increasing number of travel agencies started providing premium packaged services. The language barrier and culture shock may happen over the stay abroad drive customers to choose package tours over FIT tours. The packaged service including accommodations, transportation, guidance, visa application etc. simplifies the preparation of travel abroad. With the increasing variety of travel destinations and selective service provided during the trip, package tours travel agencies manage to meet appeals made by more customers. Furthermore, travel agencies started to assign better trained tourist guides with sufficient cultural background and proficient language skill so that they can provide a better user experience. Additionally, with the development of online consumer finance service, customers can pay for their trip by installments and consumption loans, which further simulate the demand for travel internationally.

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(2) Increasing demand from third and fourth tier cities

A large proportion of customers from third and fourth tier cities have little experience of travelling abroad. With the increasing per capita disposable income and propaganda conducted by travel agencies, growing number of customers from third and fourth tier cities are preparing to travel outbound for their first time. Since they have little experience of travelling abroad and may encounter culture shock, they tend to choose standardised travel products which cost much less than more customised travel services. On the other hand, a relatively large proportion of customers from first and second tier cities have travelled outbound than whom from third and fourth tier cities. They tend to be very selective of their destinations and choose to make purchase of customised travel service.

(3) Customers purchasing behaviour of travel services shifted from offline to online and from computer to mobile

Customers tend to use online travel agencies to make reservations of accommodations, transportation and even package tours. The purchasing behaviour experienced a huge transformation from offline to online. A large proportion of customers tend to search travel information through online platforms, the information and experience shared by other tourists are keys for them to make purchase of travel services for their own. Mafengwo (馬蜂窩), an online travel information sharing platform and community in China, started to implement its travel service supermarket. In the future, websites of travel service providers may be a combination of the both. Since majority of the tourists share their travel experience through social media, with the increasing penetration of mobile internet and online third party payment, the purchasing behaviour is experiencing a new trend. Service providers have already improved their mobile online purchasing experience to fit the new norm.

Along with the development of online tourism, which provides a large number of standardised tourism products such as air tickets and admission tickets, offline tourism services tend to focus more on personalised tourism products. Leveraging the advantages of interaction with customers, the establishments of physical offices by travel agencies have developed significant importance in improving brand image and allowed travel agencies to obtain a more comprehensive and deeper understanding of their customers' preferences and needs. Moreover, there is still a certain portion of the customer base in the PRC and Hong Kong prefers to purchase travel products and/or obtain travel information at physical offices of travel agencies. As a result, it has become increasingly common for travel agencies to establish both online and offline channels to expand business landscape and enhance business operation, which allow the travel agencies to enrich customer experience and better accommodate the specific needs and demands of customers.

COMPETITIVE LANDSCAPE OF CHINA OUTBOUND TOURISM MARKET IN CHINA

Although outbound travel agencies have relatively higher threshold than traditional travel agencies, the outbound tourism market in China is highly fragmented and competitive. By the end of 2018, there are more than 29,000 licensed travel agents and 4,500 outbound travel agents in China. Revenue of top five licensed outbound travel agencies accounted for approximately 18.8% of total revenue of outbound travel agencies in China for 2018. Given the nature that outbound tourism industry is essentially labour-intensive and tourists in various regions have diversified habits and preferences, outbound travel agencies are distributed dispersedly. As Japan is among the top five popular outbound tourism destinations for Chinese tourists and the demand for tourism products and services related to Japan continues to increase, tour bound for Japan is one of the most important businesses for most leading outbound travel agencies. Paralleled with number of tourists to Japan organised by the outbound travel agency, the number of Japan visa applications handled by the outbound tourism agency is a reliable benchmark for measuring its comprehensive capability of operation scale and integration of tourism resources. There are 202 assigned outbound travel agencies in Anhui, Zhejiang, Jiangsu and Jiangxi Provinces and Shanghai who have obtained the approval of Consulate-General of Japan in Shanghai to handle Japan visa application for tourists, a qualification requires high standards including passing the interviews of Consulate-General of Japan in Shanghai.

As of FY2018, Consulate-General of Japan in Shanghai issued approximately 2.1 million Japan visas for Chinese tourists, representing the largest proportion of number of Japan visas issued by Consulate-Generals of Japan globally. The top five outbound tourism

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agencies in Anhui, Zhejiang, Jiangsu and Jiangxi Provinces and Shanghai accounted for approximately 25.6% in terms of the number of Japan visa application for FY2018 in the Consulate-General in Shanghai.

Issuing approximately 113 thousand Japan visa applications in 2018, Tu Yi Holding Company Limited ranked the second in terms of number of Japan visa application for FY2018 in the Consulate-General of Japan in Shanghai and took up approximately 5.3% of total market share.

Along with the increasing prevalence of outbound tourism to Japan for Chinese tourists, revenue of outbound tourism to Japan (except reservation business) of outbound tourism agencies in Eastern China has experienced stable growth in recent years. The top five outbound travel agencies in Eastern China in terms of revenue of outbound tourism to Japan for FY2018 totalled approximately RMB3.2 billion, representing approximately 29.0% of total revenue of tourism bound to Japan of outbound travel agencies in Eastern China.

Competitive Landscape of China Outbound Tourism Service Companies in Eastern China in Terms of Revenue of Outbound Tourism to Japan for FY2018**

Ranking	Company	Location	Revenue of Outbound Tourism to Japan for FY2018 (Million)	Market Share
1	E	Shanghai	~ 980	~ 8.9%
2	F	Shanghai	~ 930	~ 8.5%
3	G	Shanghai	~ 770	~ 7.0%
4	H	Shanghai	~ 380	~ 3.5%
5	Our Company	Hangzhou	~ 127	~ 1.2%

Note:

** Eastern China includes Anhui, Fujian, Jiangsu, Jiangxi, Shandong, Zhejiang, and Shanghai

Source: Frost & Sullivan

OVERVIEW OF JAPAN DAY TOUR PRODUCTS

The local travel agencies in Hong Kong and PRC mainly offer travel agency services in Hong Kong and PRC and only few of them have established their subsidiary in Japan to facilitate their management of Japan tour operations. By the end of 2018, there were less than 20 travel agencies in the PRC that established subsidiaries in Japan, and there were less than 5 travel agencies in Hong Kong that established subsidiary in Japan. As the FIT tourism to Japan from the PRC and Hong Kong continues to enjoy a remarkable growth in recent years, day tour products in Japan faces extensive demands attributed to their flexibility and convenience. As a result, day tour products in Japan are expected to demonstrate continuously increasing demands from PRC and Hong Kong travellers. In Hong Kong, most travel agencies provide tourism products with multiple destinations including but not limited to mainland China, Southeast Asia and America etc. There are few travel agencies which focus on single tourism destination. China Travel Service (Hong Kong) Co., Ltd mainly offers tourism services to mainland China. EGL Holdings Company Limited and WWPKG Holdings Company Limited are the two listed travel companies in Hong Kong that mainly provide tourism products to Japan, and both generate more than half of their revenue of package tours through package tours to Japan. As one of the developed countries in Asia and a neighboring country to the PRC and Hong Kong, Japan is among the most popular outbound tourism destinations for tourists from the PRC and Hong Kong and enjoyed rapid growth in both the number of tourist visits and tourism consumption in the past years. By concentrating their resources on Japan tour products, travel agencies are able to benefit from prosperous and continuously increasing tourism demands to Japan as well as more efficient and convenient resource integration and business collaboration attributable to the short-distance commuting and long-term oriental cultural communication.

For those local travel agencies and/or day tour product providers without their own subsidiaries in Japan, it is more difficult for them to establish direct business relationships with local tourism service providers in Japan. Instead, they will need to outsource their tour operations to third party land operators in Japan. It is an industry norm that companies in Japan prefer to negotiate and cooperate with local corporations as they can believe that their rights are better protected by Japanese laws if the counterparties are also Japanese entities.

INDUSTRY OVERVIEW

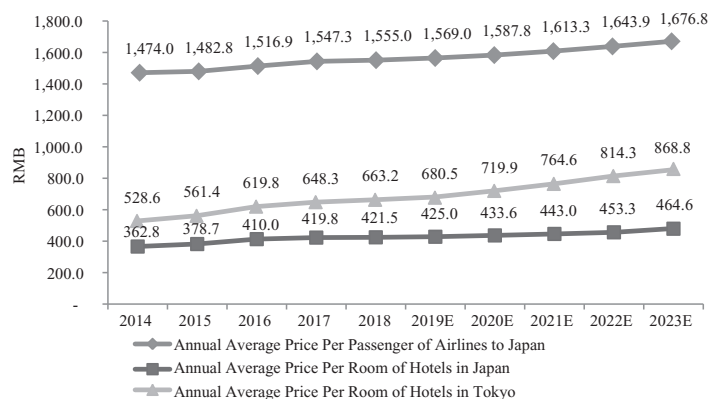
In order to provide day tours to their customers, these local travel agencies or providers may have to negotiate and liaise with different third parties in Japan, including local tour bus companies, land operators and/or translators, which is more time consuming and inefficient as oppose to operating their own day tours. The quality control of day tour is also less manageable since multiple third parties which are independent of each other may be involved in the operation of day tour. As a result, limited number of day tour products are developed and operated by local travel agencies in Hong Kong and PRC. With their own subsidiaries in Japan, local travel agencies are able to enjoy face-to-face communicate and liaise with third parties in Japan in real time, which largely improves their operational effectiveness and efficiency, especially during peak tourist seasons or urgent situations such as natural disasters.

PRICE TREND OF THE KEY TOURISM COST ELEMENTS

Air tickets and hotel accommodation are the two major travel cost elements. In 2018, annual average price per passenger of airlines to Japan was approximately RMB1,555.0, and annual average price per hotel room in Japan was approximately RMB421.5. Average prices of air tickets are closely related to international oil prices and airline supply and demand, while average prices of hotel accommodation are generally influenced by supply and demand of local hotels. Driven by influx of tourists catering for Olympic Games to be held in Tokyo in 2020, the price trends of air tickets and hotel accommodation are projected to go up by 2020. In 2018, annual average price per room of hotels in Tokyo was approximately RMB663.2, and is expected to reach approximately RMB868.8 by 2023 with a CAGR of 6.3% between 2019 and 2023.

Japanese lodging facilities can be broadly divided into hotels, traditional inns, family-run guesthouse, pensions and membership resort clubs. Hotels have topped the list of accommodation choice for tourists in Japan. Driven by an increasing number of outbound tourists to Japan, the number of hotels experienced stable growth in the Japanese market, increasing from approximately 1.5 million in 2014 to 1.8 million in 2018 with a CAGR of 5.4%. In the near future, with Olympic Game to be held in Tokyo in 2020, the number of outbound tourist would see significant increase and contribute to an increase in the demand for accommodation in hotels in Japan. Therefore, the number of hotels in Japan is expected to rise to approximately 2.6 million by 2023. On the other hand, hotels in Japan were in an advantage of high occupancy rate, which reached approximately 83.73% in 2018, higher than that of China, South Korea and Thailand. Hotels in Tokyo demonstrate a higher level of occupancy annual average rate, which reached approximately 85.7% in 2018, and is expected to rise to approximately 87.0% by 2023. Such advantage has also attracted investment in construction and operation of hotels, especially in Tokyo in Japan.

Price Trend of Hotel and Air Tickets For Tours to Japan (China), 2014-2023E



CAGR	2014-2018	2019E-2023E
<i>Annual Average Price Per Passenger of Airlines to Japan</i>	1.3%	1.7%
<i>Annual Average Price Per Room of Hotels in Japan</i>	3.8%	2.3%
<i>Annual Average Price Per Room of Hotels in Tokyo</i>	5.8%	6.3%

Source: Frost & Sullivan Analysis

REGULATORY OVERVIEW

PRC REGULATORY OVERVIEW

REGULATIONS ON OUTBOUND TRAVEL BUSINESS

Tourism Law of the People's Republic of China

For the purposes of protecting the legitimate rights and interests of tourists and tourism operators, regulating the order of tourism market, protecting and making rational use of tourism resources, and promoting the sustainable and sound development of the tourist industry, Tourism Law of the People's Republic of China (《中華人民共和國旅遊法》) was promulgated on 25 April 2013 and amended on 7 November 2016 and 26 October 2018. Tourism Law of the People's Republic of China applies to tours, vacations, recreations and other forms of tourism activities within the territory of the PRC and including outbound tours but organised within the territory of the PRC and the incidental services provided. Pursuant to Tourism Law of the People's Republic of China, approval from the tourism authorities shall be obtained and industrial and commercial registration shall be made in accordance with the relevant PRC law in order to establish a travel agency, attract, organise and receive tourists, and provide tourism services, the following requirements shall be met: (i) have a fixed business site; (ii) equipped with the necessary business facilities; (iii) have registered capital that conforms to the regulations; (iv) have necessary management staff and tour guides; and (v) any other condition stipulated by the laws and administrative regulations.

Travel agencies may engage in the following businesses: (i) domestic tourism; (ii) outbound tourism; (iii) border tourism; (iv) inbound tourism; and (v) other tourism businesses. To engage in businesses (ii) and (iii) above, a travel agency must obtain the required business license. Specific requirements shall be set by the State Council of the PRC. Travel agencies are prohibited from leasing or lending their business licenses, or illegally transferring their business licenses in other forms.

Regulations on Travel Agencies

For the purpose of strengthening administration of travel agencies, ensuring the legitimate interests of tourists and travel agencies, maintaining the tourist market order and boosting the healthy development of tourism, the Regulations on Travel Agencies (Revised in 2017) (《旅行社條例2017年修訂》) was promulgated by the State Council of the PRC on 20 February 2009, and amended on 6 February 2016 and 1 March 2017.

“Travel agencies” mentioned herein refers to the business entities engaging in activities such as soliciting, organising and receiving tourists, providing services related to tourism and conducting domestic travel business, inbound travel business or outbound travel business.

In the event that a travel agency has been operating for two years after acquiring the license and has not been imposed a fine or more severe penalty by any PRC administrative organs for infringing on the legitimate rights and interests of tourists, it may apply for the outbound travel business license. In order to apply for the outbound travel business license, a travel agency shall file an application to the competent travel administration under the

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State Council of the PRC or the competent travel administration in the province, autonomous region or centrally-administered municipality which is entrusted. The administration shall then make a decision on whether or not to approve within 20 working days upon receiving the application. Where an approval is given, the administration shall renew and update the travel agency business license of the travel agency; where no approval is given, the administration shall notify the applicant with reasons thereof in writing.

The Implementation Regulations under the Regulations on Travel Agencies (《旅行社條例實施細則》) was promulgated on 3 April 2009, and amended on 12 December 2016. Pursuant to the Implementation Regulations under the Regulations on Travel Agencies, outbound tourism business includes the outbound tourism service for the Chinese mainland residents, Hong Kong residents, and any Macao Special Administrative Region and Taiwan residents residing in Chinese mainland. The travel agency who applies for outbound tourism business permit, shall have been operating for at least two years after acquiring the travel agency license and has not been imposed a fine or more severe penalty. The foreign investment in travel agency shall comply with the Regulations on Travel Agencies.

Articles On Foreign Investment in Travel Agencies (《旅行社條例》關於外資旅行社的章節):

Foreign investment in travel agencies includes Chinese-foreign equity joint venture travel agencies, Chinese foreign cooperative travel agencies and wholly foreign-owned travel agencies.

To apply for the travel agency business, a foreign-invested enterprise shall file an application to the competent travel administration in the province, autonomous region or centrally-administered municipality where it is located and submit related supporting documents as prescribed in Article 6 herein. The competent travel administration of the province, autonomous region or centrally-administered municipality shall then complete its review within 30 working days upon receiving the application. If an approval is given, the aforesaid administration shall grant the travel agency business license to the applicant; otherwise, the aforesaid administration shall notify the applicant with reasons in writing.

The establishment of foreign-invested travel agencies shall also be in compliance with the PRC laws and regulations governing foreign investment. Foreign-invested travel agencies shall not engage in Chinese mainland residential travel business abroad and Chinese mainland residential travel business in Hong Kong, Macao Special Administrative Region and Taiwan, unless stated otherwise by the State Council of the PRC, in any free trade agreements or in the Mainland and Hong Kong and Macao Closer Economic Partnership Arrangements signed by China.

Where a foreign invested travel agency, in violation of the said regulations, engages in Chinese mainland residential outbound tourist business and tourist business to Hong Kong, Macao Special Administrative Region and Taiwan, or organises tourists to travel in the country and regions not stated in the list of Chinese citizens' outbound tourism destinations as published by the competent tourism administration under the State Council of the PRC, the travel administration shall confiscate such illegal gains and order it to make any necessary rectifications; if the illegal gains are more than RMB100,000, a fine of one to five

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times of the illegal gains shall be imposed; if the illegal gains are less than RMB100,000 or no illegal gains are acquired, a fine of RMB100,000 to RMB500,000 shall be imposed; and if the case is serious, the business license shall be revoked.

Measures for Administration of Outbound Tours by Chinese Citizens

For the purposes of regulating Chinese citizens' outbound tours organised by travel agencies and safeguarding the lawful rights and interests of the tourists and operators of outbound tours, Measures for Administration of Outbound Tours by Chinese Citizens (《中國公民出國旅遊管理辦法》) was promulgated by the State Council of the PRC on 27 May 2002, and amended on 1 March 2017. Pursuant to Measures for Administration of Outbound Tours by Chinese Citizens:

A travel agency that operates the business of outbound tours shall meet the following requirements: (i) one full year has passed since it obtained the qualifications as an international travel agency; (ii) having prominent performance in operating the business of inbound tours; (iii) having no record of serious law-breaking behaviours and major problems in service quality in its operation.

A travel agency that applies for operating the business of outbound tours shall submit an application to the tourism administration department of the province, autonomous region or municipality directly under the central government, which shall, within 30 working days from the date of accepting the application, finish the examination thereof in accordance with the requirements set forth in Article 3 of these Measures. Upon examination, if the application is approved, it shall be submitted to the tourism administration department of the State Council of the PRC for approval; if the application is denied, the applicant shall be informed in writing with reasons. The tourism administration department of the State Council of the PRC shall approve travel agencies operating the business of outbound tours on the basis of any tourism development plans of the PRC and the need for rational distribution.

Without approval from the tourism administration department of the State Council of the PRC, no organisation or individual can operate the business of outbound tours or conduct such operation under the disguises such as business, study or training trips.

Regulations on Service Quality

The PRC Law on Protection of the Rights and Interests of Consumers (《中華人民共和國消費者權益保護法》) (the “**Consumers Protection Law**”) was promulgated on 31 October 1993 and became effective on 1 January 1994. The Consumers Protection Law has been further revised on 25 October 2013 and the revisions take effect from 15 March 2014. According to the Consumers Protection Law, unless otherwise provided by this law, an operator that provides products or services shall, in any of the following circumstances, bear civil liability under the Product Quality Law of the PRC (《中華人民共和國產品質量法》) and other relevant laws and regulations: (i) where a product has defects; (ii) where a commodity does not possess functions it is supposed to possess, and it is not declared when the product is sold; (iii) where the product standards indicated on a product or on the coverage of such product are not met; (iv) where the quality condition indicated by way of product

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description or physical sample, etc. is not met; (v) where products pronounced obsolete by formal State decrees are produced or have expired or deteriorated commodities are sold; (vi) where a sold product is inadequate in quantity; (vii) where the service items and charges violate the agreement; (viii) where demands by a consumer for repair, redoing, replacement, return, making up the quantity of a product, refund of a product purchase price or service fee or claims for compensation have been delayed deliberately or rejected without reason; or (ix) in other circumstances whereby the rights and interests of consumers, as provided by PRC laws and regulations, are jeopardised.

The Tort Law of the PRC (《中華人民共和國侵權責任法》) was promulgated on 26 December 2009 and came into force on 1 July 2010 to clarify the tort liability, and to prevent and punish tortious conduct. Under this law, in the event of damage arising from a defective product, the victim may seek compensation from either the manufacturer or seller of such product. If the defect is caused by the seller, the manufacturer shall be entitled to seek reimbursement from the seller upon compensation to the victim. If the defect is caused by the manufacturer, the seller shall be entitled to seek reimbursement from the manufacturer upon compensation to the victim.

REGULATIONS RELATING TO INTELLECTUAL PROPERTY

The Patent Law

According to the Patent Law of the PRC (Revised in 2008) (《中華人民共和國專利法》(2008年修訂)) promulgated by the Standing Committee of the National People's Congress, and its implementation rules (Revised in 2010) (《中華人民共和國專利法實施細則》(2010年修訂)) promulgated by the State Council of the PRC, the State Intellectual Property Office of the PRC is responsible for administering patents in the PRC. The patent administration departments of provincial, autonomous region or municipal governments are responsible for administering patents within their respective jurisdictions. The Patent Law of the PRC and its implementation rules provide for three type of patents, "invention", "utility model" and "design". Invention patents, design patents and utility model patents are valid for twenty years, ten years and ten years respectively. The Chinese patent system adopts a "first come, first file" principle, which means, where more than one person files a patent application for the same invention, a patent will be granted to the person who files the application earlier. To be patentable, the invention or utility models must meet three criteria: novelty, inventiveness and practicability. A third party must obtain consent or a proper license from the patent owner in order to use the patent without infringing the patent right.

The Trademark Law

Trademarks are protected by the Trademark Law of the PRC (Revised in 2013) (《中華人民共和國商標法》(2013年修訂)) which was promulgated on 23 August 1982 and subsequently amended on 22 February 1993, 27 October 2001 and 30 August 2013 respectively as well as the Implementation Regulation of the PRC Trademark Law adopted by the State Council on 3 August 2002 (Revised in 2014) (《中華人民共和國商標法實施條例》(2014年修訂)). In China, registered trademarks include commodity trademarks, service trademarks, collective marks and certification marks.

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The Trademark Office under the SAIC handles trademark registrations and grants a term of ten years to registered trademarks. Trademarks are renewable every ten years where a registered trademark needs to be used after the expiration of its validity term. A registration renewal application shall be filed within six months prior to the expiration of the term. A trademark registrant may license its registered trademark to another party by entering into a trademark license contract. Trademark license agreements must be filed with the Trademark Office for record. The licensor shall supervise the quality of the commodities on which the trademark is used, and the licensee shall guarantee the quality of such commodities. As with trademarks, the PRC Trademark Law has adopted a “first come, first file” principle with respect to trademark registration. Where trademark for which a registration application has been made is identical or similar to another trademark which has already been registered or been subject to a preliminary examination and approval for use on the same kind of or similar commodities or services, the application for registration of such trademark may be rejected. Any person applying for the registration of a trademark should not prejudice the existing right first obtained by others, nor may any person register in advance a trademark that has already been used by another party and has already gained a “sufficient degree of reputation” through such party’s use.

The Copyright Law

The Copyright Law of the PRC (Revised in 2010) (《中華人民共和國著作權法》(2010年修訂)) (the “**Copyright Law**”) provides that Chinese citizens, legal persons, or other organisations shall, whether published or not, enjoy copyright in their works, which include, among others, works of literature, art, natural science, social science, engineering technology and computer software.

The Computer Software Copyright Registration Measures (《計算機軟件著作權登記辦法》) (the “**Software Copyright Measures**”) promulgated by the China Copyright Office on 20 February 2002, regulate registrations of software copyright, exclusive licensing contracts and transfer contracts for software copyright. The National Copyright Administration of China shall be the competent authority for the nationwide administration of software copyright registration and the Copyright Protection Center of China (the “**CPCC**”), is designated as the software registration authority. The CPCC shall grant registration certificates to the Computer Software Copyrights applicants which conforms to the provisions of both the Software Copyright Measures and the Computer Software Protection Regulations (Revised in 2013) (《計算機軟件保護條例》(2013年修訂)).

Provisions of the Supreme People’s Court on Certain Issues Related to the Application of Law in the Trial of Civil Cases Involving Disputes over Infringement of the Right of Dissemination through Information Networks (《最高人民法院關於審理侵害信息網絡傳播權民事糾紛案件適用法律若干問題的規定》), which was released on 17 December 2012 and became effective on 1 January 2013, provide that web users or web service providers who create works, performances or audio-video products, for which others have the right of dissemination through information networks or are available on any information network without authorisation shall be deemed to have infringed upon the right of dissemination through information networks.

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Regulations on Domain Names

The Ministry of Industry and Information Technology of the PRC (The “MIIT”) promulgated its Administrative Measures on Internet Domain Names (《互聯網域名管理辦法》) (the “**Domain Name Measures**”) on 24 August 2017. According to the Domain Name Measures, domain name owners are required to register their domain names and the MIIT is in charge of the administration of PRC Internet domain names. The domain name services follow a “first come, first file” principle. Applicants for registration of domain names shall provide their true, accurate and complete information of such domain names to domain name registration service institutions. The applicants will become the holder of such domain names upon the completion of the registration procedure.

REGULATIONS RELATING TO FOREIGN INVESTMENT

Under the Wholly Foreign-Owned Enterprise Law of the PRC (《中華人民共和國外資企業法》) promulgated on 31 October 2000 and amended on 1 October 2016, and the Detailed Implementing Rules for the Wholly Foreign-Owned Enterprise Law of the People’s Republic of China (《中華人民共和國外資企業法實施細則》) promulgated and took effect on 12 December 1990, amended on 19 February 2014, an application for establishing a wholly foreign-owned enterprise (the “**WFOE**”), shall be subject to examination and approval by the MOFCOM before the approval certificate is issued. Within 90 days of the date of receipt of an application, the examination and approval authority shall decide whether or not to approve. After application for the establishment of a WFOE is approved by the Examination and Approval Authority, the foreign investors shall, within 30 days of the date of receipt of the approval certificate, submit registration to and collect the business license from the administrative authority for industry and commerce.

On 3 September 2016, the Decision of the Standing Committee of the National People’s Congress on Revising Four Laws including the Law of the People’s Republic of China on Wholly Foreign-owned Enterprises (《全國人民代表大會常務委員會關於修改〈中華人民共和國外資企業法〉等四部法律的決定》) (“**the Decision on Revision of Four Laws**”) was promulgated and became effective on 1 October 2016. On 30 July 2017, the MOFCOM published and effected the Interim Measures for the Administration of Establishment and Change Filings of Foreign-invested Enterprises (《外商投資企業設立及變更備案管理暫行辦法》) (the “**Filings Measures**”), which was revised pursuant to Decision on Revision of the Provisional Measures on Administration of Filing for Establishment and Change of Foreign Investment Enterprises promulgated on 30 July 2017 by Ministry of Commerce of the PRC. The Decision on Revision of Four Laws and the Filings Measures revised relevant administrative approval provisions of the Law of the People’s Republic of China on Wholly Foreign-owned Enterprises (《中華人民共和國外資企業法》), the Law of the People’s Republic of China on Sino-Foreign Equity Joint Ventures (《中華人民共和國中外合資經營企業法》), the Law of the People’s Republic of China on Sino-Foreign Cooperative Joint Ventures (《中華人民共和國中外合作經營企業法》) and the Law of the People’s Republic of China on the Protection of the Investments of Taiwan Compatriots (《中華人民共和國台灣同胞投資保護法》) and the relevant formality regime for the incorporation and change of foreign-invested enterprises, providing that if the incorporation or change of foreign-invested enterprises and enterprises funded by Taiwan compatriots does not involve special access administrative measures prescribed by the PRC government (the “**Negative List**”), the examination and

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approval process will be replaced by the record-filing administration process instead. According to the Filings Measures, where the establishment of foreign-invested enterprises do not fall within the Negative List, such enterprises shall go through the record-filing procedures after obtaining the prior approval of the enterprise name and prior to the issuance of a business license, or within 30 days after the issuance of a business license. Within the record-filing scope of the Filings Measures, in the case of a change of basic information of the foreign-invested enterprises or their investors, a change of equity (shares) or cooperation interest of the foreign-invested enterprises, merger, division or dissolution, mortgage or transfer of foreign-invested enterprises' property or rights and interests to others and other matters, the foreign-invested enterprises shall file the relevant documents online within 30 days upon occurrence of such changes via the comprehensive administrative system. On 8 October 2016, the announcement of National Development and Reform Commission (the "NDRC") and the MOFCOM [2016] No. 22 (《中華人民共和國國家發展和改革委員會中華人民共和國商務部公告2016年第22號》) was published and specified that the Negative List shall be in line with the Catalog (《外商投資產業指導目錄(2015年修訂)》).

The MOFCOM and NDRC jointly promulgated the Negative List of the version of 2018 on 28 June 2018, which became effective on 28 July 2018 to replace the Negative List under the Foreign Investment Catalogue that was revised in 2017. The Negative List is further divided into restricted foreign-invested industries and prohibited foreign-invested industries. Unless otherwise provided in the PRC laws, the industries which are not set out in the Negative List are permitted foreign-invested industries. Where the items set forth in the encouraged foreign invested industries and the Negative List overlap, such items enjoy encouraged policies and shall comply with the relevant access provisions.

On 19 January 2015, the MOFCOM promulgated the 2015 Draft Foreign Investment Law to solicit public comment. On 23 December 2018, the seventh meeting of the 13th SCNPC reviewed the Foreign Investment Law of the People's Republic of China (Draft) (《中華人民共和國外商投資法(草案)》), which was promulgated by the NPC on its official website on 26 December 2018 for public consultation until 24 February 2019. On 15 March 2019, the Foreign Investment Law adopted at the Second Session of the 13th NPC is hereby promulgated, effective as of 1 January 2020.

When being effective, the Foreign Investment Law will replace the Law on Chinese-Foreign Equity Joint Ventures* (中外合資經營企業法), the Law on Chinese-Foreign Contractual Joint Ventures* (中外合作經營企業法) and the Law on Wholly Foreign-Owned Enterprises* (外資企業法) to become the legal foundation for foreign investment in the PRC.

According to the Foreign Investment Law, foreign investment refers to any investment activity directly or indirectly carried out by foreign natural persons, enterprises or other organisations (hereinafter "Foreign Investors"), including the following circumstances: (i) a Foreign Investor establishes a foreign-funded enterprise within the territory of China, either alone or together with any other investor; (ii) a Foreign Investor acquires shares, equities, property shares or any other similar rights and interests of an enterprise within the territory of China; (iii) a Foreign Investor invests in any new project within the territory of China, either alone or together with any other investor; and (iv) a Foreign Investor invests in any other way stipulated under laws, administrative regulations or provisions of the State Council of the PRC. The State Council of the PRC adopts the management system of

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pre-establishment national treatment and negative list for foreign investment; if it is otherwise provided under international treaties or agreements governing foreign investment that the PRC concludes or accedes, such provisions shall prevail. For the purpose of the preceding paragraph, the negative list refers to Special Administrative Measures for access of foreign investment in specific fields as stipulated by the State Council of the PRC. The negative list will be released by or upon approval by the State Council of the PRC.

REGULATIONS RELATING TO FOREIGN EXCHANGE

General Administration of Foreign Exchange

Under the PRC Foreign Currency Administration Rules (《中華人民共和國外匯管理條例》) promulgated on 29 January 1996 and last amended on 5 August 2008 and various regulations issued by the SAFE and other relevant PRC government authorities, RMB is convertible into other currencies for the purpose of current account items, such as trade related receipts and payments, payment of interest and dividends. The conversion of RMB into other currencies and remittance of the converted foreign currency outside the PRC for the purpose of capital account items, such as direct equity investments, loans and repatriation of investment, requires the prior approval from the SAFE or its local office. Payments for transactions that take place within the PRC must be made in RMB. Unless otherwise approved, PRC companies may repatriate foreign currency payments received from overseas jurisdictions or retain the same overseas jurisdiction. Foreign-invested enterprises may retain foreign exchange in accounts with designated foreign exchange banks under the current account items subject to a cap set by the SAFE or its local office. Foreign exchange proceeds under the current accounts may be either retained or sold to a financial institution engaging in settlement and sale of foreign exchange pursuant to relevant rules and regulations of the State. For foreign exchange proceeds under the capital accounts, approval from the SAFE is required for its retention or sale to a financial institution engaging in settlement and sale of foreign exchange, except where such approval is not required under the relevant rules and regulations of the PRC.

Pursuant to the Circular of the SAFE on Further Improving and Adjusting Foreign Exchange Administration Policies for Direct Investment (《國家外匯管理局關於進一步改進和調整直接投資外匯管理政策的通知》) (the “**SAFE Circular No. 59**”) promulgated by SAFE on 19 November 2012, became effective on 17 December 2012 and further amended on 4 May 2015, approval is not required for the opening of an account entry in foreign exchange accounts under direct investment, for domestic transfer of the foreign exchange under direct investment. SAFE Circular No. 59 also simplified the capital verification and confirmation formalities for foreign-invested enterprises (“**FIE**”) and the foreign capital and foreign

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exchange registration formalities required for the foreign investors to acquire the equities and foreign exchange registration formalities required for the foreign investors to acquire the equities of Chinese party, and further improve the administration on exchange settlement of foreign exchange capital of FIEs.

On 13 February 2015, SAFE promulgated the Circular on Simplifying and Improving the Foreign Currency Management Policy on Direct Investment (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》) (the “**SAFE Circular No. 13**”) effective from 1 June 2015, which cancels the administrative approvals of foreign exchange registration of direct domestic investment and direct overseas investment. Also, it simplifies the procedure of registration of foreign exchange and investors shall register with banks to have the registration of foreign exchange under the condition of direct domestic investment and direct overseas investment.

The Circular of the SAFE on Reforming the Management Approach regarding the Settlement of Foreign Capital of Foreign-invested Enterprise (《國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知》) (the “**SAFE Circular No. 19**”) was promulgated on 30 March 2015 and became effective on 1 June 2015.

According to the SAFE Circular No. 19, a foreign-invested enterprise may, according to its actual business needs, settle with a bank the portion of the foreign exchange capital in its capital account for which the relevant foreign exchange bureau has confirmed monetary contribution rights and interests (or for which the bank has registered the account-crediting of monetary contribution). For the time being, FIEs are allowed to settle 100% of their foreign exchange capitals on a discretionary basis; a FIE shall use its capital for its own operational purposes within the scope of business; where an ordinary FIE makes domestic equity investment with the amount of foreign exchanges settled, the invested enterprise shall first go through domestic re-investment registration and open a corresponding Account for Foreign Exchange Settlement Pending Payment with the foreign exchange bureau (bank) at the place of registration. The Circular of the SAFE on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts (《國家外匯管理局關於改革和規範資本項目結匯管理政策的通知》) (the “**SAFE Circular No. 16**”) was promulgated and became effective on 9 June 2016. According to the SAFE Circular No. 16, enterprises registered in the PRC may also convert their foreign debts from foreign currency into RMB on self-discretionary basis. The SAFE Circular No. 16 provides an integrated standard for conversion of foreign exchange under capital account items (including but not limited to foreign currency capital and foreign debts) on self-discretionary basis, which applies to all enterprises registered in the PRC. The SAFE Circular No. 16 reiterates the principle that RMB converted from foreign currency-denominated capital of a company may not be directly or indirectly used for purposes beyond its business scope and may not be used for investments in securities or other investment with the exception of bank financial products that can guarantee the principal within the PRC unless otherwise specifically provided. Besides, the converted RMB shall not be used to make loans for related enterprises unless it is within the business scope or to build or to purchase any real estate that is not for the enterprise own use with the exception for the real estate enterprise.

Offshore Investment

On 21 October 2005, SAFE promulgated the Circular Concerning Relevant Issues on the Foreign Exchange Administration of Raising Funds through Overseas Special Purpose Vehicle and Investing Back in China by Domestic Residents (《關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》), which became effective on 1 November 2005 (the “**Circular No. 75**”). The Circular No. 75 requires PRC domestic individual residents to register or file with the local SAFE branch in the following circumstances: (i) before establishing or controlling any company outside the PRC for the purpose of capital financing, (ii) after contributing their assets or shares of a domestic enterprise into overseas special purpose vehicles, or raising funds overseas after such contributions, and (iii) after any major change in the share capital of the special purpose vehicle without any round-trip investment being made. On 14 July 2014, SAFE promulgated the Circular Concerning Relevant Issues on the Foreign Exchange Administration of Offshore Investing and Financing and Round-Trip Investing by Domestic Residents through Special Purpose Vehicles (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (the “**Circular No. 37**”), for the purpose of simplifying the approval process, and for the promotion of the cross-border investment. The Circular No. 37 replace the Circular No. 75 and revises and regulates the relevant matters involving foreign exchange registration for round-trip investment. Under the Circular No. 37, in the event the change of basic information of the registered offshore special purpose vehicle such as the individual shareholder, name, operation term, etc., or if there is a capital increase, decrease, equity transfer or swap, merge, spin-off or other amendment of the material items, the domestic resident shall complete the change of foreign exchange registration formality for offshore investment. In addition, according to the procedural guideline as attached to the Circular No. 37, the principle of review has been changed to “the domestic individual resident can only register the SPV directly established or controlled by them”. At the same time, the SAFE has issued the Operation Guidance for the Issues Concerning Foreign Exchange Administration over Round-trip Investment (《返程投資外匯管理所涉業務操作指引》) with respect to the procedures for SAFE registration under the Circular No. 37, which became effective on 4 July 2014 as an attachment of Circular No. 37.

Under the relevant rules, failure to comply with the registration procedures set forth in the Circular No. 37 may result in restrictions being imposed on the foreign exchange activities of the relevant onshore company, including the payment of dividends and other distributions to its offshore parent or affiliate, and may also subject relevant PRC residents to penalties under PRC foreign exchange administration regulations. PRC residents who control the company from time to time are required to register with the SAFE in connection with their investments in the company.

The Administrative Measures for the Outbound Investment by Enterprises (《企業境外投資管理辦法》) (the “**Outbound Investment Measures**”), adopted upon deliberation at the executive meeting of the director of the NDRC, was promulgated on 26 December 2017, and effected on 1 March 2018, to strengthen the macro guidance to outbound investment, optimise comprehensive services for outbound investment, improve regulation over the entire process of outbound investment, promote and sustain the sound development of outbound investment, and safeguard national interests and national security of China, these Outbound Investment Measures are enacted according to the Administrative Licensing Law of the

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People's Republic of China (《中華人民共和國行政許可法》), the Decision of the State Council on Investment System Reform (《國務院關於投資體制改革的決定》), the Decision of the State Council on Setting Administrative Licensing for Administrative Examination and Approval Items Requiring Preservation (《國務院對確需保留的行政審批項目設定行政許可的決定》) and other laws and regulations. "Outbound investment" refers to the investment activities to obtain overseas ownership, right of control, business management right, and other related rights and interests by an enterprise located within the territory of the PRC (hereinafter referred to as the "Investor"), either directly or via an overseas enterprise under its control, by way of investments with assets or equities or proving financing or guarantees. To make an outbound investment, the Investor shall go through formalities such as obtaining the relevant approval filing of the outbound investment project (hereinafter referred to as the "Project"), reporting the relevant information, and the cooperating with NDRC in the supervision and inspection over the outbound investment. Projects subject to approval are sensitive projects to be carried out by investors either directly or through overseas enterprises controlled thereby. The approval authority is NDRC. The sensitive projects referred to in these Measures include: (i) projects involving sensitive countries and regions; and (ii) projects involving sensitive industries. The sensitive countries and regions referred to in these Measures include: (i) countries and regions that have not yet established diplomatic relations with China; (ii) countries and regions where wars and civil strife occur; (iii) countries and regions where investment made by enterprises shall be restricted according to the international treaties and protocols concluded or acceded by China; and (iv) other sensitive countries and regions. The sensitive industries referred to in these Measures include: (i) research, production, maintenance and repair of weapons and equipment; (ii) development and utilisation of cross-border water resources; (iii) news media; and (iv) industries for which outbound investments by enterprises shall be restricted according to PRC laws, regulations and related regulatory policies. The category of sensitive industries shall be released by NDRC. Projects subject to filing only are non-sensitive projects directly carried out by investors, namely the non-sensitive projects involving the direct investment of assets and equities or the provision of financing or guarantees. For a project requiring filing, the authority in charge of filing is (i) NDRC, if the investor is a centrally administered enterprise (a centrally administered financial enterprise or an enterprise directly subordinate to the administration by the State Council or its subordinate organ, the same below); (ii) NDRC, if the investor is a local enterprise and the amount of Chinese investment is USD0.3 billion or above; and (iii) the provincial development and reform authority at the place where the investor is registered, if the investor is a local enterprise and the amount of Chinese investment is less than USD0.3 billion.

Regulations on Dividend Distribution

The principal laws and regulations regulating the dividend distribution of dividends by foreign-invested enterprises in the PRC include the Company Law of the PRC (《中華人民共和國公司法》), as amended in 2005, in 2013 and in 2018. The Wholly Foreign-owned Enterprise Law (《中華人民共和國外資企業法》) promulgated in 1986 and last amended in 2016 and its implementation regulations promulgated in 1990 and subsequently amended in 2001 and 2014, the Equity Joint Venture Law of the PRC (《中華人民共和國中外合資經營企業法》) promulgated in 1979 and last amended in 2016 and its implementation regulations promulgated in 1983 and subsequently amended in 2001 and 2014, and the Cooperative Joint Venture Law of the PRC (《中華人民共和國中外合作經營企業法》) promulgated in 1988 and last

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amended in 2016, and its implementation regulations promulgated in 1995 and amended in 2014. Under the current regulatory regime in the PRC, FIEs in the PRC may pay dividends only out of their accumulated profit, if any, determined in accordance with PRC accounting standards and regulations. Unless otherwise provided by the provisions of laws regarding foreign investment, a PRC company is required to set aside as general reserves (法定公積金) at least 10% of its after-tax profit, until the cumulative amount of such reserves reaches 50% of its registered capital. A PRC company shall not distribute any profits until any losses from prior fiscal years have been offset. Profits retained from prior fiscal years may be distributed together with distributable profits from the current fiscal year.

REGULATIONS RELATING TO TAX

Enterprise Income tax

On 16 March 2007, the National People's Congress promulgated The Law of the PRC on Enterprise Income Tax (《中華人民共和國企業所得稅法》) and amended on 29 December 2018. On 6 December 2007, the State Council of the PRC enacted The Regulations for the Implementation of the Law on Enterprise Income Tax (《中華人民共和國企業所得稅法實施條例》) (collectively, the "EIT Law"). The EIT Law came into effect on 1 January 2008. According to the EIT Law, taxpayers consist of resident enterprises and non-resident enterprises. Resident enterprises are defined as enterprises that are established in China in accordance with PRC laws, or that are established in accordance with the laws of foreign countries but whose actual or de facto control is administered from within the PRC. Non-resident enterprises are defined as enterprises that are set up in accordance with the laws of foreign countries and whose actual administration is conducted outside the PRC, but have established institutions or premises in the PRC, or have no such established institutions or premises but have income generated from inside the PRC. Under the EIT Law and relevant implementing regulations, a uniform enterprise income tax rate of 25% is applicable. However, if non-resident enterprises have not formed permanent establishments or premises in the PRC, or if they have formed permanent establishment institutions or premises in the PRC but there is no actual relationship between the relevant income derived in the PRC and the established institutions or premises set up by them, enterprise income tax is set at the rate of 10% for their income sourced from inside the PRC.

The Circular on Taxation Policies for Further Encouraging the Development of the Software and Integrated Circuit Industries (《關於進一步鼓勵軟件產業和集成電路產業發展企業所得稅政策的通知》), which was promulgated by the Ministry of Finance and the State Administration of Taxation on 1 January 2011 and amended on 4 May 2016, provides that newly established integrated circuit design enterprises and eligible software enterprises, upon certification, shall be exempted from the enterprise income tax for the first two years of the preferential period, and shall be levied thereon at half of the statutory rate of 25% for the next three years until the expiration of the preferential period. The preferential period starts from the first profitable year before 31 December 2017.

Value-added tax and business tax

The Provisional Regulations of the PRC on Value-added Tax (《中華人民共和國增值稅暫行條例》) were promulgated by the State Council of the PRC on 13 December 1993 and came into effect on 1 January 1994 which were subsequently amended on 10 November 2008 and

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came into effect on 1 January 2009 and further amended on 6 February 2016 and 19 November 2017. The Detailed Rules for the Implementation of the Provisional Regulations of the PRC on Value-added Tax (Revised in 2011) (《中華人民共和國增值稅暫行條例實施細則》(2011年修訂)) were promulgated by the Ministry of Finance and State Administration of Taxation on 15 December 2008 which were subsequently amended on 28 October 2011 and came into effect on 1 November 2011 (collectively, the “**VAT Law**”). According to the VAT Law, all enterprises and individuals engaged in the sale of goods, the provision of processing, repair and replacement services, and the importation of goods within the territory of the PRC must pay value-added tax (the “**VAT**”). For general VAT taxpayers selling or importing goods other than those specifically listed in the VAT Law, the VAT rate is 17%.

Pursuant to The Provisional Regulations of the PRC on Business Tax (《中華人民共和國營業稅暫行條例》), effected on 1 January 1994, subsequently amended on 19 February 1997 and 10 November 2008 and abolished on 19 November 2017, and its implementation rules, all institutions and individuals providing taxable services, transferring intangible assets or selling real estate within the PRC must pay business tax. The scope of services which constitute taxable services and the rates of business tax are prescribed in the List of Items and Rates of Business Tax (《營業稅稅目稅率表》) attached to the said regulation. On 1 January 2012, the State Council of the PRC officially launched a pilot VAT reform program (the “**Pilot Program**”), applicable to businesses in selected industries. Businesses in the Pilot Program would pay VAT instead of business tax. The Pilot Program initially applied only to transportation industry and “modern service industries” (the “**Pilot Industries**”) in Shanghai, PRC. The research and development and technical services, information technology services included in the Pilot Industries are subject to the VAT tax rate of 6%. Subsequently, the Pilot Program has been expanded to ten additional regions, including, among others, Beijing and Guangdong Province of the PRC, and nationwide to the designated pilot industry. The Trial Implementing Measures of the Conversion of Business Tax to Value-added Tax (《營業稅改徵增值稅試點實施辦法》), which was promulgated on 24 March 2016 and became effective on 1 May 2016, set out that it collected VAT in lieu of business tax in all regions and industries.

Dividend withholding tax

The EIT Law provides that since 1 January 2008, an income tax rate of 10% will normally be applicable to dividends declared to non-PRC resident investors which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends are derived from sources within the PRC.

Pursuant to an Arrangement Between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Incomes (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) (the “**Double Tax Avoidance Arrangement**”), and other applicable PRC laws, if a Hong Kong resident enterprise is determined by the competent PRC tax authority to have satisfied the relevant conditions and requirements under such Double Tax Avoidance Arrangement and other applicable laws, the 10% withholding tax on the dividends the Hong Kong resident enterprise receives from a PRC resident enterprise may be reduced to 5%. However, based on the Circular on Certain Issues with Respect to the Enforcement of

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Dividend Provisions in Tax Treaties (《關於執行稅收協定股息條款有關問題的通知》) (the “**SAT Circular 81**”) issued on 20 February 2009 by the State Administration of Taxation (the “**SAT**”), if the relevant PRC tax authorities determine, in their discretion, that a company benefits from such reduced income tax rate due to a structure or arrangement that is primarily tax-driven, such PRC tax authorities may adjust the preferential tax treatment. Furthermore based on the Circular on How to Interpret and Recognise the “Beneficial Owner” in Tax Treaties (《關於如何理解和認定稅收協定中「收益所有人」的通知》), issued on 27 October 2009 by the SAT, conduit companies, which are established for the purpose of evading or reducing tax, or transferring or accumulating profits, shall not be recognised as beneficial owners and thus are not entitled to the above-mentioned reduced income tax rate of 5% under the Double Tax Avoidance Arrangement.

REGULATIONS RELATING TO EMPLOYMENT AND SOCIAL WARFARE

The Labour Contract Law

The Labour Contract Law of the PRC (《中華人民共和國勞動合同法》) (the “**Labour Contract Law**”), which was implemented on 1 January 2008 and amended on 28 December 2012, is primarily aimed at regulating employee/employer rights and obligations, including matters with respect to the establishment, performance and termination of labour contracts. Pursuant to the Labour Contract Law, labour contracts shall be concluded in writing if labour relationships are to be or have been established between enterprises or institutions and the labour. Enterprises and institutions are forbidden to force labour to work beyond the time limit stipulated in the relevant PRC laws and regulators and employers shall pay labour for overtime work in accordance with national regulations. In addition, labour wages shall not be lower than local Minimum Salary Threshold and shall be paid to labour timely. The Minimum Salary Threshold is decided by provincial government and shall be updated annually pursuant to “**Provisions on Minimum Salary Threshold**” (《最低工資規定》) promulgated by Ministry of Labour and Social Security of the PRC on 30 December 2003 and became effective on 1 March 2004. In addition, according to the Labour Contract Law: (i) in the case where the employer fails to enter into a written labour contract with the employee during the period between one month after and up to a year from the date of employment, the employer shall pay to the employee twice the amount of the wages payable to him/her during the said period; (ii) if the employer still fails to enter into a written employment contract with the employee after one year from the date of employment, it will be deemed to have entered into a labour contract with the employee without a fixed term; (iii) employees who fulfill certain criteria, including having worked for the same employer for ten years or more, may demand that the employer execute a labour contract with them for an unfixed term; (iv) employees must adhere to regulations in the labour contracts concerning commercial confidentiality and non-competition; (v) the maximum amount of compensation an employer may seek for an employee’s breach of the provisions concerning the term of services stated in the labour contract shall not exceed the cost of training it has provided to its employee; (vi) employees may terminate their employment contracts with their employers if their employers fail to make social insurance contributions in accordance with the PRC law; if an employer pays for an employee’s professional training, the labour contract may specify a term of service. When the employee breach term of service, the amount of compensation shall not exceed the cost of the training it has provided to its employees; (vii) employers who demand money or property from employees as guarantee or

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otherwise may be subject to a fine of more than RMB500 but less than RMB2,000 per employee; and (viii) employers who intentionally deprive employees of any part of their salary and failed to pay the salary deprived back to the employee within a period as determined by the labour administration authorities must, in addition to their full salary, pay such employees a compensation ranging from 50% to 100% of the amount of salary so deprived.

According to the Labour Law of the PRC (《中華人民共和國勞動法》) promulgated on 5 July 1994, effected on 1 January 1995 and amended on 29 December 2018, enterprises and institutions shall establish and improve their system of workplace safety and sanitation, strictly abide by state rules and standards on workplace safety, educate labourers in labour safety and sanitation in the PRC. Labour safety and sanitation facilities shall comply with standards determined by the PRC government. Enterprises and institutions shall provide labour with a safe workplace and sanitation conditions which are in compliance with state stipulations and the relevant articles of labour protection.

Social Insurance and Housing Fund

As required under The Regulation of Insurance for Labour Injury (《工傷保險條例》) implemented on 1 January 2004 and amended in 2010, The Provisional Measures for Maternity Insurance of Employees of Corporations (《企業職工生育保險試行辦法》) implemented on 1 January 1995, The Decisions on the Establishment of a Unified Program for Old-Aged Pension Insurance of the State Council (《國務院關於建立統一的企業職工養老保險制度的決定》) issued on 1 July 1997, The Decisions on the Establishment of the Medical Insurance Program for Urban Workers of the State Council (《國務院關於建立城鎮職工基本醫療保險制度的決定》) promulgated on 14 December 1998, The Unemployment Insurance Measures (《失業保險條例》) promulgated on 22 January 1999 and The Social Insurance Law of the PRC (《中華人民共和國社會保險法》) implemented on 1 July 2011 and amended in 2018, enterprises are obliged to provide their employees in the PRC with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, labour injury insurance and medical insurance. These payments should be made by the employers to local administrative authorities and any employer that fails to contribute may be fined and ordered to make up within a prescribed time limit.

In accordance with The Regulations on the Management of Housing Funds (《住房公積金管理條例》) which was promulgated by the State in 1999 and amended in 2002, enterprises must register at the competent managing center for housing funds and upon the examination by such managing center of housing funds, complete procedures for opening an account at the relevant bank for the deposit of employees' housing funds. Enterprises are also required to pay and deposit housing funds on behalf of their employees in full and on time.

M&A RULES AND OVERSEAS LISTING

On 8 August 2006, six PRC governmental and regulatory agencies, including MOFCOM and the China Securities Regulatory Commission (the “CSRC”), promulgated the Rules on Acquisition of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》) (the “M&A Rules”), a regulation with respect to the mergers and acquisitions of domestic enterprises by foreign investors that became effective on 8 September 2006 and

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revised on 22 June 2009. Foreign investors should comply with the M&A Rules when they either (i) purchase equity interests of a domestic company or subscribe the increased capital of a domestic company, and thus changing the nature of the domestic company into a FIE; (ii) purchase and operate the assets of a domestic company through a FIE established in the PRC; or (iii) establish a FIE in the PRC by injecting the operating assets purchased from a domestic company. The M&A Rules, among other things, require that an offshore special vehicle, or a special purpose vehicle, formed for listing purposes and controlled directly or indirectly by PRC companies or individuals, to obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle's securities on an overseas stock exchange.

JAPAN REGULATORY OVERVIEW

GENERAL OVERVIEW OF THE JAPANESE LEGAL SYSTEM

Primary Features

The Japanese legal system has the following significant features:

- The Japanese legal system is a hybrid civil law system with characteristics of both civil law systems, such as the French and German civil legal systems, as well as common law systems, such as the United States legal system.
- Under Japanese law, any act shall not be subject to criminal prosecution unless such act is explicitly and clearly described as a crime under a strict contextual interpretation of the applicable statutory provisions.
- Court rulings, although they have a de facto binding effect on inferior courts, do not modify existing law or create new law. Laws can only be adopted or modified through the legislative process.
- Court rulings, similar to court rulings in other civil and common law systems elsewhere, may be overturned by laws and regulations and/or amendments to existing laws and regulations enacted or adopted by legislative or executive authorities.
- The highest court in Japan is the Supreme Court.

Historical Background

The early modernisation of the Japanese legal system in the mid-19th century to early-20th century was primarily influenced by the German and French codes, which are civil law codes that served as models for the major Japanese codes such as the Civil Code.

After the Second World War, some laws in Japan such as the Constitution of Japan (the “**Constitution**”), criminal procedure laws, and labour laws were amended or replaced by adopting principles from United States law, which is based on the common law. Therefore,

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the Japanese legal system is a hybrid of the civil law system and the common law system, and has evolved substantially and independently in accordance with the Japanese legal culture.

The distinction between common law and civil law mainly lies in the precedential value of case law. In a common law legal system, judicial decisions of superior courts have precedential value in later court decisions and form part of the common law, along with laws and regulations enacted or adopted by the legislative and executive branches of government. As a result, judges in a common law system have a substantial role in shaping the law.

In contrast, a civil law system tends to be a codified body of broad and general principles. The judge's role is to establish the facts of the case and to apply the provisions of the applicable code. Judicial decisions are consequently less crucial in the development of the law.

Generally, the Japanese legal system operates to proscribe unacceptable conduct, rather than prescribe particular types of permissible conduct. In other words, under Japanese law, all conducts are generally allowed unless it is stated as prohibited under the law.

Constitution

Japan's current legal system was established by the Constitution, promulgated on 3 November 1946 after the Second World War. The Constitution provides for the separation of the legislative, judicial and executive powers.

The Constitution establishes a parliamentary system of government, where the legislative authority is vested in a bicameral National Diet (the “**Diet**”); the executive authority is exercised by the Prime Minister and the cabinet who are answerable to the legislature; and the judiciary is headed by the Supreme Court of Japan.

Source of Law and Legislative Process

The sources of Japanese law include the Constitution, Treaties and International Agreements, Acts, Cabinet Orders, Ministry Ordinances and Ministry Notifications.

Under Article 98 of the Constitution, the Constitution is the supreme law of the nation and no law, ordinance, imperial rescript or other act of government, or part thereof, contrary to the provisions hereof, shall have legal force or validity.

Under Article 41 of the Constitution, the Diet is the highest organ of state power and the sole law-making body. The Diet is made up of two houses, the House of Representatives (Shugi-in,衆議院) and the House of Councillors (Sangi-in,参議院). Under the Japanese legislative process, most draft bills come from the executive and are then submitted to the Diet through the Cabinet.

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To become law, a bill must pass both houses of the Diet. Japanese law comprises written laws that fit into a certain hierarchy, headed by the Constitution. Statutes are often sorted, by subject matter, into substantive and procedural laws. The Cabinet and each Ministry may make subordinate regulations such as Cabinet Orders, Ministry Ordinances and Ministry Notifications based upon delegation from the Diet.

Judiciary

Under the Constitution, the Supreme Court is the highest court in the nation exercising appellate jurisdiction. The high courts are appellate courts primarily hearing appeals from district courts or family courts. The district courts are primarily courts of general and first-instance jurisdiction handling all cases. The summary courts have original jurisdiction over civil cases involving claims not exceeding JPY1,400,000 and minor criminal offences.

The Supreme Court is only able to overturn its own interpretation of a law through the full Supreme Court (which consists of all the judges of the Supreme Court). If a lower court's judgment does not follow the judgment rendered by the Supreme Court, the decision may be appealed. Therefore, although Japan does not, strictly speaking, adopt the common law system, as is the case in Hong Kong, the Supreme Court's judgments have a de facto binding effect on any court in subsequent cases.

Choice of Law

The rules for choice of law, which will be taken by Japanese courts as international private law, is mainly governed by the Act on General Rules for Application of Laws (Act No.78 of 21 June 2006, as amended).

The formation and effect of a juridical act, including but not limited to legally binding contracts, shall be governed by the law of the place chosen by the parties. In the absence of such choice, the formation and effect of a juridical act shall be governed by the law of the place at which it is most closely connected at the time of the act. In such case, if only one of the parties to a contract is to provide performance involved in a juridical act, the law of the habitual residence of the party providing such performance shall be presumed to be the law of the place at which the act is most closely connected. In cases where the party has a place of business connected with the juridical act, the law of the place of business will be applied. In cases where the party has two or more such places of business which are connected with the juridical act and which are governed by different laws, the law of the principal place of business will be applied. The parties may change the governing law otherwise applicable to the formation and effect of a juridical act; provided, however, that if such change prejudices the rights of a third party, it may not be asserted against the third party.

PENAL CODE AND THE CODE OF CRIMINAL PROCEDURES

Crimes in Japan are mainly enumerated in the Penal Code, which provides the elements of different types of crimes and the penalties for different types of crimes. The Penal Code sets out minimum and maximum sentences for offences. Penalties range from fines and short-term incarceration to compulsory labour and the death penalty.

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Under Article 31 of the Constitution, the requirements for constituting a crime under the Penal Code and any other criminal laws shall be construed strictly in accordance with the specific provisions contained in these laws. Any interpretations that rely upon analogy to other laws, or that look to similar treatment for actions under other laws, are prohibited. Therefore, under Japanese law, an act shall not be punishable unless such act is explicitly and clearly described as a crime under a strict contextual interpretation of the corresponding provisions.

A person shall not be subject to any criminal liability without procedural due process being observed under the Code of Criminal Procedures. Police have to secure warrants to search for or seize evidence. A warrant is also necessary for an arrest, although if the crime is very serious and if the perpetrator is likely to flee, it can be obtained immediately after arrest. Within 48 hours after placing a suspect under detention, the police have to present their case before a prosecutor, who is then required to apprise the accused of the charges and of the right to counsel. Prosecution will be denied if there is insufficient evidence or on the prosecutor's judgment. Most offences are tried first in district courts before one or three judges or six citizen judges with three judges, depending on the severity of the case. Defendants are protected from self-incrimination, forced confession, and unrestricted admission of hearsay evidence. In addition, defendants have the right to counsel, public trial, and cross-examination.

CIVIL CODE

Contract Law

Contracts under Japanese law are formed by the manifestation of intention by way of offer and acceptance. The parties may generally enjoy freedom to agree on the terms and conditions of any contract which will supersede most provisions of the Civil Code (Act No. 89 of 1896, as amended). However, some contracts may be subject to the mandatory requirements under the Consumer Contract Act (Act No. 61 of 12 May 2000, as amended) and other applicable laws and regulations. The formation of contracts does not require documentation unless otherwise required under special laws and regulations. Contrary to common law jurisdictions, consideration is not necessary for a contract to be enforceable. Also, there are no rules directly equivalent to the parol evidence rule in interpreting the terms and conditions of the contract.

Torts

Under the Civil Code, a person who has intentionally or negligently infringed on any right of another, or a legally protected interest of another, shall be liable to compensate the other party for consequential damages. An employer is liable for damages inflicted on a third party by the actions of its employees in the execution of the employer's business; provided, however, that this shall not apply if the employer exercised reasonable care in appointing the employee and in supervising the employee's activities, or if the damages could not have been avoided even if he/she had exercised reasonable care. If more than one person has inflicted damages on another party or parties by their joint tortious acts, each of them shall be jointly and severally liable to compensate the other party or parties for those damages. The same shall apply if it cannot be ascertained which of the joint tortfeasors inflicted the damages.

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Property

Property rights are based upon the concept of ownership (title) under Japanese law. The owner of the property generally enjoys an absolute right to possess, utilise and dispose of the property, unless otherwise restricted under the mandatorily applicable laws or specifically agreed through a contract. Therefore, there is no concept of negative or affirmative covenants under Japanese law and the same purpose is achieved by mandatory laws in Japan (such as zoning, building or environmental laws and regulations) or by specific contractual arrangements.

Under the Civil Code, no type of property can be established other than those prescribed by laws including the Civil Code. The creation and transfer of property rights shall take effect solely by the manifestations of intention of the relevant parties. Any deed or written agreement is generally not required for the transfer of property (including land ownership) to be valid and enforceable under Japanese law and oral agreement is generally sufficient. However, the acquisition, loss of or any change in property rights concerning immovable property may not be asserted against a third party unless the same are registered pursuant to the applicable provisions of the Real Property Registration Act (Act No. 123 of 2004, as amended) and other applicable laws and regulations regarding land registration.

THE LABOUR LAWS

There are various labour-related laws enacted in Japan, including the Labour Standards Act (Act No. 49 of 7 April 1947, as amended), the Industrial Safety and Health Act (Act No. 57 of 1972, as amended), and the Labour Contract Act (Act No. 128 of 5 December 2007, as amended). The Labour Standards Act regulates, among others, minimum standards for working conditions such as working hours, leave period and leave days. The Industrial Safety and Health Act requires, among others, the implementation of measures to secure employee safety and protect the health of workers in the workplace. The Labour Contract Act regulates, among others, the change of terms of employment contracts and working rules, dismissal and disciplinary action.

THE INTELLECTUAL PROPERTY LAWS

The intellectual property laws enacted in Japan include the Patent Act (Act No. 121 of 1959, as amended), the Utility Model Act (Act No. 123 of 1959, as amended), the Design Act (Act No. 125 of 1959, as amended), the Copyright Act (Act No. 48 of 1970, as amended) and the Trademark Act (Act No. 127 of 1959, as amended). Patent, utility model, design and trademark rights become effective upon registration thereof. Copyright becomes effective upon creation without any registration or other procedures. A holder of registered patent, utility model, design or trademark right or an exclusive licensee thereof or a holder of copyright may demand a person who infringes or is likely to infringe its right or exclusive license to stop or prevent such infringement.

REGULATORY OVERVIEW

THE ACT ON THE PROTECTION OF PERSONAL INFORMATION

The Act on the Protection of Personal Information (Act No. 57 of 2003, as amended) requires that a Japanese business operator handling personal information must limit the use of personal information to the stated purpose and to properly manage the personal information in their possession, and forbids it from providing personal information to third parties without the consent of the data subject.

THE FOREIGN EXCHANGE AND FOREIGN TRADE ACT

The Foreign Exchange and Foreign Trade Act (Act No.228 of 1949, as amended) aims to promote and control foreign exchange and foreign trade activities. When “a resident or a non-resident” has received a payment made from Japan to a foreign state or a payment made from a foreign state to Japan, or when “a resident” has made a payment, etc. to a non-resident in Japan or in a foreign state, the “resident or non-resident”, or the “resident” shall report to the competent minister, pursuant to the provisions of Cabinet Order, the content of the payment, etc., time of making the payment, etc. and other matters specified by Cabinet Order. However, report is not necessary if each payment is not more than JPY30,000,000 or is a payment for imported or exported goods which customs clearance is made in Japan.

INNS AND HOTELS ACT

The Inns and Hotels Act (Act No. 138 of 1948, as amended) aims to improve health and life of public by maintaining proper operation of inns and hotels business. Anyone who intends to operate hotels or inns, etc. as business shall obtain permission from relevant authority. Structure and facilities of such establishments shall comply with, and the inns and hotels business shall be in accordance with sanitation standards set under this Inns and Hotels Act. The operator of inns and hotels shall prepare and keep hotel register, which includes name, address, occupation and other information of guests, and the hotel register shall be provided to the relevant authority upon its request. Violation of any of the provisions under the Inns and Hotels Act may cause governmental authority to issue a governmental order to revoke the permission or suspend business of the operator of inns and hotels. Anyone who operates inns and hotels business without permission will be punished by imprisonment with work for not longer than six months or subject to a fine of not more than JPY30,000. When the representative of a juridical person or an agent, employee or any other worker of a juridical person or an individual has committed a violation with regard to the business of said juridical person or individual, not only the offender shall be punished but the said juridical person or individual shall also be subject to the fine.

FOOD SANITATION ACT

The Food Sanitation Act (Act No. 233 of 1947, as amended) regulates food business, food, food additive, apparatus, and packages etc. to prevent food and drink sanitation risks and requires permission to be obtained from relevant authority prior to engaging in a business which is considered to have material impact on public, such as food service business. Such permission may be granted under certain conditions, such as effective term of not less than five years, etc. Anyone who conducts food service business without such

REGULATORY OVERVIEW

permission will be punished by imprisonment with work for not more than two years or subject to a fine of not more than JPY2,000,000 or both. When a representative of a juridical person, an agent, an employee or any other worker of a juridical person or person, in connection with the business of such juridical person or person, has committed an act in violation of the abovementioned regulation, not only shall the offender be punished but, in principle, the juridical person shall also be fined for not more than JPY2,000,000.

In order to conduct food service business, facilities for food services shall be in compliance with facility standards set by relevant authority. If the facility for food service does not comply with such standards, the relevant authority may issue a governmental order which obliges the operator to develop and improve the facility, revokes permission, prohibits the operator from conducting or suspends all or part of its business for a certain period. Anyone who violates such facility standard regulation will be punished by imprisonment with work for not more than one year or subject to a fine of not more than JPY1,000,000. When a representative of a juridical person, an agent, an employee or any other worker of a juridical person or person, in connection with the business of such juridical person or person, has committed an act in violation of the abovementioned regulation, not only shall the offender be punished but, in principle, the juridical person shall also be fined for not more than JPY1,000,000.

The Food Sanitation Act prohibits food service provider to use, cook or store certain food and food additive, such as deteriorated, rotten or immature food etc., for sale, and violation of such regulations may result in revocation of permission, prohibition of conducting all or part of business, or suspension of business for a certain period. Anyone who violates such regulations will be punished by imprisonment with work for not more than three years or a fine of not more than JPY3,000,000. When a representative of a juridical person, an agent, an employee or any other worker of a juridical person or person, in connection with the business of such juridical person or person, has committed an act in violation of the abovementioned regulation, not only shall the offender be punished but, in principle, the juridical person shall also be fined for not more than JPY100 million.

ACT ON CONTROL AND IMPROVEMENT OF AMUSEMENT BUSINESS, ETC.

The Act on Control and Improvement of Amusement Business etc. (Act No. 122 of 1948, as amended) (the “**Amusement Business Act**”) regulates business hour, business area etc. of amusement business etc. The amusement business which is subject to regulations of the Amusement Business Act includes, among others, any business which offers foods and drinks to its customers, such as coffee shops and bars, with illumination intensity of not more than ten lux as measured in accordance with relevant regulation.

Each place of business shall obtain permission from relevant authority in its place of business to conduct amusement business. Anyone who violates such regulation will be punished by imprisonment with work for not more than two years or subject to a fine of not more than JPY2,000,000 or both. When the representative of a juridical person or an agent, employee or any other worker of a juridical person or an individual has committed a violation of abovementioned regulation, with regard to the business of said juridical person or individual, not only the offender shall be punished but also said juridical person or individual shall be sentenced to the fine of not more than JPY2,000,000.

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FIRE PROTECTION ACT

Under the Fire Protection Act (Act No. 186 of 1948, as amended) inns and hotels, food shops, etc. shall establish and maintain fire protection facilities in accordance with technical requirements under relevant regulation so that such facilities can demonstrate such performance as may be required for fire suppression, evacuation from the building and fire protection. When a relevant authority finds that such fire defence equipment, etc. is not installed or maintained in accordance with technical standards, it may order the person concerned with the property to install such equipment in accordance with the technical standards for the equipment or take the necessary measures for the maintenance thereof. A person who failed to install fire defence equipment, etc. shall be punished by imprisonment with work for not more than one year or subject to a fine of not more than JPY1,000,000 or both; and a person who failed to take any necessary measures for the maintenance of fire defence equipment, etc. shall be fined for not more than JPY300,000 or subject to misdemeanour imprisonment without work. When the representative of a juridical person, or an agent, employee or any other worker of a juridical person or individual, in connection with the business of the juridical person or individual, has violated the provision of failure to install fire defence equipment, etc., not only the offender shall be punished but the juridical person shall also be subject to a fine of not more than JPY30 million and the individual shall be subject to a fine of not more than JPY1,000,000. When the representative of a juridical person, or an agent, employee or any other worker of a juridical person or individual, in connection with the business of the juridical person or individual, has violated the provision of failure to maintain fire defence equipment, etc., not only the offender shall be punished but the juridical person shall also be fined for not more than JPY300,000.

The Fire Protection Act also stipulates that inspection results of the fire protection facilities of inns and hotels, food shops, etc. shall be reported on regular-basis. A person who failed to report such results shall be fined for not more than JPY300,000 or subject to misdemeanour imprisonment without work. When the representative of a juridical person, or an agent, employee or any other worker of a juridical person or individual, in connection with the business of the juridical person or individual, has violated the provision of failure to report such results, not only the offender shall be punished but the juridical person shall also be punished by a fine of not more than JPY300,000.

BUILDING STANDARDS ACT

The Building Standards Act (Act No. 201 of 1950, as amended) stipulates minimum standards for lands, structures, facilities and use of buildings. Buildings shall be built and maintained in accordance with the standards under the Building Standards Act. Schools, hospitals, department stores, dance halls, factories, inns etc. and any other buildings for similar use with certain floor size is subject to regular inspection by an architect etc. every year or every three years. A person who failed to report or reported false report shall be subject to a fine of not more than JPY1 million. When the representative of a juridical person, or an agent, employee or any other worker of a juridical person or individual, in connection with the business of the juridical person or individual, has violated the provision of failure to report such results, not only the offender shall be punished but the juridical person shall also be fined for not more than JPY1,000,000.

REGULATORY OVERVIEW

ACT ON MAINTENANCE OF SANITATION IN BUILDINGS

The Act on Maintenance of Sanitation in Buildings (Act No. 20 of 1970, as amended) stipulates rules for maintenance of sanitation in buildings used for certain purpose, such as department store, offices shops, etc., and by certain amount of people. The owner of the building or, if applicable, any other person with title with respect to management of the entire building, shall report the use, total floor area and brief overview of the structure of the building, etc., to the relevant authority within a month from the first day of occupying the building. A person who failed to report or reported false report shall be fined for not more than JPY300,000. When the representative of a juridical person, or an agent, employee or any other worker of a juridical person or individual, in connection with the business of the juridical person or individual, has violated the said provision, not only the offender shall be punished but the juridical person shall also be punished by a fine of not more than JPY300,000.

TRAVEL AGENCY ACT

The Travel Agency Act (Act No. 239 of 1952, as amended) requires the person who intends to operate travel agency business to be registered at relevant governmental authority. Travel agency defined in the Travel Agency Act includes, among others, provision of services, such as preparation of tour plan (including, but not limited to, destination and schedule of the tour, means of transportation or accommodation service which traveller(s) may enjoy, and information relating to consideration for the services) which prepared preliminarily or upon request by a traveller, and entering into contract with transportation and accommodation service provider on its own account so as to ensure that the transportation and accommodation service described in the tour plan be provided to the traveller(s). Anyone who conducts travel agency without permission will be punished by imprisonment with work for not more than one year or subject to a fine of not more than JPY1,000,000 or both. When the representative of a juridical person, or an agent, employee or any other worker of a juridical person or individual, in connection with the business of the juridical person or individual, has violated the said provision, not only the offender shall be punished but the juridical person shall also be fined for not more than JPY1,000,000.

In order to protect travellers who enter into transactions with travel agency, travel agency shall deposit certain amount of money as guarantee. Travel agency shall not commence its business until the deposit is made, and reported to the relevant authority. Anyone who violates such regulation will be subject to a fine of not more than JPY1,000,000. When the representative of a juridical person, or an agent, employee or any other worker of a juridical person or individual, in connection with the business of the juridical person or individual, has violated the said provision, not only the offender shall be punished but the juridical person shall also be fined for not more than JPY1,000,000.

(i) Upon entering into contract in relation to travel service with travellers, travel agency shall check the details of the travel service requested by the travellers, and explain terms and conditions of the travel service to the travellers in accordance with the relevant regulations. (ii) Also, upon entering into contract in relation to travel service with travellers, travel agency shall promptly provide to the travellers in writing details of the service to be provided and other information. Violation of (i) or (ii) may cause governmental authority to

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issue a governmental order which orders travel agency to take necessary measures to rectify or improve its business conduct. Anyone who violates such order will be subject to a fine of not more than JPY300,000. When the representative of a juridical person, or an agent, employee or any other worker of a juridical person or individual, in connection with the business of the juridical person or individual, has violated the said provision, not only the offender shall be punished but the juridical person shall also be fined for not more than JPY300,000.

There is no foreign ownership and/or control restrictions for conducting a travel agency business in Japan.

CORPORATION TAX ACT

The Corporation Tax Act (Act No.34 of 1965, as amended) stipulates taxpayers, scope of taxable income etc., calculation method of tax amount, tax filing, and payment and refund of tax with respect to corporation tax. In case where a taxpayer fails to pay the applicable tax amount by the due date, the taxpayer will be subject to delay penalty tax which is generally calculated according to the number of days from a day after such due date to the payment date.

CONSUMPTION TAX ACT

The Consumption Tax Act (Act No. 108 of 1988, as amended) stipulates taxpayers, calculation method of tax amount, tax filing, and payment and other matters with respect to consumption tax. In general, consumption tax shall be imposed on assignment of asset, etc. by business operator; provided, however, that consumption tax shall be waived when non-resident consumers purchase specific goods from duty-free shop of those business operators. Duty-free shops must have permission of District Director of the relevant tax office.

HONG KONG REGULATORY OVERVIEW

TRAVEL AGENTS REGISTRY

The Travel Agents Registry (“**TAR**”) was established in December 1985. It is responsible for the administration of the Travel Agents Ordinance (Chapter 218 of the Laws of Hong Kong) (“**TAO**”). The TAR aims to raise the standard of the trade through regulation of travel agents. The TAR strives to protect the interest of outbound travelers and inbound visitors and enhance the reputation of Hong Kong as a tourist-friendly city.

TRAVEL AGENTS ORDINANCE

The TAO provides the legislative framework, among others, for the control and regulation of travel agents and for the licensing of travel agents.

Under the TAO, any person carrying on a business as an inbound travel agent or an outbound travel agent in Hong Kong must obtain a license from the TAR and carry on business in accordance with the conditions imposed on the license.

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TAO prohibits any person to carry on business as a travel agent without a license at a place other than the specified in that license or otherwise than in accordance with the conditions of that license, which includes membership of Travel Industry Council of Hong Kong (“**TIC Hong Kong**”).

The TAR may grant a license and may impose such conditions as it thinks are necessary to protect the interests of persons who have recourse to travel services offered by a travel agent.

Section 12(1)(b) provides that the TAR may refuse to grant a license to a body corporate applicant if it is of the opinion that:

- (i) the applicant is not a “fit and proper” person to carry on business as a travel agent;
- (ii) any person who controls the applicant or any of its directors, secretary or officers in Hong Kong is not a “fit and proper” person to be associated with the business of a travel agent;
- (iii) any director or secretary or officer thereof in Hong Kong, is not a fit and proper person to be associated with the business of a travel agent; or
- (iv) the premises to which the application relates or the situation thereof are not suitable for the carrying on of travel agent.

Under the TAO, in determining whether a person is fit and proper, the TAR shall have regard to, under section 12(2) whether that person:

- (a) has been convicted of an offence involving fraudulent, corrupt or dishonest acts whether in Hong Kong or elsewhere;
- (b) has been convicted of an offence against any provision of the TAO;
- (c) if that person is an undischarged bankrupt, has entered into a composition or scheme of arrangement with his creditors or has made an assignment of his estate for the benefit of his creditors;
- (d) in the case of a body corporate, is in liquidation or the subject of a winding up order, a receiver or manager of its property has been appointed, has entered into a composition or scheme of arrangement with its creditors or has made an assignment of its estate for the benefit of its creditors; or
- (e) is otherwise not a fit and proper person.

A license for travel agency is valid for a period of twelve month or a lesser period, subject to payment of the prescribed license fee and continuous compliance with the requirements under the TAO.

REGULATORY OVERVIEW

TRAVEL INDUSTRY COUNCIL OF HONG KONG

Under sections 9 and 11 of the TAO, any person carrying on business as a travel agent is required to obtain a license from the TAR. During the period that the license is in force, a travel agent must be and remain a member of an approved organisation. TIC Hong Kong is an approved organisation under the TAO.

Established in 1978, TIC Hong Kong is an organisation for and fully representative of member travel agents and tour operators in Hong Kong. According to article 3 of the articles of association of TIC Hong Kong, there are three classes of members, namely association member, ordinary member and affiliate member.

To apply for ordinary membership of TIC Hong Kong, the applicant shall meet at least the following criteria:

- (a) it is a limited company incorporated or registered in Hong Kong;
- (b) its only business is travel-related and tourism;
- (c) it is a member of one of the association members of TIC Hong Kong;
- (d) it has a minimum paid-up capital of HK\$500,000, plus an additional HK\$250,000 for each branch office from which it conducts its travel-related and tourism business;
- (e) it conducts its travel-related and tourism business within separate and independent commercial premises/buildings; and
- (f) it employs at each premises at least one manager who has a minimum of two consecutive years' relevant practical experience within the recent five years and another full-time staff member.

As shown in criteria (c) above, an ordinary member of TIC Hong Kong must be a member of one of eight association members of TIC Hong Kong. Each TIC Hong Kong's association member has unique characteristics and caters for the specific needs of different markets and travel agents.

A TIC Hong Kong membership is valid from 1 July to 30 June of the following year. TIC Hong Kong members must pay their annual subscription and renew their membership one month before its expiry.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

OUR HISTORY

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 27 February 2018 in preparation for the Listing and is the holding company of our Group. We are a well-established and active outbound travel products and service provider in the PRC, with a particular focus on Japan bound package tours and related FIT Products.

Envisaging on increasing market demand for outbound travel products and services due to China's rapid economic growth, our Group was founded in 2008 by Mr. Yu, Mr. Pan and Mr. Xu, with an aim to provide quality outbound travel-related products and services in the PRC. Prior to 2008, Mr. Yu and Mr. Pan were employed at a travel company for more than ten years, where they had acquired substantial industry knowledge and experience in the travel industry. The main operating subsidiary of our Group is Tuyi Group, which was established in the PRC in April 2008, with the view to capture the potential opportunities in the sales of domestic travel products and services. In 2010, we obtained the relevant licences for operating outbound tours and started to engage in the provision of outbound travel products and services. Leveraging on our extensive experience, we have diversified our product offerings from domestic travel to a wide array of tours and FIT Products for overseas destinations.

KEY MILESTONES

The key milestones in the development of our business are set out below:

Year	Event
2008	Tuyi Group was established in Hangzhou, PRC and we commenced to engage in travel business
2010	We first obtained the Travel Agency Business License (旅行社業務經營許可證) for operating outbound tours from the China National Tourism Administration Bureau (國家旅游局)
2011	We were granted the “Excellent Guest Award (優秀送客獎)” by the Japan National Tourism Organisation (日本國家旅游局) (“JNTO”)
2012	We first started selling our products on third party online platforms, such as Taobao Travel (淘寶旅行) under Tmall (天貓) platform which was later renamed as Fliggy (飛豬旅行) We were granted the “Excellent Quality Award for Japan Travel (赴日旅游優秀品質獎)” by the JNTO
2013	We were awarded “The Famous Brand of Hangzhou City (杭州市著名商標)” by Hangzhou City Administration Bureau for Industry and Commerce (杭州市工商行政管理局) which is valid for a term of five years

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

- 2014
- We sold over 18,000 air tickets of Japan Airlines via Ali Travel (阿里旅行), which was previously known as Taobao Travel (淘寶旅行) under Tmall (天貓) platform which was later renamed as Fliggy (飛豬旅行), on the Singles' Day
- We received the award of “Outstanding Contribution to Tourism Development in Japan (Zhejiang Province) (赴日旅游發展杰出貢獻獎(浙江省))” from the JNTO
- 2015
- We obtained commendation from the Consulate-General of Japan in Shanghai
- We were awarded “The Famous Company of Zhejiang Province (浙江省知名商號)” by the Zhejiang Province Administration Bureau for Industry and Commerce (浙江省工商行政管理局) which is valid for a term of six years
- Tuyi Group Japan was established in Japan, which is our first wholly-owned subsidiary in Japan. The establishment of Tuyi Group Japan allows us to strengthen our market presence in Japan's tourism industry
- We made the strategic decision to acquire the Shizuoka Hotel located in Izu, Japan, which is our first investment in the downstream hospitality industry
- We obtained the qualification for issuing letters of invitations required for Japan visa applications in the PRC
- 2016
- We were granted the awards of “Excellent Supplier of qyer.com (窮遊網優秀供應商)” by qyer.com (窮遊)
- We purchased two plots of land for the construction of the Tokyo Hotel
- 2017
- We were recognised as an “Outstanding Business Partner (優秀合作商)” by the China Southern Airlines and an “Outstanding Travel Agency in 2016 (16年度傑出旅行社)” by Japan Airlines
- We received the “Best Sales Award (2016年度最佳業績獎)” from All Nippon Airways
- 2018
- We received the “Best Sales Award (2017年度最佳業績獎)” from All Nippon Airways and the award of “Outstanding Travel Agency in 2017 (17年度傑出旅行社)” from Japan Airlines
- Tokyo Hotel commenced operation in October 2018
- 2019
- We were granted the awards of “Top 5 Quality Wholesaler (5大品質批發商)” and “Top 5 Quality Wholesaler/Japan (日本線5大品質批發商)” by guojialvye.com (國家旅業)

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

CORPORATE DEVELOPMENT

We set out below the corporate history and shareholding changes of the major operating subsidiaries of our Group.

1. WFOE

WFOE is a wholly-owned subsidiary of our Company and is principally engaged in provision of technical support and consultancy related services. It was established in the PRC on 3 April 2018 as a wholly foreign-owned limited liability company with an initial registered capital of USD5,000,000 to be contributed by TYHK. Since its establishment and up to the Latest Practicable Date, WFOE has been held as to 100% by TYHK.

2. Tuyi Group

Tuyi Group is principally engaged in travel business in the PRC and its provisions of ancillary services, and possesses Travel Agency Business License (旅行社業務經營許可證) with the scope to conduct (i) domestic travel business; (ii) inbound travel business; and (iii) outbound travel business. It was established as a limited liability company in the PRC on 29 April 2008 with an initial registered capital of RMB300,000. Upon its establishment, Tuyi Group was held as to 50%, 25% and 25% by Mr. Yu, Mr. Pan and Mr. Xu, respectively. The following table sets out the changes in registered capital and shareholders of Tuyi Group since its establishment and up to the Latest Practicable Date:

Date	Change	Registered share capital immediately after the change	Shareholding percentage immediately after the change
Upon establishment	–	RMB300,000	(i) Mr. Yu (50%); (ii) Mr. Pan (25%); (iii) Mr. Xu (25%)
January 2010	Increase in registered capital by RMB1,700,000	RMB2,000,000	(i) Mr. Yu (55%); (ii) Mr. Pan (27%); (iii) Mr. Xu (18%)
July 2010	Increase in registered capital by RMB3,000,000	RMB5,000,000	(i) Mr. Yu (55%); (ii) Mr. Pan (27%); (iii) Mr. Xu (18%)
February 2012	Increase in registered capital by RMB20,000,000	RMB25,000,000	(i) Mr. Yu (55%); (ii) Mr. Pan (27%); (iii) Mr. Xu (18%)
August 2014	Increase in registered capital by RMB25,000,000	RMB50,000,000	(i) Mr. Yu (55%); (ii) Mr. Pan (27%); (iii) Mr. Xu (18%)

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Date	Change	Registered share capital immediately after the change	Shareholding percentage immediately after the change
May 2016	Increase in registered capital by RMB4,000,000	RMB54,000,000	(i) Mr. Yu (50.9259%); (ii) Mr. Pan (25%); (iii) Mr. Xu (16.6667%); (iv) Tuyi Management LLP (7.4074%)
May 2016	Increase in registered capital by RMB6,000,000	RMB60,000,000	(i) Mr. Yu (45.83%); (ii) Mr. Pan (22.5%); (iii) Mr. Xu (15%); (iv) Tuyi Management LLP (6.67%); (v) Tongyuan Youke (10%)
March 2018	Transfer of 10% equity interest by Tongyuan Youke to Mr. Yu	RMB60,000,000	(i) Mr. Yu (55.83%); (ii) Mr. Pan (22.5%); (iii) Mr. Xu (15%); (iv) Tuyi Management LLP (6.67%)

In 2016, we had initially considered to list Tuyi Group on the Small and Medium Enterprise Board of the Shenzhen Stock Exchange (“**SME Board**”). In respect of the listing plan on SME Board, only minimal preparation had been conducted such as shares restructuring of certain subsidiaries and restructuring of Tuyi Group from a limited liability company to a joint stock limited company, but no listing application had been submitted to the relevant authority. No sponsor and professional parties had been appointed except for the PRC legal advisers acting on behalf of Tuyi Group which was Zhejiang T&C Law Firm, and auditors. Subsequently, in light of our future business strategies, which include (a) establishing sales network in Hong Kong; (b) identifying and pursuing hospitality asset acquisition opportunities in Kyoto, Japan; and (c) investing in a travel agency company in Tokyo, Japan, our Directors expected that a majority of the listing proceeds obtained from the listing exercise would be used outside of the PRC. Since Renminbi is not a freely convertible currency and overseas investments might be subject to the registration, filings and approval requirements of the relevant PRC governmental authorities, our Directors consider that Hong Kong, which has no foreign exchange controls in force, is a more suitable place for our Company to perform its listing exercise. In addition, our Directors consider that Hong Kong has access to a more diversified investor base and a more liquid market compared to SME Board. As such, in the second half of 2017, we had aborted the initial listing plan of Tuyi Group on SME Board. Our Directors confirmed, and the Sole Sponsor concurred, that there are no other matter in relation to the previous listing plan of Tuyi Group on the SME Board that should be brought to the attention of the investors and regulators, and/or may affect our suitability for listing on the Stock Exchange.

On 21 May 2018, as part of the Reorganisation, Tuyi Group and the Relevant Shareholders entered into the Contractual Arrangements with WFOE. Since then, pursuant to the Contractual Arrangements, WFOE has been deemed to hold 100% equity interest in Tuyi Group and its subsidiaries.

3. Tuyi Investment

Tuyi Investment is an investment holding company. It was established as a limited liability company in the PRC on 2 June 2015 with an initial registered capital of RMB1,000,000. Upon its establishment, Tuyi Investment was held as to 100% by Tuyi Group.

In March 2018, pursuant to the capital injection agreement dated 23 March 2018, Mr. Chao Chi Keong (周志强), a foreign entity and an independent third party, agreed to make capital contribution of RMB20,408 to Tuyi Investment for 2% of the enlarged registered capital of Tuyi Investment. The amount of capital contribution by Mr. Chao Chi Keong was determined based on the registered capital of Tuyi investment after considering the net liability value of Tuyi Investment as appraised by an independent valuer in the PRC. Upon completion of the said capital contribution, Tuyi Investment was owned as to 98% and 2% by Tuyi Group and Mr. Chao Chi Keong, respectively and changed from a domestic enterprise into a sino-foreign joint venture. For further details of the capital contribution by Mr. Chao Chi Keong, please see “History, Reorganisation and Corporate Structure – Pre-IPO Investment”.

As part of the Reorganisation, pursuant to the equity transfer agreement dated 18 April 2018, Tuyi Group transferred 98% equity interest in Tuyi Investment to WFOE at the consideration of RMB1,000,000, which was determined based on its registered capital. Upon completion of the said transfer and up to the Latest Practicable Date, Tuyi Investment was owned as to 98% and 2% by WFOE and Mr. Chao Chi Keong, respectively.

4. Haizhilv Travel

Haizhilv Travel is principally engaged in travel business in the PRC and possesses Travel Agency Business License (旅行社業務經營許可證). Haizhilv Travel is applying for inclusion of outbound travel business to the said license to engage in outbound travel for PRC mainland residents which is expected to complete in second half of 2019. Haizhilv Travel was established as a limited liability company in the PRC on 14 January 2003 with an initial registered capital of RMB600,000. In March 2015, Tuyi Group acquired the entire equity interest in Haizhilv Travel from Ms. Zhao Yanping (趙燕萍), an independent third party, at a consideration of RMB50,000, which was determined based on arm’s length negotiation between the parties. We acquired Haizhilv Travel with a view to develop an additional operating entity with outbound travel qualifications. However, taking into account the time required in application process and the administrative costs in maintaining the company, in June 2015, Tuyi Group decided to dispose the entire equity interest in Haizhilv Travel to Mr. Shi Hongbin (施洪斌), an independent third party, at nil consideration which was determined based on arm’s length negotiation and taking into account our original acquisition cost and the potential cost involved in maintenance or de-registration. To the best knowledge of our Directors, Mr. Shi Hongbin subsequently faced financial difficulty and lacked necessary capital for the development of Haizhilv Travel while at the same time, for the sake of risk diversification purpose and our future business development to have an additional platform for outbound travel qualifications, in January 2016, Tuyi Group again

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

acquired the entire equity interest in Haizhilv Travel back again from Mr. Shi Hongbin at nil consideration which was determined based on arm's length negotiation. Since then and up to the Latest Practicable Date, Haizhilv Travel has been held as to 100% by Tuyi Group.

5. Guge Travel

Guge Travel is principally engaged in travel business in the PRC and possesses Travel Agency Business License (旅行社業務經營許可證). Guge Travel is applying for inclusion of outbound travel business to the said license to engage in outbound travel for PRC mainland residents which is expected to complete in second half of 2019. It was established as a limited liability company in the PRC on 23 April 2010 with an initial registered capital of RMB300,000. In November 2014, Tuyi Group acquired the entire equity interest in Guge Travel from 浙江天海國際旅遊有限公司 (Zhejiang Tianhai International Travel Company Limited*), an independent third party, at a consideration of RMB300,000, which was determined based on its registered capital. Since then, Guge Travel has been held as to 100% by Tuyi Group.

6. Kaida Ticketing

Kaida Ticketing is principally engaged in provision of ticketing services in the PRC. It was established as a limited liability company in the PRC on 18 August 2010 with an initial registered capital of RMB5,000,000. Upon its establishment, Kaida Ticketing was held as to 90% by Mr. Yu and 10% by Mr. Wu Luping (吳路平).

In March 2011, Mr. Yu transferred 90% equity interest in Kaida Ticketing to Tuyi Group at a consideration of RMB4,500,000, which was determined based on its registered capital.

Pursuant to the equity transfer agreement dated 12 March 2018, as part of the Reorganisation, Tuyi Group transferred 90% equity interest in Kaida Ticketing to Tuyi Investment at the consideration of RMB4,500,000, which was determined based on its registered capital. Upon completion of the said transfer and up to the Latest Practicable Date, Tuyi Investment and Mr. Wu Luping owns 90% and 10% of Kaida Ticketing, respectively. Since Mr. Wu Luping is a substantial shareholder of Kaida Ticketing, he is a connected person at subsidiary level of our Company.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

7. Tuyi Group Japan

Tuyi Group Japan is principally engaged in provision of services in relation to travel and travel agency business in Japan. It was incorporated as a limited liability company in Japan on 31 March 2015 with an initial registered capital of JPY5,000,000. Upon its incorporation, Tuyi Group Japan was held as to 100% by Tuyi Group.

Pursuant to the share transfer agreement dated 10 April 2018, as part of the Reorganisation, Tuyi Group transferred the entire equity interest in Tuyi Group Japan to Citizen Holiday at the consideration of JPY5,000,000, which was determined based on its registered capital. Upon completion of the said transfer and up to the Latest Practicable Date, Citizen Holiday owns 100% of Tuyi Group Japan.

8. Tuyi Tourism Development

Tuyi Tourism Development is principally engaged in investment holding business. It was incorporated as a limited liability company in Japan on 7 May 2015 with an initial issued capital of JPY1,000,000. Since its incorporation and up to the Latest Practicable Date, 100% of Tuyi Tourism Development has been held by Tuyi Investment.

9. Shuzenji Takitei

Shuzenji Takitei is principally engaged in hotel management and operation business in Japan. It was incorporated as a limited liability company in Japan on 15 March 2010 with an initial issued capital of JPY100,000. In September 2015, Tuyi Tourism Development acquired the entire equity interest in Shuzenji Takitei from AMMS Hotels K.K., an independent third party, at a consideration of JPY340,000,000, which was determined through arm's length negotiation between the parties with reference to the then operating results and financial position of Shuzenji Takitei. Upon completion of the said transfer and up to the Latest Practicable Date, Tuyi Tourism Development owns 100% of Shuzenji Takitei.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

CEASED SUBSIDIARIES

As part of the Reorganisation, in order to simplify its corporate structure, our Group had disposed of or de-registered a number of subsidiaries which had no material business operations. Our Directors confirm that none of these ceased subsidiaries is insolvent, involved in any pending or unresolved arbitration or legal proceedings, or had any material non-compliances prior to its disposal or de-registration. Details of these ceased subsidiaries and their respective corporate histories are set out below.

1. Ningce Trading

Ningce Trading was established as a limited liability company in the PRC on 14 March 2012 with an initial registered capital of RMB10,000,000 (of which RMB2,000,000 had been paid up) and 55%, 25% and 20% of its equity interests were owned by Tuyi Group, Mr. Yu and Mr. Pan, respectively since its establishment. Ningce Trading had no material business operation and had recorded loss of approximately RMB430,000 for the year ended 31 December 2017 because certain employees of our Group had been engaged under the name of Ningce Trading. In March 2018, as part of the Reorganisation, pursuant to the written resolutions of its shareholders dated 1 March 2018, Ningce Trading was applying for the deregistration. On 9 May 2018, Ningce Trading was deregistered and ceased to be a subsidiary of Tuyi Group.

2. Tuyi HK

Tuyi HK was incorporated as a limited liability company in Hong Kong on 29 September 2015 with an authorised share capital of RMB7,500 and 100% owned by Tuyi Group since its incorporation. Tuyi HK had no material business operation and had not recorded any revenue/expense or profit/loss during the Track Record Period. In March 2018, as part of the Reorganisation, pursuant to the written resolutions of its sole shareholder dated 29 March 2018, Tuyi HK was applying for the deregistration. On 21 September 2018, Tuyi HK was deregistered and ceased to be a subsidiary of Tuyi Group.

3. Chuangyi Advertising

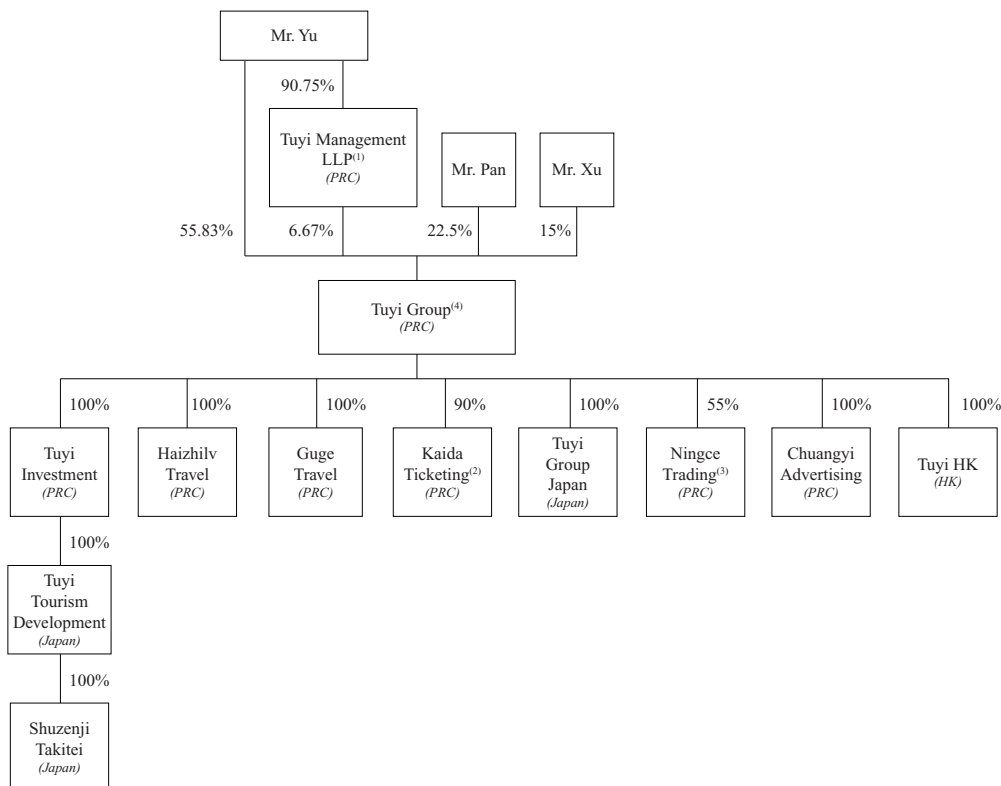
Chuangyi Advertising was established as a limited liability company in the PRC on 4 January 2018 with an initial registered capital of RMB300,000 and 100% owned by Tuyi Group since its establishment. Chuangyi Advertising had no material business operation and had not recorded any revenue/expense or profit/loss during the Track Record Period.

In March 2018, as part of the Reorganisation, pursuant to the equity transfer agreement dated 26 March 2018, Tuyi Group transferred the entire equity interest in Chuangyi Advertising to Ms. Zhu Weijun (祝微君), an independent third party, at nil consideration after arm's length negotiations taking into account the fact that the initial registered capital had not been paid up and Chuangyi Advertising had no material business operations. Upon completion of the said transfer, Chuangyi Advertising ceased to be a subsidiary of Tuyi Group, and no longer formed part of our Group.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

REORGANISATION

The shareholding and corporate structure of our Group immediately before the Reorganisation is set out as follows:



Notes:

- (1) Tui Management LLP is an investment holding entity and was intended to be a platform for holding equity interests in Tui Group for the purpose of implementation of future share incentive schemes for eligible employees of Tui Group and its subsidiaries. The remaining equity interest in Tui Management LLP is held as to 4.75% by Mr. Peng Ying (an executive Director), 1.5% by Mr. An Jiajin (the nephew of Mr. Yu and an executive Director) and three employees of our Group who are independent third parties. The general partner of Tui Management LLP is Mr. Yu while the remaining five limited partners of which are Mr. Peng Ying, Mr. An Jiajin and the three said employees.
- (2) The remaining 10% equity interest in Kaida Ticketing is held by Mr. Wu Luping (吳路平). Mr. Wu Luping (吳路平) is therefore our connected person at subsidiary level for the purpose of Listing Rules.
- (3) The remaining equity interest in Ningce Trading is held as to 25% by Mr. Yu and 20% by Mr. Pan.
- (4) Tui Group has three branches in Wenzhou, Shanghai and Rui'an, respectively.

In preparation for the Global Offering, we carried out a series of restructuring steps for the purpose of establishing and streamlining our corporate structure for the Listing and to facilitate our growth and expansion strategy.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

1. Incorporation of offshore investment holding companies, our Company, offshore subsidiaries and WFOE

York Yu BVI

On 8 February 2018, York Yu BVI was incorporated in the BVI with limited liability. Since the date of incorporation, York Yu BVI has been authorised to issue a maximum of 50,000 shares of a single class with no par value. On the same date, one ordinary share was issued and allotted to Mr. Yu for cash consideration of USD1, and York Yu BVI is wholly owned by Mr. Yu since its incorporation and up to the Latest Practicable Date.

David Xu BVI

On 8 February 2018, David Xu BVI was incorporated in the BVI with limited liability. Since the date of incorporation, David Xu BVI has been authorised to issue a maximum of 50,000 shares of a single class with no par value. On the same date, one ordinary share was issued and allotted to Mr. Yu for cash consideration of USD1, and David Xu BVI is wholly owned by Mr. Yu since its incorporation and up to the Latest Practicable Date.

King Pan BVI

On 8 February 2018, King Pan BVI was incorporated in the BVI with limited liability. Since the date of incorporation, King Pan BVI has been authorised to issue a maximum of 50,000 shares of a single class with no par value. On the same date, one ordinary share was issued and allotted to Mr. Pan for cash consideration of USD1, and King Pan BVI is wholly owned by Mr. Pan since its incorporation and up to the Latest Practicable Date.

Jeffery Xu BVI

On 8 February 2018, Jeffery Xu BVI was incorporated in the BVI with limited liability. Since the date of incorporation, Jeffery Xu BVI has been authorised to issue a maximum of 50,000 shares of a single class with no par value. On the same date, one ordinary share was issued and allotted to Mr. Xu for cash consideration of USD1, and Jeffery Xu BVI is wholly owned by Mr. Xu since its incorporation and up to the Latest Practicable Date.

Our Company

On 27 February 2018, our Company was incorporated as an exempted company with limited liability in the Cayman Islands with an authorised share capital of HK\$380,000 divided into 38,000,000 Shares with par value of HK\$0.01 each. Upon its incorporation, one Share was allotted and issued to the initial subscriber, which was transferred to York Yu BVI on the same day. On the same date, our Company allotted and issued 5,582 Shares, 667 Shares, 2,250 Shares and 1,500 Shares to York Yu BVI, David Xu BVI, King Pan BVI and Jeffery Xu BVI respectively. The transfer and

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

allotments had been properly and legally settled, and completed with the register of members of our Company updated on 27 February 2018. Following which, 55.83%, 6.67%, 22.5% and 15% of our Company was held by York Yu BVI, David Xu BVI, King Pan BVI and Jeffery Xu BVI, respectively.

Citizen Holiday

On 6 March 2018, Citizen Holiday was incorporated with limited liability in the BVI and the maximum number of shares that Citizen Holiday is authorised to issue is 50,000 shares of a single class with no par value. On the same day, one ordinary share was allotted and issued to our Company. Since its incorporation and up to the Latest Practicable Date, Citizen Holiday was 100% held by our Company.

TYHK

On 19 March 2018, TYHK was incorporated with limited liability in Hong Kong with an initial share capital of USD1.00 of one founder share, which was issued and allotted to Citizen Holiday. Since its incorporation and up to the Latest Practicable Date, TYHK was 100% held by Citizen Holiday.

WFOE

On 3 April 2018, WFOE was established as a wholly foreign-owned limited liability company in the PRC with an initial registered capital of USD5,000,000 contributed by TYHK. Since its establishment and up to the Latest Practicable Date, WFOE was 100% held by TYHK.

2. Transfer of Tuyi Group Japan from Tuyi Group to Citizen Holiday

Pursuant to the share transfer agreement dated 10 April 2018, as part of the Reorganisation, Tuyi Group transferred the entire equity interest in Tuyi Group Japan to Citizen Holiday at the consideration of JPY5,000,000, which was determined based on its registered capital. As advised by our Japan Legal Advisers, the transfer had been properly and legally settled. After the completion of the said transfer on 10 April 2018 and up to the Latest Practicable Date, Tuyi Group Japan was 100% held by Citizen Holiday.

3. Transfer of 90% of Kaida Ticketing from Tuyi Group to Tuyi Investment

Pursuant to the equity transfer agreement dated 12 March 2018, as part of the Reorganisation, Tuyi Group transferred 90% equity interest in Kaida Ticketing to Tuyi Investment at the consideration of RMB4,500,000, which was determined based on its registered capital. As advised by our PRC Legal Advisers, the transfer had been properly and legally settled. After the completion of the said transfer on 13 March 2018 and up to the Latest Practicable Date, 90% and 10% of Kaida Ticketing is owned by Tuyi Investment and Mr. Wu Luping (吳路平), respectively. Since Mr. Wu Luping is a substantial shareholder of Kaida Ticketing, he is a connected person at subsidiary level of our Company.

4. Capital contribution in Tuyi Investment and transfer of equity interest of Tuyi Investment from Tuyi Group to WFOE

Pursuant to the capital injection agreement dated 23 March 2018 between Tuyi Group, Mr. Chao Chi Keong (周志强) and Tuyi Investment, Mr. Chao Chi Keong agreed to make capital contribution of RMB20,408 to Tuyi Investment for 2% of the enlarged registered share capital of Tuyi Investment. The amount of capital contribution by Mr. Chao Chi Keong was determined based on the registered capital of Tuyi investment after considering the net liability value of Tuyi Investment as appraised by an independent valuer in the PRC. The capital contribution was fully settled by Chao Chi Keong on 23 March 2018. Upon the completion of the relevant registrations and approvals of the governmental authorities on 11 April 2018, 98% and 2% of Tuyi Investment is owned by WFOE and Mr. Chao Chi Keong, respectively and changed from a domestic enterprise into a sino-foreign joint venture. For further details of the capital contribution by Mr. Chao Chi Keong, please see “– Pre-IPO Investment” in this section.

As part of the Reorganisation, pursuant to the equity transfer agreement dated 18 April 2018, Tuyi Group transferred 98% equity interest in Tuyi Investment to WFOE at the consideration of RMB1,000,000, which was determined based on its registered capital. Pursuant to the equity transfer agreement, the consideration will be settled by WFOE within one year from the date of the equity transfer agreement. After completion of the said transfer on 20 April 2018, 98% and 2% of Tuyi Investment is owned by WFOE and Mr. Chao Chi Keong, respectively.

5. Disposals and de-registrations of certain subsidiaries of Tuyi Group

As part of the Reorganisation, in order to simplify its corporate structure, our Group had disposed of or de-registered a number of subsidiaries which had no material business operations.

Disposal of Chuangyi Advertising

Pursuant to the equity transfer agreement dated 26 March 2018, as part of the Reorganisation, Tuyi Group transferred the entire equity interest in Chuangyi Advertising to Ms. Zhu Weijun (祝微君), an independent third party, at nil consideration after arm’s length negotiations taking into account the fact that the initial registered capital had not been paid up and Chuangyi Advertising had no material business operations. After the completion of the said transfer on 28 March 2018, Chuangyi Advertising ceased to be a subsidiary of Tuyi Group, and no longer formed part of our Group.

De-registration of Tuyi HK

In March 2018, as part of the Reorganisation, pursuant to the written resolutions of its sole shareholder dated 1 March 2018, Tuyi HK was applying for the deregistration. On 21 September 2018, Tuyi HK was deregistered and ceased to be a subsidiary of Tuyi Group.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

De-registration of Ningce Trading

In March 2018, as part of the Reorganisation, pursuant to the written resolutions of its shareholders dated 1 March 2018, Ningce Trading applied for the deregistration. On 9 May 2018, Ningce Trading was deregistered and ceased to be a subsidiary of Tuyi Group.

6. Implementation of the Contractual Arrangements

For the implementation of the Contractual Arrangements, the following structured contracts were entered into on 21 May 2018 with respect to the contractual arrangements of the Operating Entities with WFOE, details of which are set out in “Contractual Arrangements”:

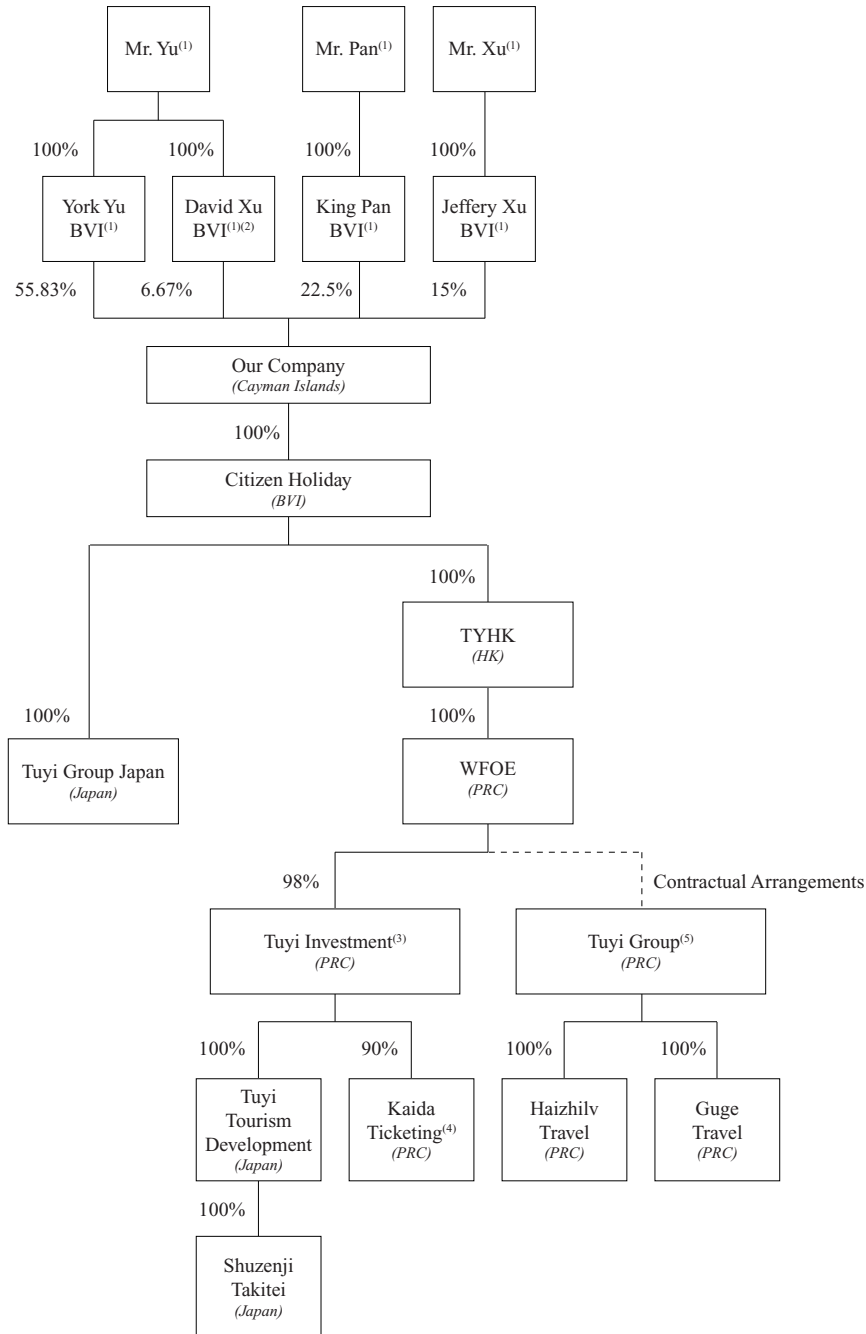
- (a) Exclusive Business Cooperation and Service Agreement (獨家業務合作及服務協議);
- (b) Exclusive Option Agreement (獨家購買權協議);
- (c) Equity Interest Pledge Agreement (股權質押協議); and
- (d) Shareholders’ Rights Entrustment Agreement (股東表決權委託協議).

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

SHAREHOLDING AND CORPORATE STRUCTURE

Our Shareholding and Corporate Structure after Completion of the Reorganisation but before the Global Offering

The shareholding and corporate structure of our Group immediately after completion of the Reorganisation is set out as follows:



HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Notes:

- (1) Mr. Yu, Mr. Pan, Mr. Xu, York Yu BVI, David Xu BVI, King Pan BVI and Jeffery Xu BVI are our Controlling Shareholders.
- (2) The issued share capital of our Company held by David Xu BVI will be used for implementation of future share incentive scheme for eligible employees of our Group approved by the Board. To implement such scheme, our Company intends to adopt a share award plan which will set out the rules governing the awards of the Shares to eligible employees after Listing. The purpose of the proposed share award plan is to recognise and reward the contributions of the eligible employees of our Group to the growth and development of our Group through the award of Shares. The Company has no immediate plan to implement such share incentive scheme and will consider such implementation one year following the Listing. The Shares held by David Xu BVI will not be counted towards public float for the purpose of Rule 8.24 of the Listing Rules and will be subject to the lock-up arrangement as more particularly elaborated in “Underwriting – Underwriting Arrangements and Expenses – Undertakings given to the Hong Kong Underwriters – By the Controlling Shareholders” in this prospectus, after the Listing. It is the plan of Mr. Yu and the Company that no employees who are eligible to take part in the said share incentive scheme will be given more than 3% interest in the Company. Prior to the adoption of the proposed share award plan, Mr. Yu shall be entitled to the dividends, and exercise the voting rights, attached to the Shares held by David Xu BVI. Upon adoption of the proposed share award plan, Mr. Yu, as settlor, will, without consideration, enter into a deed of settlement pursuant to which he will declare the entire issued share capital of David Xu BVI and hence the Shares held by it as trust property for the purpose of the proposed share award plan, of which our Company will engage a professional trustee for its operation and management. For further details of the proposed share award plan, please see “Statutory and General Information – D. Proposed Share Award Plan” in Appendix V to this prospectus. The Board will make appropriate announcement in accordance with the requirements of the Listing Rules upon adoption of the proposed share award plan. To avoid potential conflict of interest, Mr. Xu will abstain from voting in any relevant resolutions of the Board.
- (3) The remaining 2% equity interest in Tuyi Investment is held by Mr. Chao Chi Keong (周志强), an independent third party.
- (4) The remaining 10% equity interest in Kaida Ticketing is held by Mr. Wu Luping (吴路平). Mr. Wu Luping (吴路平) is therefore our connected person at subsidiary level for the purpose of Listing Rules.
- (5) Tuyi Group has three branches in Wenzhou, Shanghai and Rui’an, respectively.

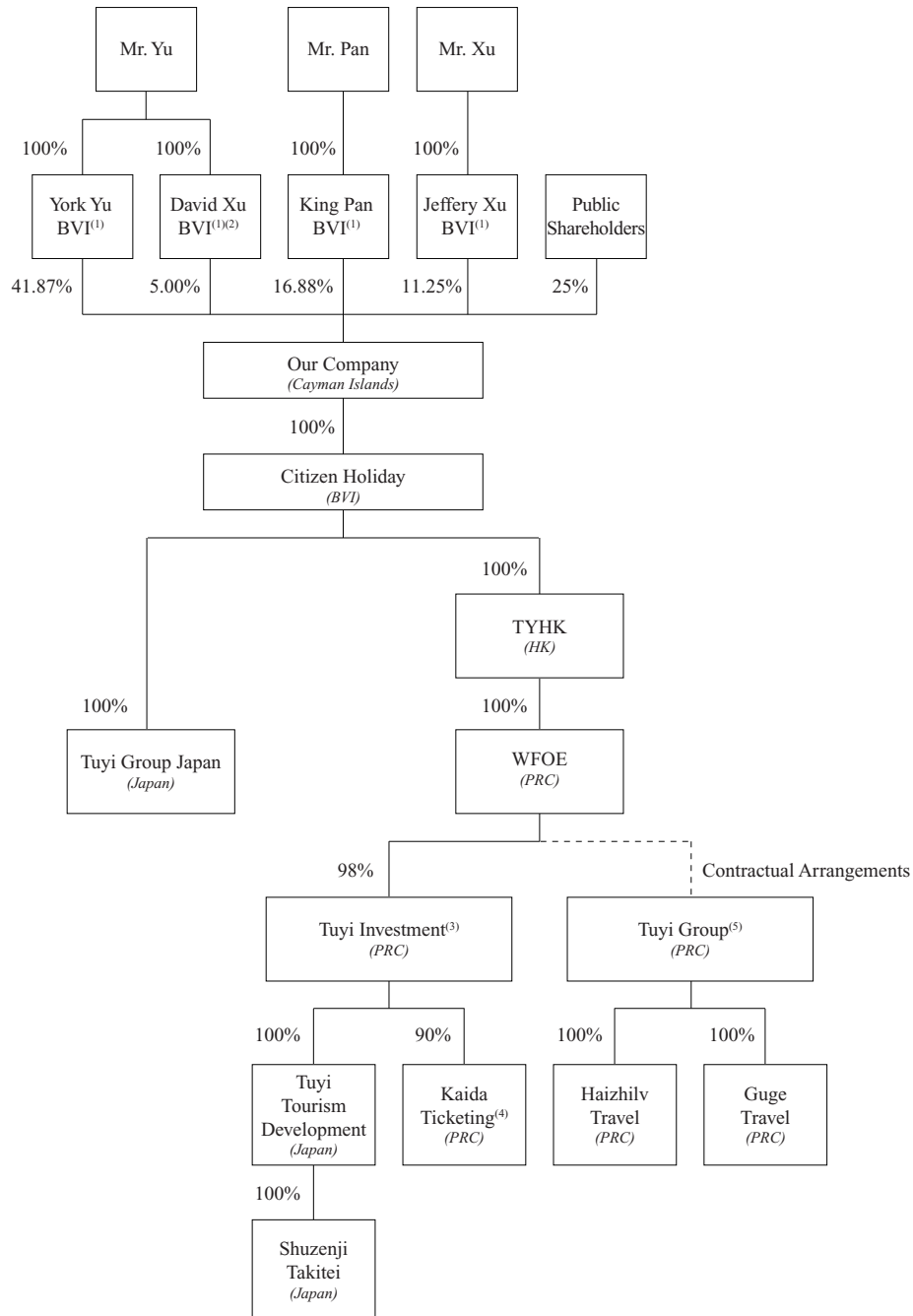
Capitalisation Issue and Global Offering

Conditional upon the creation of our Company’s share premium account as a result of the issue of the Offer Shares pursuant to the Global Offering, an amount of HK\$7,499,900 standing to the credit of the share premium account of our Company will be capitalised by applying such sum towards paying up in full at par a total of 749,990,000 Shares for allotment and issue to the then existing Shareholders.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Our Shareholding and Corporate Structure after Completion of the Global Offering and the Capitalisation Issue

The following chart sets out the shareholding and corporate structure of our Group immediately after completion of the Capitalisation Issue and completion of the Global Offering, assuming the Over-allotment Option is not exercised and there is no exercise of any options which may be granted under the Share Option Scheme:



HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Notes:

- (1) Mr. Yu, Mr. Pan, Mr. Xu, York Yu BVI, David Xu BVI, King Pan BVI and Jeffery Xu BVI are our Controlling Shareholders.
- (2) The issued share capital of our Company held by David Xu BVI will be used for implementation of future share incentive scheme for eligible employees of our Group approved by the Board. To implement such scheme, our Company intends to adopt a share award plan which will set out the rules governing the awards of the Shares to eligible employees after Listing. The purpose of the proposed share award plan is to recognise and reward the contributions of the eligible employees of our Group to the growth and development of our Group through the award of Shares. The Company has no immediate plan to implement such share incentive scheme and will consider such implementation one year following the Listing. The Shares held by David Xu BVI will not be counted towards public float for the purpose of Rule 8.24 of the Listing Rules and will be subject to the lock-up arrangement as more particularly elaborated in “Underwriting – Underwriting Arrangements and Expenses – Undertakings given to the Hong Kong Underwriters – By the Controlling Shareholders” in this prospectus, after the Listing. It is the plan of Mr. Yu and the Company that no employees who are eligible to take part in the said share incentive scheme will be given more than 3% interest in the Company. Prior to the adoption of the proposed share award plan, Mr. Yu shall be entitled to the dividends, and exercise the voting rights, attached to the Shares held by David Xu BVI. Upon adoption of the proposed share award plan, Mr. Yu, as settlor, will, without consideration, enter into a deed of settlement pursuant to which he will declare the entire issued share capital of David Xu BVI and hence the Shares held by it as trust property for the purpose of the proposed share award plan, of which our Company will engage a professional trustee for its operation and management. For further details of the proposed share award plan, please see “Statutory and General Information – D. Proposed Share Award Plan” in Appendix V to this prospectus. The Board will make appropriate announcement in accordance with the requirements of the Listing Rules upon adoption of the proposed share award plan. To avoid potential conflict of interest, Mr. Xu will abstain from voting in any relevant resolutions of the Board.
- (3) The remaining 2% equity interest in Tuyi Investment is held by Mr. Chao Chi Keong (周志强), an independent third party.
- (4) The remaining 10% equity interest in Kaida Ticketing is held by Mr. Wu Luping (吴路平). Mr. Wu Luping (吴路平) is therefore our connected person at subsidiary level for the purpose of Listing Rules.
- (5) Tuyi Group has three branches in Wenzhou, Shanghai and Rui’an, respectively.

PRE-IPO INVESTMENT

Capital Contribution by Mr. Chao Chi Keong (周志强) to Tuyi Investment

Pursuant to the capital injection agreement dated 23 March 2018 entered into between Tuyi Group, Mr. Chao Chi Keong (周志强) and Tuyi Investment, Mr. Chao Chi Keong agreed to make capital contribution of RMB20,408 to Tuyi Investment for 2% of the enlarged registered share capital of Tuyi Investment. The amount of capital contribution by Mr. Chao Chi Keong was determined based on the registered capital of Tuyi investment after considering the net liability value of Tuyi Investment as appraised by an independent valuer in the PRC, the uncertainty of the operation and financial performance of the Tokyo Hotel at the time of Mr. Chao Chi Keong’s pre-IPO investment, the historical financial information and performance of Tuyi Investment (including its subsidiaries), and the strategic benefits from Mr. Chao Chi Keong’s pre-IPO investment. The capital contribution in Tuyi Investment under the capital injection agreement had been fully settled by Chao Chi Keong on 23 March 2018. Mr. Chao Chi Keong was not given any special rights with respect to his

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

investment in Tuyi Investment or our Company and the terms of the capital injection agreement did not impose any lock-up obligations over the equity interests of Tuyi Investment held by Mr. Chao Chi Keong.

The following table summarises the details of the capital contribution of Mr. Chao Chi Keong in Tuyi Investment:

Name of Investor	Mr. Chao Chi Keong (周志强)
Information of Investor	friend of Mr. Yu and an independent third party

Mr. Yu and Mr. Chao Chi Keong know each other through mutual acquaintances. Mr. Chao Chi Keong has been the controlling shareholder of Hangzhou Zhenyi Stone Carving Craft Company Limited* (杭州珍藝石雕工藝品有限公司), incorporated in December 1999. He had about 20 years of experience in collection, promotion and sales of stone carving craft. Our Directors believe that, in addition to providing capital to the development and expansion of the business of Tuyi Investment, leveraging on and benefited from his social network developed from his working experience, our Group was able to expand our customer base and tapped into the design and development of customised package tours with itineraries which include antique fairs and auctions, based on the recommendations and suggestions given by Mr. Chao Chi Keong. Since the investment of Mr. Chao Chi Keong and up to the Latest Practicable Date, our Group has organised four customised package tours of antique-related theme, serving a total of 30 customers. Our Directors also consider that, leveraging on the experience obtained since the investment of Mr. Chao Chi Keong, our Company will be able to better manage and increase the number of customised package tours with itineraries which include antique fairs and auctions in the future. In addition, Mr. Chao Chi Keong has been providing valuable advices for our reference to select suppliers and customers in both Japan and the PRC market. Our Company believes that we will be benefited in the long run from Mr. Chao Chi Keong's continuous input in the growth and diversity of our customer and supplier base, the enhancement of potential customer and supplier quality, the development of our product portfolio, and the promotion of our B2B and B2C business models development.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

To the best knowledge of our Directors, Mr. Chao Chi Keong is optimistic about the growth of the Japanese tourism market due to the increasing number of Chinese outbound tourists to Japan as a result of implementation of initiatives of Japanese government and increasing disposal income and consumption expenditure of Chinese tourists on outbound travelling. While Mr. Chao Chi Keong had no previous experience in investment in tourism industry, as an initial attempt, Mr. Chao Chi Keong decided to make only a small amount of investment at the level of Tuyi Investment, which holds our Japanese operations, but not to reflect his investment at our Company's level.

Date of payment of consideration of Investment	23 March 2018 (being the settlement date of the capital contribution of Mr. Chao Chi Keong in Tuyi Investment)
Number of equity interest/shares acquired	Mr. Chao Chi Keong contributed to the increase in registered capital of Tuyi Investment by RMB20,408, representing 2% of the enlarged registered share capital of Tuyi Investment.
Amount of consideration	RMB20,408
Number of Shares held by Investor upon the Capitalisation Issue	Nil
Cost per Share paid by the Investor (taking into account the Capitalisation Issue)	N/A
Special Rights	Mr. Chao Chi Keong was not given any special rights with respect to his investment pursuant to the capital injection agreement.
Use of Proceeds	General working capital of Tuyi Investment, and had been fully utilised as at the Latest Practicable Date

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Sole Sponsor's Confirmation

After reviewing the terms of the capital injection agreement dated 23 March 2018 and given that (i) our Directors confirmed that the terms of the pre-IPO investment (including the consideration) were determined on arm's length basis; and (ii) the pre-IPO investment was completed more than 28 clear days before the date of submission of the application for the Listing, the Sole Sponsor confirms that the pre-IPO investment is in compliance with the Guidance Letters HKEx-GL29-12 (January 2012) (updated in March 2017), HKEx-GL43-12 (October 2012) (updated in July 2013 and March 2017) and HKEx-GL44-12 (October 2012) (updated in March 2017) issued by the Stock Exchange.

LEGAL COMPLIANCE

Our PRC Legal Advisers have confirmed that all relevant approvals and permits in relation to the share transfers in respect of the PRC companies in our Group as described above had been obtained and the procedures involved had been carried out in accordance with PRC laws and regulations.

Our Japan Legal Advisers have confirmed that all share transfers in respect of the Japanese companies in our Group as mentioned above have been duly authorised, legally and properly completed, and do not contravene their respective articles of incorporation.

M&A Rules

According to the Provisions of the Ministry of Commerce on M&A of a Domestic Enterprise by Foreign Investors (《關於外國投資者併購境內企業的規定》) (the "M&A Rules") jointly issued by the MOFCOM, the State-owned Assets Supervision and Administration Commission of the State Council, the State Administration of Taxation (the "SAT"), the China Securities Regulatory Commission (the "CSRC"), SAIC and SAFE on 8 September 2006, effective as of 8 September 2006 and amended on 22 June 2009, a foreign investor is required to obtain necessary approvals when it (i) acquires the equity of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise; (ii) subscribes the increased capital of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise; (iii) establishes a foreign-invested enterprise through which it purchases the assets of a domestic enterprise and operates these assets; or (iv) purchases the assets of a domestic enterprise, and then invests such assets to establish a foreign-invested enterprise. The M&A Rules, among other things, further purport to require that an offshore special vehicle, or a special purpose vehicle, formed for listing purposes and controlled directly or indirectly by PRC companies or individuals, shall obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle's securities on an overseas stock exchange, especially in the event that the special purpose vehicle acquires shares of or equity interests in the PRC companies in exchange for the shares of offshore companies.

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Given that (i) WFOE was established as a wholly foreign-owned enterprise by means of direct investment rather than by merger or acquisition by our Company under the M&A Rules, (ii) the M&A Rules do not explicitly stipulate the control mode of Contractual Arrangement; and (iii) no Regulated Activities were involved in the Reorganisation under the M&A Rules, as advised by our PRC Legal Advisers, the establishment of WFOE and the Corporate Reorganisation are not subject to the M&A Rules, and the Listing of our Company does not require approvals from CSRC and MOFCOM under the M&A Rules.

SAFE Registration in the PRC

Pursuant to the Circular of the SAFE on Foreign Exchange Administration of Overseas Investment, Financing and Round-trip Investments Conducted by Domestic Residents through Special Purpose Vehicles (關於境內居民通過特殊目的公司境外融資及返程投資外匯管理有關問題的通知) (the “**SAFE Circular No. 37**”), promulgated by SAFE and which became effective on 14 July 2014, (a) a PRC resident must register with the local SAFE branch before he or she contributes assets or equity interests in an overseas special purpose vehicle (the “**Overseas SPV**”) that is directly established or indirectly controlled by the PRC resident for the purpose of conducting investment or financing, and (b) following the initial registration, the PRC resident is also required to register with the local SAFE branch for any major change, in respect of the Overseas SPV, including, among other things, a change of Overseas SPV’s PRC resident shareholder(s), the name of the Overseas SPV, terms of operation, or any increase or reduction of the Overseas SPV’s capital, share transfer or swap, and merger or division. Pursuant to SAFE Circular No. 37, failure to comply with these registration procedures may result in penalties.

Pursuant to the Circular of the SAFE on Further Simplification and Improvement in Foreign Exchange Administration on Director Investment (關於進一步簡化和改進直接投資外匯管理政策的通知) (the “**SAFE Circular No. 13**”), promulgated by SAFE and which became effective on 1 June 2015, the power to accept SAFE registration was delegated from local SAFE to local banks where the assets or interest in the domestic entity was located.

As advised by our PRC Legal Advisers, Mr. Yu, Mr. Pan, and Mr. Xu have completed the registration under the SAFE Circular No. 13 and SAFE Circular No. 37 by 29 March 2018.

CONTRACTUAL ARRANGEMENTS

BACKGROUND OF THE CONTRACTUAL ARRANGEMENTS

We are primarily engaged in the provision of outbound travel products and services in the PRC (the “**Outbound Travel Business**”) through our Operating Entities. According to the relevant provisions of the Regulations on Travel Agencies (Revised in 2017) (《旅行社條例》(2017年修訂)) promulgated by the State Council of the PRC, and as confirmed by the interview with the Tourism Bureau of Zhejiang Province (浙江省旅遊局) and consultation with the Ministry of Culture and Tourism of the People’s Republic of China (中華人民共和國文化和旅遊部), and advised by our PRC Legal Advisers, our principal business is prohibited from foreign ownership. Accordingly, we cannot acquire equity interest in our Operating Entities, which hold, or in the course of application for, Travel Agency Business License (旅行社業務經營許可證) with the scope to conduct outbound travel business for the operation of our Outbound Travel Business. For further details of the limitations on foreign ownership in PRC companies conducting outbound travel business and the licensing and approval requirements applicable to our Outbound Travel Business under PRC laws and regulations, please see “Regulatory Overview – Regulations on Outbound Travel Business”.

As a result, WFOE entered into the Contractual Arrangements with Tuyi Group and the Relevant Shareholders (being the registered shareholders of Tuyi Group) (where applicable) in order to conduct the Outbound Travel Business in the PRC and to assert management control over the operations of, and enjoy all economic benefits of, each of the Operating Entities.

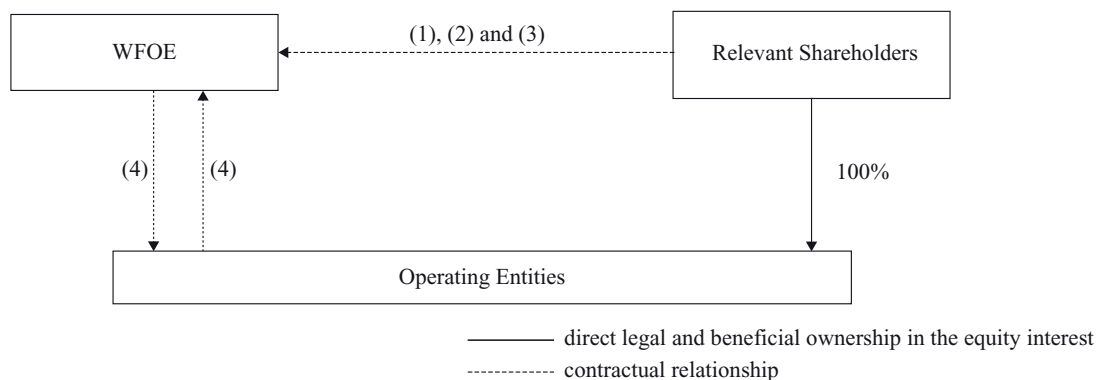
With respect to each of the Contractual Arrangements, WFOE, Tuyi Group and the Relevant Shareholders (where applicable) have entered into a set of the following underlying agreements:

- (i) the Exclusive Business Cooperation and Service Agreement (獨家業務合作與服務協議);
- (ii) the Exclusive Option Agreement (獨家購買權協議);
- (iii) the Equity Interest Pledge Agreement (股權質押協議); and
- (iv) the Shareholders’ Rights Entrustment Agreement (股東表決權委託協議).

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DETAILS OF CONTRACTUAL ARRANGEMENTS

The following diagram illustrates the flow of the economic benefit from the Operating Entities to our Group stipulated under the Contractual Arrangements:



Notes:

1. WFOE is entrusted with the shareholders' rights of the Relevant Shareholders in the Operating Entities. Please see "Contractual Arrangements – Shareholders' Rights Entrustment Agreement" in this prospectus for further details.
2. WFOE is granted exclusive options to acquire all or part of the equity interest in the Operating Entities from the Relevant Shareholders. Please see "Contractual Arrangements – Exclusive Option Agreement" in this prospectus for further details.
3. WFOE is granted priority security interests over the entire equity interest in the Operating Entities as held by the Relevant Shareholders. Please see "Contractual Arrangements – Equity Interest Pledge Agreement" in this prospectus for further details.
4. WFOE provides services on an exclusive basis to the Operating Entities in return for service fees. Please see "Contractual Arrangements – Exclusive Business Cooperation and Service Agreement" in this prospectus for details.

Exclusive Business Cooperation and Service Agreement

WFOE entered into the Exclusive Business Cooperation and Service Agreement with Tuyi Group on 21 May 2018, pursuant to which Tuyi Group agreed to engage WFOE as its exclusive provider of technical and management consulting and other related services requested by the Operating Entities from time to time to the extent permitted under PRC laws in exchange for service fees.

The consultation and services provided by WFOE include:

- designing, developing, updating and maintaining travel-related software used on computers and mobile devices, webpages and websites required for travel-related businesses and the management information system required for travel-related businesses, and providing other technological support required for its travel business or travel peripheral services;

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- assisting the Operating Entities to formulate employees’ training and development plans, conducting pre-job training, management training and technical trainings for its staff to enhance the service standard of its staff and management personnel, engaging relevant technical personnel to provide on-site technical guidance for Operating Entities;
- assisting the Operating Entities to conduct relevant information collection and research, providing the Operating Entities with marketing plans and implementation services, travel business related technical services and consulting services (including but not limited to providing feasibility studies, technical predictions, special technical surveys and analysis reports);
- providing travel products designing service and providing travel route design service;
- providing support and services for recruitment and/or training of tour guides, land operators and other staff;
- providing travel products promotion services and support, including but not limited to planning travel products positioning, identifying customer groups and assisting the Operating Entities to establish an integrated online and offline modern marketing network;
- formulating corporate management system and financial management system, advising and optimising financial budgets;
- formulating regional, national and global tourism market development plans for the Operating Entities;
- assisting in the establishment of a sound business process management and providing the Operating Entities with management and consultation services in daily operations, finance, investment, assets, credits and debts, human resources and internal informatisation, and other management and consultation services;
- assisting the Operating Entities to find suitable financing channels for their operation funding needs;
- assisting the Operating Entities in the formulating supplier, customer and partner relationships maintenance plans and assisting in the maintenance of such relationships; and
- other services that are negotiated and determined from time to time based on actual business needs and the ability to provide services.

According to the Exclusive Business Cooperation and Service Agreement, Tuyi Group shall pay service fees to WFOE on an annual basis as calculated by WFOE and Tuyi Group based on the respective financial conditions of WFOE and the Operating Entities. In the premises of compliance with the PRC laws and regulations, the service fees are equal to the

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profits of the Operating Entities after deducting losses in previous years, necessary operating costs, expenses and taxes. The services fees are subject to WFOE's adjustment taking into account the actual situations of provision of services and the Operating Entities' operating status and development needs.

The Exclusive Business Cooperation and Service Agreement became effective upon execution and shall, subject to the applicable PRC laws or regulations, be effective for an indefinite period until (a) acquisition by WFOE of the entire equity interests or assets of the Operating Entities pursuant to its rights under the Exclusive Option Agreement; or (b) terminated unilaterally by WFOE by giving 30-day prior notice to Tuyi Group.

Exclusive Option Agreement

Tuyi Group and the Relevant Shareholders entered into the Exclusive Option Agreement with WFOE on 21 May 2018, pursuant to which the Relevant Shareholders irrevocably, exclusively and unconditionally grant exclusive options to WFOE which entitles WFOE to elect to purchase, when permitted by the then applicable PRC laws, all or any part of the equity interests or assets (as the case may be) of Tuyi Group from the Relevant Shareholders or Tuyi Group (as the case may be) by itself or through its appointee(s) for a nominal consideration of RMB1 or the lowest value permitted by the then applicable PRC laws. WFOE or its appointee(s) shall have the right to purchase all or part of equity interests in or assets of the Operating Entities as it decides at any time.

Pursuant to the Exclusive Option Agreement, unless in the ordinary and usual course of business or with the prior consent of WFOE (where applicable), Tuyi Group has undertaken to WFOE not to, and to procure its subsidiaries not to, among others:

- sell, transfer, pledge or otherwise deal with any assets, business or revenue or allow to impose any security interest on its assets;
- enter into transactions that will materially and adversely affect its assets, liabilities, operations, shares and other legal rights;
- distribute dividends and bonuses in any forms;
- incur, inherit, guarantee or allow the existence of any debt;
- increase or reduce the registered capital through a resolution at a general meeting, or otherwise change the structure of registered capital;
- supplement, change or amend the articles of association of the Operating Entities, or change the scope of business, in any forms;
- change or remove any directors or replace senior management personnel;
- change normal business procedures or modify any major internal company rules and regulations;

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- make material adjustments to business models, marketing strategies, business principles or customer relations;
- carry out any activities beyond the normal business scope or operate the Operating Entities business in a manner that is not consistent with the past or unusual; and
- merge or combine with any party, or acquire any party or invest in any party.

Furthermore, pursuant to the Exclusive Option Agreement, unless with the prior consent of WFOE, the Relevant Shareholders have jointly and severally undertaken to WFOE not to, among others:

- supplement, change or amend the constitutional documents of the Operating Entities, and such supplement, change or amendment will materially and adversely affect the assets, liabilities, operations, shares and other legal rights of the Operating Entities;
- issue shares and other equity instruments to any entities other than the Relevant Shareholders by capital contribution or, by any other means, causing the total equity held by the Relevant Shareholders to be less than 100%;
- procure the Operating Entities to enter into transactions that will materially and adversely affect the assets, liabilities, operations, shares and other legal rights of the Operating Entities;
- procure the Operating Entities to distribute dividends and bonuses through a resolution at a general meeting;
- sell, transfer, pledge or otherwise deal with any legal or beneficial rights of the shares of the Operating Entities, or allow to impose any security interest on its assets;
- procure the Operating Entities to sell, transfer, pledge or otherwise deal with any legal or beneficial rights of their shares, or allow to impose any security interest on their assets through the approval by a resolution at a general meeting;
- procure the Operating Entities to merge or combine with any party, or acquire any party or invest in any party, or restructure in any other forms through the approval by a resolution at a general meeting; and
- voluntary close, wind up or dissolve the Operating Entities.

The Exclusive Option Agreement became effective upon execution and shall remain effective during the continuance of the Operating Entities. It shall be (a) automatically terminated upon acquiring by WFOE or its appointee(s) the entire equity interests or assets of the Operating Entities pursuant to its rights under the Exclusive Option Agreement; or (b) terminated unilaterally by WFOE by giving 30-day prior notice to Tuyi Group.

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Equity Interest Pledge Agreement

Tuyi Group, the Relevant Shareholders and WFOE entered into the Equity Interest Pledge Agreement on 21 May 2018. Under the Equity Interest Pledge Agreement, the Relevant Shareholders agreed to pledge all their respective equity interests in Tuyi Group to WFOE, as a security interest, to guarantee the performance of contractual obligations of the Relevant Shareholders and Tuyi Group under the Structured Contracts. The pledge in respect of Tuyi Group takes effect after execution and shall remain valid until all the contractual obligations of the Relevant Shareholders and Tuyi Group under the Contractual Arrangements have been fully performed and all the outstanding debts of the Relevant Shareholders and Tuyi Group under the Contractual Arrangements have been fully paid. The Equity Interest Pledge Agreement shall also be terminated unilaterally by WFOE by giving 30-day prior notice to Tuyi Group. During the valid period of the pledge, absent prior written consent of WFOE, the Relevant Shareholders shall not, and Tuyi Group shall not facilitate the Relevant Shareholders to, create or agree to create any new pledge or any other security on the equity interests of Tuyi Group, nor assign or transfer any of the equity interests of Tuyi Group or any rights or obligations under the Equity Interest Pledge Agreement.

We have completed registrations of the equity pledge of Tuyi Group as contemplated under the Equity Interest Pledge Agreement on 14 June 2018 with Hangzhou Municipal Administration of Market Supervision (杭州市市場監督管理局).

Shareholders' Rights Entrustment Agreement

Tuyi Group, the Relevant Shareholders and WFOE entered into the Shareholders' Rights Entrustment Agreement on 21 May 2018 pursuant to which the Relevant Shareholders irrevocably authorised WFOE to exercise their shareholders' rights in Tuyi Group, including attending shareholders' meetings and exercising voting rights and dividend distribution rights. WFOE is authorised to exercise any of the shareholders' rights without consulting or obtaining the consent of the Relevant Shareholders. Furthermore, WFOE is entitled to authorise other individuals to exercise the shareholder's rights within the scope authorised by the Relevant Shareholders.

Pursuant to the Shareholders' Rights Entrustment Agreement, each of the Relevant Shareholders also entered into a power of attorney on the same date of the agreement (the "**Powers of Attorney**"). Pursuant to the Powers of Attorney, each of the Relevant Shareholders irrevocably appoints WFOE (or its designated persons) to act as his/its attorney on his/its own behalf to exercise all rights in connection with matters concerning his /its rights as shareholder of Tuyi Group as below:

- convening and attending shareholders' meetings of Tuyi Group;
- exercising shareholder's voting rights with regard to all matters discussed and resolved during the shareholders' meetings; and
- exercising all other shareholders' rights under the constitutional documents of Tuyi Group.

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The Shareholders' Rights Entrustment Agreement became effective upon execution and shall remain effective until (a) acquisition by WFOE of the entire equity interests or assets of the Operating Entities pursuant to its rights under the Exclusive Option Agreement; or (b) terminated unilaterally by WFOE by giving 30-day prior notice to Tuyi Group.

Spouse Undertakings

The spouse of each of the Relevant Shareholders, if applicable, has signed an undertaking on various dates ("**Spouse Undertakings**"). Pursuant to the Spouse Undertakings, each of the spouses irrevocably undertakes that:

- (i) the spouse has been made fully aware of the Contractual Arrangements and consented that such Relevant Shareholder is the sole beneficiary of all the rights and interests and solely assumes obligations under the Contractual Arrangements; further, she does not and will not have any interests or rights under the Contractual Arrangements, nor assumes any obligations thereunder;
- (ii) all the equity interests held by such Relevant Shareholder in Tuyi Group shall be deemed as assets solely owned by such Relevant Shareholder, not mutual assets jointly owned by her and the related Relevant Shareholder;
- (iii) the spouse will not participate in the operation or management of Tuyi Group, nor will claim any interests or rights in the equities or assets of Tuyi Group; in the event of divorce (as the case may be), such Relevant Shareholder has sole discretion to decide how to dispose of his interests or assets in Tuyi Group; and
- (iv) in the event that the spouse obtains any interests in Tuyi Group, she will be subject to and abide by the terms of the Contractual Arrangements as if she was a signing party to such Contractual Arrangements, and at the request of WFOE, she will sign any documents in the form and substance consistent with the Contractual Arrangements.

Dispute Resolution

Each of the Structured Contracts contains a dispute resolution provision. Pursuant to such provision, in the event of any dispute relating to the Contractual Arrangements, the parties shall negotiate in good faith to resolve the disputes in the event of any dispute with respect to the construction and performance of the provisions. In the event the parties fail to reach an agreement on the resolution of such a dispute within 30 days after any party's request for resolution of the dispute through negotiations, any party may submit the relevant dispute to the Shanghai International Economic and Trade Arbitration Commission for arbitration, in accordance with the then effective arbitration rules. The arbitration shall be conducted in Shanghai. The arbitration ruling shall be final and binding on all parties. Upon taking effect, any party is entitled to apply to the courts of competent jurisdictions for execution of the arbitration ruling. Upon request by any party, the courts of competent jurisdictions shall have the power to grant interim remedies in support of the arbitration pending formation of the arbitral tribunal or in appropriate cases. The courts of PRC, Hong Kong, the Cayman Islands and the place where the principal assets of our Company and

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Tuyi Group are located shall be considered as having jurisdiction for the above purposes. However, our PRC Legal Advisers have advised that the above provisions may not be enforceable under the PRC laws. For instance, the arbitral tribunal has no power to grant such injunctive relief, nor will it be able to order the winding up of Tuyi Group pursuant to the current PRC laws. In addition, interim remedies or enforcement order granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognisable or enforceable in the PRC. As a result of the above, in the event that any of the Operating Entities or the Relevant Shareholders breaches any of the Structured Contracts, we may not be able to obtain sufficient remedies in a timely manner, and our ability to exert effective control over the Operating Entities and conduct our business could be materially and adversely affected. Please see “Risk Factors – Risks Relating to our Contractual Arrangements” for further details.

Succession

As advised by our PRC Legal Advisers, the provisions set out in the Structured Contracts are also binding on any successors of the Relevant Shareholders as if the successor was a signing party to the Structured Contracts. Although the Structured Contracts do not specify the identity of successors to such Relevant Shareholders, under the succession law of the PRC, statutory successors may include the spouse, children, parents, brothers, sisters, paternal grandparents and the maternal grandparents, and as such any breach by the successors would be deemed to be a breach of the Structured Contracts after the happening of inheritance. In case of a breach, WFOE can enforce its rights against the successors.

In addition, the spouse of each of the Relevant Shareholders (where applicable) has provided irrevocable undertakings which stipulate certain matters to succession of the rights and obligations under the Contractual Arrangements. Please see “– Spouse Undertakings” in this section. Furthermore, pursuant to the Exclusive Option Agreement, the Relevant Shareholders have undertaken that if the holding of any equity interest in Tuyi Group by any of them is affected due to death, loss of capacity, divorce or any other situations of any of them, they will make all necessary arrangements and sign all necessary documents to ensure that their successors, guardians, spouses or any other entities which succeed their interests as a result of the aforesaid situations will not prejudice or impair the performance of the Contractual Arrangements. Our PRC Legal Advisers are of the view that (i) the Contractual Arrangements provide protection to our Group even in the event of death or divorce of any Relevant Shareholders; and (ii) the death or divorce of such Relevant Shareholder would not affect the validity of the Contractual Arrangements, and WFOE can enforce its right under the Contractual Arrangements against the successors of such Relevant Shareholder.

Arrangements to Address Potential Conflicts of Interests

Pursuant to the Exclusive Option Agreement, the Relevant Shareholders undertake to WFOE and Tuyi Group that, unless with the prior written consent of WFOE, the Relevant Shareholders (severally or jointly) shall not (i) directly or indirectly engage, participate in, conduct, acquire or hold any business or activities which compete or may potentially compete with the Operating Entities (“**Competing Business**”); (ii) use information obtained from the Operating Entities for the Competing Business; and (iii) obtain any benefit from any Competing Business. The Relevant Shareholders further consent and agree that, in the

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event that the Relevant Shareholders directly or indirectly engage, participate in or conduct any Competing Business, WFOE and/or its designated entity shall be granted an option to require the entity engaging in the Competing Business to enter into an arrangement similar to that of the Structured Contracts. If WFOE does not exercise such option, the Relevant Shareholders shall cease the operation of the Competing Business within a reasonable time. Our Directors are of the view that the measures we have adopted are sufficient to mitigate the risks associated with the potential conflicts of interest between the Relevant Shareholders on the one hand, and our Company on the other hand.

Loss Sharing

Under the relevant PRC laws and regulations, none of our Company and WFOE is legally required to share the losses of, or provide financial support to, Tuyi Group. Further, each of the Operating Entities is a limited liability company and shall be solely liable for its own debts and losses with assets and properties owned by it. WFOE intends continuously to provide to or assist the Operating Entities in obtaining financial support when deemed necessary. In addition, given that our Group conducts a substantial portion of its business operations in the PRC through the Operating Entities particularly Tuyi Group, which holds the requisite PRC operational licenses and approvals, and that their financial position and results of operations are consolidated into our Group's financial statements under the applicable accounting principles, our Company's business, financial position and results of operations would be adversely affected if Tuyi Group suffers losses.

However, as provided in the Exclusive Option Agreement, without the prior written consent of WFOE, Tuyi Group shall not, and shall procure its subsidiaries not to among others, (i) sell, transfer, pledge or dispose of in any manner any of its assets, business or income; (ii) engage in transactions that could materially affect its assets, liabilities, rights or operations; (iii) distribute dividends or profits; (iv) incur, inherit, guarantee or allow any debt; (v) increase or reduce its registered capital, or alter the structure of the registered capital in any other way; (vi) in any manner supplement, change or amend its articles of association; and (vii) merge or consolidate with, acquire or invest in any entity. Therefore, due to the relevant restrictive provisions in the agreements, the potential adverse effect on WFOE and our Company in the event of any loss suffered from the Operating Entities can be limited to a certain extent.

Liquidation

Pursuant to the Exclusive Option Agreement, in the event of the dissolution or liquidation of the Operating Entities, the Relevant Shareholders undertake that, among others, WFOE and/or its appointee shall have the right to exercise all shareholders' rights on behalf of the Relevant Shareholders and they shall instruct the Operating Entities to transfer assets received under PRC laws directly to WFOE and/or its appointee. Furthermore, pursuant to the Shareholders' Rights Entrustment Agreement, WFOE and/or its appointee has been irrevocably authorised and entrusted to exercise the rights of the Relevant Shareholders as shareholders of Tuyi Group.

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Bankruptcy

Our PRC Legal Advisers have advised that the concept of bankruptcy of a natural person does not exist under PRC laws, and, as such, there is currently no possibility of an event of bankruptcy of the Relevant Shareholders under PRC laws.

Furthermore, in case of occurrence of any event which may affect a Relevant Shareholder's performance of his/its obligations under the Contractual Arrangements, WFOE is entitled to exercise its option to purchase the equity interest held by such Relevant Shareholder in Tuyi Group by itself or through its appointees under the Exclusive Option Agreement. All equity interest of Tuyi Group held by Relevant Shareholders have also been pledged to WFOE under the Equity Interest Pledge Agreement to secure performance of obligations under the Contractual Arrangements and in case of any breach of such obligations, WFOE is entitled to enforce such pledge.

Termination

Other than the Equity Interest Pledge Agreement, which shall remain valid until all the contractual obligations of Tuyi Group and the Relevant Shareholders under the Contractual Arrangements have been fully performed, each of the Exclusive Business Cooperation and Service Agreement, the Exclusive Option Agreement, the Equity Interest Pledge Agreement and the Shareholders' Rights Entrustment Agreement has a termination provision that unless otherwise required by the applicable PRC laws, Tuyi Group and the Relevant Shareholders are not entitled to unilaterally terminate the Contractual Arrangements. The Contractual Arrangements shall be (a) automatically terminated upon acquiring by WFOE or its appointee(s) the entire equity interests or assets of the Operating Entities pursuant to its rights under the Exclusive Option Agreement; or (b) terminated unilaterally by WFOE by giving 30-day prior notice to Tuyi Group.

Insurance

Our Company does not maintain an insurance policy to cover the risks relating to the Contractual Arrangements.

Company's confirmation

As at the Latest Practicable Date, our Company has not encountered any interference or encumbrance from any PRC governing bodies in operating its businesses through the Operating Entities under the Contractual Arrangements.

Given that the Contractual Arrangements will constitute continuing connected transactions of our Company, a waiver has been sought from and has been granted by the Stock Exchange, details of which are disclosed in "Connected Transactions".

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Legality of the Contractual Arrangements

PRC Legal Opinions

Our PRC Legal Advisers, after taking reasonable actions and steps to reach its legal conclusions including interviews with competent PRC regulatory authority, namely Tourism Bureau of Zhejiang Province (浙江省旅遊局), in February 2018, are of the views that:

- (i) each of the Operating Entities was duly established and is validly existing, and Tuyi Group is a legal person with full civil and legal capacity. Each of the Operating Entities has also obtained all requisite approvals, permits, registrations or filings that are material for carrying out its business operations as required by the applicable PRC laws, regulations and rules;
- (ii) each of the agreements comprising the Contractual Arrangements, will upon execution, constitute legal, valid and binding obligation of the parties thereto and the Contractual Arrangements are in full compliance with and will be enforceable under applicable PRC laws, regulations and rules, in particular, the terms of the agreements comprising Contractual Arrangements do not, individually or collectively, violate the provisions of the PRC Contract Law (《中華人民共和國合同法》), the General Principles of the PRC Civil Law (《中華人民共和國民法通則》) and other applicable PRC laws and regulations, however (i) the arbitral tribunal has no power to grant injunctive relief, nor will it be able to order the winding up of the Operating Entities pursuant to the current PRC laws; and (ii) interim remedies or enforcement order granted by overseas courts such as the courts of Hong Kong and the Cayman Islands may not be recognisable or enforceable in China;
- (iii) each of the agreements comprising the Contractual Arrangements is not in violation of provisions of the constitutional documents of the Operating Entities;
- (iv) each of the agreements comprising the Contractual Arrangements is enforceable under the PRC laws and regulations, the entering into and the performance of such agreements does not require any approvals or authorisations from the PRC governmental authorities, except that (a) the pledge of any equity interest in Tuyi Group by the Relevant Shareholders for the benefit of WFOE is subject to registration requirements with Hangzhou Municipal Administration of Market Supervision (杭州市市場監督管理局); (b) any transfer of equity interest in Tuyi Group contemplated under the Contractual Arrangements is subject to applicable approval and/or registration requirements under the then applicable laws and regulations; and (c) any arbitral awards or foreign rulings and/or judgments in relation to the performance of the Contractual Arrangements are subject to applications to competent PRC courts for recognition and enforcement;

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- (v) neither WFOE nor our Company is obligated to share the losses of the Operating Entities or provide financial support to the Operating Entities. Each of the Operating Entities is solely liable for its own debts and losses with assets and properties owned by it; and
- (vi) the consummation of the Listing will not violate the Regulations on Mergers and Acquisitions of Domestic Companies by Foreign Investors (《關於外國投資者併購境內企業的規定》).

To further confirm the legality of the Contractual Arrangements under the relevant PRC laws and regulations, our PRC Legal Advisers have consulted a Division Chief of Supervision and Management Department (監督管理司處長) of the Ministry of Culture and Tourism of the People's Republic of China (中華人民共和國文化和旅遊部) in July 2018. The Ministry of Culture and Tourism also confirmed the view of the Tourism Bureau of Zhejiang Province on the interpretation of the relevant laws and regulations and the legality of the Contractual Arrangements. The Ministry of Culture and Tourism was formed on 19 March 2018 upon dissolutions of its predecessors of the Ministry of Culture of the People's Republic of China (中華人民共和國文化部) and China National Tourism Administration Bureau (國家旅遊局). The powers and functions of China National Tourism Administration Bureau were undertaken by the Ministry of Culture and Tourism. As advised by our PRC Legal Advisers, the Ministry of Culture and Tourism is the highest tourism administration of the PRC and is competent to give the aforesaid confirmation, and the relevant official consulted has the competent authority to provide the aforesaid confirmation.

Our PRC Legal Advisers further opine that the Contractual Arrangements will not be deemed as void under the PRC Contract Law (《中華人民共和國合同法》) as they will not fall within any of the five circumstances under section 52 of the PRC Contract Law.

Pursuant to Section 52 of the PRC Contract Law, a contract is void under any of the following circumstances: (i) one party concludes the contract through the use of fraudulent or coercive means, causing detriment to the interests of the State; (ii) the contract involves a malicious conspiracy which is detrimental to the interests of the State, a collective or a third party; (iii) illegal intentions are concealed beneath an appearance of legality; (iv) there is detriment to social and public interests; or (v) the mandatory provisions of laws and administrative regulations are violated.

The Contractual Arrangements do not fall within circumstance (i) under Section 52 of the PRC Contract Law, because the Contractual Arrangements were freely negotiated and entered into by WFOE, the Operating Entities and the Relevant Shareholders and no apparent interest of the State was damaged by the Contractual Arrangements. Neither do the Contractual Arrangements fall within circumstances (ii) or (iii) because there was no malicious collusion or apparent damage to the interest of the State, a collective unit, a third party or the public. The Contractual Arrangements do not fall within circumstance (v) because none of the arrangements violate any mandatory provisions of current laws in the PRC, which refers to laws promulgated by the National People's Congress of the PRC or its Standing Committee, or any mandatory provisions of administrative regulations in the PRC, which refers to administrative regulations issued by the State Council of the PRC.

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In particular, our PRC Legal Advisers are of the view that the Contractual Arrangements would not be deemed as “concealing illegal intentions with a lawful form” such that they also do not fall within circumstance (iv) under the Section 52 of the PRC Contract Law. This is because the Contractual Arrangements were not entered into for illegitimate purposes. The purposes of the Contractual Arrangements are (i) to enable the Tuyi Group to transfer its economic benefits to WFOE as service fees for engaging WFOE as its exclusive provider of technical support, business support, relevant consulting services and any other services the Tuyi Group may require; and (ii) to ensure that the Relevant Shareholders of the Tuyi Group do not take any actions that are contrary to the interests of WFOE. None of these purposes in and of themselves are illegal or illegitimate, and the individual contracts that comprise the Contractual Arrangements are common agreements that are legitimate and legal. In accordance with Section 4 of the PRC Contract Law, which is a section of the Part One (General Principles) of the PRC Contract Law setting forth fundamental principles under the PRC Contract Law, the parties to the Contractual Arrangements have the right to enter into contracts in accordance with their own wishes and no person may illegally interfere with such right. In addition, the effect of the Contractual Arrangements, which is to allow the Company to list on the Stock Exchange while obtaining the economic benefits of the Tuyi Group, is not for an illegitimate purpose, as evidenced by the fact that a number of currently listed companies also adopt a similar VIE structure.

Our PRC Legal Advisers further confirm that as far as they are aware, no regulatory or legislative actions have been taken by the PRC governmental authorities on any existing contractual arrangements of publicly listed PRC companies, nor has there been any proposal to enact new laws or regulations to regulate contractual arrangements in any publicly available annual legislation plan of the PRC.

However, our PRC Legal Advisers further advise us that the possibility of the PRC legislative authorities, administrative authorities, courts or arbitration tribunals holding views contrary to that of our PRC Legal Advisers cannot be entirely ruled out.

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Interviews and consultation with the competent PRC authorities

To further confirm the PRC Legal Advisers' views relating to the implementation of the Contractual Arrangements and certain PRC laws and regulations interpretations relating to the operation of the Outbound Travel Business, representatives of our PRC Legal Advisers had conducted interviews and consultation with the relevant government authority with details as follows:

Government authority	Position of interviewee	Summary of results of interviews and consultation
Tourism Bureau of Zhejiang Province (浙江省旅遊局)	Deputy Director of Industry Administration 行業管理處副處長	<ul style="list-style-type: none">● Outbound Travel Business and provision of ancillary services (including issuing invitation letters for visa application, visa application processing, booking of transportation, accommodation, admission tickets to attractions etc.) is prohibited from foreign investment.● Foreign invested entities are also prohibited from applying relevant licenses (e.g. Travel Agency Business License (旅行社業務經營許可證)) with the scope include outbound travel business for operation of the Outbound Travel Business.● The Contractual Arrangements do not violate the requirement regarding prohibition of foreign investment to the Outbound Travel Business and provision of ancillary services.

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Government authority	Position of interviewee	Summary of results of interviews and consultation
Ministry of Culture and Tourism of the People's Republic of China (中華人民共和國文化和旅遊部)	A Division Chief of Supervision and Management Department 監督管理司處長	<ul style="list-style-type: none">● Travel agencies conducting Outbound Travel Business are prohibited from foreign investment, and once any travel agency becomes a foreign invested entity, its Travel Business Operation Permit (旅行社業務經營許可證) with the scope to conduct Outbound Travel Business may be revoked.● The Contractual Arrangements do not violate the requirement regarding the prohibitions of foreign investment to the Outbound Travel Business.● The tourism administration identifies travel agencies on whether they are foreign invested entities according to their registered shareholding structures.

Our PRC Legal Advisers confirm that the above government authorities are competent to provide guidance relating to the Outbound Travel Business operated by Tuyi Group and the respective representatives are competent persons to represent the above government authorities to provide answers in the interviews and consultation.

Sole Sponsor's View

The Sole Sponsor is of the view that the Contractual Arrangements adopted by our Group have complied with the requirements set out in the listing decision (HKEx-LD43-3) issued by the Stock Exchange in 2005 and amended in March 2011, August 2012, November 2012, December 2012, November 2013, April 2014, August 2015, and February and April 2018 respectively.

Accounting aspects of the Contractual Arrangements

Consolidation of financial results of Tuyi Group

Through the Contractual Arrangements, our Company, through WFOE, will be entitled to variable returns from the Operating Entities, able to affect such returns through its power over the Operating Entities and considered as being able to control the Operating Entities. As a result, the Operating Entities will be regarded as indirect subsidiaries of our Group

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under HKFRS 10 – Consolidated Financial Statements. Our Group will include the operating results and financial position of the Operating Entities in its consolidated financial statements for the following reasons:

- (i) pursuant to the Exclusive Business Cooperation and Service Agreement, in consideration of the services provided by WFOE, Tuyi Group will agree to pay WFOE an annual service fee equal to all of their net profit recognised under HKFRS (after deducting all relevant costs, reasonable expenses). WFOE will have the right to, at its sole and absolute discretion, adjust the service fees payable by Tuyi Group Company when deemed necessary. WFOE also has the right to periodically receive and review the accounts of Tuyi Group. Accordingly, WFOE has the ability to, at its sole and absolute discretion, extract substantially all the economic benefits of Tuyi Group through the Exclusive Business Cooperation and Service Agreement;
- (ii) under the Exclusive Option Agreement, WFOE will have absolute control over the distribution of dividends or any other form of profits to the shareholders of Tuyi Group as WFOE's prior written consent is required for any such distribution; and
- (iii) under the Shareholders' Rights Entrustment Agreement, WFOE will irrevocably and unconditionally assumes all of the shareholder's rights in Tuyi Group, including the right to sell, transfer and dispose of any shares, to exercise shareholder's voting rights, to nominate and elect the directors of Tuyi Group, to nominate and appoint directors, supervisors and general managers of Tuyi Group, and to sign and file minutes and resolutions with the relevant company registry. Accordingly, our Company will have obtained control of Tuyi Group through WFOE and will be able to, under the our Company's sole and absolute discretion, receive substantially all of the economic benefits and returns generated by Tuyi Group.

DEVELOPMENT IN THE PRC LEGISLATION ON FOREIGN INVESTMENT

The 2015 Draft Foreign Investment Law and the Explanatory Notes

Background

The MOFCOM promulgated the 2015 Draft Foreign Investment Law in January 2015 to solicit public comment. While the MOFCOM solicited comments on this draft in early 2015, substantial uncertainties exist with respect to its enactment timetable, interpretation and implementation. As at the Latest Practicable Date, the 2015 Draft Foreign Investment Law has not been enacted as proposed. The 2015 Draft Foreign Investment Law, if enacted as proposed, may materially impact the entire legal framework regulating foreign investments in China.

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Negative List

The 2015 Draft Foreign Investment Law stipulates restriction of foreign investment in certain industry sectors. The “negative list” set out in the 2015 Draft Foreign Investment Law classified the relevant prohibited and restricted industries into the Catalogue of Prohibitions (禁止實施目錄) and the Catalogue of Restrictions (限制實施目錄), respectively. Foreign investors are not allowed to invest in any sector set out in the Catalogue of Prohibitions. Where any foreign investor directly or indirectly holds shares, equities, properties or other interests or voting rights in any domestic enterprise, such domestic enterprise is not allowed to invest in any sector set out in the Catalogue of Prohibitions, unless otherwise specified by the State Council of the PRC. Foreign investors are allowed to invest in sectors set out in the Catalogue of Restrictions provided that they fulfil certain conditions and apply for permission before making such investment. However, the 2015 Draft Foreign Investment Law does not specify the businesses to be included in the Catalogue of Prohibitions and the Catalogue of Restrictions.

Principle of “actual control”

Among other things, the 2015 Draft Foreign Investment Law purports to introduce the principle of “actual control” in determining whether a company is considered a foreign invested enterprise, or an foreign invested entity (“**FIE**”). The 2015 Draft Foreign Investment Law specifically provides that entities established in China but “controlled” by foreign investors will be treated as FIEs, whereas an entity organised in a foreign jurisdiction, but confirmed by the authority in charge of foreign investment as “controlled” by PRC entities and/or citizens, would nonetheless be treated as a PRC domestic entity for investment in the “restricted category” on the “negative list” to be issued subject to the examination of the relevant authority in charge of foreign investment. For these purposes, “control” is broadly defined in the draft law to cover any of the following summarised categories:

- (i) holding directly or indirectly 50% or more of the equity interest, assets, voting rights or similar equity interest of the subject entity;
- (ii) holding directly or indirectly less than 50% of the equity interest, assets, voting rights or similar equity interest of the subject entity but (a) having the power to directly or indirectly appoint or otherwise secure at least 50% of the seats on the board or other equivalent decision making bodies; (b) having the power to secure its nominated person to acquire at least 50% of the seats on the board or other equivalent decision making bodies; or (c) having the voting power to exert material influence over decision-making bodies, such as the shareholders’ meeting or the board; or
- (iii) having the power to exert decisive influence, via contractual or trust arrangements, over the subject entity’s operations, financial, staffing and technology matters.

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In respect of “actual control”, the 2015 Draft Foreign Investment Law looks at the identity of the ultimate natural person or enterprise that controls the foreign-invested enterprise. “Actual control” refers to the power or position to control an enterprise through investment arrangements, contractual arrangements or other rights and decision-making arrangements. Article 19 of the 2015 Draft Foreign Investment Law defined “actual controllers” as the natural persons or enterprises that directly or indirectly control foreign investors or foreign-invested enterprises.

If an entity is determined to be an FIE, and its investment amount exceeds certain thresholds or its business operation falls within a “negative list” to be separately issued by the State Council of the PRC in the future, market entry clearance by the authority in charge of foreign investment would be required.

Impact of the 2015 Draft Foreign Investment Law on VIE

The “variable interest entity” structure, or VIE structure, has been adopted by many PRC-based companies, and has been adopted by our Company in the form of the Contractual Arrangements, to establish control of the Operating Entities by WFOE, through which we operate our Outbound Travel Business in PRC. Under the 2015 Draft Foreign Investment Law, variable interest entities that are controlled via contractual arrangements would also be deemed as FIEs, if they are ultimately “controlled” by foreign investors. For companies with a VIE structure in an industry category that is in the “restricted category” on the “negative list,” it is possible that the existing VIE structure may be deemed legitimate only if the ultimate controlling person(s) is/are of PRC nationality (either PRC state-owned enterprises or agencies, or PRC citizens). Conversely, if the actual controlling person(s) is/are of foreign nationalities, then the variable interest entities will be treated as FIEs and any operation in the industry category on the “negative list” without market entry clearance may be considered as illegal.

Neither the 2015 Draft Foreign Investment Law nor its accompanying explanatory notes (the “**Explanatory Notes**”) provides a clear direction in dealing with VIE structures existing before the 2015 Draft Foreign Investment Law becoming effective. However, the Explanatory Notes contemplate three possible approaches in dealing with foreign-invested enterprises with existing VIE structures and conducting business in an industry falling in the Negative List:

- (a) to make a filing (申報) to the competent authority that the actual control is vested with Chinese investors, then the VIE structures may be retained for its operation;
- (b) to apply to the competent authority for certification of its actual control vested with Chinese investors and upon verification (認定) by the competent authority, the VIE structures may be retained for its operation;
- (c) to apply to the competent authority for permission (准入許可) and the competent authority together with the relevant departments shall make a decision after taking into account the actual control of the foreign-invested enterprise and other factors.

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To further clarify, under the first possible approach, “making a filing” is simply an information disclosure obligation, which means the enterprise does not have to receive any confirmation or permission from the competent authorities, whilst for the second and third approaches, the enterprise has to receive either the confirmation or the access permission from the competent authorities. For the latter two approaches, the second approach focuses on the nationality of the controller, whereas the third approach may take factors in addition to the nationality of the controller (which are not clearly defined in the 2015 Draft Foreign Investment Law or the Explanatory Notes) into consideration.

The three possible approaches above are set out in the Explanatory Notes to solicit public opinion on the treatment of existing contractual arrangements, have not been formally adopted and may be subject to revisions and amendments taking into account the results of the public consultation.

Where foreign investors and foreign-invested enterprises circumvent the provisions of the 2015 Draft Foreign Investment Law by entrusted holding, trust, multi-level reinvestment, leasing, contracting, financing arrangements, protocol control, overseas transaction or otherwise, make investments in sectors specified in the Catalogue of Prohibitions, or make investments in sectors specified in the Catalogue of Restrictions without permission or violate the information reporting obligations specified therein, the penalty shall be imposed in accordance with Article 144 of (Investments in Sectors Specified in the Catalogue of Prohibitions), Article 145 (Violation of Provisions on Access Permission), Article 147 (Administrative Legal Liability for Violating the Information Reporting Obligation) or Article 148 (Criminal Legal Liability for Violating the Information Reporting Obligation) of the 2015 Draft Foreign Investment Law, as the case may be.

Where foreign investors make investments in the sectors specified in the Catalogue of Prohibitions, the competent authorities of foreign investment of the people’s governments of provinces, autonomous regions and municipalities directly under the Central Government at the place where the investments are made shall order them to cease the implementation of such investments, dispose of equity or other assets within a prescribed time limit, confiscate illegal gains, if any, and impose a fine of not less than RMB100,000 but not more than RMB1 million or of not more than 10% of illegal investments.

Where foreign investors make investments in the sectors specified in the Catalogue of Restrictions without authorisation, the competent authorities of foreign investment of the people’s governments of provinces, autonomous regions and municipalities directly under the Central Government at the place where the investments are made shall order them to cease the implementation of such investments, dispose of equity or other assets within a prescribed time limit, confiscate illegal gains, if any, and impose a fine of not less than RMB100,000 but not more than RMB1 million or of not more than 10% of illegal investments.

Where foreign investors or foreign-invested enterprises are in violation of the provisions of the 2015 Draft Foreign Investment Law, including failing to perform on schedule, or evading the performance of, the information reporting obligation, or concealing the truth or providing false or misleading information, the competent authorities of foreign investment of the people’s governments of provinces, autonomous regions and municipalities

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directly under the PRC Government at the place where the investments are made shall order them to make rectifications within a prescribed time limit; if they fail to make rectifications within the prescribed time limit, or the circumstances are serious, a fine of not less than RMB50,000 but not more than RMB500,000 or of not more than 5% of the investments shall be imposed.

Where foreign investors or foreign-invested enterprises are in violation of the provisions of the 2015 Draft Foreign Investment Law, including failing to perform on schedule, or evading the performance of, the information reporting obligation, or concealing the truth or providing false or misleading information, and if the circumstances are extremely serious, a fine shall be imposed on the foreign investors or foreign-invested enterprises and the directly responsible person-in-charge and other persons liable shall be sentenced to fixed-term imprisonment of not more than one year or criminal detention.

Status of promulgation of the 2015 Draft Foreign Investment Law

As at the Latest Practicable Date, there was no certainty whether, or timeline when, the 2015 Draft Foreign Investment Law will be promulgated and come into effect, and if so, whether it is to be promulgated in the current draft form after it undergoes through further enactment process. Furthermore, the MOFCOM has not issued any definite rules or regulations to govern existing contractual arrangements.

Measures to Maintain Control by PRC Citizens

If the 2015 Draft Foreign Investment Law is promulgated in the current draft form, our PRC Legal Advisers are of the view that we are likely to be viewed as being controlled by PRC citizens on the following bases:

- (i) based on the Contractual Arrangements, Tuyi Group is controlled by WFOE (PRC established) pursuant to the third limb of the definition of “control” under the 2015 Draft Foreign Investment Law (as described above); and
- (ii) all of our Directors are currently PRC nationals. Furthermore, through the arrangements in relation to our Board summarised below, we will ensure that the majority of our Board (which is the governing body of our Company and makes all material decisions with respect to our Company) comprises PRC nationals, our Company is likely to be considered as being ultimately controlled by PRC nationals pursuant to the third limb of the definition of “control” under the 2015 Draft Foreign Investment Law (as described above).

Our Board is the governing body of our Company and makes all material decisions with respect to our Company. Under our Company’s constitutional documents, decisions of our Board need to be approved by a majority of our Directors who attend and vote at a quorate meeting of the Board, or alternatively may be approved by way of a written resolution signed unanimously by every Director. Currently, all members of our Board are PRC nationals.

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The nomination committee of the Board (the “**Nomination Committee**”) is responsible for recommending nominees to the Board for appointment as Directors. Under our Company’s constitutional documents, a Director may only be elected, appointed or removed by (i) shareholders of our Company by voting upon the resolutions that have been proposed by a majority of the Directors; or (ii) by a majority of the Directors. Our Board is in turn restricted to appointing or proposing to Shareholders to elect, directors from candidates nominated by the nomination committee (currently comprised of PRC nationals only) in accordance with the terms of reference of the Nomination Committee (the “**Nomination Committee Charter**”).

Our Memorandum and Articles of Association will have provisions to the effect that the majority of the Board shall consist of PRC nationals (the “**PRC Nationals Control Clause**”). The Nomination Committee Charter will also provide that when nominating candidates for directorship, the Nomination Committee will be bound by a restriction that a majority of the members of the Board must be PRC nationals (subject to their fiduciary duties and compliance with applicable legal and regulatory requirements). For the purpose of complying with the 2015 Draft Foreign Investment Law, and to further ensure that the majority of the Board will comprise PRC nationals, our Memorandum and Articles of Association will further provide that the Shareholders have no right to propose any amendment to the Nomination Committee Charter in relation to the PRC Nationals Control Clause which has not been proposed by the Board. Our legal advisers on Cayman Islands laws, Conyers Dill & Pearman, have confirmed that our Memorandum and Articles of Association including the aforesaid provisions are not in contravention of the Cayman Islands’ laws applicable to our Company which are currently in force.

To ensure that the Contractual Arrangements remain a domestic investment so that our Group can maintain control over and receive all economic benefits derived from the Operating Entities, our Company has given an undertaking to the Stock Exchange that (i) to the extent permitted by applicable laws, rules and regulations, our Board will continue to be comprised of a majority of PRC nationals and our Memorandum and Articles of Association and the Nomination Committee Charter will continue to contain a restriction that majority of members of the Board must be PRC nationals (subject to their fiduciary duties and compliance with applicable legal and regulatory requirements). The aforesaid undertaking will become effective from the date of Listing and will remain effective until compliance with the 2015 Draft Foreign Investment Law (together with all its subsequent amendments or updates, as promulgated) is not required and the Stock Exchange consents to such termination. Notwithstanding the aforesaid, in accordance with the Articles, our Shareholders may by ordinary resolution proposed by a majority of the Directors elect any person to be a Director either to fill a casual vacancy on the Board, or as an addition to the existing Board.

Based on the above, our Directors are of the view that (a) the Contractual Arrangements are likely to be deemed as a domestic investment and the implementation thereof will continue to be permitted; and (b) our Group will be able to maintain control over and receive all economic benefits derived from the Operating Entities.

Notwithstanding the above, there may be uncertainties that the above measures to maintain control over and receive the economic benefits from the Operating Entities alone may not be effective in ensuring compliance with the 2015 Draft Foreign Investment Law (if

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and when it becomes effective). In the event that such measures are not complied with, the Stock Exchange may take enforcement actions against us which may have a material adverse effect on the trading of our Shares. Please see “Risk Factors – Risks Relating to Our Contractual Arrangements” for more details.

Potential Impact to our Company if the Contractual Arrangements are viewed as Prohibited Foreign Investment

If our Group can legally operate the Outbound Travel Business under the then prevailing PRC laws and regulations, WFOE will exercise the equity option under the Exclusive Option Agreement to acquire the interests of the Relevant Shareholders in Tuyi Group and unwind the Contractual Arrangements, subject to any application or approval procedures by the relevant governmental authorities. Pursuant to the Exclusive Option Agreement, the Relevant Shareholders have undertaken that, subject to the relevant PRC laws and regulations, they shall return to WFOE any consideration they receive in the event that WFOE acquires the interests in Tuyi Group when terminating the Contractual Arrangements.

If the final form of the 2015 Draft Foreign Investment Law is not the same as its current draft, depending on its treatment of existing contractual arrangements, the Contractual Arrangements may be regarded as invalid and illegal. As a result, our Group may not be able to operate the Outbound Travel Business through the Contractual Arrangements, and our Company will lose its rights to receive the economic benefits of Tuyi Group. As a result, the financial results of Tuyi Group will not be consolidated into our Group’s financial results and our Group will have to de-recognise the assets and liabilities of Tuyi Group and suffer an investment loss. In such case, the Stock Exchange may also consider our Company to be no longer suitable for listing on the Stock Exchange and delist our Shares. Please see “Risk Factors – Risks Relating to our Contractual Arrangements – There are substantial uncertainties with respect to the enactment timetable, interpretation and implementation of the 2015 Draft Foreign Investment Law.” in this prospectus for further details.

Given that a number of existing conglomerates are operating under contractual arrangements and some of which have obtained listing status abroad, our Directors consider that it is unlikely that the 2015 Draft Foreign Investment Law, if promulgated, will take retrospective effect or that the relevant governmental authorities will require the relevant enterprises to abolish their VIE structures or contractual arrangements. Our Directors consider that the PRC government is likely to take a relatively cautious attitude towards the treatment of VIE structures or contractual arrangements in the future.

However, it is unclear how “control” will be defined in the enacted version of the 2015 Draft Foreign Investment Law. In addition, the relevant governmental authorities may have a broad discretion in the interpretation and enforcement of the relevant provisions or take a view that is different from or contrary to our PRC Legal Advisers’ understanding. In any event, we will take reasonable steps in good faith to comply with the enacted version of the 2015 Draft Foreign Investment Law, if and when it comes into force.

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Foreign Investment Law

Background

On 23 December 2018, the seventh meeting of the 13th SCNPC reviewed the first draft of the Foreign Investment Law of the People's Republic of China (Draft) (中華人民共和國外商投資法(草案)) submitted by the State Council of the PRC, which was promulgated by the NPC on its official website on 26 December 2018 for public consultation until 24 February 2019, and further submitted the 2018 Draft Foreign Investment Law to the NPC for deliberation on 29 January 2019. On 15 March 2019, the NPC adopted the Foreign Investment Law at the closing meeting of the second session of the 13th NPC. Upon taking effect on 1 January 2020, the Foreign Investment Law will replace the Law on Chinese-Foreign Equity Joint Ventures* (《中外合資經營企業法》), the Law on Chinese-Foreign Contractual Joint Ventures* (《中外合作經營企業法》) and the Law on Wholly Foreign-Owned Enterprises* (《外資企業法》) to become the legal foundation for foreign investment in the PRC.

Impact and Potential Consequences of the Foreign Investment Law on our Contractual Arrangements

The Foreign Investment Law stipulates certain forms of foreign investment, but does not mention concepts including “actual control”, nor does it explicitly stipulate the contractual arrangements as a form of foreign investment. As advised by our PRC Legal Advisers, our Contractual Arrangements as a whole and each of the agreements comprising the Contractual Arrangements will not be materially affected and will continue to be legal, valid and binding on the parties when the Foreign Investment Law becomes effective on 1 January 2020, if the then laws, regulations and rules do not incorporate contractual arrangements as a form of foreign investment.

Furthermore, the Foreign Investment Law stipulates that foreign investment includes “foreign investors invest in China through any other methods under laws, administrative regulations or provisions prescribed by the State Council of the PRC”. There are possibilities that future laws, administrative regulations or provisions prescribed by the State Council of the PRC may regard contractual arrangements as a form of foreign investment, at which time it will be uncertain whether the Contractual Arrangements will be deemed to be in violation of the foreign investment access requirements and how the above-mentioned Contractual Arrangements will be handled. If the operation of the Outbound Travel Businesses is no longer falling in the scope that foreign investment is prohibited or certain conditions and permission of foreign investment access required under the Special Administrative Measures and we can legally operate our Outbound Travel Businesses under PRC laws, WFOE will exercise the call option under the Exclusive Option Agreement to acquire the equity interest of Tuyi Group and unwind the Contractual Arrangements subject to any then applicable approvals from the relevant authorities, and subject to any application or approval procedures by the relevant governmental authorities. If the operation of the Outbound Travel Businesses is falling in the scope that foreign investment is prohibited or certain conditions and permission of foreign investment access required under the Special Administrative Measures and the Foreign Investment Law is refined or deviates from the current form, depending on the treatment of the existing contractual arrangements, the

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Contractual Arrangements may be regarded as invalid and illegal. As a result, we would not be able to operate the Outbound Travel Businesses through the Contractual Arrangements and would lose our rights to receive the economic benefits of our Operating Entities. As a result, the financial results of our Operating Entities would no longer be consolidated into our Group's financial results and we would have to derecognise their assets and liabilities according to the relevant accounting standards. If our Group does not receive any compensation, an investment loss would be recognized as a result of such de-recognition. In such case, the Stock Exchange may also consider our Company to be no longer suitable for listing on the Stock Exchange and delist our Shares. Therefore, there is no guarantee that the Contractual Arrangements and the business of Operating Entities will not be materially and adversely affected in the future due to changes in PRC laws and regulations.

Nevertheless, considering that a number of existing entities engaged in outbound travel industries, some of which have obtained listing status abroad, are operating under contractual arrangements, our PRC Legal Advisers advised that there is little possibility, if the Foreign Investment Law become effective, that the relevant authorities will take retrospective effect to require the relevant enterprises to remove, or otherwise unwind their contractual arrangements.

However, there are uncertainties regarding the Foreign Investment Law including, among others, the relevant government authorities will have a broad discretion in interpreting the law and may ultimately take a view that is inconsistent with our PRC Legal Advisers' understanding, and there is still uncertainty whether any new PRC laws, rules or regulations relating to contractual arrangements will be adopted in the future.

Please refer to "Risk Factors – Risks Relating to our Contractual Arrangements" for further details of the risks we face relating to our Contractual Arrangements. In any event, our Company will take reasonable steps in good faith to seek compliance with the enacted version of the Foreign Investment Law, if and when it comes into force.

We will disclose, as soon as possible: (i) updates of changes to the 2015 Draft Foreign Investment Law (if applicable) and interpretations or implementing rules of the Foreign Investment Law (if applicable) that will materially and adversely affect our Company as and when they occur; and (ii) a clear description and analysis of any new PRC laws, rules or regulations relating to contractual arrangements adopted in the future, specific measures taken by our Company to fully comply with the aforesaid new PRC laws, rules or regulations supported by a PRC legal opinion and any material impact of the aforesaid new PRC laws, rules or regulations on our operations and financial position.

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COMPLIANCE WITH THE CONTRACTUAL ARRANGEMENTS

Our Group has adopted the following measures to ensure the effective operation of our Group with the implementation of the Contractual Arrangements and our compliance with the Contractual Arrangements:

- (a) major issues arising from the implementation and compliance with the Contractual Arrangements or any regulatory enquiries from government authorities will be submitted to our Board, if necessary, for review and discussion on an occurrence basis;
- (b) our Board will review the overall performance of and compliance with the Contractual Arrangements at least once a year;
- (c) our Company will disclose the overall performance and compliance with the Contractual Arrangements in its annual reports and interim reports to update the Shareholders and potential investors;
- (d) our Company and our Directors undertake to provide periodic updates in our annual and interim reports regarding our status of compliance with the 2015 Draft Foreign Investment Law and its accompanying explanatory notes as solution disclosed in “Contractual Arrangements – Background of the Contractual Arrangements” and the latest development of the 2015 Draft Foreign Investment Law and its accompanying explanatory notes and the Foreign Investment Law as disclosed in “Contractual Arrangements – Development in the PRC Legislation on Foreign Investment”, including the latest relevant regulatory development; and
- (e) our Company will engage external legal or other professional advisers, if necessary, to assist our Board to review the implementation of the Contractual Arrangements, review the legal compliance of WFOE and the Operating Entities to deal with specific issues or matters arising from the Contractual Arrangements.

In addition, notwithstanding that three of our executive Directors, Mr. Yu, Mr. Pan and Mr. Xu, are also the Relevant Shareholders, we believe that our Directors are able to perform their roles in our Group independently and our Group is capable of managing its business independently after the Listing under the following measures:

- (a) the decision-making mechanism of our Board as set out in the Articles includes provisions to avoid conflict of interest by providing, amongst other things, that in the event of conflict of interest in such contract or arrangement which is material, a Director shall declare the nature of his or her interest at the earliest meeting of the Board at which it is practicable for him or her to do so, and if he or she is to be regarded as having material interest in any contracts or arrangements, such Director shall abstain from voting and not be counted in the quorum;
- (b) each of our Directors is aware of his or her fiduciary duties as a Director which requires, amongst other things, that he or she acts for the benefits and in the best interests of our Group;

CONTRACTUAL ARRANGEMENTS

- (c) we have appointed three independent non-executive Directors, comprising one-third of our Board, to provide a balance of the number of interested and independent Directors with a view to promoting the interests of our Company and our Shareholders as a whole; and

- (d) we will disclose in our announcements, circulars, annual and interim reports in accordance with the requirements under the Listing Rules regarding decisions on matters reviewed by our Board (including independent non-executive Directors) relating to any business or interest of each Director and his or her close associates that competes or may compete with the business of our Group and any other conflicts of interest which any such person has or may have with our Group.

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OVERVIEW

We are a well-established and active outbound travel products and service provider in the PRC, with particular focus in Japan bound package tours and related FIT Products. For FY2018, we ranked fifth in Eastern China in terms of revenue of outbound tourism to Japan, representing approximately 1.2% of the total revenue of tourism bound to Japan of outbound travel agencies in Eastern China. For FY2016, FY2017 and FY2018, our tours bound for Japan accounted for approximately 63.7%, 85.1% and 78.4% of our total revenue for package tours and day tours, respectively, whilst sales of FIT Products for destinations in Japan accounted for approximately 90.4%, 96.7% and 79.4% of our total revenue from FIT Products in the respective years. Our Directors believe that the sales of these travel products and services related to Japan will continue to contribute a significant proportion of our total revenue in the near future. Our Directors also expect that there will be an increase in sale of travel products bound for Japan for FY2019, in light of the recent improvement of Sino-Japanese relation after the first official visit to China by the Japanese prime minister on 25 October 2018 and the simplification of Japan visa application procedures. For instance, the Japanese government has implemented a new visa application policy which provided that commencing from 1 January 2019, any Chinese citizens who have travelled to Japan at least twice in the past three years using individual tourist visas can be exempted from submitting financial documents when applying for a multiple entry visa.

We are principally engaged in the followings:

- the design, development and sale of outbound travel package tours and day tours. Our package tours consist of standardised package tours, tailor-made and customised tours for customers with specific requirements, whereas our day tour products consist of day tours ranging from one day to six days;
- the design, development and sale of FIT Products. Our FIT Products include flight-only booking, hotel-only booking, and flight-plus-hotel packages;
- provision of visa application processing services, including but not limited to, issuance of letters of invitation;
- provision of other ancillary travel-related products and services such as stand-alone issuance of letters of invitation to other travel agencies which do not have such qualifications to issue letters of invitation, car-rental services, airport transportation, railway tickets and pocket Wi-Fi rental, etc.; and
- operating our self-owned Shizuoka Hotel and the Tokyo Hotel. Hotel rooms supplied by the Shizuoka Hotel and the Tokyo Hotel during the Track Record Period are included in some of our package tours and FIT Products as well.

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According to the F&S Report, Japan is one of the most popular tourism destinations for Chinese outbound tourists due to its abundant tourism resources, and the number of outbound tourists visit to Japan from Eastern China also witnessed a rapid growth. Please refer to “– Our Competitive Strengths – We are well positioned to capitalise on market opportunities arising from the growth of outbound travel in the PRC” for further details. In order to capture the business opportunities arising from the growth of outbound tourists visit to Japan from Eastern China and differentiate ourselves from our competitors, we are dedicated to establishing our market presence in Japan and we established our first wholly-owned subsidiary in Japan to facilitate our management of Japan tours operation in 2015. With a view to (i) further strengthen our market presence in Japan tourism market; and (ii) take advantage of the synergistic effect between our tour operation and hotel operation, we have tapped into the hospitality industry in Japan by acquiring the Shizuoka Hotel in 2015 and two plots of land in Tokyo for construction of the Tokyo Hotel in 2016, respectively. The Tokyo Hotel started to generate revenue since its commencement of operation in October 2018. Revenue generated from hotel operation accounted for approximately 5.8%, 7.3% and 6.2% of our total revenue for FY2016, FY2017 and FY2018, respectively. It is expected that there will be an increase in the demand for hotel accommodations in Japan, especially in Tokyo. According to the F&S Report, hotels in Tokyo demonstrated a higher level of annual average occupancy rate as compared to the annual average occupancy rate in Japan, which had reached approximately 85.7% in 2018, and is expected to rise to approximately 87.0% by 2023.

The following table sets out a breakdown of our revenue by business segments for the year indicated:

	FY2016		FY2017		FY2018	
	Revenue	Percentage	Revenue	Percentage	Revenue	Percentage
	RMB'000	%	RMB'000	%	RMB'000	%
Sales of package tours and day tours ^{(1), (3)}	181,986	79.9	132,078	78.2	162,767	79.4
Margin income from sales of FIT Products ⁽⁴⁾	15,221	6.7	10,071	6.0	13,825	6.7
Margin income from the provision of visa application processing service ^{(2), (4)}	15,672	6.9	11,990	7.1	13,345	6.5
Other income from sales of ancillary travel related products and provision of services ⁽³⁾	1,665	0.7	2,474	1.4	2,313	1.2
Hotel operation ⁽³⁾	13,286	5.8	12,254	7.3	12,801	6.2
Total	227,830	100.0	168,867	100.0	205,051	100.0

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Notes:

- (1) Include revenue of approximately RMB11.7 million, RMB17.0 million and RMB6.8 million derived from commissions received from duty-free and other retail shops operated by third parties, and our tour escorts and/or tour guides in FY2016, FY2017 and FY2018, respectively. Among of the duty-free shops we received commissions from, two of them are listed on the Tokyo Stock Exchange and one of them is listed on KOSDAQ of the Korea Exchange, respectively.
- (2) The revenue generated from visa application processing only includes our fees collected from our non-package tour customers. The fee we charged our package tour customers for visa application processing was included in the price of the package tours.
- (3) Revenue was recognised on a gross basis because our Group acts as the principal and has control over the provision of package tour and day tour services, hotel operation services and sales of ancillary travel related products before they are transferred to the customer.
- (4) Revenue was recognised on a net basis because our Group acts as an agent and does not obtain control over the service performed by the airline companies and hotels for FIT Products, and the relevant government authorities for visa application processing services.

Our customers mainly comprise (i) B2B customers such as travel companies and online travel agencies; and (ii) B2C customers such as retail customers to which we sold our travel products and services through various sales channels such as our headquarters, our branches and third party online sales platforms. For FY2016, FY2017 and FY2018, revenue from our five largest customers in aggregate accounted for approximately 16.4%, 12.6% and 9.3% of our total revenue, respectively. For details of the key aspects of the agreements we entered into with travel company customers, please see “– Customers – Travel companies” below.

We have also maintained good business relationships with various airline operators, hotel operators, ticketing agents and land operators at destination countries, who are our suppliers during the Track Record Period. For FY2016, FY2017 and FY2018, purchases from our five largest suppliers in aggregate accounted for approximately 22.6%, 20.0% and 25.4% of our total cost of sales, respectively. For details of the key aspects of the arrangement we have with our suppliers, please see “– Suppliers” below.

We believe our commitment towards providing quality travel products and services to our customers have led us to receive numerous awards and recognition over the years. For instance, Fliggy (飛豬旅行), an online travel platform launched by the Alibaba Group, previously known as Taobao Travel (淘寶旅行) and Ali Travel (阿里旅行), has granted us “The Single’s Day Popular Award (雙11人氣大獎)” in 2017. We also received the award of “Outstanding Travel Agency” from Japan Airlines for 2016 and 2017, respectively, and the “Best Sales Award” from All Nippon Airways in 2017 and 2018. In 2019, we were granted the awards of “Top 5 Quality Wholesaler (5大品質批發商)” and “Top 5 Quality Wholesaler/Japan (日本線5大品質批發商)” by guojialvye.com (國家旅業). For details of the major awards received by us, please see “– Awards” below.

OUR COMPETITIVE STRENGTHS

We believe we have the following competitive strengths which differentiate us from our competitors:

We are well positioned to capitalise on market opportunities arising from the growth of outbound travel in the PRC

According to the F&S Report, Japan is one of the most popular outbound tourism destinations for Chinese outbound tourists due to its abundant tourism resources, including rich history, attractive natural sceneries and popular commodities. Driven by (i) the implementation of several bold initiatives of Japanese government, such as visa relaxation and consumption tax exemption for outbound visitors; and (ii) increasing disposable income and consumption expenditure of Chinese tourists on outbound travelling, the number of Chinese outbound tourists to Japan increased from approximately 3.2 million in 2014 to approximately 8.4 million in 2018, attaining a CAGR of 26.7% which is much higher than the CAGR of approximately 10.9% for increase in total number of outbound tourists visits. Tourists from Eastern China, which refer to Anhui, Fujian, Jiangsu, Jiangxi, Shandong, Zhejiang Provinces and Shanghai, are the largest group travelling to Japan among all other regions in the PRC. The number of outbound tourists visit to Japan from Eastern China witnessed a rapid growth at a CAGR of 32.4% between 2014 and 2018, increased from approximately 0.7 million in 2014 to approximately 2.3 million in 2018, and accounting for approximately 27.3% of the total number of outbound tourists to Japan from the PRC in 2018, compared to 22.9% in 2014. With the coming of 2020 Tokyo Olympics and its long-term impact bringing tourism facilities and infrastructure improvements, the annual number of outbound tourists visit to Japan from Eastern China is projected to reach approximately 5.2 million by 2023, representing approximately 28.6% of the total number of outbound tourists visit to Japan from the PRC in 2023.

We believe that (i) our proven track record to offer outbound travel products and services to our customers in the PRC; and (ii) our strong market presence in Japan equips us with the following competitive advantages:

- to differentiate ourselves from our competitors, we are dedicated to establishing our market presence in Japan. In 2015, we established our first wholly-owned subsidiary in Japan, namely, Tuyi Group Japan, with a purpose to further strengthen the development of our Japan-related travel products and services. As at 31 December 2018, Tuyi Group Japan had one office located in Izu, Shizuoka Prefecture, and a total of 52 employees in Japan who are responsible for the operation and logistic arrangement of our Japan tours and day tours, and the operation of the Shizuoka Hotel and the Tokyo Hotel. Combined with our ability to establish direct business relationships with local tourism service providers in operating our package and day tours as described below, we believe that it provides us with better control over our costs and service quality;
- with extensive experiences in the tourism market, our employees in Japan have a deep understanding of the needs of customers. They can observe and quickly identify the latest market trend and customer needs, enabling us to provide package tours, FIT Products and day tour products that match with customers' demands. Based on the data and information gathered by our staff in Japan, we can also formulate from time to

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time corresponding marketing strategies. For example, according to the F&S Report, Chinese consumers gradually started to focus on high-quality and non-necessity products, and cultural factors and entertainment are becoming a major driver of outbound travel in the PRC compared with the past when shopping was the main priority, and PRC travellers are allocating more budget to non-shopping leisure activities at overseas travel destinations. We believe our strong market presence and in-depth knowledge on tourism resources in Japan enable us to offer diversified outbound travel products and services to cater for different customers' needs, such as one-day city walking tour, cultural experience tours, ski tours, hot spring tours, natural heritage tours, kids-friendly tours, wine-tasting tours and real estate inspection tours. Furthermore, by having our own employees in Japan, we can assist our customers with any emergency situations more efficiently;

- according to the F&S Report, it is an industry norm that entities in Japan prefer to negotiate and cooperate with local corporations as they believe that their rights are better protected by Japanese laws if the counterparties are also Japanese entities. As such, we believe that third party suppliers will prefer to contract with our Japan subsidiaries as opposed to overseas companies without subsidiaries in Japan, since it will be easier for them to enforce any contracts with our Japan subsidiaries in Japan. Our ability to establish direct business relationships with local tourism service providers provides us with the benefit of selecting supplier that offers the best price quotation available for each element of our Japan tour products instead of outsourcing the tour operations to third party land operators in Japan. As at the Latest Practicable Date, not less than 40 suppliers in Japan, including but not limited to tour bus companies and hotel operators, entered into contracts with our subsidiaries in Japan. Our employees in Japan can also communicate and liaise with these third parties in Japan face-to-face and in real time, which improves operational efficiency. As such, by having our own subsidiaries in Japan, we enjoy a wider selection of third party suppliers in Japan and are in a better position than overseas companies to negotiate with suppliers in Japan for better prices and terms, thereby enhancing our profitability and cost-effectiveness;
- in September 2015, we have invested in and acquired the Shizuoka Hotel, and in late 2016, we have acquired two plots of land in Ueno, Tokyo, for construction of the Tokyo Hotel, which is located around ten-minute walking distance from Ueno Station, a major railway station in Tokyo. The Tokyo Hotel has commenced operation in October 2018 and is currently available for booking on various established online hotel booking platforms, such as Agoda, Expedia, Booking.com, Ctrip.com (攜程), Rakuten Travel (樂天旅遊) and Jalan.net. By owning and operating the Shizuoka Hotel and the Tokyo Hotel, we can ensure better utilisation of our Group's resources since there will be sufficient rooms reserved for our tour operations even during peak season without being overcharged by other hotel operators and we can also manage the distribution of rooms for our hotels during low season;
- receiving commissions from duty-free and other retail shops operated by third parties in Japan as we have the ability to arrange for our package tour customers visit these shops as part of their package tour itinerary and when they make purchases with them, and from our tour escorts and/or tour guides at the tour buses, we will receive certain

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percentage of our customers' total purchases as commission. We may also distribute shopping discount coupons issued by some shops to our FIT customers, so that we could receive additional commissions from these shops when our FIT customers make purchases using the coupons; and

- as (i) we established our wholly-owned subsidiary in Japan for the operation of our Japan tours; and (ii) we have a proven track record in organising Japan tours for Chinese tourists, we were granted the qualification by Japan Council of Travel Agents For Chinese Visitors (中華人民共和國訪日觀光客受入旅行會社連絡協議會) to issue letters of invitation required for Japan visa application in 2016. For FY2017 and FY2018, respectively, Consulate-General of Japan in Shanghai, which is responsible for issuing Japan visas for outbound tourists in Anhui, Zhejiang, Jiangsu and Jiangxi Provinces and Shanghai, issued approximately 1.9 million and 2.1 million Japan visas for Chinese tourists, respectively, representing the largest proportion of number of Japan visas issued by Consulate-Generals of Japan globally. For FY2017 and FY2018, the number of Japan visa application handled by us amounted to approximately 95,000 and 113,000, respectively, and we ranked as the second leading outbound travel agency in Anhui, Zhejiang, Jiangsu and Jiangxi Provinces, and Shanghai in terms of number of Japan visa application, representing approximately 5.1% and 5.4% of the total number of Japan visa application issued by the Consulate-General of Japan in Shanghai in FY2017 and FY2018, respectively. The revenue generated from visa application processing only includes our fees collected from our non-package tour customers. The fee we charged our package tour customers for visa application processing was included in the price of the package tours. During the Track Record Period, we received revenue of approximately RMB14.7 million, RMB10.8 million and RMB12.2 million from our customers for the Japan visa application processing services.

We have an established presence and brand name in the PRC and we have maintained good business relationships with airlines and other suppliers

Founded in 2008, we are a well-established and active outbound travel products and service provider under the renowned brand name based in Zhejiang Province, the PRC, having been operated for about ten years. We believe we have successfully built up our “途益 Tuiyi” brand as a well-known brand, representing one-stop personalised travelling service. In 2013, we were awarded Famous Brand of Hangzhou City (杭州市著名商標) by Hangzhou Administration Bureau for Industry and Commerce (杭州市工商行政管理局); in 2015, we were awarded Famous Business Name of Zhejiang Province (浙江省知名商號) by Zhejiang Province Administration Bureau for Industry and Commerce (浙江省工商行政管理局). We were granted “The Single’s Day Popular Award” by Fliggy (飛豬旅行) in 2017, an online travel platform launched by the Alibaba Group, a company listed on the New York Stock Exchange (NYSE: BABA). In 2018, we were given the award of “Outstanding Travel Agency in 2017” by Japan Airlines and the “Best Sales Award” by All Nippon Airways. We were also granted the awards of “Top 5 Quality Wholesaler (5大品質批發商)” and “Top 5 Quality Wholesaler/Japan (日本線5大品質批發商)” by guojialvye.com (國家旅業) in 2019. For details of our achievements in the travel industry, please see “– Awards” below.

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We have maintained good business relationships with travel service providers, such as airline operators, hotel operators, ticketing agents, and land operators at destination countries especially in Japan. We believe such relationships cannot be easily replicated by others, which have enabled us to differentiate ourselves from our competitors and that we can ensure we will have a stable supply of air tickets and hotel accommodation, etc., from our suppliers. Our strong selling capabilities and good business relationships with airline operators have enabled us to obtain a wide selection of private fares from top airlines including All Nippon Airways and Japan Airlines, and allow us to establish pricing advantage. For certain of our major airline suppliers, we are allocated with block seats in advance half yearly and we are allowed to cancel up to a certain percentage of the block seats reserved for us and no penalty will be charged and no deposit will be forfeited if the cancellation is made within an agreed period prior to departure. As at the Latest Practicable Date, we have maintained relationship with our largest airline supplier for about ten years. For instance, we were recognised as “Outstanding Travel Agency” by All Nippon Airways in 2015 and were awarded “Best Sales Awards” by All Nippon Airways in 2017 and 2018.

We have also enjoyed good business relationships with other suppliers including land operators and hotels at destination countries especially in Japan. We engage land operators equipped with local knowledge for some of our Japan tours and non-Japan tours, who can furnish us with the latest travel information and assist us to develop new itineraries from time to time. We also maintain good and stable relationships with many hotels located in popular destinations. Leveraged on our established market presence and renowned brand, we believe our continuous effort to improve our products and services will enable us to increase our competitiveness and market share.

Through our well-established sales network with several online sales platforms and online travel agencies in the PRC, we are able to offer a variety of outbound travel products and services to our end customers in different geographical locations

As at the Latest Practicable Date, we opened stores on online sales platform of four service providers including qyer.com (窮遊), Fliggy (飛豬旅行), Mafengwo (馬蜂窩) and WeChat (微信). We also cooperated with various hotel booking platforms and online travel agencies, including Agoda, Expedia, Booking.com, Ctrip.com (攜程), Rakuten Travel (樂天旅遊), Jalan.net and Ly.com (同程). The online sales platform providers and online travel agencies work with us closely on the sales and marketing directions of our outbound travel products and services, and share our vision and market positioning. We have long-established relationships with some of our key online sales platforms providers and online travel agencies who have contributed to our market position to date and some of which we have maintained a business relationship with since 2012.

We generally cooperate with an online travel platform provider or online travel agent which is considered by our management as having strong industry knowledge, business network and connection. The products and services sold through their online travel platforms have reached many provinces and cities in the PRC. Through our different sale channels, we have established the current sales level and market position in our key markets in the PRC, namely Zhejiang, Jiangsu, Jiangxi and Anhui Provinces. We will continue to gradually extend the outreach of our products and services beyond these key markets in the PRC by

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carefully selecting and engaging new online travel platform providers or online travel agent with different geographical focus and coverage. We expect our diverse sales network will continue to principally drive our sales performance.

Our travelling products and services including our Tokyo Hotel and Shizuoka Hotel, are also sold and/or available for booking on online sales platforms, online travel agencies or online hotel booking platforms such as Agoda, Expedia, Booking.com, Ctrip.com (攜程), Fliggy (飛豬旅行), qyer.com (窮遊) and Ly.com (同程), giving us access to the growing popular e-commerce in the PRC. Our Directors believe that the growth in our online sales are in line with the purchase pattern and consumer behaviour of the travellers in the PRC over the recent years, and will continue to present us with sales growth and diversification opportunities. Since there is no geographical restrictions for online sales, we believe that we will be able to extend the outreach of our products and services to all parts of China.

We have an experienced and dedicated management team with proven track record of leadership and execution

We have a dedicated and experienced management team with deep understanding of the travel industry in China. Our senior management has significant experience and is committed to improving and maintaining operational excellence by utilising their extensive knowledge of travel and tourism industry. Each of our founders, namely Mr. Yu, Mr. Pan and Mr. Xu, have more than 20 years of experience in either the travel and tourism or hospitality industry. Prior to joining our Group, Mr. Yu and Mr. Pan have worked together in a travel company for more than ten years. Apart from travel industry related experience, Mr. Xu has almost ten years of experience in hospitality industry, serving a luxury 5-star chained hotel group. Mr. Yu, Mr. Pan and Mr. Xu have together led our Group to success as a travel company in Zhejiang Province. Their vision and insight into the travel and tourism, and hospitality industry has significantly contributed to our growth. In addition, we have built a loyal, experienced and capable senior management team as well as a team of committed and well-trained frontline staff. Please see “Directors and Senior Management” for further information on our Directors and senior management.

OUR BUSINESS STRATEGIES

We plan to further grow our business and to strengthen our position as a well-established and active outbound travel products and service provider in the PRC. Our key strategies for reaching our goals are as follows:

Continue to enhance our product portfolio by developing new products and services

Our Directors believe that developing new products which suit the latest market needs is the key to our Group’s long term success. Accordingly, we plan to further broaden our product portfolio in order to meet different demands of our customers. We commenced to provide day tours in Japan since March 2017, details of which are stated in “– Our Business Strategies – Establish sales network in Hong Kong and to expand our customer base” below, and domestic FIT Products in FY2018, which mainly included domestic hotel accommodation for domestic travellers. In April 2019, we also began to provide domestic day tour products in Zhejiang Province, PRC. We believe that this will also help us to

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maintain our competitiveness in case of more intense market competition in the future. We will continue to explore new destinations and develop new itineraries for our existing tours to give our customers new and different travel experience.

Below is a summary of the locations (non-exhaustive) and features of our new itineraries:

Locations	Name of series and tours	Features
Lake Biwa of Shiga Prefecture, Lake Kawaguichi near Mount Fuji, Mount Rausu in Hokkaido, ski resorts in Nagano Prefecture, Appikogen of Iwate Prefecture and Okinawa, Japan	Outdoor activity series such as fishing tours, skiing tours, whale watching tours and scuba diving tours	Offer an array of outdoor activities whereby travellers could maintain active during their holidays
Tokyo, Kyoto, Osaka and Nara, Japan	Michelin culinary series	Feature Michelin star restaurants for food lovers
Yakushima Island of Kagoshima Prefecture, Oirase Gorge of Aomori Prefecture and Fukuroda Falls of Ibaraki Prefecture, Japan	Mystic scenic series	Feature picturesque nature sceneries of Japan
Seto Inland Sea region, Nagoya, Takayama and Kanazawa, Japan	Cultural series such as samurai experience tours and art appreciation tours	Allow travellers to experience traditional culture and art of Japan
Shikoku Island, Japan	Railway series	Adopt trains as the primary mode of transportation

In particular, our Directors foresee that more PRC travellers will select and purchase FIT Products, and hence, greater demands for day tours. In order to explore business opportunities from these customers, we will continue to develop more one to six day local tours in Tokyo, Osaka and Kyoto, Japan to broaden our source of revenue and leverage on the customers' preferences of selecting FIT Products over package tour. Please refer to "– Our Products and Services – (i) Package tour and day tour – Day tours" below for further details of our day tour products. We will conduct regular researches for new travel ideas including new destinations and new points of attraction in order to improve our existing tours and to develop new destinations to add to our variety of tours. We will also develop new itineraries which tailor our customers' preferences and market trends. Our tour escorts

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under our operation team will work closely with our product development team to regularly and carefully monitor market trends. We will leverage our accumulated product development know-how and market insights to cater to new and evolving demands in this market.

Before introducing new tours to our customers, we need to conduct trial tours for a group of people to attend in order to gather their opinions and recommendations from different perspectives for the purpose of perfecting and finalising our itineraries. This will entail the incurrence of expenses such as for transportation, entrance tickets for scenic spots, historical sites or theme parks, accommodation and catering. Whilst our employees are able to explore and develop new destinations and new itineraries, in order to develop more attractive tours with a few Japanese twists and to differentiate from our competitors, we intend to engage local land operators in Japan to develop new tours for us.

We intend to apply 2% of the net proceeds of the Global Offering (approximately HK\$2.1 million, based on the mid-point of the indicative Offer Price range) for developing new products and services.

Purchase tour buses and establish our own bus fleet to exclusively serve our Japan tours including local tours

Since it has been our Group's strategy to specialise in the provision of Japan-related travel products, our Directors believe that acquiring local tourism resources are crucial to grow our business organically and differentiate ourselves from our competitors. We also believe that this will help us to maintain our competitiveness in case of more intense market competition in the future. As such, during the Track Record Period, we have acquired our Shizuoka Hotel in 2015 and developed our Tokyo Hotel in late 2016 which has commenced operation in October 2018. As our Group focus on developing Japan-related travel products and in light of our future strategy to enhance our product portfolio by developing new destinations and more one to six day local tours in Japan which require additional passenger transportation operation, we plan to acquire our own bus fleet and purchase approximately four tour buses in Japan for the operation of our Japan Tours, including our local tours to exclusively serve our customers. We intend to engage third party bus operator with local licences to operate our bus fleet. As advised by Frost & Sullivan, it is common for licensed tour bus operators in Japan to provide services using third party tour buses instead of their own tour buses to increase their operation capacity caused by the increase in the number of inbound visitors.

During the Track Record Period, there were occasions where we encountered difficulties in sourcing sufficient tour buses during peak seasons. As the transportation capacity of our bus fleet will not be sufficient to meet the transportation demand of our customers, in particular during peak seasons, we will continue to engage third party tour bus service providers from time to time.

Our Directors believe that possession of our own bus fleet will (i) provide our Group with more flexibility as to the allocation of resources and arrangement of tours between different popular tourist attractions in Tokyo and Osaka and ensure more prioritised and stable use of these buses for our tours during peak seasons; (ii) further strengthen the brand awareness among consumers as logos and marketing materials could be displayed inside and

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outside the buses; (iii) improve and standardise the quality of transportation services provided for our Japan tours. For example, tour materials like bottled water, tissue paper, raincoats and other consumables, could be placed inside our buses in advance for our customers; and (iv) improve the operational efficiency of our Group as it is more cost-effective to operate our own bus fleet than to solely rent tour buses from third party bus operators which may be subject to annual price adjustment and price increment during peak season.

Set out below is a comparison of the costs to be incurred by our Group from operation of our own bus fleet against the costs expected to be incurred if our Group was to solely rent tour buses from third party bus operators:

Operation of our own bus fleet		Rental of tour buses	
(per tour bus)		(per tour bus)	
<i>Types of costs incurred</i>	<i>Amount (RMB)</i>	<i>Types of costs incurred</i>	<i>Amount (RMB)</i>
One-off acquisition cost of tour buses	2.9 million	Rental cost ^{(1), (3)}	1.2 million
Annual depreciation charge ⁽²⁾	0.3 million		
Annual insurance cost	3,100		
Annual operator cost ⁽³⁾ (inclusive of management fee and drivers fee)	0.4 million		
Annual gas cost ⁽³⁾	0.3 million		
Total operating cost	1.0 million	Total rental cost	1.2 million
Total annual cash outflow ⁽⁴⁾	0.7 million	Total annual cash outflow	1.2 million

Notes:

- (1) Rental cost primarily includes car rental, drivers and gas costs. It is calculated based on the average rental cost by quarter for FY2018.
- (2) Annual depreciation charge was calculated based on the one-off acquisition cost of each tour bus divided by its estimated useful life of 10 years.
- (3) The costs are calculated based on 358 working days per year.
- (4) Total annual cash outflow excludes the annual depreciation charge, which is considered as non-cash item.

The above rental cost has not taken into account the assumption that there may be an increase in the rental prices for renting tour buses from third party bus operators in the future, in particular during peak seasons. Therefore, our Group may be subject to a fluctuation in rental costs for renting tour buses and any material and adverse increase in such costs will affect our Group's financial performance. Based on the above analysis, our Group will benefit from an annual cash savings of approximately RMB0.5 million per tour bus, being the difference of the total annual cash outflow as illustrated above, by operating our own bus fleet with a six-year payback period for our acquisition investment of

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approximately RMB2.9 million. Given that the estimated useful life of a tour bus is approximately ten years, we consider it is more cost-effective to operate our own bus fleet than to solely rent tour buses from third party bus operators. In addition, we may also be able to generate (i) advertising income from allowing third parties to post advertisements on the exterior of our tour buses; and (ii) rental income from third party operators at the time when our own bus fleet is idle and is not occupied by our own tours.

We intend to apply not more than 13% of the net proceeds of the Global Offering (approximately HK\$13.7 million, based on the mid-point of the indicative Offer Price range) of which approximately HK\$11.3 million is used to purchase such tour buses and approximately HK\$2.4 million is used for the engagement of the third party tour bus operators.

Establish sales network in Hong Kong and to expand our customer base

Leveraging on our strong market presence and resources in Japan, we intend to expand our customer base by further tapping into the Hong Kong market. According to the F&S Report, the number of outbound tourist visits of FIT tours from Hong Kong to Japan increased significantly from approximately 0.5 million to 1.6 million between 2014 and 2018 with a CAGR of 31.9%, and is expected to continue to increase to approximately 4.2 million in 2023 with a CAGR of 21.8% between 2019 and 2023. The total outbound tourism consumption of tourist visits of FIT tours from Hong Kong to Japan also represented a dramatic growth in the same period, increasing from approximately HK\$10.1 billion in 2014 to HK\$29.5 billion in 2018 with a CAGR of 30.8% and expected to increase to approximately HK\$81.0 billion by 2023 with a CAGR of 22.9% between 2019 and 2023. Also, the tourism market in Hong Kong has a relatively concentrated competitive landscape. The market share of the top five players in Hong Kong's outbound tourism market in terms of revenue for FY2018 was approximately 51.7%.

To capture the growth potential of the Hong Kong market, we intend to establish our sales network in Hong Kong focusing on the sales of our travelling products, in particular, Japan day tour products by (i) collaborating with local travel agencies and online travel platforms in Hong Kong; and (ii) opening physical office(s) in Hong Kong to further assist our collaboration with local travel agencies and to capture any orders from retail customers. According to the F&S Report, it has become increasingly common for travel agencies to establish both online and offline channels to expand their business landscape and enhance business operations, which allow the travel agencies to enrich customer experience and better accommodate the specific needs and demands of customers.

According to the F&S Report, the local travel agencies in Hong Kong and PRC mainly offer travel agency services in Hong Kong and PRC and only few of them have established their subsidiary in Japan to facilitate their management of Japan tour operations. According to the latest annual report for their respective financial year end, (i) out of 9 Hong Kong travel agencies listed on the Stock Exchange, two and one had subsidiaries and hotels in Japan, respectively; and (ii) out of 49 PRC travel agencies listed on the Shanghai Stock Exchange, Shenzhen Stock Exchange and National Equities Exchange and Quotations, three and one had subsidiaries and hotels in Japan, respectively. Furthermore, according to the F&S Report, for those local travel agencies and/or day tour product providers without their

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own subsidiaries in Japan, it is more difficult for them to establish direct business relationships with local tourism service providers in Japan. Instead, they will need to outsource their tour operations to third party land operators in Japan. As a result, limited number of day tour products are developed and operated by local travel agencies in Hong Kong and PRC. Also, the day tour products offered by local travel agencies mainly include admission tickets to theme parks, or arrangement for tourists to visit shopping arcades and factory outlets.

Leveraging on our competitive advantages as stated below, our Directors consider that we will be able to replicate our success in the PRC market and establish our market presence in the Hong Kong market:

1. we believe our strong market presence, in-depth knowledge on tourism resources in Japan and our profound understanding of the Chinese tourism market enable us to offer diversified outbound travel products and services to better cater for different customers' needs. As an example, we have the local resources to design and operate our own day tours including (i) our Japan-based employees and our own tour guide with the experiences and firsthand information on market trends, which allows us to design a variety of day tour routes according to customers' needs and demands; (ii) our self-owned and operated hotels in Japan, where we can promote our day tour products to our hotel guests and receive direct feedback from them, which will allow us to gain further insights into different travellers' needs and demands; and (iii) a wide range of local suppliers in Japan, such as tour bus companies and tour guide providers, available for our selection as we have our own subsidiaries in Japan to enter into contracts with these suppliers directly. For further details of our day tour products, please refer to “– Our Products and Services – (i) Package tour and day tour – Day tours” below. Please also refer to “– Our Competitive Strengths – We are well positioned to capitalise on market opportunities arising from the growth of outbound travel in the PRC” above for further details on our advantages of having local resources and our own subsidiaries in Japan;
2. as opposed to local travel agencies in Hong Kong that only focus on the local market, our day tour products are targeted for customers both from Eastern China and Hong Kong. Leveraging on our scale of business operation, together with our strong market presence and in-depth knowledge on tourism market in Japan, it strengthens our bargaining power with our suppliers, including local land operators, hotels, local transportation and admission tickets to local attractions, and therefore, enhance our cost competitiveness of our day tour products should we choose to engage third party suppliers in certain aspects of our day tour products; and
3. as stated in the F&S Report, there are increasing demands of Japan day tour products from PRC and Hong Kong travellers. Since we possess the local resources in Japan, we are able to design and operate our own day tours. As our day tour products are in supplement to those offered by local travel agencies, our Directors consider that we will not be competing directly with local travel agencies in Hong Kong. Instead, our Hong Kong office(s) will cooperate with

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these local travel agencies by supplying our day tour products to them, and enable them to enrich their product portfolio offered to customers in Hong Kong. By doing so, our Group is able to sell our Japan day tour products to Hong Kong travellers through the sales networks of our corporate customers indirectly, and in turn, capture the business opportunities from the fast-growing FIT product market in Hong Kong. As at the Latest Practicable Date, we entered into two business cooperation agreements with two Hong Kong travel agency companies, one of which is listed on the GEM of the Stock Exchange and also one of the leading travel agency companies in Hong Kong according to the F&S Report. Please refer to “– Customers – Travel companies” for further details of such cooperation agreements.

In light of the above, we intend to establish three new offices and recruit new talents in Hong Kong to focus on the sales of our travelling products, in particular, Japan day tour products to corporate customers and retail customers in Hong Kong in the next two years. We plan to explore the Hong Kong outbound tourism market mainly because our Directors believe that our Group can more easily capitalise on its knowledge and experience due to the similar cultural background shared among people in the PRC and Hong Kong. We also believe that the listing exercise will help establish our brand and reputation in Hong Kong, thus provide us a platform to tap into the market in Hong Kong. Our Directors believe that the opening of physical office(s) in locations where many of the travel agencies are located will (i) enable us to capture demands of travellers who may be interested in our products that are in supplement to those offered by local travel agencies located nearby, such as day tour products; (ii) build and develop customers’ confidence and trust in our brand and products; (iii) improve the overall consumer experience by offering convenience to and capture orders from potential walk-in customers or customers who are not familiar with the online travel product purchase; (iv) enhance the reputation and presence of our Group in the Hong Kong market, thereby attracting more local travel agencies to cooperate with us and/or retail customers so as to build up our customer base in Hong Kong. We believe that opening physical office(s) in Hong Kong is both efficient and effective in building customer awareness and confidence, which is essential for us to successfully tap into the Hong Kong market. According to the F&S Report, there is still a certain portion of the customer base in Hong Kong prefers to purchase travel products and/or obtain travel information at physical offices of travel agencies, and the establishments of physical offices by travel agencies have developed significant importance in improving brand image and allowed travel agencies to obtain a more comprehensive and deeper understanding of their customers’ preferences and needs; and (v) allow our staff to provide instant face-to-face advice and explanation of our products to our customers, which is more effective and convenient for Hong Kong travellers to contact us for any enquiries. As at the Latest Practicable Date, our Directors estimated that our first new office in Hong Kong will commence operation in the second half of 2019 and we plan to recruit seven additional staff, including one finance manager, one administration manager, one accounting staff, four customer service and sales representatives, for the operation of the new office(s) in Hong Kong.

Our establishment of Hong Kong office(s) will be divided into two phases. During the first year after Listing, we will first set up one office in Hong Kong to establish our presence in Hong Kong and to build a solid foundation in the Hong Kong market. We will be afforded valuable insights into the behaviours of Hong Kong travellers and their latent

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demands, allowing us to design or adapt our existing travel products much more tailored to the needs and demands of Hong Kong travellers. By leveraging on the customer base of Hong Kong local travel agencies in collaboration with us and the customers of travel agencies located in proximity to our Hong Kong offices, it is expected that our first office in Hong Kong will become profitable in nine months after its commencement of operation ^(Note). To capture the forecasted CAGR of 21.8% for the increase in the number of outbound tourist visits of FIT tours from Hong Kong to Japan between 2019 and 2023, we will strategically consider and identify suitable locations for the opening of two other offices after Listing in January 2020, which are expected to become profitable in nine months after the commencement of operation ^(Note) subject to the market condition at that time.

Note: In replicating our success in Eastern China to the Hong Kong market, we assumed the followings: (i) the number of travellers of FIT Products from Hong Kong to Japan is estimated based on not more than 1% of the total number of outbound tourists to Japan from Hong Kong for the year ending 31 December 2019 according to the F&S Report, such percentage was estimated with reference to (a) market shares of the two Hong Kong local travel agency companies in 2018, which we entered into business cooperation agreements in March 2019, and (b) our management experience and business discussion with the two Hong Kong local travel agency companies aforementioned; (ii) average cost per person based on our actual average cost per person in 2018 for our customers in the PRC; (iii) average selling price of similar Japan day tour products available on international travel platforms; (iv) operating expenses primarily including rental expenses in a popular spot for travel agency companies in Kowloon and staff costs; and (v) seasonality factors are taken into consideration with proportionally higher revenue during holiday periods.

In order to implement our plan and to capture the Japan-bound market share in Hong Kong, we intend to engage professionals to probe into the necessary licensing criteria and corporate procedures required for the establishment of new office(s) in Hong Kong. As at the Latest Practicable Date, we had not identified a suitable location in Hong Kong to set up the new office(s) and we had not initiated any application for licence required for our Hong Kong operation because we are currently not a member of the Travel Industry Council of Hong Kong. Under the Travel Agents Ordinance (Chapter 218 of the Laws of Hong Kong) (“TAO”), any person carrying on a business as an inbound travel agent or an outbound travel agent in Hong Kong must obtain a license from the Travel Agents Registry and carry on business in accordance with the conditions imposed on the license. For details of the licensing criteria under the TAO, please refer to “Regulatory Overview – Hong Kong Regulatory Overview – Travel Agents Ordinance” in this prospectus. As advised by our Hong Kong Legal Counsel in relation to the licensing criteria under the TAO, our Directors believe that there is no legal impediment for our Company to obtain the required license for our new office(s) in Hong Kong.

We intend to apply 20% of the net proceeds of the Global Offering (approximately HK\$21.0 million, based on the mid-point of the indicative Offer Price range) for (i) establishing sales network in Hong Kong; (ii) expanding our customer base by opening new office(s) in Hong Kong in the next two years; (iii) the operation of our new Hong Kong office(s); and (iv) hiring of personnels to be based at our Hong Kong office(s).

Identify and pursue hospitality asset acquisition opportunities in Kyoto, Japan

According to the F&S Report, in light of the 2020 Tokyo Olympics, it is expected that the number of tourists travelling to Japan will increase and the supply of hotel accommodations in big cities of Japan will be increasingly limited due to influx of travellers. Leveraging on our successful experience in acquiring the Shizuoka Hotel, we

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intend to identify and pursue hospitality asset acquisition opportunities in Kyoto, Japan in light of the increasing number of outbound travellers to Japan and the increasing demand for and shortage of hotel accommodation in city centre location. We believe that this will also help us to maintain our competitiveness in case of more intense market competition in the future. The estimated acquisition cost is approximately RMB29.3 million. Such acquisition will be partially funded by net proceeds of approximately HK\$22.2 million (approximately equivalent to RMB19.1 million), and the remaining acquisition cost will be funded by external bank financing and our internal resources. To implement our plan, we intend to acquire a small to mid-sized traditional Japanese home (町家) with an annual revenue of approximately RMB6.0 million and convert it into a bed and breakfast guesthouse, also known as minshuku in Japan. Such Japanese home is expected to have approximately 30 rooms that could accommodate around 60 guests at a relevant time in Kyoto. The estimated revenue of RMB6.0 million per year was calculated with reference to (i) an occupancy rate of 65.0%; (ii) an average room rate of JPY6,500 per person per night; and (iii) other rental income that will be derived from the leasing to shops for the provision of catering and laundry services. The occupancy rate of 65.0% and an average room rate of JPY6,500 were determined with reference to the occupancy rate of our Shizuoka Hotel during the Track Record Period and the average room rate of the neighbouring guesthouses of our potential acquisition options, respectively.

In evaluating future acquisition opportunities, we will focus on the following investment criteria:

- *Geographical locations:* we will assess the location of hospitality assets that become available and the potential business growth in the relevant market. We will initially focus on hospitality assets in Kyoto because it is one of the most popular travel destinations in Japan and it is formerly an imperial capital of Japan which allows travellers to experience Japanese traditions and culture. Our Directors believe that this region provides the greatest potential acquisition opportunities. However, our Directors may also consider acquisition opportunities outside this city in the future.
- *Growth potentials:* we may also acquire hospitality assets that our Directors believe to have the potential to add value to our travel products through rebranding, asset enhancement and improving hotel operation.
- *Estimated capital expenditure, breakeven and investment payback periods:* we will take into account the estimated capital expenditure, breakeven and investment payback periods in respect of our acquisition opportunity. The estimated investment yield is 12% per annum (assuming an occupancy rate of 65.0% and an average rate of JPY6,500 per person per night) and the estimated payback period for the acquisition of hospitality asset is approximately eight years based on the stable forecasted performance of the Japanese home.

After conducting feasibility studies and detailed assessment, if the hospitality asset has met our criteria, the assessment findings together with the execution plan will be prepared and submitted to our Board for approval. We will also recruit approximately seven additional staff, including one finance manager, four receptionists and two sales representatives, to

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manage the operation of the new guesthouse. We plan to proactively look out for such acquisition opportunity starting from second half of 2019. As at the Latest Practicable Date, as confirmed by our Directors, through the same property agent which introduced the owners of the Shizuoka Hotel and the Tokyo Hotel to us, we have identified three available options that can meet our selection criteria, which are all conveniently located near the train stations at Kyoto, Japan. As confirmed by our Directors, site visits have been conducted to all three available options and we have initiated preliminary discussion with the owners of the available options through the agent and we are in the process of assessing these options and have not entered into any negotiation nor formal agreement for the acquisition.

We intend to apply 20% of the net proceeds of the Global Offering (approximately HK\$21.0 million, based on the mid-point of the indicative Offer Price range) for acquiring hospitality assets in Kyoto, Japan.

Strengthen our market position and increase our market share by investing in a travel agency company in Tokyo, Japan

In view of the rapid growth of China outbound tourism consumption driven by (i) increasing disposable income and consumption expenditure on travelling; (ii) growing demand for travelling abroad due to higher living standard in China; (iii) favourable visa policy and stable global political environment; and (iv) improving service provided by overseas tourism administration to Chinese tourists, we plan to strengthen our market position and increase our market share by investing in a travel agency company in Tokyo, Japan which has an established sales channel and developed local travel products of new destinations in Japan which caters for Chinese tourists. Our Directors believe that investment in new business opportunities is cost effective, has a high growth potential and through joining forces with the new travel agency, our Directors believe that we will be able to provide more product offerings to a wider customer base. We plan to commence negotiation with our potential target and conduct feasibility studies upon Listing.

We seek potential investment opportunities and select potential targets based on our industry experience and the following selection criteria:

- *Target geographical location:* since our tour operation focuses on Japan-bound tours, we plan to explore targets mainly in Tokyo. When entering new market, we plan to selectively evaluate business opportunities in Tokyo which is a commercial centre and first-tier city of Japan. We believe that such investment will provide us with efficient access to new market and support our strategy to expand our operations.
- *Management team:* we plan to continue to seek potential targets with management teams with relevant experience and determination to develop travel services business. We also look for management teams with territorial expertise and marketing network to help us expanding to new geographical location.

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- *Business focus and resources:* we target small to medium-sized travel agency companies with established sales channels, considerable experience in the provision of well-developed local travel products in Japan and have a good reputation.
- *Financial condition and profitability:* we will take into account the financial condition and profitability of the potential targets and investigate if there was an upward trend of financial results in the preceding three years.

We intend to apply 20% of the net proceeds of the Global Offering (approximately HK\$21.0 million, based on the mid-point of the indicative Offer Price range) for such strategic investments travel agency companies in order to strengthen our market position and increase our market share.

As at the Latest Practicable Date, we had not formulated any concrete plan to invest in the potential target nor progressed to formal negotiations or signed any definitive and finalised understanding, commitment or agreement with these potential targets. As our ability to commence any formal negotiation with the potential targets etc., is subject to a number of uncertainties which are out of our control, there is no guarantee that we can achieve our plan to invest in these potential targets, our management may consider it advisable to adjust our business strategies or operational plans or targets in response to any economic, political, regulatory, market or other commercially significant factors.

Continue to attract experienced personnel through recruitment and provide trainings and professional development to our existing personnel

We believe that our commitment to employee excellence will lead to the continued growth of our business and improve the quality of products and services provided to our customers. To support our continuous expansion of business scale, we plan to recruit more personnel in Hong Kong and Japan, in particular, to recruit more tour guides based in Japan to further enhance the travelling experience of our customers. In addition, we will continue to attract experienced personnel and provide trainings and professional development to our existing employees such as encouraging and subsidising our employees to attend overseas industry conference and exposition to learn about the latest trends in the travel industry, in order to support the growth of our Group.

We intend to apply 15% of the net proceeds of the Global Offering (approximately HK\$15.7 million, based on the mid-point of the indicative Offer Price range) to recruit more personnel and provide trainings and professional development to our existing personnel.

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OUR BUSINESS MODEL

We are principally engaged in the followings:

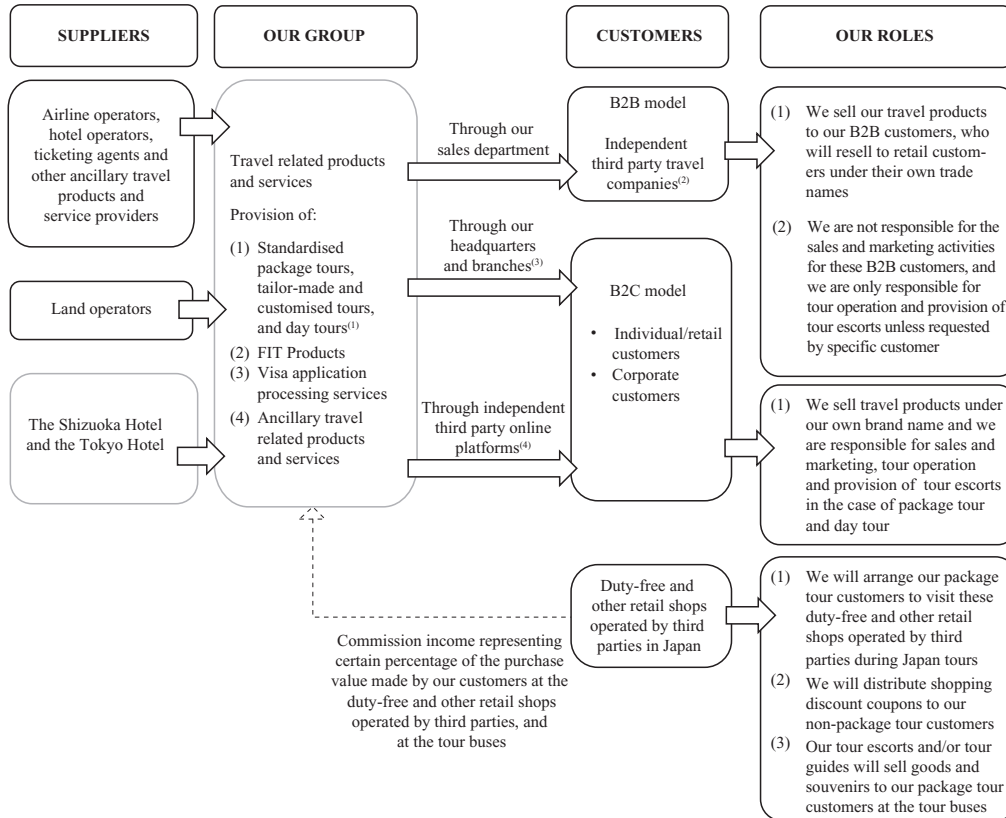
- the design, development and sale of outbound travel package tours and day tours. Our package tours consist of standardised package tours, tailor-made and customised tours for customers with specific requirements, whereas our day tour products consist of day tours ranging from one day to six days;
- the design, development and sale of FIT Products. Our FIT Products include flight-only booking, hotel-only booking, and flight-plus-hotel packages;
- provision of visa application processing services, including but not limited to, issuance of letters of invitation;
- provision of other ancillary travel-related products and services such as stand-alone issuance of letters of invitation to other travel agencies which do not have such qualifications to issue letters of invitation, car-rental services, airport transportation, railway tickets and pocket Wi-Fi rental, etc.; and
- operating our self-owned Shizuoka Hotel and the Tokyo Hotel. Hotel rooms supplied by the Shizuoka Hotel and the Tokyo Hotel during the Track Record Period are included in some of our package tours and FIT Products as well.

During the Track Record Period, our travel products and services are primarily sold to (i) B2B customers such as travel companies and online travel agencies; and (ii) B2C customers such as retail customers to which we sold our travel products and services through our headquarters, our branches and third party online travel platforms.

We procured from various travel service providers such as airline operators, hotel operators, ticketing agents and land operators, etc. for our travel products and services. In addition, we also own and operate the Shizuoka Hotel and Tokyo Hotel. Hotel rooms supplied by the Shizuoka Hotel during the Track Record Period and by the Tokyo Hotel since its opening in October 2018 are included in some of our tour package and FIT Products as well. We usually arrange standardised package tours to stay at our hotel if the itinerary include Izu and/or Tokyo, Japan, as one of the destinations. During the Track Record Period, revenue of approximately RMB6.2 million, RMB5.2 million and RMB5.5 million were generated from our hotel guests at the Shizuoka Hotel, which were our package tour customers and were included in our revenue from sales of package tours and day tours.

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Such arrangement would allow our Group to provide package tours at a more competitive price, thereby attracting more customers in the PRC. For the same itinerary, the package tour price could be approximately 8% lower should the accommodation provided was to be our Group's self-owned hotels in Japan. The below diagram sets forth our business model:



Notes:

- Our Group sell cruise tour package to customers and the selling price is generally determined on a cost-plus basis.
- The independent third party travel companies comprise traditional offline travel companies such as Zhejiang China International Travel Service Co., Ltd (浙江省中國國際旅行社有限公司) and online travel agencies such as Ctrip.com (攜程), Ly.com (同程), Lvmama.com (驢媽媽旅遊), Tuniu.com (途牛) and Traveling Bestone (旅遊百事通).
- As at the Latest Practicable Date, our headquarters was at Hangzhou and we have three branches in Wenzhou, Shanghai and Rui'an in the PRC.
- The independent third party online platforms include various service providers such as Agoda, Expedia, Booking.com, Ctrip.com (攜程), Rakuten Travel (樂天旅遊), Jalan.net, qyer.com (窮遊), Fliggy (飛豬旅行), Mafengwo (馬蜂窩) and WeChat (微信), etc. These online platforms charge us a fixed amount or a certain percentage of the transaction amounts carried out on its online platform as transaction fees.

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OUR PRODUCTS AND SERVICES

During the Track Record Period, our products and services can be categorised into five principal segments: (i) package tours and day tours; (ii) FIT Products; (iii) visa application processing service; (iv) ancillary travel related products and services; and (v) the operation of the Shizuoka Hotel and Tokyo Hotel which commenced operation in October 2018. The following table sets out a breakdown of our revenue, number of travellers and average revenue per traveller by business segments for the period indicated:

	FY2016			FY2017			FY2018		
	Revenue <i>RMB'000</i>	Number of travellers	Average revenue per traveller <i>RMB</i>	Revenue <i>RMB'000</i>	Number of travellers	Average revenue per traveller <i>RMB</i>	Revenue <i>RMB'000</i>	Number of travellers	Average revenue per traveller <i>RMB</i>
Sales of package tours and day tours ⁽¹⁾⁽⁴⁾	181,986	23,731 ⁽⁶⁾	7,669	132,078	21,576 ⁽⁶⁾	6,122	162,767	50,816 ⁽⁶⁾	3,203
Margin income from sales of FIT Products ⁽⁵⁾	15,221	35,522	428 ⁽²⁾	10,071	23,689	425 ⁽²⁾	13,825	73,449	188 ⁽²⁾
Margin income from the provision of visa application processing ⁽³⁾⁽⁵⁾	15,672	–	–	11,990	–	–	13,345	–	–
Other income from sales of ancillary travel related products and provision of services ⁽⁴⁾	1,665	–	–	2,474	–	–	2,313	–	–
Hotel operation ⁽⁴⁾	<u>13,286</u>	26,512 ⁽⁷⁾	501	<u>12,254</u>	22,332 ⁽⁷⁾	549	<u>12,801</u>	26,693 ⁽⁷⁾	480
	<u>227,830</u>			<u>168,867</u>			<u>205,051</u>		

Notes:

- (1) Include revenue of approximately RMB11.7 million, RMB17.0 million and RMB6.8 million, derived from commissions received from duty-free and other retail shops operated by third parties, and our tour escorts and/or tour guides in Japan in FY2016, FY2017 and FY2018, respectively. Among the duty-free shops we received commissions from, two of them are listed on the Tokyo Stock Exchange and one of them is listed on KOSDAQ of the Korea Exchange, respectively.
- (2) It represents the average net revenue per traveller based on the sales proceeds from travellers, less our purchase payments to airline operators, hotel operators and/or ticketing agents.
- (3) The revenue generated from visa application processing only includes our fees collected from our non-package tour customers. The fee we charged our package tour customers for visa application processing was included in the price of the package tours.
- (4) Revenue was recognised on a gross basis because our Group acts as the principal and has control over the provision of package tour and day tour services, hotel operation services and sales of ancillary travel related products before they are transferred to the customer.
- (5) Revenue was recognised on a net basis because our Group acts as an agent and does not obtain control over the service performed by the airline companies and hotels for FIT Products, and the relevant government authorities for visa application processing services.
- (6) Number of travellers comprises our Company's retail customers and end-customers who purchased our Company's package tours and/or day tours from our Company's B2B customers.

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- (7) Indicates the number of travellers for Shizuoka Hotel and the number of travellers for Tokyo Hotel from October to December 2018 after the commencement of operation of our Tokyo Hotel.

(i) Package tour and day tour

One of our main businesses is the operation of package tours, with a focus of tours bound for Japan. Our sales of package tours and day tours accounted for approximately 79.9%, 78.2% and 79.4% of our total revenue for FY2016, FY2017 and FY2018, respectively.

Package tours

Our package tours usually comprise flights, hotel accommodations, meals, transportation, sight-seeing as a bundled package and are accompanied by our tour escorts from departure till return to the PRC. For FY2016, FY2017 and FY2018, we organised 1,085, 877 and 1,179 package tours, serving over 20,000, 19,000 and 27,000 travellers, respectively. In addition to the sales of package tours, during the Track Record Period, our Group also derived revenue of approximately RMB11.7 million, RMB17.0 million and RMB6.8 million, respectively, from the commissions paid by duty-free and other retail shops when our customers make purchases at these shops and from our tour escorts and/or tour guides when our package tour customers make purchases for goods and souvenirs at the tour buses. Our gross profit derived from such commissions accounted for (i) approximately 61.7%, 71.9% and 38.9% of our total gross profit from sales of package tours and day tours for FY2016, FY2017 and FY2018, respectively; and (ii) approximately 13.1%, 28.7% and 12.1% of our total gross profit for FY2016, FY2017 and FY2018, respectively. According to the F&S Report, it is an industry norm for travel agencies to derive a material amount of gross profit from commissions paid by duty-free and other retail shops operated by third parties. For details of the operation process, please see “– Our Operation – A. Package Tours and FIT Products” below.



Image of coupons issued to our customers

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Destinations

During the Track Record Period, we mainly provided package tours bound for Japan, Australia and New Zealand. Japan bound package tours were our main products which accounted for approximately 63.7%, 84.8% and 74.4% of our revenue from package tours and day tours for FY2016, FY2017 and FY2018, respectively. To diversify our product offerings and to mitigate the risks associated with any negative developments related to the Japan tourism market, we provided package tours bound for South Korea and Southeast Asia countries such as Cambodia, Thailand and Vietnam, which accounted for approximately 13.2% of our revenue from package tours for FY2018. Should we consider appropriate, we may consider developing domestic package tours within the PRC or other destinations to further diversify our product offerings. The following table sets out our revenue from package tours by destination for the Track Record Period:

	FY2016			FY2017			FY2018		
	Revenue RMB'000	Percentage of revenue %	Number of tours	Revenue RMB'000	Percentage of revenue %	Number of tours	Revenue RMB'000	Percentage of revenue %	Number of tours
<i>Sales of package tours</i>									
Japan	115,903	63.7	694	111,974	84.8	753	121,073	74.4	823
Australia & New Zealand	66,083	36.3	391	19,630	14.9	124	8,262	5.1	43
South Korea & Southeast Asia	–	–	–	–	–	–	21,516	13.2	231
Others	–	–	–	–	–	–	5,342	3.3	82
	181,986	–	–	131,604	99.7	877	156,193	96.0	1,179
<i>Sales of day tours</i>									
Japan	–	–	–	474	0.3	N/A	6,574	4.0	N/A
Total	181,986	100.0	1,085	132,078	100.0	877	162,767	100.0	1,179

Types



We offer a wide range of package tours to our customers, which can be classified into two categories: (i) standardised package tours; and (ii) tailor-made and customised tours. We have introduced different tailor-made and customised tours to cater for different travel needs and demand of customers such as wine-tasting tours and real estate inspection tours.

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In addition to the above, we also generate revenue from duty-free and other retail shops operated by third parties in Japan by receiving commissions from these shops, such as (i) when our package tour customers visit these shops as part of their package tour itinerary and make purchases with them; and (ii) from our tour escorts and/or tour guides only when our package tour customers make purchases for goods and souvenirs at the tour buses. In light of the aforementioned arrangements, such commission revenue was included in our revenue from sales of package tours and day tours during the Track Record Period.

The following table sets out the numbers of package tours and our revenue from package tours by types, together with the commission during the Track Record Period:

	FY2016			FY2017			FY2018		
	Revenue RMB'000	Percentage of revenue %	Number of tours	Revenue RMB'000	Percentage of revenue %	Number of tours	Revenue RMB'000	Percentage of revenue %	Number of tours
Standardised package tours	84,933	46.7	590	53,521	40.7	520	78,781	50.5	792
Tailor-made and customised tours	85,361	46.9	495	61,104	46.4	357	70,656	45.2	387
Commission	11,692	6.4	N/A	16,979	12.9	N/A	6,756	4.3	N/A
Total	181,986	100.0	1,085	131,604	100.0	877	156,193	100.0	1,179

Day tours

Since March 2017, we started to develop and manage our day tour operations in Japan, which are mainly targeted to travellers who may not be our package tour or FIT Product customers and have purchased air tickets and/or hotel accommodation separately, but wish to participate in local day tours in Japan. Leveraging on our extensive experience and in-depth knowledge on the Japan tourism market and local resources, we are able to design a variety of day tour routes to cover different tourist attractions according to customers' needs and demands. Our day tours ranging from one to six days usually comprise meals, local transportation, sight-seeing and/or accommodation and are accompanied by tour guides. We provide transit and transfer services to our day tour customers for direct transportation from one destination to another. We also offer flexibility for our day tour customers to opt for ad-hoc accommodation arrangements at additional costs any time during the day tour so that they can plan and alter their trip schedule in accordance with their needs and preferences.

Our revenue generated from day tours was approximately RMB0.5 million and RMB6.6 million for FY2017 and FY2018 respectively. Such significant increase was primarily attributable to (i) the increase in the number of travellers from 1,655 for FY2017 to 22,838 for FY2018; and (ii) increase in the number of day tour routes in Japan for FY2018 in comparison to FY2017. The average revenue per traveller from our day tours remained relatively stable for both FY2017 and FY2018 at approximately RMB286 and RMB288, respectively. Please refer to “– Our Products and Services – (i) Package tour and day tour – Package tours – Destinations” above for the breakdown of

our revenue from day tours by destination for the Track Record Period. During the Track Record Period, our revenue generated from day tours accounted for approximately 0.3% and 4.0% of our total revenue derived from our package tour and day tour business segment in FY2017 and FY2018, respectively.

During FY2017 and FY2018, we offered five and 49 day tour routes, respectively, with various themes, such as onsen tours and Mount Fuji tours. As at the Latest Practicable Date, we further provided 54 day tour routes, which covered major tourist destinations in Japan, including but not limited to Tokyo, Osaka, Izu, Kyoto, Okinawa, Nara, Nagoya, Hokkaido and Hakone.

In April 2019, we also began to provide domestic day tour products in Zhejiang Province, PRC. As at the Latest Practicable Date, we provided 13 domestic day tours. We believe that this will also help us to maintain our competitiveness in case of more intense market competition in the future.

(ii) FIT Products

We sell FIT Products, such as air tickets, hotel accommodation and a combination of both to our customers, who prefer non-escorted travel experience with more flexibility and customisation. Customers can purchase air tickets, hotel accommodation or flight-plus-hotel bundled packages individually and separately. For our FIT Products, we generally bundle the travel elements from airlines, hotels and other suppliers and sell them as packages to customers. During the Track Record Period, most of our FIT Products are bound for Japan, which accounted for approximately 90.4%, 96.7% and 79.4% of our revenue from FIT Products for FY2016, FY2017 and FY2018, respectively. In FY2018, we further expanded

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our product offerings by providing domestic FIT Products which mainly included domestic hotel accommodation for domestic travellers and derived approximately RMB2.8 million from such provision, representing approximately 20.4% of total revenue from sales of FIT Products in the same period. For details of the operation process, please see “– Our Operation – A. Package Tours and FIT Products” below.

Destinations

The following table sets out our revenue from FIT Products by destination for the Track Record Period:

	FY2016			FY2017			FY2018		
	Revenue RMB'000	Percentage of revenue %	Number of travellers	Revenue RMB'000	Percentage of revenue %	Number of travellers	Revenue RMB'000	Percentage of revenue %	Number of travellers
Japan	13,753	90.4	30,561	9,738	96.7	22,480	10,982	79.4	27,161
South Korea & Southeast Asia	1,468	9.6	4,961	333	3.3	1,209	28	0.2	1,050
China	–	–	–	–	–	–	2,815	20.4	45,238
Total	15,221	100.0	35,522	10,071	100.0	23,689	13,825	100.0	73,449

Types



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The following table sets out the revenue from FIT Products by types for the Track Record Period:

	FY2016			FY2017			FY2018		
	Revenue	Percentage of revenue	Number of travellers	Revenue	Percentage of revenue	Number of travellers	Revenue	Percentage of revenue	Number of travellers
	<i>RMB'000</i>	%		<i>RMB'000</i>	%		<i>RMB'000</i>	%	
Air tickets	3,594	23.6	8,832	2,506	24.9	6,295	2,426	17.5	9,191
Hotel Accommodation	949	6.2	2,562	728	7.2	2,979	3,091	22.4	46,217
Combination of both	10,678	70.2	24,128	6,837	67.9	14,415	8,308	60.1	18,041
Total	15,221	100.0	35,522	10,071	100.0	23,689	13,825	100.0	73,449

(iii) Visa application processing service

We provide visa processing services to our customers, mainly include visas to Japan, Australia, New Zealand, South Korea and Southeast Asia countries. Most of our revenue generated from visa application processing derives from processing Japan visa applications. Our visa application processing for Japan usually involves two stages, which are (i) issuance of invitation letters; and (ii) submission of visa application. The invitation letter is one of the necessary documents required by the relevant government authority in Japan for visa applications. The application of Japan visa should be done through certain travel agencies designated by the Consulate-General of Japan in Shanghai. We charge a separate service fee if our B2B and B2C customers wish to purchase such service from us. For our package tour customers who do not need visa, we will refund certain amount of purchase price of the package tour to them, and we will charge a separate visa application processing fee for our FIT Product customers. We may request some of the visa applicants to pay guaranteed

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deposit directly to us or through their respective travel agents who are our B2B customers for an amount between RMB50,000 to RMB100,000 if they were regarded as person with potential risk of overstaying or engaging in illegal activities in Japan/South Korea. The guaranteed deposit paid will be returned to the visa applicants when they return to the PRC. During the Track Record Period, the revenue generated from Japan visa application processing accounted for approximately 6.4%, 6.4% and 5.9% of our total revenue. For details of the operation process, please see “– Our Operation – B. Visa Application Processing” below.

The following table sets out the revenue from visa application by destinations for the Track Record Period:

	FY2016		FY2017		FY2018	
	Revenue <i>RMB'000</i>	Percentage of revenue %	Revenue <i>RMB'000</i>	Percentage of revenue %	Revenue <i>RMB'000</i>	Percentage of revenue %
Japan	14,663	93.6	10,846	90.5	12,192	91.4
Australia and New Zealand	562	3.6	731	6.1	838	6.3
Others	447	2.8	413	3.4	315	2.3
Total	<u>15,672</u>	<u>100.0</u>	<u>11,990</u>	<u>100.0</u>	<u>13,345</u>	<u>100.0</u>

(iv) Ancillary travel-related products and services

We also offer other ancillary travel-related products and services generally aimed to provide convenience to our customers. Our other travel products and services include stand-alone issuance of letters of invitation for other travel agents which do not have the qualification to issue such letters, admission tickets to attractions such as theme parks and shows, local transportation such as car-rental services, airport transportation and railway tickets, pocket Wi-Fi rental and travel insurance. During the Track Record Period, the revenue generated from ancillary travel-related products and services amounted for approximately 0.7%, 1.5% and 1.1% of our total revenue.

(v) The Shizuoka Hotel and Tokyo Hotel

Please see “– Our Hotels” below for further details relating to our Group’s hotel operation.

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OUR OPERATION

A. Package Tours and FIT Products

Time	Processes	Package Tours	FIT Products
Approximately three months for existing destination and approximately six months for new destination	Market research and product development	<ul style="list-style-type: none"> ● Market research for new destinations and travel elements ● Site visits by the management ● Assess availability of flights, hotels, land operators and suppliers 	
↓		<ul style="list-style-type: none"> ● Sourcing of flight and hotel accommodation ● Sourcing of suppliers for local transportation and admission tickets to local attractions ● Selection of land operators 	
Approximately two months	Sales and marketing	<ul style="list-style-type: none"> ● Brand marketing and product marketing ● Internal briefing session to sales representatives and tour escorts ● Sale of tour package or FIT packages to other local travel companies, online sales platforms and enrolment of customers at our office and online sales platforms 	
↓		<ul style="list-style-type: none"> ● Make reservations for air tickets, tour buses, hotel accommodation, meals and admission to attractions ● Assign tour escort for each tour and liaise with land operators (if applicable) ● Hold pre-tour reception for customers 	<ul style="list-style-type: none"> ● Confirm with airlines, ticketing agents and hotels directly ● Confirm with airlines for FIT packages offered by airlines
Approximately one to two weeks	Pre-tour arrangement		
↓		<ul style="list-style-type: none"> ● Handled by our Japan tour land operator or third party land operators engaged by us and accompanied by our tour escorts 	Not applicable
Usually three to 14 days	Tour operation		
↓		<ul style="list-style-type: none"> ● Completion of evaluation forms by our customers ● Preparation of tour evaluation report of our suppliers by our tour escorts 	<ul style="list-style-type: none"> ● Customer satisfaction survey conducted on a random basis
Approximately one week	Evaluation		

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1. Market research and product development

The general manager of our product development department is responsible for the development of our package tours. To design and develop new package tours as well as to improve our existing package tours, we conduct site visits to new and existing tour destinations and tourist attractions from time to time to identify new travel elements. For new destinations, we consider factors such as market trends, customers' preference and feedbacks, local events or points of interests in destinations. For existing destinations, we may revise the travel elements and itineraries taking into account customers' feedback, suggestions from our tour escorts, land operators, market trends, updated information from local tourism associations, new addition of hotels and attractions and special local festivals or events. We introduce new package tours with new itineraries, new themes or new activities from time to time. We strive to keep ourselves abreast of market trends and customers' preferences, new points of interests and new attractions in both existing and new destinations.

2. Tour planning and procurement

Our tour operation department will liaise with airlines or ticketing agents to check for the flight availability. Our major airline suppliers will generally allocate block seats to us for their flights three months in advance. We also make reservation of seats for their flight in advance from time to time depending on the sales of our tour packages and FIT Products. We may also place ad-hoc orders with our airline suppliers or ticketing agents for additional flight seats. We occasionally book a charter flight and will sell flight seats individually as FIT Products at peak seasons in order to secure flight seats. During peak season, we may be required to make prepayment to our travel service suppliers for the reservation of air tickets and hotel accommodation.

For most of our Japan tours, we will carry our detailed planning and make reservation for other travel elements such as hotel accommodation, tour buses and meals directly through our office in Japan and depending on the circumstances, we might also engage third party land operators for the tour operation of our Japan tours. For all our other non-Japan tours, we engage third party land operators to arrange for local travel elements and these third party land operators are responsible for the tour operation at destinations and our Group will pay a fixed sum to them to cover all the costs of the local travel elements. We select our land operators based on their quality of services, safety standards, responsiveness, reliability and pricing.

For customised tour package, our tour operation department bundles the desired travel elements into personalised itineraries based on our customer's requirements and preferences in respect of the travel destinations, airlines, hotels, requirement for tour escorts and their budgets.

3. Sales and marketing

We sell our travel products and services to traditional offline travel companies such as Zhejiang China International Travel Service Co., Ltd (浙江省中國國際旅行社有限公司) and online travel agencies such as Ctrip.com (攜程), Ly.com (同程), Lvmama.com (驢媽媽旅遊),

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Tuniu.com (途牛) and Traveling Bestone (旅遊百事通), and individual customers through our sales department, our headquarters, our branches and other online platforms, such as qyer.com (窮遊), Fliggy (飛豬旅行), Mafengwo (馬蜂窩) and WeChat (微信). We usually sell our Japan tour package or FIT Products outright at a fixed price to other local travel agencies and receive the full payment including disbursement prior to the tour departure date subject to the terms of the agreement we entered into with those local travel agencies which allows some of them to settle the outstanding balance monthly with us. As such, we are not responsible for the sales and marketing of our products sold outright to other local travel agencies and we are only responsible for the tour operation and provision of tour escorts in Japan. The local travel agencies who purchased our Japan tour package are required to provide us an update on the enrolment status of the tour package from time to time.

As at the Latest Practicable Date, our sales team consisted of 48 travel consultants, who are mainly responsible for the sales of our travel products and services through our sales channels. Please see “Sales” below for further details. We have an information management system to assist our frontline travel consultants in their sales operations. Our travel consultants are required to input all the sales data into the system as soon as a transaction takes place. We can find the latest enrolment status and remaining available tour space for sale for each package tour on the system. Our operation team will review the order after the travel consultants have inputted the sales data, and our finance and settlement team will cross check the sales invoice and the sales data displayed on our system to ensure the transaction details inputted into the sales system are accurate.

Our B2C customers enrolled in our package tours are required to pay a deposit at the time of booking. They are required to settle the remaining balance before departure depending on the types of tours and our terms of sales, even when the package tours have not been confirmed. Similarly, our B2B customers are also required to pay deposit upon confirmation of their orders for our products and services and they are required to settle the remaining balance before departure of tours or issuance of tickets, etc. There are no material difference in the cancellation and refund policy for our B2B and B2C customers. Customers, including both B2B and B2C customers, are generally not allowed to withdraw or cancel orders for enrolled tours and other products and services without forfeiture of the deposit, except where the tours are cancelled due to insufficient tour participants, which only is applicable to package tours for our individual customers, or situations “beyond our control” such as political unrest, severe weather condition or natural disaster. In such circumstances, we will inform our B2C customers of the cancellation at least seven days prior to departure and our B2C customers can select to join another tour offered by us or cancel their booking. In the latter case, we will refund all money paid to our individual customers (except visa application fees paid by customers). For our B2B customers, we will inform them of the cancellation as soon as outbound travel alert is issued by the relevant PRC government authority for a particular destination prior to departure and we will refund all money paid to our B2B customers (except visa application fees paid by them). During the Track Record Period, the amount of revenue generated from the forfeiture of our B2C customers’ deposits was approximately RMB1,500, nil and nil, and the amount of revenue generated from the forfeiture of our B2B customers’ deposits was approximately RMB137,200, nil and nil. The amount of revenue refunded to customers as a result of cancellation of tours by us was nil during the Track Record Period.

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For customers who purchased our FIT Products, they are required to pay the full amount upon reservations and are generally not allowed to cancel the reservations subject to the terms imposed by airlines and hotels suppliers.

4. Pre-tour arrangement

After a tour is confirmed, we will make all necessary arrangements for the tour. For our Japan tours, our tour operation department will make reservations for air tickets, tour buses, hotel accommodation, meals and admission to attractions. For other non-Japan tours, we will make reservation for air tickets and liaise with land operators for arrangement and operation of the tours including hotel accommodation, meals and local transportation at the destination.

5. Tour operation

For our Japan tours, we usually carry out the tour operation directly by ourselves including the arrangement for hotel accommodation, local transportation, sight-seeing and meals. We might also engage third party land operators for the tour operation of our Japan tours depending on the demand of our travel products. For non-Japan tours, the tour operation will generally be handled by our selected land operators with agreed arrangements for hotel accommodation, local transportation, activities and meals as approved and pre-determined by us before the engagement of the land operators. Our Company is responsible for the unsatisfactory performance or misconduct of the land operators which caused damages to the end-customers. In the event that our customers receive unsatisfactory services or arrangement from third party land operators during the tour, the customers may lodge complaints to our tour escort, who is our full-time employee. Our tour escorts will reflect the situation to the relevant third party land operator and request them to perform remedial actions to rectify the situations and our tour escort will then file report to our tour operation department for record. If the unsatisfactory performance or misconduct of the land operators caused monetary damages to the end-customers, we shall compensate the end-customers first and ask the land operators to make compensation to us later. As confirmed by our Directors, during the Track Record Period, the compensation made to the end-customers due to the unsatisfactory performance or misconduct of the land operators was nil. In the event that there are frequent complaints received from our customers relating to a particular supplier, we will consider terminating our cooperation with them.

As at the Latest Practicable Date, we have 24 full-time tour escorts based in the PRC and four local tour guides, who are our employees. During the Track Record Period, we hired part-time tour escorts from time to time, depending on the demands of our products and services. One tour escort will be assigned to accompany one tour group throughout the whole trip to attend to our customers and to oversee the operation of the tour. The tour escort will report to our tour operation department in the event of any issue arising from the tour operation or in case of emergency. Our tour escorts do not receive any gratuity payment by our tour participants. If we see fit, we may also hire part-time land operators at the destinations to provide land operation services to our package tour customers.

6. Evaluation

Upon completion of the tour, our customers are invited to complete an evaluation form on various aspects of our products and services. Our tour escorts are also required to provide a tour evaluation report on the quality of the services of our suppliers, land operators and their arrangement of tours. This process will allow us to monitor, and thereby increase, the quality of our products and services based on our customers' feedbacks.

B. Visa Application Processing

1. Issuance of invitation letters

For issuance of invitation letter, after our sale representative receives all necessary documentation from our B2B customer who does not have the qualification to issue invitation letters, our visa processing personnel will input its personal information into our system and the system will generate an invitation letter to our customer. The whole process is usually completed within one day. We usually charge a handling fee ranging from RMB5.0 to RMB30.0 per issuance of invitation letter. Alternatively, we charge a monthly fee of approximately RMB30,000 from our B2B customers for bulk issuance of invitation letter.

2. Submission of visa applications

For submission of visa application, after the customer (which include both B2B and B2C customers) submit all required documents for visa application to us, our visa processing personnel will review the documents and make a submission of visa application to the Consulate-General of Japan in Shanghai. As part of our service, we will help our customers to pick up their passports from the Consulate-General of Japan in Shanghai after we have been notified that the visas of our customers have been granted. The processing period for visa issuance is approximately five working days from the date of the acceptance of application. We charge our customers different processing fees depending on the type of visas they are applying. We usually charge a handling fee ranging from RMB260.0 to RMB1,299.0 per visa application.

OUR HOTELS

As at the Latest Practicable Date, the hotel portfolio of our Group comprise (i) the Shizuoka Hotel; and (ii) the Tokyo Hotel. Reservations with the Shizuoka Hotel and the Tokyo Hotel which has commenced operation in October 2018 are generally made through various channels, such as the website of the Shizuoka Hotel, online travel platforms, local Japanese travel agents, etc. We do not impose any minimum purchase requirement on the online travel platforms or local Japanese travel agents we cooperate with. The Shizuoka Hotel consists of nine storeys and is located in Izu, Shizuoka Prefecture, Japan near to local attractions such as Shuzenji Temple and Fuji-Hakone-Izu National Park where the famous Mount Fuji sits in and offers hot spring bath, whereas the Tokyo Hotel consists of 11 storeys and is located around ten-minute walking distance from Ueno Station which offers a variety of activities ranging from shopping, food and beverage, entertainment to cultural attractions. According to the F&S Report, the annual average price per room of hotels in Tokyo was

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approximately RMB663.2 in 2018, and is expected to reach approximately RMB868.8 by 2023 with a CAGR of 6.3% between 2019 and 2023. The Tokyo Hotel has 16 single rooms, 18 double rooms, 45 twin rooms, six senior twin rooms, two deluxe twin rooms and one accessible room. The room rates of the Tokyo Hotel from October 2018 to the Latest Practicable Date ranged from JPY5,500 (equivalent to RMB331.9) to JPY18,480 (equivalent to RMB1,115.2) per person per night.

During the Track Record Period, our package tour customers accounted for approximately 34.1%, 24.1% and 30.1% of the total number of our hotel customers in FY2016, FY2017 and FY2018, respectively. We generated revenue of approximately RMB13.3 million, RMB12.3 million and RMB11.1 million, and net profit of approximately RMB1.7 million, RMB1.3 million and RMB1.0 million, from the operation of the Shizuoka Hotel during FY2016, FY2017 and FY2018, respectively. We have also generated revenue of approximately RMB1.7 million and net loss of approximately RMB0.2 million from the operation of our Tokyo Hotel during the period since its commencement of operation in October 2018 up to 31 December 2018. The revenue generated from our hotel operation during the Track Record Period contributed an aggregate of approximately RMB13.3 million, RMB12.3 million and RMB12.8 million, representing 5.8%, 7.3% and 6.2% of our total revenue in FY2016, FY2017 and FY2018, respectively. Our inventories, representing primarily food and beverages, and consumables for our hotel operation, increased from approximately RMB329,000 as at 31 December 2016 to approximately RMB838,000 as at 31 December 2017 primarily due to increase in inventories of food and beverages for our hotel operation. Our inventories was then decreased to approximately RMB750,000 as at 31 December 2018 primarily due to increase in sale of liquors near the period end. To maximise our advantage of owning the Tokyo Hotel and to broaden our revenue source, we opened a restaurant in the Tokyo Hotel to provide food and beverages to our own and any other walk-in customers. We also opened the Tokyo Duty-free Shop on the ground floor of our Tokyo Hotel with a gross floor area of approximately 65.2m² in January 2019 for the sale of over-the-counter medicines cosmetics and daily necessities to our customers, and any other visitors or tourists. In accordance with the applicable Japanese laws and regulations, we have obtained the Permission for Shop of General-type Export Goods (一般型輸出品販売場許可) and the License for Sales of Medicines (医薬品販売業許可証) under the Act on Securing Quality, Efficacy and Safety of Products Including Pharmaceuticals and Medical Devices (医薬品、医療機器等の品質、有効性及び安全性の確保等に関する法律) for the operation of the Tokyo Duty-free Shop, and the Business licence (営業許可) for cafeteria “Sky Lounge” under Food Sanitation Act (食品衛生法) for the operation of the restaurant at the Tokyo Hotel.

The following table sets out certain key information with respect to each of our hotels, where applicable, as at the Latest Practicable Date (except as otherwise indicated):

	The Shizuoka Hotel	The Tokyo Hotel
Address	722 Shuzenji, Izu-shi, Shizuoka Province, Japan 410-2416	Lot Nos. 126-1 and 126-4, Shitaya 1-chome, Taito-ku, Tokyo, Japan
Year of commencement of operations by our Group	September 2015	October 2018

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	The Shizuoka Hotel	The Tokyo Hotel
GFA (m ²)	7,536.7	2,408.4
Number and sizes of rooms	46 with sizes ranging from 34 m ² to 66 m ²	88 with sizes ranging from 11 m ² to 30 m ²
Number of food and beverage facilities	One	One
Number of meeting/function rooms	Four	Nil
Average room rate during the Track Record Period and up to the Latest Practicable Date	JPY5,500 to JPY24,840 per person per night	JPY5,500 to JPY18,480 per person per night
Average occupancy rate	Approximately 68% during the Track Record Period and approximately 73% from 1 January 2019 up to the Latest Practicable Date	Approximately 36% since its commencement of operation in October 2018 up to 31 December 2018 and approximately 83% from 1 January 2019 up to the Latest Practicable Date
Cost of acquisition	RMB17.9 million ^(Note 1)	RMB43.1 million ^(Note 2)
Financing method(s) for the cost of acquisition	Funded by a bank loan in PRC	Funded by a bank loan in Japan
Development costs incurred during the Track Record Period	RMB0.9 million ^(Note 3)	RMB84.9 million ^(Note 4)
Financing method(s) for the development costs	Funded by our internal resources	RMB25.0 million was funded by a bank loan in the PRC and the remaining was funded by our internal resources
Market value in existing state as at 31 March 2019	RMB25.8 million	RMB131.9 million

Photos of the hotel



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The Shizuoka Hotel

The Tokyo Hotel

Photos of the rooms



Japanese-style room (44 m²)



Deluxe twin room (30 m²)



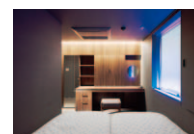
Special suite (66 m²)



Senior twin room (19 m²)



Twin room (34 m²)



Twin room (15 m²)



Double room (14 m²)



Single room (11 m²)

Note:

- (1) The cost of acquisition incurred includes the consideration of acquiring Shuzenji Takitei in FY2015, our subsidiary holding and operating the Shizuoka Hotel. Please see note 29 of the Accountants' Report in Appendix I to this prospectus for details.
- (2) The cost of acquisition incurred includes the consideration of acquiring the freehold land for the Tokyo Hotel.
- (3) The development costs incurred represent minor renovation costs incurred for Shizuoka Hotel during the Track Record Period.
- (4) The development costs incurred represent the construction costs incurred for the Tokyo Hotel during the Track Record Period.

As at the Latest Practicable Date, the Company also entered into one-year framework supply agreements with two land operators for the supply of a total of 35 rooms at our Tokyo Hotel per day commencing in January 2019, which represents approximately 39.8% of the Tokyo Hotel's total room supply. Set forth below is a summary of the major terms of the framework supply agreements of our hotel rooms at the Tokyo Hotel:

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Framework Supply Agreement

Term:	One year from effective date
Term of arrangement:	We supply 17 and 18 hotel rooms at our Tokyo Hotel per day (including breakfast) to each of the travel companies, respectively. The number and types of rooms supplied differs from customer to customer.
Minimum purchase requirement:	The travel companies are required to purchase at least 80% of the total 17 and 18 rooms supplied to the respective travel companies per day.
Pricing:	Hotel room charges vary between different customers but typically, we charge our land operator customers at the following rates: <ul style="list-style-type: none">(i) JPY7,000 (including tax) per night for single rooms; and(ii) from JPY5,550 to JPY14,040 (including tax) per person per night for twin rooms.
Payment:	Payment differs from customer to customer but usually our land operator customers are required to either: <ul style="list-style-type: none">(i) pay us a deposit of JPY1 million within one month upon execution of the supply agreement, and settle the outstanding hotel room charges and the related handling charges every three months; or(ii) settle all room charges and handling charges two days prior to checking in at our Tokyo Hotel.
Renewal:	The agreement shall be renewed automatically unless terminated by either party giving the other notice at least three months prior to the expiration of the agreement.
Termination:	Typically either party may terminate the agreement by giving the other a three months' written notice.

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SALES

Sales channels

We sell our travel products and services to our retail customers through various channels set forth below:

(i) Our headquarters and our branches

As at the Latest Practicable Date, our headquarters was at Hangzhou and we operated three branches in the PRC located in Shanghai, Wenzhou and Rui'an. Sales representatives and travel consultants in our branches are responsible for the sales and marketing of our travel products. They also answer enquiries and provide travel product advice to our customers according to their specific needs and preferences.

(ii) Online sales platforms

Since 2012, we have opened stores on certain popular third party Chinese online shopping websites, some of which are specialised in the provision of outbound travel service. These independent third party online platforms include four service providers such as qyer.com (窮遊), Fliggy (飛豬旅行), Mafengwo (馬蜂窩) and WeChat (微信). We receive orders and payment from our customers through these online sales platforms, and these online platforms charge us a fixed amount or a certain percentage of the transaction amounts carried out on their online platforms as transaction fees. The commission rate ranges from 1.0% to 10.0% depending on the type of products supplied and varies across different online sales platforms. Some of these online sales platforms, which are our suppliers, also operate an online travel agency which has entered into supply agreement with us, pursuant to which we sell our products and services to them. Our sales and marketing department will approach these online travel agencies to understand their needs for Japan bound package tours and recommend our Group's products to them accordingly. In some occasion, we also sell tailor-made tours to them according to their requests and specifications. While there may be online and offline potential competition with our Group's business in terms of supply of products and sales network, our Directors are of the view that those online travel agencies have (i) more extensive sale network coverage; (ii) more established brand name; and (iii) financial resources than us which helps us to attract more customers and could offer booking convenience to our customers so that they could access our products with ease. These online sales platforms, which operate an online travel agency, are our suppliers and customers. For FY2016, FY2017 and FY2018, our sales to the online travel agencies operated by these online sales platforms accounted for approximately 14.0%, 12.0% and 11.5%, of our total revenue, respectively. For the material aspects of the supply agreement, please see “– Customers – Online travel agencies” below. For key terms of the platform service agreement we entered into with online sales platform, please see “– Suppliers” below. As advised by our PRC Legal Advisers, we have complied with all relevant PRC laws and regulations with regard to our online platform and use of third party platforms.

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The following table sets out a breakdown of our revenue from our sales of our products by sales channels during the Track Record Period:

	FY2016		FY2017		FY2018	
	Revenue <i>RMB'000</i>	Percentage of revenue %	Revenue <i>RMB'000</i>	Percentage of revenue %	Revenue <i>RMB'000</i>	Percentage of revenue %
Headquarters and branches	195,904	86.0	148,554	88.0	181,524	88.5
Online sales platforms	31,926	14.0	20,313	12.0	23,527	11.5
Total	<u>227,830</u>	<u>100.0</u>	<u>168,867</u>	<u>100.0</u>	<u>205,051</u>	<u>100.0</u>

Pricing

We generally determine the price of our travel products and services on a cost-plus basis. For the FIT Products, we take into consideration, among others, (i) cost of air tickets or hotel rooms; (ii) the market comparable; (iii) the customer transaction volume; and (iv) relationship with the customer. For package tours, we take into consideration, among others, (i) the prevailing exchange rate; (ii) tour enrolment situation; and (iii) cost of travel elements including flight, hotel accommodation, local transportation, meals and sight-seeing, market demands, the prices of similar products offered by our competitors. We review the prices of our travel products and services on a regular basis. The following table sets out the price range of our main products during the Track Record Period:

	FY2016 <i>RMB'000</i>	FY2017 <i>RMB'000</i>	FY2018 <i>RMB'000</i>
Japan tour	3.4-14.0	3.0-15.0	3.1-17.0
Japan bound FIT Products	1.6-7.0	1.7-7.7	1.9-8.1
Day tours in Japan	N/A	0.3-0.7	0.2-0.6
Non-Japan tour	8.0-25.0	8.0-25.0	2.8-26.6
Non-Japan bound FIT Products	2.0-4.7	2.0-6.0	1.9-6.0

Payment

For individual customers, we accept payment by cash, credit cards, electronic peer-to-peer money transfer through third party online service provider or bank transfer. Individual customers are usually required to pay a deposit at the time of booking if they are enrolled in tour package or have purchased our FIT Products, and the remaining balance will be settled within three days prior to departure. For other products and services, full payment is usually made at the time of purchase. For travel company customers, we generally issue monthly invoices to them based on the amount of travel products or service purchased from us and they are required to settle the outstanding balance within five to 15 days after the date of invoice.

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Seasonality

Due to inherent nature of travel industry, we experience seasonal fluctuation in our revenue. The sales of package tours, FIT Products and ancillary travel-related products and services is generally higher during festive holidays such as summer holidays in July and August, and is generally lower during off-peak times. Therefore, we normally achieve higher revenue in the months of July and August. We adjust our selling price in accordance with the seasonality reasons.

MARKETING AND PROMOTION

We are committed to continue to promote our “途益 Tuyi” brand as a well-known brand, representing one-stop personalised travelling service. Our total advertising and promotion expenses were approximately RMB0.5 million, RMB0.5 million and RMB0.6 million for FY2016, FY2017 and FY2018, respectively. We have adopted the following marketing strategies to promote our brand and our business:

Media Advertising

We market and promote our brand and products through our corporate website, banner advertisements and promotional emails to our existing customers. We have also developed our corporate page on popular online social networks such as WeChat (微信). During the Track Record Period, we have cooperated with a well-known online travel platform to make live broadcast of one hour showcasing the Japanese onsen experience on its platform. We have also organised a product announcement conference inviting models and media to attend so that they could promote our brand and travel products through their respective established media channels and network.

Branch Display and Our Website

All of our three branches display posters and provide brochures and leaflets with tour and product information with attractive photos to our customers. We have launched a website **www.tuyigroup.com** in 2016 to provide our customers with information relating to our products and services and it currently does not involve any payment acceptance as we did not possess the relevant licences according to the PRC laws and regulations. Customers may provide their booking preference on our website and our staff will contact the customers via telephone to confirm their booking, and provide payment instructions to them. To help us better communicate with our customers regarding their needs, our customers can send their queries electronically via our Internet chat service. Our travel consultants are available to answer queries real-time.

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Joint Promotion with Online Travel Platforms

We have cooperated with various online travel platforms to promote our travel products at their online travel platforms. Under some of our agreements entered into with these online travel platforms, we provide bonus to them in order to incentivise them to promote our products on their online travel platforms.

Apart from the above marketing strategies, we believe word-of-mouth referrals will continue to be a highly effective channel for sales of our travel products and services especially for retail customers.

SUPPLIERS

Our suppliers mainly include (i) suppliers for the provision of travel elements used in our travel products, such as ticketing agents, airline operators, hotel operators, land operators, tour bus and other local transportation operators, restaurants and attraction operators; and (ii) suppliers for the provision of sales and marketing services, such as online sales platforms. We purchased flight tickets from both ticketing agents and airline operators during the Track Record Period. Purchases from our five largest suppliers accounted for approximately 22.6%, 20.0% and 25.4% of our total cost of sales for FY2016, FY2017 and FY2018, respectively, whilst purchases from our largest supplier accounted for approximately 5.1%, 5.0% and 8.9% of our total cost of sales for FY2016, FY2017 and FY2018, respectively.

None of our Directors, or their respective close associates or any person who, to the best of our Directors' knowledge, owns more than 5.0% of our issued share capital or any of our subsidiaries, had any interest in any of our five largest suppliers during the Track Record Period. During the Track Record Period and up to the Latest Practicable Date, there have not been any material non-performance by our suppliers that caused disruptions to our business or materials complaints of the travel products or services provided by our Group.

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We do not usually enter into supply agreements with our airline operators or ticketing agents. However, we are usually required to make full payment before the airline operators issue air tickets to us. In peak season, we are required to pay guarantee deposit to guarantee the flight seats. Set forth below is a summary of the principal terms of our arrangement with our other major suppliers:

Terms of arrangement	Hotel operators	Land operators	Online sales platforms
Length of term and termination clause	Generally one year subject to renewal and terminable by any default such as material breach of the agreement; bankruptcy of either party, etc. or by notice ranging from 14 days to three months	Generally one year subject to renewal and terminable by any default such as payment overdue for more than 30 days; litigation or disputes caused by unsatisfactory service rendered by the supplier, etc.	Generally one year and parties are required to provide one month notice for early termination
Deposit	Deposit is usually not required depending on our relationship with the relevant hotel operator	Deposit is usually not required	Deposit is usually required subject to the terms of each agreement
Payment term	The outstanding payment due from the previous month is usually settled monthly on the 10th day or 25th day of the subsequent month	Generally settled within one month upon return of the tour to China	The outstanding payment due from the prior month is usually settled within 30 days from the issuance of invoice
Payment method	Remittance	Remittance	Remittance
Number during the Track Record Period	over 130	over 15	four

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The following table sets out the information of our five largest suppliers during the Track Record Period:

For the year ended 31 December 2016

Rank	Supplier's name	Approximate years of business relationship	Nature and background of supplier	Purchase amount of our Group (RMB'000)	% of total cost of sales
1	Hangzhou Zhonghangfu Air Service Company Limited* (杭州中航服航空服務有限公司) ^(Note)	Four	A limited liability company based in the PRC which provides air tickets for flights to and from Japan and Australia	9,116	5.1
2	Supplier A	Nine	A representative office of airline operator in the PRC which provides round trip air tickets between Hangzhou, PRC and Tokyo or Osaka, Japan	8,166	4.5
3	Shanghai Lingxiang	Five	A limited liability company based in the PRC which provides air tickets mainly for flights to and from Japan	7,905	4.4
4	Auga Travel Service Pty Ltd.	Four	A limited liability company based in Australia which provides land operator services	7,857	4.4
5	Kingdom Tour NZ Ltd.	Four	A limited liability company based in New Zealand which provides land operator services	7,544	4.2
Total purchases from our five largest suppliers:				<u>40,588</u>	<u>22.6</u>

Note: This supplier was also our customer in FY2016 and our sales to which accounted for less than 0.3% of our total revenue in FY2016 and the supply transactions and sales transactions are not related.

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For the year ended 31 December 2017

Rank	Supplier's name	Approximate years of business relationship	Nature and background of supplier	Purchase amount of our Group (RMB'000)	% of total cost of sales
1	Karafuji International Company Limited* (カラフジ国際株式会社)	Two	A company based in Japan which provides land operation services	5,948	5.0
2	Supplier A	Nine	A representative office of airline operator in the PRC which provides round trip air tickets between Hangzhou, PRC and Tokyo or Osaka, Japan	5,011	4.2
3	Shanghai Lingxiang	Five	A limited liability company based in the PRC which provides air tickets mainly for flights to and from Japan	4,971	4.1
4	Pegasasu Travel Japan Company Limited* (株式会社ペガサストラベルジャパン)	Two	A company based in Japan which provides land operation services	4,610	3.8
5	JET Co., Ltd (株式会社JET)	Two	A company based in Japan which provides land operation services	3,514	2.9
Total purchases from our five largest suppliers:				24,054	20.0

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For the year ended 31 December 2018

Rank	Supplier's name	Approximate years of business relationship	Nature and background of supplier	Purchase amount of our Group (RMB'000)	% of total cost of sales
1	Supplier B ^(Note)	Five	A limited liability company based in the PRC which provides travel related products and services	13,823	8.9
2	Pegasasu Travel Japan Company Limited* (株式会社ペガサストラベルジャパン) ^(Note)	Two	A company based in Japan which provides land operation services	7,862	5.0
3	Karafuji International Company Limited* (カラフジ国際株式会社)	Two	A company based in Japan which provides land operation services	6,790	4.4
4	Supplier A	Nine	A representative office of airline operator in the PRC which provides round trip air tickets between Hangzhou, PRC and Tokyo or Osaka, Japan	6,430	4.1
5	Shanghai Lingxiang ^(Note)	Five	A limited liability company based in the PRC which provides air tickets mainly for flights to and from Japan	4,667	3.0
Total purchases from our five largest suppliers:				<u>39,572</u>	<u>25.4</u>

Note: This supplier was also our customer in FY2018 and our sales to which accounted for less than 0.3% of our total revenue in FY2018 and the supply transactions and sales transactions are not related.

INVENTORY

Our Group's inventories mainly represent food and beverages and other consumables for the Shizuoka Hotel. We generally determine the purchase amount of food and beverages and other consumables based on a number of factors, including, our occupancy rate, our historical usage, our intended level of minimum inventory balance or any discount upon bulk purchase. We will regularly review our inventory level, monitor the expiry dates of inventory and adjust our inventory purchases to avoid over-stocking. Our hotel management department will make regular assessment and summary of the inventory level. During the Track Record Period, our food and beverages inventory was generally utilised within their short lives.

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CUSTOMERS

Our customers primarily comprise (i) B2B customers such as offline travel companies and online travel agencies; and (ii) B2C customers such as retail customers to which we sold our travel products and services through our headquarters, our branches and third party online travel platforms. For FY2016, FY2017 and FY2018, we had approximately 589, 381 and 675 offline travel company customers and online travel agencies respectively. For FY2016, FY2017 and FY2018, we served approximately 4,259, 6,346 and 8,020 travellers who purchased package tours from us directly, respectively. During the Track Record Period, the Hangzhou headquarters contributed over 80% of our total revenue, respectively. Apart from individual customers, we also have corporate customers, which mainly purchase our tailor-made and customised tours. In addition to the revenue from the sales of travel products and services, we also generate revenue by receiving commissions from duty-free and other retail shops operated by third parties in Japan when our customers make purchases at these shops and from our tour escorts and/or tour guides when our package tour customers make purchases for goods and souvenirs at the tour buses. Among the duty-free shops we received commissions from, two are listed on the Tokyo Stock Exchange and one is listed on KOSDAQ of the Korea Exchange, respectively.

The following table sets out the breakdown of our revenue, gross profit and gross profit margin from sales of products by B2B customers and B2C customers during the Track Record Period:

B2B

	FY2016			FY2017			FY2018		
	Revenue <i>RMB'000</i>	Gross profit <i>RMB'000</i>	Gross profit margin %	Revenue <i>RMB'000</i>	Gross profit <i>RMB'000</i>	Gross profit margin %	Revenue <i>RMB'000</i>	Gross profit <i>RMB'000</i>	Gross profit margin %
Sales of package tours and day tours	155,121	8,837	5.7	100,420	17,531	17.5	120,571	12,615	10.5
Margin income from sales of FIT Products	11,723	11,723	N/A ^(Note)	4,525	4,525	N/A ^(Note)	11,315	11,315	N/A ^(Note)
Margin income from the provision of visa application processing service	11,471	11,471	N/A ^(Note)	7,686	7,686	N/A ^(Note)	9,593	9,593	N/A ^(Note)
Other income from sales of ancillary travel related products and provision of services	661	58	8.8	998	862	86.4	1,513	1,243	82.2
Hotel operation	6,935	2,981	43.0	5,428	2,348	43.3	5,829	2,126	36.5
	<u>185,911</u>	<u>35,070</u>	<u>18.9</u>	<u>119,057</u>	<u>32,952</u>	<u>27.7</u>	<u>148,821</u>	<u>36,892</u>	<u>24.8</u>

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B2C

	FY2016			FY2017			FY2018		
	Revenue RMB'000	Gross profit RMB'000	Gross profit margin %	Revenue RMB'000	Gross profit RMB'000	Gross profit margin %	Revenue RMB'000	Gross profit RMB'000	Gross profit margin %
Sales of package tours and day tours	26,865	1,267	4.7	31,658	1,988	6.3	42,196	2,683	6.4
Margin income from sales of FIT Products	3,498	3,498	N/A ^(Note)	5,546	5,546	N/A ^(Note)	2,510	2,510	N/A ^(Note)
Margin income from the provision of visa application processing service	4,201	4,201	N/A ^(Note)	4,304	4,304	N/A ^(Note)	3,752	3,752	N/A ^(Note)
Other income from sales of ancillary travel related products and provision of services	1,004	907	90.3	1,476	1,176	79.7	800	606	75.8
Hotel operation	6,351	2,569	40.5	6,826	2,999	43.9	6,972	2,543	36.5
	<u>41,919</u>	<u>12,442</u>	<u>29.7</u>	<u>49,810</u>	<u>16,013</u>	<u>32.1</u>	<u>56,230</u>	<u>12,094</u>	<u>21.5</u>
Total	<u>227,830</u>	<u>47,512</u>	20.9	<u>168,867</u>	<u>48,965</u>	29.0	<u>205,051</u>	<u>48,986</u>	23.9

Note: The calculation of gross profit margin is not applicable for our margin income from the provision of visa application processing service and margin income from sales of FIT Products because the respective revenue is recognised on a net basis.

For FY2016, FY2017 and FY2018, our revenue generated from our five largest customers amounted to approximately RMB37.1 million, RMB21.3 million and RMB19.1 million, respectively, representing approximately 16.4%, 12.6% and 9.3% of our total revenue, respectively, and our revenue generated from our largest customer amounted to approximately RMB13.4 million, RMB7.0 million and RMB5.9 million, respectively, representing approximately 5.9%, 4.2% and 2.9% of our total revenue, respectively. We have maintained business relationships with our five largest customers for a period ranging from four to eight years. To the best of our Director's knowledge, none of our Directors or their respective close associates or any person who, to the knowledge of our Directors, owns more than 5.0% of our issued share capital or of any of our subsidiaries, had any interest in any of our five largest customers during the Track Record Period.

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The following tables set out certain information about our five largest customers for the periods indicated:

For the year ended 31 December 2016

Rank	Customer's name	Approximate years of business relationship	Nature and background of customer	Purchase amount from the customer (RMB'000)	% of total revenue
1	JTC Inc. (株式会社JTC)	Four	A listed company incorporated in Japan which mainly operates duty free shops	13,351	5.9
2	Zhejiang China International Travel Service Co., Ltd. (浙江省中國國際旅行社有限公司)	Five	A limited liability company based in the PRC which provides travel related products and services	8,635	3.8
3	Tong Cheng International Travel Service Co., Ltd. (同程國際旅行社有限公司) ^(Note)	Four	A limited liability company based in the PRC which provides travel related products and services	6,912	3.0
4	Customer A	Four	A limited liability company based in the PRC which provides travel related products and services	4,471	2.0
5	Anhui Wanda Global International Travel Company Limited (安徽萬達環球國際旅行社有限責任公司)	Five	A limited liability company based in the PRC which provides travel related products and services	3,761	1.7
Total purchases from our five largest customers:				37,130	16.4

Note: This customer was also our supplier in FY2016 and our costs paid to which accounted for less than 0.1% of our total costs of sales in FY2016 and the supply transactions and sales transactions are not related.

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For the year ended 31 December 2017

Rank	Customer's name	Approximate years of business relationship	Nature and background of customer	Purchase amount from the customer (RMB'000)	% of total revenue
1	JTC Inc. (株式会社JTC)	Four	A listed company incorporated in Japan which mainly operates duty free shops	7,034	4.2
2	Customer B	Three	A private company incorporated in Japan which mainly operates duty free shops	4,367	2.6
3	Tong Cheng International Travel Service Co., Ltd. (同程國際旅行社有限公司) ^(Note)	Four	A limited liability company based in the PRC which provides travel related products and services	4,271	2.5
4	Zhejiang China International Travel Service Co., Ltd. (浙江省中國國際旅行社有限公司) ^(Note)	Five	A limited liability company based in the PRC which provides travel related products and services	2,856	1.7
5	Anhui Wenda Global International Travel Company Limited (安徽萬達環球國際旅行社有限責任公司)	Five	A limited liability company based in the PRC which provides travel related products and services	2,779	1.6
Total purchases from our five largest customers:				<u>21,307</u>	<u>12.6</u>

Note: This customer was also our supplier in FY2017 and our costs paid to which accounted for less than 0.2% of our total costs of sales in FY2017 and the supply transactions and sales transactions are not related.

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For the year ended 31 December 2018

Rank	Customer's name	Approximate years of business relationship	Nature and background of customer	Purchase amount from the customer (RMB'000)	% of total revenue
1	Customer A ^(Note)	Four	A limited liability company based in the PRC which provides travel related products and services	5,949	2.9%
2	Tong Cheng International Travel Service Co., Ltd. (同程國際旅行社有限公司) ^(Note)	Four	A limited liability company based in the PRC which provides travel related products and services	4,486	2.2%
3	Zhejiang China International Travel Service Co., Ltd. (浙江省中國國際旅行社有限公司) ^(Note)	Five	A limited liability company based in the PRC which provides travel related products and services	3,408	1.7%
4	Customer C ^(Note)	One	A limited liability company based in the PRC which provides travel related products and services	2,868	1.4%
5	Customer D	Two	A limited liability company based in the PRC which provides travel related products and services	2,351	1.1%
Total purchases from our five largest customers:				19,062	9.3%

Note: This customer was also our supplier in FY2018 and our costs paid to which accounted for less than 0.2% of our total costs of sales in FY2018 and the supply transactions and sales transactions are not related.

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Travel companies

We have entered into separate agreements with travel companies to supply specific travel products and services, such as air tickets, tour packages and hotel rooms to them. In order to further expand our customer base, we have also entered into cooperation agreements in the second half of FY2018 with 22 New B2B Customers, being travel companies that are independent third parties located in the PRC and are engaged in the provision of travel products and services. Set forth below is a summary of the major terms of our supply agreements with travel companies and our cooperation agreements with the New B2B Customers:

Supply Agreement

Term	:	One to three years from effective date
Term of arrangement	:	We supply tour packages, air tickets, hotel rooms and other travel-related products and services to travel companies
Minimum purchase requirement	:	We do not require our customers to purchase a minimum number of air tickets or travel products but there might be a sales target depending on the terms of each supply agreement
Pricing	:	In general, we adopt one of the following pricing methods for sales to our travel company customers: (i) We sell our travel products or services at a fixed price and the travel company customer may charge the travellers any amount; or (ii) We sell our travel products or services at a fixed price and the travel company customer may charge a certain percentage of commission of the fixed price from the travellers.
Payment	:	Payment differs from customer to customer but usually our travel company customers are required to settle the outstanding balance within five to 15 days upon issuance of monthly invoice
Renewal	:	Parties may mutually agree to renew the agreements
Termination	:	Typically either party may terminate the agreement by giving the other up to one month notice

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Cooperation Agreement

Term:	One to three years from effective date
Term of arrangement:	Typically, we supply travel products such as tour packages and other travel-related products and services to our New B2B Customers, who shall be responsible for promoting our travel products and liaising with the travellers or vice versa.
Minimum purchase requirement:	We do not require our New B2B Customers to purchase a minimum number of travel products.
Pricing:	We sell our travel products or services at a fixed price and the New B2B Customers may charge the travellers any amount not lower than our fixed price.
Payment:	<p>Payment differs from customer to customer but typically our New B2B Customers are required to pay the total tour fee to us at least three working days prior to the departure of the tour, or at least seven days prior to the departure during peak seasons such as summer holiday and Chinese New Year.</p> <p>For day tours in Japan, our New B2B Customers are generally required to settle the outstanding balance once or twice every month.</p>
Renewal:	The agreement shall be renewed automatically unless terminated by us giving notice to the other party prior to the expiration of the agreement.
Termination:	<p>Differs from customer to customer but typically:</p> <ul style="list-style-type: none">(i) we may terminate the agreement by giving written notice to the other party and effective upon the other party receiving the written notice; or(ii) either party may terminate by giving 90 days written notice.

As at the Latest Practicable Date, we also entered into two business cooperation agreements with two Hong Kong travel agency companies, one of which is listed on the GEM of the Stock Exchange and also one of the leading travel agency companies in Hong Kong according to the F&S Report, pursuant to which and to benefit from each other's

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established customer base, either we or the local travel agency will supply travel products in Hong Kong and/or PRC, and the other party shall be responsible for promoting such travel products or liaising with the travellers. Set forth below is a summary of the major terms of such cooperation agreements:

Term:	Nine months to three years
Term of arrangement:	Either we or the other party will supply travel products such as package tours, day tours and other travel-related products to the other, who shall be responsible for promoting the other party's travel products and liaising with the travellers.
Minimum purchase requirement:	Both parties are not required to purchase a minimum number of travel products from the other party.
Pricing:	We sell our travel products at a fixed price and depending on the local travel agency, some may charge the fixed price or some may charge the travellers any amount not lower than our fixed price. We may also purchase travel products from the local travel agency at its quoted price.
Payment:	<p>Payment differs among different local travel agencies. For our products, we generally issue our invoices every month and require the local travel agency to settle the same within a specified period upon receipt of such invoice. For package tours, we may also require the other party to pay 80% of the tour fee prior to departure and settle the remaining balance within three working days upon return.</p> <p>For products that we purchase from the other party, we may be required to pay a deposit upon confirmation of order, and the amount of which depends on the product purchased.</p>
Renewal:	The agreement shall be renewed automatically unless either party gives termination notice to the other party prior to the expiration of the agreement.
Termination:	No specific termination clause but the agreement may be terminated upon the occurrence of force majeure event.

We have no control over our travel company customers with respect to their sales and pricing policies, refund and exchange arrangements and sales targets. To the best knowledge of our Directors, no travel company customer has conducted its business under our Group's name.

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Online travel agencies

We have also entered into agreements with certain online travel agencies to supply air tickets and travel products and services to them. Set forth below is a summary of the major terms of our supply agreements with online travel agencies:

Supply Agreement

Term	:	Usually three years from effective date
Term of arrangement	:	We supply tour packages, air tickets, hotel rooms and visa application processing services to online travel agencies
Minimum purchase requirement	:	We do not impose minimum purchase requirement on online travel agencies
Payment	:	Online travel agencies are usually required to make payment based on our monthly issued invoice
Renewal	:	Parties may mutually agree to renew the agreements
Termination	:	Either party may terminated by giving one month written notice

Retail customers

Our customers also include travellers who purchase our package tours, tailor-made and customised tours, day tours, hotel and flight packages, our visa application services and other travel-related products and services. We did not enter into any long term agreement with our retail customers and enter into transaction with them on order-by-order basis. The retail customers normally settle in cash, credit cards, electronic peer-to-peer money transfer through third party online service provider or bank transfer. During the Track Record Period, we did not have any single retail customer who accounted for more than 5.0% of our revenue.

CREDIT CONTROL

Our Group's customers consist of (i) third party offline travel companies, online travel agencies, retail customers and corporate customers for travel products; and (ii) duty-free and other retail shops for commissions from these shops. Retail customers are normally not provided with credit terms whilst travel companies, corporate customers, duty-free shops and other retail shops are normally granted credit terms of up to 30 days. Retail customers are usually required to settle all amount prior to departure. Our finance and settlement department reviews the credit terms for each existing and prospective corporate customers and travel companies. The settlement and credit terms granted to corporate customers, travel

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companies, duty-free and other retail shops are determined with reference to, among others, (i) the length of business relationship with us; (ii) the payment history of the customer; and (iii) the financial strength and credibility of such customers.

We closely monitor our outstanding trade receivables and did not record impairment for our trade receivables during the Track Record Period. If we cannot recover an outstanding trade receivable after liaison with the relevant customer, we may issue demand letter to such customer as and when appropriate.

CASH CONTROL POLICY

Payments received from our customers

We require our sales representatives to deliver all cash proceeds received from customers to their respective supervisors, who will login to our sales system and input the transaction details (excluding the unit price of the products and services) into our system. The unit prices of our products and services are pre-determined by our operational manager on the system and sales representatives and their respective supervisors will not be able to modify without a password. They will keep the cash proceeds in a safe or locked drawer. Before end of each working day, the supervisors will ensure that all payment received from the customers tally with the sales records maintained in our sales system. The cash proceeds will usually be banked in when our safe or locked drawer maintain cash proceeds of over RMB40,000 and a copy of the bank-in slip along with other documents such as official receipts and electronic payment slips will be provided to our finance and settlement department on the same day. Our finance and settlement department will be responsible for checking the amounts of payment received against our records in our sales system. In cases of discrepancies, our finance and settlement department will inquire with the responsible supervisors regarding the relevant transaction. As confirmed by our Directors, during the Track Record Period, there were no incidents of cash misappropriation reported. Our package tour customers may also purchase goods and souvenirs of the duty-free and other retail shops operated by third parties in Japan or at the tour buses from our tour escorts and/or tour guides. We require our tour escorts and/or tour guides to prepare and submit a summary list setting out the particulars of the purchases made and the commissions for such purchases collected on our behalf from the relevant duty-free shops or other retail shops. The summary list together with the commissions received in cash will be provided to us by our tour escorts and/or tour guides as soon as practicable upon return from the tour, or in case of a back-to-back tour which starts immediately after the tour, upon return from the latter tour. We will also carry out sample checks to verify that the amount of commissions to be received tally with the actual amount collected and returned to us by our tour escorts and/or tour guides by contacting some of our package tour customers to confirm the details of their purchases.

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Advances paid to our tour escorts for tour operations

During our tour operation, we may need to settle the costs of travel elements such as hotel accommodation, meals, admission tickets and local transportation by way of cash during the tour. We make cash advances to our tour escorts so that they could settle such tour operation expenses.

Within one to two working days prior to departure of each tour, our finance and settlement department will estimate the tour expenses based on the tour itinerary and will advance cash in JPY to our tour escort. They will countersign a form to confirm receipt. During the tour operation, the tour escort is required to obtain original receipts from the vendors when they settle tour operation expenses of any amount. The tour escort is required to submit tour expenses summary sheet setting out the amount, details of vendors and date of payment, all original receipts and remaining unused cash within seven working days upon return of tour to our finance and settlement department. The documents will be checked by two members of our finance and settlement department and will then be submitted to the manager of our finance and settlement department for approval. In the event that the expenses exceed the cash we advanced to our tour escort prior to departure, our finance and settlement department will reimburse the tour escort after obtaining approval of the manager of our finance and settlement department. As confirmed by our Directors, during the Track Record Period, we did not experience any case of misappropriation or unauthorised usage of funds by our tour escorts.

QUALITY CONTROL AND CUSTOMER SERVICE

Suppliers

We place great emphasis on the selection of our suppliers since we believe that our commitment to offer quality products and services is one of the major factors contributing to our success. Our management and product development team will consider and assess our potential and existing suppliers by their service quality, responsiveness, completeness, reliability and price.

We usually engage more than one land operators to arrange the tour operation for each destination. In selecting land operators, we consider factors such as their experience, travel elements offered, price and track record. We will make enquiries with the local tourism boards and/or authorities to ensure the land operators have the requisite licence or qualification for their operation. During a tour, our tour escort will closely monitor the quality of arranged transportation, hotels, restaurants and service of the local tour guide during the tour, and make sure the itinerary and standard of services provided comply with the itinerary and the terms agreed with our customers. Upon completion of the tour, our tour escorts are required to provide a tour evaluation report on the quality of the services of our suppliers, land operators and their arrangement of tours. If we receive frequent poor evaluation from our tour escorts on certain land operators, we will cease to engage them.

BUSINESS

For our Japan tours, we carefully select our suppliers, such as hotels, local transportation service providers and restaurants by assessing their suitability based on factors such as their quality, safety, cleanliness, location, etc. We will also conduct research and may perform site visit to the hotels or restaurants to ensure they satisfy our standards.

Tour escorts

We have adopted stringent quality control measures to manage our tour escorts. We provide comprehensive training to our newly recruited tour escorts which will cover aspects such as knowledge of our products and services, customer services, communication skills and safety and emergency handling. They are also subject to periodic evaluation and continuous training.

We would require our freelance tour escorts to meet the same level of service standard as the tour escorts employed by us. We conduct interviews with our freelance tour escorts during the recruitment process to make sure they are competent to serve our customers.

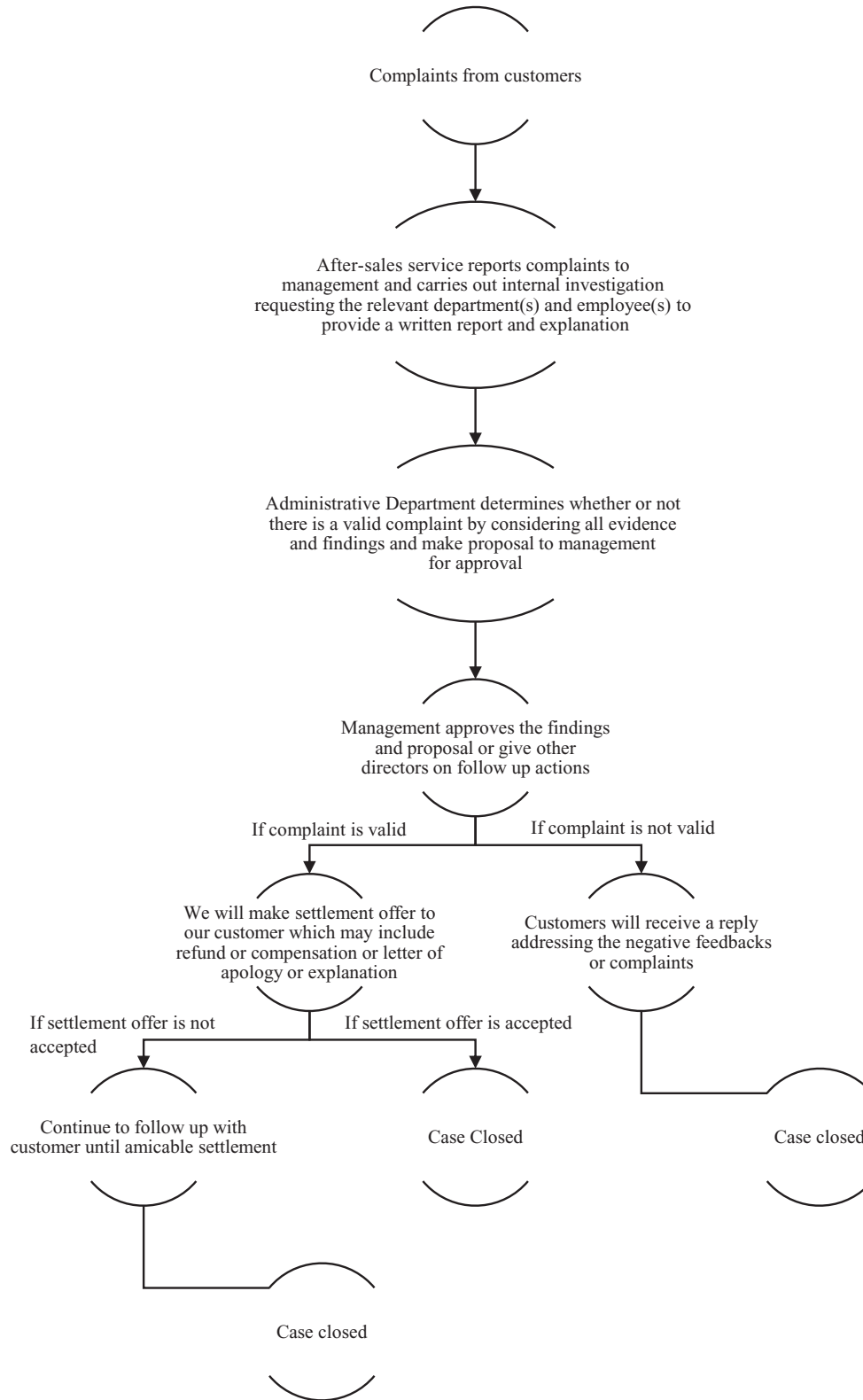
Customer service and complaint handling

We believe that the quality of our products and services is crucial to our continued growth and we are committed to deliver high quality products and services to our customers. We have provided various means for our customers to provide feedback, enquiries and suggestion, such as customer evaluation form, customer service hotline and corporate page on popular social networks. Please see “– Our Operation – A. Package Tours and FIT Products – 6. Evaluation” above for further details. However, we are not responsible to handle complaints lodged by the end-customers of our B2B customers, but in cases where our B2B customers approach us with grievances of their end-customers, we will follow the general procedures for complaint handling as set out below. As confirmed by our Directors, during the Track Record Period, the total number of complaints received from the end-customers of our B2B customers was nil.

Since customer satisfaction is our core value, we also have adopted a compliant handling system to resolve any disagreements amicably. Our after-sales service team is primarily responsible for complaints handling and collecting the customer feedbacks or complaints through customer service hotline, customer evaluation form and our online platform.

BUSINESS

The following sets out the general process flow of our procedures on handling customer complaints:



BUSINESS

During FY2016, FY2017 and FY2018, we received one, nil and nil cases of complaints respectively from customers relating to service quality, none of which our Directors expect would have any material adverse effect on our operations or financial conditions. The case of complaint received from customers during the Track Record Period was resolved involving aggregate monetary settlement of no more than RMB70,000, and nil cases were still outstanding as at the Latest Practicable Date.

EMPLOYEES

As at 31 December 2018, our Group has a total of 150 employees based in China and 52 employees based in Japan. Set out below is a breakdown of our employees by function:

Function	Number of employees
Management, administration, human resources and information technology	16
Tour and FIT operations and product development	17
Tour escorts	24
Visa processing operation	11
Sales and marketing	48
Finance and settlement	7
PRC branch offices	27
Japan office	2
Hotel operation	<u>50</u>
Total	<u><u>202</u></u>

During the Track Record Period, we engaged some freelance tour escorts for some of our tour operations. We require all freelance tour escorts to possess valid tour escort permit and to meet the standard of services that we would require from tour escorts employed by us. We believe we are hiring high-quality employees in the market by offering competitive wages and benefits, trainings and promotion opportunities. We recruit our staff through recruitment fairs at schools, advertisement at online social platforms and internet websites.

For FY2016, FY2017 and FY2018, we incurred total employee benefit expense (including directors remuneration) of approximately RMB19.2 million, RMB16.1 million, and RMB19.1 million, respectively. Compensation for our employees typically consists of base salary, performance-based salary and bonus. Our employees may also be granted other allowances based on their positions. For different level of employees, different and specific performance evaluation is used. Employees' incentives and bonuses are calculated based on the evaluation results of their individual performance.

BUSINESS

Pursuant to the applicable PRC laws and regulations, we are required to participate in various employee benefit plans, such as pension funds, medical insurance, work-related injury insurance, unemployment insurance, maternity insurance and housing provident funds for our employees. Save as disclosed in “– Legal Compliance and Proceedings – Compliance” below, our PRC Legal Advisers advised that we have complied with relevant statutory social insurance and housing fund obligations applicable to us under the PRC laws and regulations in all material aspects. In addition, as advised by our Japan Legal Advisers, we have complied with all applicable Japanese employment laws.

We maintain good working relationships with our employees. We believe that our management policies, working environment, staff development opportunities and benefits have contributed to building good employee relations and retention of our employees. As at the Latest Practicable Date, we had not experienced any strikes or any labour disputes with our employees which have had a material effect on our business.

INTELLECTUAL PROPERTY RIGHTS

As at the Latest Practicable Date, we were the registered owner of 14 trademarks in the PRC and Hong Kong. We have also filed one trademark application in the PRC.

As at the Latest Practicable Date, we were the registered proprietor of the following domain names: **tuyigroup.com**, **tuyigroup.net**, **tuyigroup.cn** and **tuyigroup.com.cn**.

Details of our intellectual property rights, which are material to our business and operations, are set out in “Statutory and General Information – B. Further information about our Business – 2. Intellectual Property of our Group” in Appendix V to this prospectus.

As at the Latest Practicable Date, we had not been subject to any material intellectual property claim against us or experienced any dispute in relation to the infringement on our intellectual property rights. Our Directors believe that we have taken reasonable measures to prevent infringement of our intellectual property rights.

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COMPETITION

The travel service industry in the PRC is highly fragmented and competitive. According to the F&S Report, there were more than 29,000 licensed travel agents and 4,500 outbound travel agents in the PRC by the end of 2018. Revenue of top five licensed outbound travel agencies accounted for approximately 18.8% of total revenue of outbound travel agencies in China for 2018. We compete primarily with other licensed agents for the provision of travel products and services in the PRC. We also face competition from airlines, travel agents, hotels outside of the PRC and online travel agencies which allow customers to book their own travel tickets and accommodation over the Internet. For FY2018, we ranked the fifth in Eastern China in terms of revenue of outbound tourism to Japan, representing approximately 1.2% of the total revenue of tourism bound to Japan of outbound travel agencies in Eastern China.

We compete on a number of factors, including (i) a wide variety of product portfolio to cater for the needs of different customers; (ii) strong market presence in Japan to take advantage of the synergistic effect between tour operation and hotel operation and other related travelling products; (iii) ability and qualification to provide visa application processing services; (iv) well-established brand names; (v) long-term relationship with our suppliers to strengthen our cost advantage; and (vi) our well-established sales network.

Although we face keen competition in the travel industry inside and outside of the PRC, taking into the account and the competitive advantages as set out in “ – Our Competitive Strengths” above, our Directors believe that our Group’s commitment to offer personalised travel services and assisting our customers to enjoy a hassle free travelling experience and our quality service will differentiate us from other travel agents within the industry and that we will be able to benefit from the growth of China’s outbound travel industry.

INSURANCE

As at the Latest Practicable Date, we maintained various insurance policies relating to our business operation. Our Group has taken out annually a public liability insurance with coverage over accidental bodily injury or damage to property of third parties and with a maximum compensation of RMB4.0 million for any one accident and RMB500,000 for any one bodily injury for each person. In light of the opening of the Tokyo Hotel in October 2018, our Group has also taken out a general enterprise insurance and a property all-risk insurance for the Tokyo Hotel with a maximum compensation of approximately JPY1.2 billion and JPY1.4 billion respectively.

BUSINESS

PERMITS, LICENCES AND APPROVALS

We are required to obtain relevant permits, licences, and approvals from the competent government authorities. As advised by our PRC Legal Advisers and Japan Legal Advisers, during the Track Record Period and up to the Latest Practicable Date and save as disclosed in “– Legal Compliance and Proceedings” below, we had complied with all relevant laws and regulations in all material respects and had obtained and maintained the validity of all necessary material permits, licenses, and approvals from the relevant PRC and Japanese authorities for our operation during their respective terms. The following table sets forth details of our material permits and licenses:

Licence/permit/certificate	Holder	Issuing authority	First date of grant	Issuing date of the latest renewal
Travel Business Operation Permit (旅行社業務經營許可證)	Tuyi Group	Ministry of Culture and Tourism of the PRC (中華人民共和國文化和旅遊部)	26 July 2010	26 March 2019
Travel Business Operation Permit (旅行社業務經營許可證)	Haizhilv Travel	Tourism Bureau of Zhejiang Province (浙江省旅游局)	20 July 2009	19 September 2018
Travel Business Operation Permit (旅行社業務經營許可證)	Guge Travel	Tourism Bureau of Zhejiang Province (浙江省旅游局)	7 April 2010	7 September 2018
Licence for Inns and Hotels (旅館業の許可) under Inns and Hotels Act (旅館業法) ^(Note)	Shuzenji Takitei	Director of East District Public Health Center of Shizuoka Prefecture (静岡縣東部保健所長)	3 October 2013	N.A.
Business licence (營業許可) for cafeteria “Samurai” under Food Sanitation Act (食品衛生法) ^(Note)	Shuzenji Takitei	Director of East District Public Health Center of Shizuoka Prefecture (静岡縣東部保健所長)	3 October 2013	N.A.
Business licence (營業許可) for cafeteria “Takitei” under Food Sanitation Act (食品衛生法) ^(Note)	Shuzenji Takitei	Director of East District Public Health Center of Shizuoka Prefecture (静岡縣東部保健所長)	3 October 2013	N.A.
Business licence (營業許可) for cafeteria “Genji” under Food Sanitation Act (食品衛生法) ^(Note)	Shuzenji Takitei	Director of East District Public Health Center of Shizuoka Prefecture (静岡縣東部保健所長)	3 October 2013	N.A.

BUSINESS

Licence/permit/certificate	Holder	Issuing authority	First date of grant	Issuing date of the latest renewal
Business licence (営業許可) for a restaurant (料理店) under Act on Control and Improvement of Amusement Business, etc. (風俗営業等の規制及び業務の適正化等に関する法律) ⁽¹⁾	Shuzenji Takitei	Public Safety Commission of Shizuoka Prefecture (静岡県公安委員会)	17 June 2014	N.A.
Registration as a Travel Agency (旅行業の登録) under Travel Agency Act (旅行業法)	Tuyi Group Japan	Governor of Shizuoka Prefecture (静岡県知事)	8 June 2015	N.A.
Licence for Inns and Hotels (旅館業の許可) under Inns and Hotels Act (旅館業法)	Shuzenji Takitei	Director of Taito District Public Health Center of Tokyo Prefecture (東京都台東区台東保健所長)	10 October 2018	N.A.
Business licence (営業許可) for cafeteria “Sky Lounge” under Food Sanitation Act (食品衛生法)	Shuzenji Takitei	Director of Taito District Public Health Center of Tokyo Prefecture (東京都台東区台東保健所長)	26 October 2018	N.A.
Permission for sales place of exporting goods (輸出物品販売場許可) for the Tokyo Duty-free Shop	Shuzenji Takitei	Director of Mishima City Taxation Bureau (三島税務署長)	26 December 2018	N.A.
License for Sales of Medicines (医薬品販売業許可証) under the Act on Securing Quality, Efficacy and Safety of Products Including Pharmaceuticals and Medical Devices (医薬品、医療機器等の品質、有効性及び安全性の確保等に関する法律)	Shuzenji Takitei	Director of Taito District Public Health Center of Tokyo Prefecture (東京都台東区台東保健所長)	5 March 2019	N.A.

Notes: Our Group acquired the Shizuoka Hotel in 2015 and our Directors confirmed that as at the completion date of the acquisition, the various Japanese operating licences which are material to the operation of the Shizuoka Hotel in Japan were valid and effective, and they remain valid and effective as at the Latest Practicable Date.

Even though our material permits and licences in PRC and Japan do not have a limited period of validity, the relevant government authorities will conduct annual selective inspection on travel agencies on their operation. We monitor the validity status of our permits and licences, and ensure we comply with the standards imposed by the relevant government authorities. We did not experience any material difficulty in obtaining or renewing the required permits and licences or our business operations during the Track Record Period or up to the Latest Practicable Date. We do not expect any material impediment in renewing our material permits and licences as they expire in future.

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AWARDS

Our commitment to quality products and services has been recognised by many tourism organisations and other entities. The following table sets out a summary of the awards/recognitions we received over the years:

Year	Award/recognition	Issuing party
2011	The Most Capable Travel Agency Brand (最具實力旅行社品牌)	Zhejiang Province Association of Travel Services (浙江省旅行社協會)
	Excellent Guest Award	Japan National Tourism Organisation
2012	Excellent Quality Award for Japan Travel	Japan National Tourism Organisation
2013	Famous Brand of Hangzhou City (杭州市著名商標)	Hangzhou Administration Bureau for Industry and Commerce (杭州市工商行政管理局)
2014	Outstanding Contribution to Tourism Development in Japan (Zhejiang Province) Award	Japan National Tourism Organisation
	Travel Agencies of Integrity (AAA) (誠信經營旅行社(3A))	Xiacheng District Economic and Tourism Bureau of Hangzhou (杭州市下城區經濟和旅遊局)
	Top Ten Travel Agencies in E-commerce (10大旅行社電商賣家)	Billboard for Chinese Tourism on Internet (中國旅業互聯網風雲榜), a ranking chart published annually by Chinese Tourism Industry Internet Conference (中國旅業互聯網大會)
2015	Famous Business Name of Zhejiang Province (浙江省知名商號)	Zhejiang Province Administration Bureau for Industry and Commerce (浙江省工商行政管理局)
	Outstanding Travel Agency	All Nippon Airways
	Sino-Exchange Outstanding Contribution Award	Consulate-General of Japan in Shanghai
	Most Popular Among Consumers Award (最受消費者歡迎獎)	Alitrip.com (阿里旅行), an online travel platform launched by the Alibaba Group

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Year	Award/recognition	Issuing party
2017	Best Sales Award (2016年度最佳業績獎)	All Nippon Airways
	The Single's Day Popular Award (雙11人氣大獎)	Fliggy (飛豬旅行), an online sales platform launched by the Alibaba Group
	Outstanding Business Partner Award (優秀合作商)	China Southern Airline (中國南方航空)
	Outstanding Travel Agency in 2016 (16年度傑出旅行社)	Japan Airlines
2018	Best Sales Award(2017年度最佳業績獎)	All Nippon Airways
	Outstanding Travel Agency in 2017 (17年度傑出旅行社)	Japan Airlines
2019	Top 5 Quality Wholesaler (5大品質批發商)	guojialvye.com (國家旅業)
	Top 5 Quality Wholesaler/Japan (日本線5大品質批發商)	guojialvye.com (國家旅業)

HEALTH, WORK SAFETY, SOCIAL AND ENVIRONMENTAL MATTERS

We have implemented measures in our operations to ensure our compliance with all applicable health, work safety, social and environmental protection laws and regulations. Our human resources department supervises and monitors compliance with statutory regulations and our internal standards in respect of health, work safety, social and environmental matters.

Our Directors are of the view that the annual cost of compliance with applicable health, work safety, social and environmental laws, regulations and polices was immaterial during the Track Record Period and the cost of such compliance is not expected to be material going forward.

We have not been subject to any material claim or penalty in relation to health, work safety, social and environmental protection and have not been involved in any accident or fatality and have been in compliance with the applicable laws and regulations in all material aspects during the Track Record Period.

PROPERTIES

We occupy certain properties in China and Japan in connection with our business operations. Please see the Property Valuation Report set forth in Appendix III to this prospectus for further details in this prospectus.

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Owned Properties

As at the Latest Practicable Date, we had property ownership certificates for four properties in the PRC with an aggregate gross floor area of approximately 1,772.8 m² for use as our principal place of business and offices and lease to other parties. We also owned two properties which serve as the hotel premise of our Shizuoka Hotel, dormitory and machine room with a total gross floor area of approximately 7,536.7 m² at Izu-shi, Shizuoka Prefecture, Japan, and as the hotel premise of our Tokyo Hotel with a total gross floor area of approximately 2,408.4m² at Taito-ku, Tokyo, Japan, respectively, and eight parcels of land in Izu-shi, Shizuoka Prefecture.

The following table sets forth a summary of properties owned by us:

Location	Description/ Usage	Approximate gross floor area (m²)
<i>PRC</i>		
Room 102, Jia Lian Hua Ming Zuo, No. 586 Jian Guo Road North, Xiacheng District, Hangzhou City	Leased to Mr. Yu's associate	447.2
Room 201, Jia Lian Hua Ming Zuo, No. 586 Jian Guo Road North, Xiacheng District, Hangzhou City	Leased to third party tenant	446.6
Room 202, Jia Lian Hua Ming Zuo, No. 586 Jian Guo Road North, Xiacheng District, Hangzhou City	Office premise	588.7
Room 303, Jia Lian Hua Ming Zuo, No. 586 Jian Guo Road North, Xiacheng District, Hangzhou City	Office premise	290.3

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Location	Description/ Usage	Approximate gross floor area (m²)
<i>Japan</i>		
722 Shuzenji, Izu-shi, Shizuoka Province, Japan 410-2416	Hotel, dormitory and machine room	7,536.7
Lot Nos. 126-1 and 126-4, Shitaya 1-chome, Taito-ku, Tokyo, Japan	Hotel premise	2,408.4

The following table sets forth details of the land use rights owned by us in the PRC and eight plots of land owned by us in Japan as at the Latest Practicable Date:

Location	Description/ Usage	Approximate area (m²)	Expiration of land use rights
<i>PRC</i>			
Room 102, 201, 202 and 303, Jia Lian Hua Ming Zuo, No. 586 Jian Guo Road North, Xiacheng District, Hangzhou City	Office premise	107.3	4 September 2047
<i>Japan</i>			
Lot No.755-1, 755-7, 759-15 and 35,686/100,000 shares of and in Land Lot No.722, 739, 753, 3654-1, 3655-1	Hotel premise	6,177.0	Not applicable

BUSINESS

Leased Properties

As at the Latest Practicable Date, we leased certain properties with an aggregate gross floor area of 411.3 m² in the PRC. The following table sets forth a summary of properties leased by our Group as at the Latest Practicable Date:

Location	Description/ Usage	Approximate area (m ²)	Term of lease	Lease expiry date
PRC				
Room 106, Block D, Zhongyin Apartment, Hongqiao South road, Rui'an, Zhejiang Province	Office premise	36	One year	31 July 2019
Room 121, 2nd Floor, No. 218, Liming West Road, Lucheng District, Wenzhou	Office premise	100	Four years	14 May 2021
Room 2105, 21st Floor, No. 319, Changde Road, Jing'an District, Shanghai	Office premise	90.9	Two years	31 August 2020
Room 808, 8/F, Block 4, Haichuang Technology Center, Cangqian Street, Yuhang District, Hangzhou City	Office premise	92.2	One year and eight months	20 September 2020
Room 809, 8/F, Block 4, Haichuang Technology Center, Cangqian Street, Yuhang District, Hangzhou City	Office premise	92.2	One year and eight months	20 September 2020

LEGAL COMPLIANCE AND PROCEEDINGS

Legal Proceedings

We may from time to time become a party to various legal, arbitral or administrative proceedings arising in the ordinary course of our business. As at the Latest Practicable Date, our Group was involved in the following litigation in the PRC for an amount of approximately RMB1.8 million:

Plaintiff	Defendant	Nature of litigation	Legal consequence and remedial actions
Odyssey Trading Pty Ltd	Tuyi Group	<p>The parties entered into an agreement in around October 2016, under which, the plaintiff was engaged to provide land operator services (the “Land Operator Agreement”) for tours organised by the defendant and bound for destinations in Australia (the “Australian Tours”). Pursuant to the Land Operator Agreement, the plaintiff was required to provide documentary evidence to the defendant to prove that the land operator services as stated, all such documents must be confirmed by both the plaintiff and defendant in writing. Our Directors confirmed that our Group was unable to ascertain whether or not Tuyi Group had received land operator services from the plaintiff during the Track Record Period due to insufficient documentary evidence provided by the plaintiff as stipulated in the Land Operator Agreement. As a result, the defendant’s defence was that the stipulated land operator services have not been provided to the Australian Tours as insufficient evidence was provided by the plaintiff to confirm the provision of such services.</p> <p>The plaintiff alleged that we breached our obligation under the Land Operator Agreement by failing to pay the land operator fees of AUD346,474.0 (equivalent to approximately RMB1,800,625.38) (the “Claimed Amount”) to the plaintiff for its provision of land operator services in relation to several Australian Tours. In June 2017, the plaintiff filed a claim at the PRC court for the Claimed Amount, interest on the alleged late payment of the Claimed Amount at the rate of 5.5% and the related legal costs. During the trial, the plaintiff amended part of its claim to decrease the interest on the alleged late payment of the Claimed Amount from the rate of 5.5% to 4.35%.</p> <p>In June 2018, the court awarded the plaintiff the Claimed Amount, accrued interest at the rate of 4.35% since January 2017 on the late payment of the Claimed Amount and the related legal costs. On 12 July 2018, we filed an appeal with the court of second instance. On 12 September 2018, the case was heard at the court of second instance, but the first hearing was adjourned pending for further documents to be submitted by the plaintiff. On 14 December 2018, the second hearing was held at the court of second instance. As of the Latest Practicable Date, the court of second instance is still reviewing the relevant facts and the application of the law, and has yet to hand down any ruling or judgement.</p>	<p>If the court rules against us in our appeal application, we may be held liable for the amount claimed by the plaintiff and the legal costs arising therefrom.</p> <p>As at 31 December 2018, we have made a provision of the claimed amount of approximately RMB1.8 million for the litigation which our Directors consider to be sufficient.</p>

Save as disclosed above, we were not involved in any other legal proceedings or disputes or subject to any material claims, damages or losses during the Track Record Period.

In light of the above, our Directors believe that none of these legal proceedings, individually or in aggregate, were expected to have any material adverse effect on our business, financial conditions and results of operations. To the best of our knowledge after making reasonable enquiry and save as disclosed above, no such material litigation, arbitration or administrative proceedings have been threatened against our Company or any of our subsidiaries.

Compliance

During the Track Record Period, our Group experienced the following non-compliance incidents:

Details of non-compliance incident	Reasons	Possible legal consequences and impact	Remedial actions and internal control measures
<p>1. Failure to pay corporation tax, corporate district tax and corporate local taxes as small enterprise in Japan</p> <p>Shuzenji Takitei had failed to comply with the Corporation Tax Act (Act No.34 of 31 March 1965 as amended) of Japan by continuing to report and pay corporation tax, corporate district tax and corporate local taxes (collectively the “Corporation Tax”) as a small and medium enterprise for the period from August 2015 to July 2017.</p> <p>The shortfall in Corporation Tax was in the amount of JPY4,705,500 (equivalent to approximately HK\$329,385) for the period from August 2015 to July 2017 (the “Outstanding Tax”).</p>	<p>Shuzenji Takitei was acquired by the company, the ultimate parent company of which has a capital exceeding JPY500 million in August 2015 and Shuzenji Takitei thereby ceased to be entitled to the special treatment for medium and small enterprises with respect to the Corporation Tax. Due to inadvertence of head of our Japan office of Tuyi Group, Shuzenji Takitei had failed to notice the aforesaid change and had continued to report and pay the Corporation Tax as a medium and small enterprise.</p>	<p>Based on the formal payment notice obtained from the relevant tax authorities in Japan, a delay penalty tax in the amount JPY119,500 (equivalent to approximately HK\$8,365) (“Delay Penalty”) was imposed in Shuzenji Takitei with respect to the non-compliance. As advised by our Japan Legal Advisers, the legal nature of Delay Penalty is a kind of additional tax in case of late payment, and is not a kind of criminal penalty such as fine.</p>	<p>Upon notification of the non-compliance, Shuzenji Takitei immediately and voluntarily reported and fully paid the Outstanding Tax to the relevant tax authorities on 16 March 2018 and 30 March 2018 and the Delay Penalty on 30 March 2018.</p> <p>As advised by our Japan Legal Advisers, as the Outstanding Tax and the Delay Penalty have been duly paid, Shuzenji Takitei and any other members of our Group and any director, officer or employees thereof shall not be subject to any further liability with respect to this incident.</p>
			<p>In order to ensure on-going compliance with Japanese laws and regulations relating to corporation tax, we have designated the administrative office of our headquarters in the PRC to be responsible for our fulfillment of our obligation in respect of Japanese corporation tax of our subsidiaries in Japan. Each of our subsidiary must provide evidence of corporation tax contribution to our headquarters from time to time for its review. The administrative office at our headquarters is responsible for investigating into any failure to provide such evidence and seeking advice from tax adviser where appropriate. Our Directors believe that such measures are adequate and effective.</p>

Details of non-compliance incident	Reasons	Possible legal consequences and impact	Remedial actions and internal control measures
<p>2. Failure to make social insurance and housing provident fund contributions in full in the PRC</p> <p>We had not fully paid social insurance and housing provident fund contributions for all of our employees in the PRC prior to June 2018. The relevant subsidiaries and branch companies which had not fully complied with the relevant social insurance and housing provident fund contributions requirements are Tuyi Group, Tuyi Group – Wenzhou branch, Tuyi Group – Shanghai branch, Tuyi Group – Rui'an branch, Guge Travel and Kaida Ticketing.</p> <p>We estimated the total outstanding social insurance and housing provident fund contributions to be approximately RMB1.3 million, RMB0.3 million and RMB0.1 million for FY2016, FY2017 and FY2018, respectively.</p>	<p>The non-compliance incidents were due to the fact that the relevant staff of our human resources department were unfamiliar with the relevant PRC laws and regulations.</p>	<p>According to the Social Insurance Law of the PRC (《中華人民共和國社會保險法》) and the Regulations concerning the Administration of Housing Provident Fund (《住房公積金管理條例》), we are required to provide employees with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, work-related injury insurance, medical insurance and housing provident fund.</p> <p>Pursuant to the relevant PRC laws and regulations, in respect of unsubscribed social insurance contributions prior to 1 July 2011, being the effective date of the Social Insurance Law of the PRC (《中華人民共和國社會保險法》), the relevant government authority may require a company who fails to pay its portion of social insurance fund contributions to make the outstanding contributions within a prescribed time limit and, if the company fails to do so, may impose on the company an additional late payment fee at a daily rate of 0.2% of the outstanding amount. In respect of unsubscribed social insurance contributions after 1 July 2011, the relevant government authority may require the company to make the unsubscribed contributions with an additional late payment fee at a daily rate of 0.05% of the outstanding contributions from the due date within a prescribed time limit and, if the company fails to do so, may impose a fine ranging from one to three times of the total amount of the unsubscribed contributions on the company.</p>	<p>We have made full contribution to social insurance and housing provident fund for all of our PRC employees in accordance with the requirements set by the relevant government authorities as at the Latest Practicable Date.</p> <p>Tuyi Group</p> <p>The outstanding social insurance contribution for Tuyi Group was estimated to be approximately RMB1,142,000, RMB199,000 and RMB86,000 for FY2016, FY2017 and FY2018, respectively. Pursuant to confirmation and interview with Hangzhou City Xiacheng District Human Resources and Social Insurance Bureau (杭州市下城區人力資源和社會保障局), which is the competent authority in charge of the social insurance affairs of Tuyi Group, it was confirmed, among others, that Tuyi Group would not be requested for repayment of unpaid social insurance contributions or subject to any administrative penalty for its non-compliance with the relevant laws and regulations relating to social insurance.</p>

Details of non-compliance incident	Reasons	Remedial actions and internal control measures
	<p>Possible legal consequences and impact</p> <p>If an employer fails to pay its housing provident fund contributions in accordance with the Regulations concerning the Administration of Housing Provident Fund (《住房公积金管理条例》), the regulator may order for payment of the contributions within the prescribed time limit, failing which the regulator may apply to the People's Court for compulsory enforcement.</p>	<p>The outstanding housing provident fund contribution for Tuyi Group was estimated to be approximately RMB161,000, RMB51,000 and RMB23,000 for FY2016, FY2017 and FY2018, respectively. Pursuant to confirmation and interview with Hangzhou City Housing Provident Fund Administrative Center (杭州市住房公积金管理中心), which is the competent authority in charge of the housing provident fund affairs of Tuyi Group, it was confirmed, among others, that Tuyi Group would not be requested for repayment of unpaid housing provident fund contributions or subject to any administrative penalty for its non-compliance with the relevant laws and regulations relating to housing provident fund.</p> <p><i>Tuyi Group – Wenzhou branch, Tuyi Group – Shanghai branch, Tuyi Group – Rui'an branch, Gage Travel and Kaida Ticketing</i></p> <p>The total outstanding social insurance and housing provident fund contributions of Tuyi Group – Wenzhou branch, Tuyi Group – Shanghai branch, Tuyi Group – Rui'an branch, Gage Travel and Kaida Ticketing was estimated to be less than RMB100,000 during the Track Record Period. Given the minimal amount involved and taking into account the advice of our PRC Legal Advisers as detailed below, we had not made any provision for the aforesaid outstanding social insurance and housing provident fund contributions.</p>

Details of non-compliance incident**Reasons****Possible legal consequences and impact****Remedial actions and internal control measures**

Based on the confirmations from and interviews (where applicable) with the relevant competent authorities responsible and the fact that we shall make full contribution to social insurance and housing provident fund for all of our PRC employees in accordance with the requirements set by the relevant government authorities beginning from June 2018, respectively, our PRC Legal Advisers have advised that the risk of us being required to make up the unpaid social insurance and housing provident fund contributions or receiving administrative penalty as a result of initiative actions taken by the relevant government authorities for the unpaid social insurance and housing provident fund contribution is very low. Accordingly, we have not made any provision for the outstanding contributions or penalties.

Given that (i) each of our Controlling Shareholders has undertaken to indemnify us in respect of any demand from the relevant government authorities for payment of unpaid social insurance and housing provident fund contributions or any penalty imposed; and (ii) our PRC Legal Advisers have advised that the risk of us being required to make up the unpaid social insurance and housing provident fund contributions or receiving administrative penalty as a result of initiative actions taken by the relevant government authorities for the unpaid social insurance and housing provident fund contribution is very low, our Directors are of the view that our historical non-compliance with the laws and regulations relating to social insurance and housing provident fund contributions does not and will not have any material financial or operational impact on us.

Details of non-compliance incident	Reasons	Possible legal consequences and impact	Remedial actions and internal control measures
			<p>In order to prevent recurrence of non-compliance incidents relating to social insurance and housing provident fund contributions, Ms. Chen Jing (陳靜), an executive general manager of Tuji Group, will be responsible for ensuring our compliance with the relevant PRC laws and regulations as well as monitoring the development of such laws and regulations. Also, we may arrange our Directors, members of senior management and relevant employees to attend training on the legal and regulatory requirements applicable to our business operations from time to time. If necessary, we shall appoint external PRC legal advisers to advise us on matters relating to compliance with the applicable PRC laws and regulations. Based on the above, our Directors believe that such measures are adequate and effective.</p>

INTERNAL CONTROL AND RISK MANAGEMENT

Internal Control and Risk Management System

It is the responsibility of our Board to ensure that our Company maintains sound and effective internal control to safeguard our Shareholders' investment and our Group's assets at all times. We have adopted, or expect to adopt before the Listing, a series of internal control policies, procedures and programs designed to provide reasonable assurance for achieving objectives including effective and efficient operations, reliable financial reporting and compliance with applicable laws and regulations. Highlights of our internal control system include the following:

- *Code of conduct.* Our code of conduct explicitly communicates to each employee our values, acceptable criteria for decision-making and our ground rules for behaviour. Our code of conduct also includes whistleblowing policies to encourage all employees to speak up against any sub-standard behaviour.
- *Anti-corruption.* Our anti-corruption policies provide the tools and resources necessary to enable, monitor and enforce full compliance with the anti-bribery and anti-corruption laws of China and other countries where we conduct our business operations. Compliance with our anti-corruption policies is a condition of employment.
- *Internal Audit.* Our internal audit function regularly monitors key controls and procedures in order to assure our management and our Board that the internal control system is functioning as intended. The audit committee is responsible for supervising our internal audit function.
- *Compliance with the Listing Rules.* Our various policies aim to ensure compliance with the Listing Rules, including but not limited to aspects related to corporate governance, connection transactions and securities transactions by our Directors. We have appointed Innovax Capital Limited as our compliance adviser upon Listing and will engage external legal advisers to advise us on compliance with the Listing Rules.

The ultimate goal of our risk management process is to identify and focus on the issues in our business operations that create impediments to our success. Our risk management process starts with identifying the major risks associated with our corporate strategy, goals and objectives. The key process points in our risk management include:

- *Identify.* We identify current and emerging risks in our business operations and categorise those risks into a reasonable profile based on timeframe, likelihood, intensity and impact severity. We establish four risk categories, including strategic risks, financial risks, operating risks and legal risks.
- *Assess.* We assess and prioritise risks so that the most important risks can be identified and dealt with. Based on both qualitative and quantitative analyses, we prioritise risks in terms of likelihood and impact severity.

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- *Mitigate.* Based on our assessment of (i) the probability and impact severity of the risks and (ii) cost and benefit of the mitigation plans, we choose the appropriate option for dealing with risks, including risk elimination by suspending the associated business activities, risk reduction by adopting appropriate control measures, risk transfer by outsourcing or purchasing insurance policies, and risk acceptance by choosing to accept risks of low priority.
- *Measure.* We measure our risk management by determining if changes have been implemented and if changes are effective. In the event of any weakness in control, we follow up by adjusting our risk management measures and reporting material issues to our Board of Directors.

In preparation for the Listing, we engaged an internal control consultant to conduct an evaluation of our internal control system. Upon completion of the evaluation in early 2018, our internal control consultant identified a number of internal control deficiencies and weaknesses and provided us with suggestions and recommendations to improve and enhance our internal control system. We have taken corrective measures to address those deficiencies and weaknesses and implemented the suggestions and recommendations proposed by our internal control consultant.

Foreign Exchange Risk Management

Our revenue is principally received in RMB, while the costs for some of the travel elements, such as hotel accommodations and land operators, are settled in foreign currencies including JPY, AUD and NZD. In FY2017, approximately 51% of our costs was denominated in currencies other than RMB. If the foreign currency appreciates against RMB, the cost of our tour products would also become higher and vice versa.

We have developed foreign exchange risk management procedures to manage our exposure to foreign exchange risk in relation to Japanese Yen. Our goal is to maintain our foreign exchange risk at an acceptable level by ensuring that we are able to obtain sufficient amount of Japanese Yen at an acceptable exchange rate for meeting our payment obligations incurred during our business operation and at the same time do not purchase unnecessary amounts of Japanese Yen. The manager of our tour operation department submits (i) the estimated and actual enrolment data of our package tours; and (ii) the corresponding estimated costs of travel elements denominated in foreign currencies for the enrolment data to the accounts department on a weekly basis. Our financial controller reviews the information submitted by the manager of our tour operation department and confirms the amount of foreign exchange currencies to be purchased for the coming week. After the final purchase amount is ascertained, our financial controller will present a purchase request with all the necessary supporting documents for review and execution by one of our Directors on the same day. Our accounts department will then check the foreign exchange trade confirmation provided by the bank and inform our Board of any irregularities. Our financial controller will prepare a report on the implementation of our foreign currency risk management procedures on a quarterly basis summarising (i) the accuracy of the estimated enrollment data and corresponding costs of travel elements provided by heads of outbound tour operations department; and (ii) the reasons giving rise to the foreign exchange gain/loss

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recorded for the quarter, which will be submitted to our Board and the audit committee for review and monitoring purpose. The audit committee will also be responsible for providing recommendations to improve our foreign exchange risk management, when appropriate.

As at the Latest Practicable Date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign exchange risk.

Investment Management Policy

During the Track Record Period, we have purchased five structured deposits of approximately RMB39.1 million. We have adopted an investment management policy to ensure proper monitoring of our future investments. Under such policy, any proposed investments have to be approved by our Board and we will only invest in principal protected investment quoted as low risk but generally provide higher investment returns than cash deposits that we made into savings account at commercial banks, such as (i) sovereign bonds; (ii) time deposits at licensed banks in Hong Kong; and (iii) principal-protected or fully insurance covered wealth management products issued by or sold through the top 10 commercial banks in terms of total assets. As part of the approval process of our investment, our Board reviews and assesses, among other factors, (i) the expected returns of the investments with similar investments in the market; (ii) the track record of the relevant issuers, if applicable; and (iii) the principal amount and the track record of the relevant issuers and similar investments in the market.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

CONTROLLING SHAREHOLDERS OF OUR COMPANY

Immediately after completion of the Capitalisation Issue and the Global Offering, York Yu BVI, David Xu BVI, King Pan BVI and Jeffery Xu BVI will together legally and beneficially own an aggregate of 75% of the issued share capital of our Company (without taking into account any Shares which may be issued under the Over-allotment Option or the exercise of any options which may be granted under the Share Option Scheme). Each of York Yu BVI and David Xu BVI is wholly owned by Mr. Yu, our chairman and an executive Director. King Pan BVI is wholly owned by Mr. Pan, an executive Director. Jeffery Xu BVI is wholly owned by Mr. Xu, an executive Director.

Concert Party Arrangement

Mr. Yu, Mr. Pan and Mr. Xu entered into a concert party agreement dated 13 April 2018 pursuant to which they agreed to act unanimously towards the governing of Tuyi Group and our Company. Accordingly, Mr. Yu, Mr. Pan, Mr. Xu, York Yu BVI, David Xu BVI, King Pan BVI and Jeffery Xu BVI are regarded as our Controlling Shareholders.

Pursuant to the concert party agreement, with respect to the businesses of our Company and Tuyi Group, Mr. Yu, Mr. Pan and Mr. Xu confirmed to each other that, for the entire duration when both of them were/are contemporaneously the immediate or ultimate shareholders of the members of our Group, among others:

- (i) they have agreed to and shall continue to consult each other and reach an unanimous consensus between themselves on matters which are the subject of any shareholders' resolution prior to putting forward any such resolution to be passed at any shareholders' meeting of our Company and Tuyi Group; and
- (ii) they have centralised and shall continue to centralise the ultimate control and right to make final decisions with respect to their interests in the businesses and projects of the members of our Group.

INDEPENDENCE FROM THE CONTROLLING SHAREHOLDERS

Our Directors believe that our Group is capable of carrying on its business independently from the Controlling Shareholders and/or their respective associates after the Listing, having taken into consideration the following factors:

Management independence

Our Company aims at establishing and maintaining a strong and independent Board to oversee our Group's business. Our Board's main function includes the approval of the overall business plans and strategies of our Group, monitoring the implementation of these policies and strategies and the management of our Company. We have an independent management team which is led by a team of senior management with experience and expertise in our business to implement our policies and strategies.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Our Board consists of nine Directors, comprising six executive Directors and three independent non-executive Directors. For a summary of the positions held by our Directors at our Company and its subsidiaries, please see “Directors and Senior Management”.

Each of our Directors is aware of his/her fiduciary duties as a Director which requires, among other things, that he/she acts for the benefit and in the best interests of our Company and does not allow any conflict between his/her duties as a Director and his/her personal interest. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant board meetings of our Company in respect of such transactions and shall not be counted in the quorum. The provisions of the Articles also ensure that matters involving a conflict of interests which may arise from time to time will be managed in line with accepted corporate governance practice.

Our Company has also appointed three independent non-executive Directors, comprising one-third of our Board, to provide a balance between the number of executive Directors and independent non-executive Directors to ensure that there is a strong independent element on our Board and with a view to promoting the best interests of our Company and Shareholders taken as a whole. The independent non-executive Directors have diversified skills and experience in their respective fields of expertise and our Directors believe that our Board will benefit from their independent advice.

In light of the above, our Directors are satisfied that they are able to perform their roles in our Company independently, and our Directors are of the view that our Company is capable of managing its business independently from our Controlling Shareholders after the Listing.

Operational independence

Our Group has established its own organisational structure comprising individual departments, each with specific areas of responsibilities. We do not rely on our Controlling Shareholders or their associates and have our independent access to our major suppliers. We have established our own customer bases and ourselves negotiated and concluded agreements with our customers, and do not rely on our Controlling Shareholders and their associates for access to customers. None of our Controlling Shareholders or their associates has been our major supplier or customer during the Track Record Period. We hold all relevant licenses and assets necessary to operate our business, and have sufficient capital and employees to operate our business independently. Our Group is therefore able to operate independently from our Controlling Shareholders after the Listing.

Financial independence

Our Group has an independent financial system and relies principally on cash from operations to carry on its business and bank facilities during the Track Record Period. This is expected to continue after the Listing. Mr. Yu and his wife had guaranteed certain of our bank loans of up to RMB80.0 million as at 2016. Such guarantees provided by Mr. Yu and

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

his wife for our bank loans had been released as at 31 December 2017. Our Directors confirm that as at the Latest Practicable Date, all financial assistance, including amounts due to, and loans or guarantees provided by our Controlling Shareholders to our Group, were repaid or released or otherwise settled in full.

Having considered the above factors, our Directors consider that there is no financial dependence on our Controlling Shareholders.

Therefore, in view of the above fact, our Group is considered independent in all material aspects including finance, management and operations of our Controlling Shareholders.

RULE 8.10 OF THE LISTING RULES

Our Controlling Shareholders and our Directors do not have any interest in a business apart from our Group's business which competes or is likely to compete, directly or indirectly, with our Group's business, and would require disclosure pursuant to Rule 8.10 of the Listing Rules. In addition, our Controlling Shareholders have given non-competition undertaking in favour of the Company pursuant to the Deed of Non-competition. For details, please see "– Deed of Non-competition" below.

DEED OF NON-COMPETITION

For the purpose of the Listing, our Controlling Shareholders have entered into the Deed of Non-competition, pursuant to which each of our Controlling Shareholders has, amongst other matters, irrevocably and unconditionally undertaken with our Company (for itself and as trustee for its subsidiaries) that at any time during the Relevant Period as defined below he/she/it shall, and shall procure that his/her/its respective subsidiaries close associates (except any members of our Group) shall:–

- (i) not, directly or indirectly, be interested, involved or engaged in or acquire or hold any right or interest (in each case whether as a shareholder, partner, agent or otherwise, and whether for profit, reward or otherwise) in any business which competes or is likely to complete directly or indirectly with the core business currently engaged or possibly in the future to be engaged by our Group (including property development) in Hong Kong, the PRC, Japan and any other country or jurisdiction to which our Group provides such services and/ or in which any member of our Group carries on business mentioned above from time to time (the "**Restricted Business**");
- (ii) not take any action, directly or indirectly, which constitutes an interference with or a disruption to the business activities of our Group including, but not limited to, solicitation of any existing customers, suppliers or employee of our Group for employment by them or their close associates (other than members of our Group);

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (iii) not, without the prior consent from our Company, make use of any information pertaining to the business of our Group which may have come to their knowledge in the capacity as the Controlling Shareholders for any purpose of engaging, investing or participating in any Restricted Business;
- (iv) if there is any project or new business opportunity that relates to the Restricted Business (the “**Business Opportunity**”) available to any of the Controlling Shareholders or their close associates (other than members of our Group):–
 - a. notify our Company in writing immediately, followed by the provision of requisite information which is reasonable necessary for the merits on whether or not to engage in such Business Opportunity be considered, assessed and/or evaluated;
 - b. who plans to participate or engage in such Business Opportunity, give our Company a first right of refusal to participate or engage therein on terms that are fair and reasonable;
 - c. not pursue such Business Opportunity until we have confirmed in writing its rejection to pursue, involve or engage in the same because of commercial reasons, any of our decisions on which will have to be approved by the independent non-executive Directors (the “**Independent Board**”) (at the exclusion of those with beneficial interests in such Business Opportunity), taking into account, among other issues, (i) the prevailing business, legal, regulatory and contractual landscape of our Group, (ii) results of feasibility study, (iii) counterparty risks, (iv) contemplated profitability, (v) the financial resources required for such Business Opportunity and, (vi) where necessary, any opinion from experts on the commercial viability of the same; and
 - d. on the condition that our Group rejects to pursue such Business Opportunity pursuant to sub-paragraph (iv) above or if the Independent Board failed to respond within 30 days’ period, that the principal terms on which the relevant Controlling Shareholder and/or his/her/its close associates pursues such Business Opportunity are substantially the same as or not more favourable than those disclosed to our Company and that the terms of such pursuance, whether directly or indirectly, shall be disclosed to our Company and our Directors as soon as practicable;
- (v) keep the Board informed of any matter of potential conflicts of interests between each of the Controlling Shareholders (including his/her/its close associates) and our Group, in particular a transaction between any of the Controlling Shareholders (including his/her/its close associates) and our Group; and
- (vi) provide as soon as practicable upon our Company’s request to our Directors (including the independent non-executive Directors):–

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- a. a written confirmation on an annual basis in respect of compliance by him/her/it with the terms of the Deed of Non-competition;
- b. all information necessary for the review and enforcement of the undertakings contained in the Deed of Non-competition by the independent non-executive Directors with regard to such compliance; and
- c. their respective consent to the inclusion of such confirmation in our Company's annual report or by way of an announcement, and all such other information as may be reasonably requested by our Company for its review.

For the above purpose, the “**Relevant Period**” means the period commencing from the Listing Date and shall expire on the earliest of the following dates on which:-

- (i) the Controlling Shareholders and their close associates (individually or taken as a whole) ceases to own an aggregate of 30% of the then issued share capital of our Company, directly or indirectly, or cease to be the controlling shareholders for the purpose of the Listing Rules and do not have power to control the Board;
- (ii) the day the Shares cease to be listed on the Stock Exchange; and
- (iii) our Company becomes wholly-owned by any of the Controlling Shareholders and/or their respective close associates.

The Deed of Non-competition is conditional on (i) the Listing Committee granting listing of, and permission to deal in, all the Shares in issue and to be issued under the Global Offering and the Shares which may be issued upon the exercise of options that may be granted under the Share Option Scheme; and (ii) the obligations of the Underwriter(s) under the Underwriting Agreement becoming unconditional (including, if relevant as a result of the waiver of any condition(s) by the Underwriter(s)) and that the Underwriting Agreement not being terminated in accordance with its terms or otherwise.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

CORPORATE GOVERNANCE MEASURES

In order to manage any potential conflict of interests arising from the possible competing business between our Group and our Controlling Shareholders and to safeguard the interests of our independent Shareholders, we have adopted the following measures:

- (i) our Board will ensure that any material conflict or potential conflict of interests involving our Controlling Shareholders will be reported to our independent non-executive Directors as soon as practicable. A Director shall absent himself/herself from participation in the board meeting (nor shall he/she be counted in the quorum) and voting on any resolutions of our Board approving any contract, arrangement or other proposal in which he/she or any of his/her associates is materially interested;
- (ii) each Director is aware of his/her fiduciary duties as a Director, which require, among other things, him/her to act for the benefit of our Company and our Shareholders as a whole and not to allow any conflict of interests between his/her duties as a Director and his/her personal interests;
- (iii) we have appointed Innovax Capital Limited as our compliance adviser upon Listing, which will provide advice and guidance to us with respect to compliance with the applicable laws and regulations, in particular the Listing Rules;
- (iv) our independent non-executive Directors will review, at least on an annual basis, compliance with the Deed of Non-competition by our Controlling Shareholders;
- (v) each of our Controlling Shareholders has undertaken to provide all information necessary for the annual review by our independent non-executive Directors in relation to the compliance of the terms of the Deed of Non-competition and the enforcement of undertakings under the Deed of Non-competition;
- (vi) we will disclose decisions on matters reviewed by our independent non-executive Directors relating to compliance with and enforcement of the Deed of Non-competition either in the annual report of our Company or by way of announcement to the public; and

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

(vii) pursuant to the Corporate Governance Code, our Directors, including our independent non-executive Directors, will be able to seek independent professional advice from external parties in appropriate circumstances at our Company's costs.

Our Company expects to comply with the Corporate Governance Code which sets out the principles of good corporate governance in aspects such as directors' responsibilities and their appointment, re-selection and removal, board composition, remuneration of directors and senior management, accountability and audit, and communication with shareholders. Our Company will state in our interim and annual reports whether we have complied with such code provisions, and will provide details of, and reasons for, any deviation from it in the corporate governance reports attached to our annual reports.

Our Directors consider that the above corporate governance measures are adequate and effective to manage any potential conflict of interests between our Group and our Controlling Shareholders and to protect the interests of our Shareholders.

DIRECTORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

Our Board currently consists of nine Directors comprising six executive Directors and three independent non-executive Directors. The functions and duties of our Board include, but are not limited to, convening the general meetings, reporting on the performance of our Board at the general meeting, implementing the resolutions passed at the general meetings, formulating business plans and investment plans, preparing the annual budget and final accounts, preparing proposals on profit distribution and increasing or decreasing the registered capital, as well as performing the other authorities, functions and responsibilities in accordance with the Articles.

The following table sets forth the information regarding the members of our Board:

Name	Age	Position	Roles and Responsibilities	Date of Joining our Group	Date of Appointment as Director	Relationship with other Directors and senior management
Yu Dingxin (虞丁心)	49	Chairman and executive Director	Responsible for the overall strategic planning and overseeing general management and daily operation of our Group	April 2008	27 February 2018	Uncle of Mr. An Jiajin
Pan Wei (潘渭)	45	Executive Director	Responsible for the overseeing procurement and sales and marketing of our Group	April 2008	27 February 2018	None
Xu Jiong (徐炯)	44	Executive Director	Responsible for overseeing business development of our Group	April 2008	27 February 2018	None
An Jiajin (安家晋)	27	Executive Director	Responsible for overseeing sales and marketing of our Group	October 2014	9 April 2018	Nephew of Mr. Yu
Peng Ying (彭鹰)	48	Executive Director	Responsible for overseeing sales and marketing of our Group	May 2008	9 April 2018	None
Qiu Xiang (邱香)	37	Executive Director	Responsible for overseeing general administration and human resources of our Group	June 2010	9 April 2018	None
Gu Jiong (顧炯)	46	Independent non-executive Director	Responsible for supervising and providing independent judgement to our Board	1 March 2019	1 March 2019	None

DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Position	Roles and Responsibilities	Date of Joining our Group	Date of Appointment as Director	Relationship with other Directors and senior management
Zhao Jianbo (趙劍波)	44	Independent non-executive Director	Responsible for supervising and providing independent judgement to our Board	1 March 2019	1 March 2019	None
Zhou Li (周禮)	40	Independent non-executive Director	Responsible for supervising and providing independent judgement to our Board	1 March 2019	1 March 2019	None

DIRECTORS

Executive Directors

Mr. Yu Dingxin (虞丁心), aged 49, is the co-founder of our Group and was appointed as an executive Director on 27 February 2018. Mr. Yu is also the chairman of our Board responsible for the overall strategic planning and overseeing general management and daily operation of our Group. Mr. Yu holds directorship in each of the subsidiary of the Company. He is also the chairman of the nomination committee and a member of remuneration committee of our Group.

Mr. Yu has around 27 years of experience in the travel and tourism industry. From December 1991 to April 2003, he worked in Zhejiang Overseas Travel Company Limited* (浙江海外旅游公司), a company principally engaged in the provision of travel related services. From June 2003 to December 2004, Mr. Yu had worked for Zhejiang Everbright International Travel Company Limited* (浙江光大國際旅遊有限公司). He subsequently joined Zhejiang Female International Travel Company Limited* (浙江婦女國際旅行社有限公司) from January 2005 to January 2008. He then founded our Group in April 2008 together with Mr. Pan and Mr. Xu.

Mr. Yu enrolled as part-time student at Zhejiang University* (浙江大學) while he worked at Zhejiang Overseas Travel Company Limited and obtained a bachelor's degree of tourism management in June 2003.

Mr. Yu is the uncle of Mr. An Jiajin, our executive Director.

Mr. Pan Wei (潘渭), aged 45, is the co-founder of our Group and was appointed as an executive Director on 27 February 2018. Mr. Pan is principally responsible for the overseeing procurement and sales and marketing of our Group.

Mr. Pan has over 25 years of experience in the travel and tourism industry. From July 1993 to April 2003, Mr. Pan worked in Zhejiang Overseas Travel Company Limited* (浙江海外旅游公司), a company principally engaged in the provision of travel related services. From June 2003 to December 2004, Mr. Pan had worked for Zhejiang Everbright International Travel Company Limited* (浙江光大國際旅遊有限公司). He subsequently joined

DIRECTORS AND SENIOR MANAGEMENT

Zhejiang Female International Travel Company Limited* (浙江婦女國際旅行社有限公司) from January 2005 to January 2008. He then founded our Group in April 2008 together with Mr. Yu and Mr. Xu.

Mr. Pan enrolled as part-time student at Zhejiang University* (浙江大學) while he worked at Zhejiang Overseas Travel Company Limited and graduated with a diploma in economics and management in January 1999.

Mr. Xu Jiong (徐炯), aged 44, is the co-founder of our Group and was appointed as an executive Director on 27 February 2018. Mr. Xu is principally responsible for the overseeing business development of our Group.

Mr. Xu has around 25 years of experience in the travel and tourism, and hospitality industry. From August 1993 to August 2002, he worked in Hangzhou Shangri-La Hotel Limited* (杭州香格里拉飯店有限公司) as a director of sales department, with responsibilities of overseeing the business development with travel agents. From June 2003 to December 2004, Mr. Xu had worked for Zhejiang Everbright International Travel Company Limited* (浙江光大國際旅遊有限公司). He subsequently joined Zhejiang Female International Travel Company Limited* (浙江婦女國際旅行社有限公司) from January 2005 to January 2008. He then founded our Group in April 2008 together with Mr. Yu and Mr. Pan.

Mr. Xu graduated from the High School Affiliated to Hangzhou Normal University* (杭州師範學院附中) in July 1993.

Mr. An Jiajin (安家晉), aged 27, was appointed as an executive Director on 9 April 2018. Mr. An is principally responsible for the sales and marketing of our Group. In October 2014, Mr. An joined Tuyi Group as a vice manager of sales department.

Mr. An has obtained a bachelor's degree of English from the Zhejiang College of Zhejiang University of Technology* (浙江工業大學之江學院) in June 2014.

Mr. An is the nephew of Mr. Yu, our executive Director and Chairman.

Mr. Peng Ying (彭鷹), aged 48, was appointed as an executive Director on 9 April 2018. Mr. Peng is principally responsible for the sales and marketing of our Group.

Mr. Peng has around 13 years of experience in travel and tourism industry. From December 1989 to March 2001, Mr. Peng worked in Hangzhou Minsheng Pharmaceutical Co., Ltd* (杭州民生藥業有限公司), a company principally engaged in the production and sales of medicine. From April 2001 to December 2005, Mr. Peng worked in Hangzhou Minsheng Industrial Co., Ltd* (杭州民生實業有限公司), a company principally engaged in the sales of environmental construction materials. From January 2006 to January 2008, Mr. Peng had worked for Zhejiang Female International Travel Company Limited* (浙江婦女國際旅行社有限公司). He then joined Tuyi Group as a sales manager in May 2008 and served as a supervisor as well since 23 September 2016.

Mr. Peng completed his study at Shao Shan Middle School* (韶山中學) in July 1987.

DIRECTORS AND SENIOR MANAGEMENT

Ms. Qiu Xiang (邱香), aged 37, was appointed as an executive Director on 9 April 2018. Ms Qiu is principally responsible for the overseeing general administration and human resources of our Group.

Ms. Qiu has around nine years of experience in the travel and tourism industry. From January 2006 to March 2009, Ms. Qiu worked in Hangzhou Advance Hardware MFG Co., Ltd* (杭州德美五金有限公司), a company principally engaged in the manufacture and export of hardware products, as a merchandiser. She then joined Tuyi Group in June 2010 and was promoted to a chairman secretary in June 2016.

Ms. Qiu obtained a bachelor's degree of international trade from Zhejiang University of Technology* (浙江工業大學) in June 2005.

Independent Non-executive Directors

Mr. Gu Jiong (顧炯), aged 46, was appointed as an independent non-executive Director on 1 March 2019. Mr. Gu is responsible for supervising and providing independent judgment to our Board. He is also the chairman of the audit committee of our Group.

From July 1995 to April 2004, Mr. Gu had worked for Ernst & Young's Shanghai office and was the senior manager of the audit department when he left the firm. He subsequently joined UTStarcom Telecom Co., Ltd. and its holding company UT Starcom Inc. (stock code: UTSI), whose shares are listed on Nasdaq and is a global telecom infrastructure provider specialised in the provision of packet optical transport and broadband access products to network operators, where he was responsible for accounting and financial matters of this company, from April 2004 to December 2009. Mr. Gu then served as the chief financial officer in BesTV New Media Co., Ltd. (stock code: 600637) (currently known as Oriental Pearly Media Co., Ltd (東方明珠新媒體股份有限公司)), whose shares are listed on Shanghai Stock Exchange and principally engaged in the provision of technical services, content services and marketing services for television terminals, computer terminals and mobile terminals through a media source platforms where he was responsible for the financial matters of this company, from January 2010 to August 2013. Since September 2013 and October 2015, Mr. Gu has been the chief financial officer of CMC Capital Partners (華人文化產業投資基金), an investment fund specialising in media and entertainment investments in the PRC and globally, and CMC Holdings Limited (華人文化有限公司), an investment platform focused on the media and entertainment investments, respectively, where he has been responsible for corporate strategy and overall financial management in the operation of these companies. Since March 2017, he has also been an independent non-executive director of Amlogic (Shanghai) Co., Ltd. (晶晨半導體(上海)有限公司), a company principally engaged in the wholesale distribution of electronic parts and electronic communications equipment.

As at the Latest Practicable Date, Mr. Gu was a non-executive director and an alternative director to Hui To Thomas of Shaw Brothers Holdings Limited (stock code: 953), a company listed on the Stock Exchange from January 2016 to October 2016 and from October 2016 to 1 January 2019, respectively. He is currently an independent non-executive director of the following companies whose shares are listed on the Stock Exchange:

DIRECTORS AND SENIOR MANAGEMENT

Appointment date	Company	Stock code
June 2015	Xinming China Holdings Limited	2699
June 2015	Chen Xing Development Holdings Ltd	2286
April 2018	Asclepis Pharma Inc.	1672
September 2018	DaFa Properties Group Limited	6111
April 2019	Mulsanne Group Holding Limited	1817

Mr. Gu obtained a bachelor degree in finance management from Fudan University (復旦大學), the PRC in July 1995. He is currently a non-practicing member of The Chinese Institute of Certified Public Accountants (中國註冊會計師協會).

Mr. Zhao Jianbo (趙劍波), aged 44, was appointed as an independent non-executive Director on 1 March 2019. Mr. Zhao is responsible for supervising and providing independent judgment to our Board. He is also a member of the audit committee, the remuneration committee and the nomination committee of our Group.

In June 1997, Mr. Zhao joined Chiatat Qingchunbao Pharmaceutical Co., Ltd (正大青春寶藥業有限公司) as an administrative assistant and was a regional manager of Guangxi Province when he left in April 2006. He subsequently joined Beingmate Baby & Child Food Co., Ltd (貝因美嬰童食品股份有限公司) (Stock code: 002570), whose shares are listed on Shenzhen Stock Exchange and is principally engaged in the manufacture, R&D and sales of baby and child food, as a general manager assistant of the franchising department in October 2008 and was the general manager of Fuzhou Beingmate Baby & Child Food Co., Ltd (福州貝因美嬰童食品有限公司), which is a subsidiary of Beingmate Baby & Child Food Co., Ltd, when he left in January 2015. In May 2016, Mr. Zhao founded Hangzhou Maijing Trading Co., Ltd (杭州邁境貿易有限公司) and served as the legal representative and general manager since then.

Mr. Zhao graduated with a Bachelor of Business Administration from International Business University of Beijing (北京國際商務學院) in July 1999.

Ms. Zhou Li (周禮), aged 40, was appointed as an independent non-executive Director on 1 March 2019. Ms. Zhou is responsible for supervising and providing independent judgment to our Board. She is also the chairperson of the remuneration committee and a member of the audit committee and the nomination committee of our Group.

From October 2003 to November 2005, Ms. Zhou worked in UT Starcom Co., Ltd* (UT斯達康通迅有限公司), which is a telecom infrastructure provider as a software engineer. She then joined Shaoxing Changfeng Textile Company Limited* (紹興昌豐紡織有限公司), which is principally engaged in manufacture, sales and import and export textile business, as a vice chairperson and general manager from December 2005 to March 2012. She subsequently worked in Hainan Kairui Property Company Limited* (海南凱瑞置業有限公司) as a vice general manager, with responsibilities of overseeing the properties sales and operation since March 2012.

DIRECTORS AND SENIOR MANAGEMENT

Ms. Zhou obtained a bachelor degree in applied mathematics in September 2001 and a master degree in laboratory of CAD & computer graphics in June 2004 from Zhejiang University* (浙江大學), the PRC.

Save as disclosed in this prospectus, as at the Latest Practicable Date, our Directors (i) had no interest in our Shares within the meaning of Part XV of the SFO; (ii) did not have any relationship with any Directors, senior management or substantial shareholders of our Company or Controlling Shareholders; and (iii) did not hold any directorship in any other public companies the securities of which were listed on any securities market in Hong Kong or overseas in the last three years.

Save as disclosed herein, to the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, there was no other matter with respect to the appointment of our Directors that needs to be brought to the attention to our Shareholders and there was no information relation to our Directors that is required to be disclosed pursuant to Rules 13.51(2)(h) to (v) of the Listing Rules as at the Latest Practicable Date.

SENIOR MANAGEMENT

The following table sets out certain information relating to members of our senior management team:–

Name	Age	Position	Roles and Responsibilities	Date of Joining our Group	Relationship with other Directors and senior management
Chen Jing (陳靜)	53	executive general manager	Responsible for overseeing the administrative function of Tuyi Group	March 2014	None
Chen Ting (陳婷)	45	director for Japan business operations	Responsible for overseeing the daily management of Japanese department of Tuyi Group	January 2015	None
Wu Longbin (吳龍斌)	40	sales manager	Responsible for overseeing the online sales and marketing plan of Tuyi Group	January 2012	None
Hu Huiling (胡慧玲)	31	corporate account sales manager	Responsible for overseeing the maintenance and development of our corporate clients of Tuyi Group	August 2010	None
Wang Jing (汪靜)	33	chairman assistant	Responsible for overseeing the business operation in Japan of Tuyi Group	July 2011	None

DIRECTORS AND SENIOR MANAGEMENT

Ms. Chen Jing (陳靜), aged 53, is the executive general manager of Tuyi Group, and is responsible for the overseeing the administrative function of Tuyi Group. Ms. Chen has over 35 years of experience in the travel and tourism, and hospitality industry.

Ms. Chen joined our Group in March 2014. Prior to joining us, in November 1983, Ms. Chen joined Hangzhou Shangri-La Hotel Limited* (杭州香格里拉飯店有限公司) as a general staff responsible for room management, and was a marketing director when she left in February 2014.

Ms. Chen enrolled as part-time student at Zhejiang Radio & Television University* (浙江廣播電視大學) while she worked at Hangzhou Shangri-la Hotel Limited and graduated with a diploma of tourism English in July 1991.

Ms. Chen Ting (陳婷), aged 45, is a director for Japan business operations of Tuyi Group responsible for the overseeing the daily management of Japan business operations of Tuyi Group. Ms. Chen has around ten years of experience in the travel and tourism industry. Ms. Chen joined our Group in January 2015. Prior to joining us, from January 1998 to May 1998, she had worked for Guangzhou Guangxing Food Company Limited Hangzhou Branch* (廣州廣興食品有限公司杭州辦事處). From April 2007 to March 2010, she worked in Zhejiang Female International Travel Agent Company Limited* (浙江婦女國際旅行社有限公司). From April 2010 to July 2010, she had worked for Zhejiang Overseas Travel Company Limited* (浙江海外旅遊有限公司). From October 2010 to December 2014, Ms. Chan worked for Tuyi Group to provide Japan travel guide service.

Ms. Chen graduated from Binjiang Higher Vocational School* (濱江職業專科學校) in June 1992.

Mr. Wu Longbin (吳龍斌), aged 40, is a sales manager of Tuyi Group responsible for the overseeing the online sales and marketing plan of Tuyi Group. Mr. Wu has around seven years of experience in the travel and tourism industry. Mr. Wu joined our Group in January 2012.

Mr. Wu graduated from Anji Shangshu Private High School* (安吉上墅私立高級中學) in July 1999.

Ms. Hu Huiling (胡慧玲), aged 31, is a corporate account sales manager of Tuyi Group responsible for the overseeing the maintenance and development of our corporate clients of Tuyi Group. Ms. Hu joined our Group in August 2010.

Ms. Hu graduated from Zhejiang Travel Higher Vocational Institution* (浙江旅遊職業學院) in June 2010, and she then obtained a bachelor degree in Japanese enrolled as part-time student at Zhejiang International Studies College* (浙江外國語學院) while she worked at our Group and in July 2013.

DIRECTORS AND SENIOR MANAGEMENT

Ms. Wang Jing (汪靜), aged 33, is the chairman assistant of Tuyi Group responsible for the overseeing the business operation of Japanese department of Tuyi Group. Ms. Wang has over seven years of experience in travel and tourism industry. Ms. Wang joined our Group in July 2011. Prior to joining us, from July 2008 to April 2011, she worked in Toshiba International Logistics Co., Ltd* (東芝外服貨運有限公司).

Ms. Wang graduated from Zhejiang Yuexiu College of Foreign Languages*(浙江越秀外國語學院) in June 2008 and then she enrolled as part-time student at Zhejiang Normal University* (浙江師範大學) while she worked at Toshiba International Logistics Co., Ltd, and obtained a bachelor degree in Japanese in June 2011.

COMPANY SECRETARY

Ms. Yeung Josephine Yan (楊昕), aged 37, our company secretary, was appointed on 9 April 2018. Ms. Yeung has approximately 16 years of experience in auditing, financial management, internal control and corporate governance. From September 2003 to July 2009, Ms. Yeung held various positions in Ernst & Young Hong Kong, where she last served as manager in the assurance and advisory business services department, specialising in auditing listed companies in Hong Kong. From August 2009 to May 2017, Ms. Yeung worked in a China focused private investment firm based in Hong Kong with last position served as group finance director. Since May 2017, she has been practising in Noble Partners CPA Company, a certified public accountants firm in Hong Kong.

Ms. Yeung graduated from The Hong Kong University of Science and Technology in November 2003 with a Bachelor of Business Administration in Accounting degree. She was admitted as a member and fellow of the Association of Chartered Certified Accountants in February 2007 and February 2012, respectively. Ms. Yeung has been admitted as a member and fellow of the Hong Kong Institute of Certified Public Accountants since February 2008 and October 2017, respectively, and is a practicing certified public accountant in Hong Kong. Ms. Yeung has been serving as a joint company secretary of Sunlight (1977) Holdings Limited, the shares of which are listed on the Stock Exchange (stock code: 8451) from April 2018 to May 2019.

BOARD COMMITTEES

Audit Committee

An audit committee was established by our Company pursuant to a resolution of our Board on 1 March 2019 with written terms of reference in compliance with the Corporate Governance Code. The primary duties of the audit committee are to review and approve our Group's financial reporting process and internal control system. The members of the audit committee are Mr. Gu Jiong, Mr. Zhao Jianbo and Ms. Zhou Li, all of whom are independent non-executive Directors. Mr. Gu Jiong is the chairman of the audit committee.

Remuneration Committee

A remuneration committee was established by our Company pursuant to a resolution of our Board on 1 March 2019 with written terms of reference in compliance with the Corporate Governance Code. The primary duties of the remuneration committee are to review and determine the terms of remuneration packages, bonuses and other compensation

DIRECTORS AND SENIOR MANAGEMENT

payable to Directors and senior management of our Group. The members of the remuneration committee are Ms. Zhou Li, Mr. Zhao Jianbo and Mr. Yu Dingxin. Ms. Zhou Li is the chairperson of the remuneration committee.

Nomination Committee

A nomination committee was established by our Company pursuant to a resolution of our Board on 1 March 2019 with written terms of reference in compliance with the Corporate Governance Code. The primary duties of the nomination committee are to make recommendations to the Board on appointment of Directors and the management of the Board succession. The members of the nomination committee are Mr. Yu Dingxin, Mr. Zhao Jianbo and Ms. Zhou Li. Mr. Yu Dingxin is the chairman of the nomination committee.

COMPENSATION OF THE DIRECTORS AND SENIOR MANAGEMENT

Our Directors and senior management receive compensation in the form of salaries, benefits in kind and discretionary bonuses related to the performance of our Company. We also reimburse them for expenses which are necessarily and reasonably incurred for providing services to us or executing their functions in relation to our operations.

The compensation paid to our Directors for FY2016, FY2017 and FY2018 were approximately RMB1,818,000, RMB1,210,000 and RMB1,149,000 respectively.

The compensation paid to the five highest paid individuals, excluding our Directors, for FY2016, FY2017 and FY2018 were approximately RMB627,000, RMB928,000 and RMB1,167,000, respectively.

No remuneration was paid by our Group to the Directors or the five highest paid individuals as an inducement to join or upon joining our Group or as a compensation for loss of office during the Track Record Period.

Under the arrangement currently in force, the aggregate remuneration of our Directors for FY2019 is estimated to be approximately RMB1.2 million (excluding any discretionary bonus).

THE SHARE OPTION SCHEME

We have conditionally adopted the Share Option Scheme. The principal terms of the Share Option Scheme are summarised in “Statutory and General Information – E. Share Option Scheme” in Appendix V to this prospectus.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

Our Directors recognise the importance of good corporate governance in management and internal procedures to promote and ensure accountability. Our Company’s corporate governance practices are based on principles and code provisions as set out in the Corporate Governance Code in Appendix 14 to the Listing Rules. Our Company’s corporate governance practices have been complied with and we will continue to comply with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

DIRECTORS AND SENIOR MANAGEMENT

We have adopted a board diversity policy which sets out the approach to achieve and maintain an appropriate balance of diversity perspectives of our Board that are relevant to our business growth. Pursuant to our board diversity policy, selection of Board candidates will be based on a range of diversity perspectives, including but not limited to gender, age cultural and educational background, professional qualifications, skills, knowledge, and industry experience. The ultimate decision will be based on merit and contribution that the selected candidates will bring to our Board.

Our Board comprises nine members, including six executive Directors and three independent non-executive Directors. Our Directors have a balanced mix of knowledge and experiences, including business management, strategic development, travel marketing and advertising, direct selling and social commerce, public administration and management, finance, auditing and accounting experiences. Furthermore, the ages of our Directors range from 27 to 48 years old. We have also taken, and will continue to take steps to promote gender diversity at all levels of our Company, including but without limitation at the Board and senior management levels. While we recognize that gender diversity at the Board level can be improved given its current composition of seven-male Directors, we will continue to apply the principle of appointments based on merits with reference to our board diversity policy as a whole.

We are also committed to adopting similar approach to promote diversity of the management (including but not limited to the senior management) of the Company to enhance the effectiveness of our corporate governance.

Our nomination committee is responsible for ensuring the diversity of our Board. After the Listing, our nomination committee will review the board diversity policy from time to time to ensure its continued effectiveness and we will disclose the implementation of the board diversity policy in our corporate governance report on an annual basis.

COMPLIANCE ADVISER

Pursuant to Rule 3A.19 of the Listing Rules, our Company has appointed Innovax Capital Limited as our compliance adviser. The compliance adviser will advise us on the following matters pursuant to Rule 3A.23 of the Listing Rules:

- (i) the publication of any regulatory announcement, circular or financial report;
- (ii) where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;
- (iii) where our Company proposes to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where our business activities, developments or results deviate from any forecast, estimate or other information of this prospectus; and
- (iv) where the Stock Exchange makes an inquiry of our Company regarding unusual movements in the price or trading volume of our Shares the possible development of a false market in its securities, or any other matters.

DIRECTORS AND SENIOR MANAGEMENT

The term of this appointment will commence on the Listing Date and is expected to end on the date on which we comply with Rule 13.45 of the Listing Rules on the distribution of our annual report in respect of the financial results of the first full financial year commencing after the Listing Date.

CONNECTED TRANSACTIONS

EXEMPT CONTINUING CONNECTED TRANSACTION

Lease to Mr. Yu's associate

Tuyi Group leases the premises situated at Room 102, Jia Lian Hua Ming Zuo Commercial Building, No.586 Jianguo North Road, Xiacheng District, Hangzhou, Zhejiang Province, the PRC (the “Premises”) with a construction area of approximately 447.23 sq.m. to Ms. Yu Liqing (虞麗清) for catering purpose, and they entered into a lease agreement (the “Lease”) on 1 January 2017 for a term of three years commencing from 1 January 2017 to 1 January 2020. The annual rental is RMB350,000 payable annually at the end of each year. Ms. Yu Liqing is the sister of Mr. Yu, and hence a connected person of our Company under the Listing Rules. The rent paid by Ms. Yu Liqing to Tuyi Group for the lease of the Premises for the years ended 31 December 2016, 2017 and 2018 were nil, RMB350,000 and RMB350,000, respectively. Our Directors confirm that the rent of the Premises is comparable to the prevailing market rate of similar properties in the similar location or at the vicinity. Our Directors are of the view that the Lease has been entered into after arm's length negotiations, on normal commercial terms and are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

Since the percentage ratios (other than the profit ratio) of the rental payable for the Premises on an annual basis is less than 5% and the annual consideration is less than HK\$3.0 million, the Lease will be exempted from the reporting, announcement and independent shareholders' approval requirements under the Listing Rules pursuant to Rule 14A.33(3) of the Listing Rules.

NON-EXEMPT CONTINUING CONNECTED TRANSACTION

Background

As disclosed in “Contractual Arrangements”, the business operations of the Operating Entities constitute a business restricted to foreign investment in the PRC, therefore, we cannot directly acquire equity interests in the Operating Entities. As a result, we have entered into a series of agreements narrowly tailored to provide our Group with control over the Operating Entities and grant our Group the right to acquire the equity interests of the Operating Entities when and to the extent permitted by the PRC laws and regulations. Under the Contractual Arrangements, we supervise and control the business operations of the Operating Entities and derive economic benefit from the Operating Entities.

The Contractual Arrangements consist of the Structured Contracts which are entered into among WFOE on the one hand and Tuyi Group and/or the Relevant Shareholders (namely Mr. Yu, Mr. Pan, Mr. Xu and Tuyi Management LLP) (where applicable) on the other hand. Please see “Contractual Arrangements” for the details of these structured contracts.

CONNECTED TRANSACTIONS

Listing Rules implications

The table below sets forth the connected persons of our Company involved in the Contractual Arrangements and the nature of their connection with our Group. The transactions contemplated under the Contractual Arrangements constitute continuing connected transactions of our Company under the Listing Rules upon Listing.

Name	Connected relationships
Mr. Yu	Mr. Yu is an executive Director and a Controlling Shareholder, and therefore a connected person of our Company under Rule 14A.07 of the Listing Rules.
Mr. Pan	Mr. Pan is an executive Director and a Controlling Shareholder, and therefore a connected person of our Company under Rule 14A.07 of the Listing Rules.
Mr. Xu	Mr. Xu is an executive Director and a Controlling Shareholder, and therefore a connected person of our Company under Rule 14A.07 of the Listing Rules.
Tuyi Management LLP	Tuyi Management LLP is directly held as to 90.75% by Mr. Yu and is therefore an associate of Mr. Yu and a connected person of our Company under Rule 14A.07 of the Listing Rules.
Tuyi Group	Tuyi Group is directly held as to 55.83% by Mr. Yu and is therefore an associate of Mr. Yu and a connected person of our Company under Rule 14A.07 of the Listing Rules.

Our Directors (including the independent non-executive Directors) are of the view that the Contractual Arrangements and the transactions contemplated therein are fundamental to our organisational structure and business, that such transactions have been and will be entered into in our ordinary and usual course of business, are on normal commercial terms and are fair and reasonable and in the interests of our Company and our Shareholders as a whole. Accordingly, notwithstanding that the transactions contemplated under the Contractual Arrangements and any new transactions, contracts and agreements or renewal of existing transactions, contracts and agreements to be entered into, among others, by any of our Operating Entities and any member of our Group (“**New Intergroup Agreements**” and each of them, a “**New Intergroup Agreement**”) technically constitute continuing connected transactions under Chapter 14A of the Listing Rules, our Directors consider that, given that we are placed in a special situation in relation to relying on the Contractual Arrangements to operate a substantial portion of our business, it would be unduly burdensome and impracticable, and would add unnecessary administrative costs to us if such transactions are subject to strict compliance with the requirements set out under Chapter 14A of the Listing Rules, including, among others, the announcement and independent shareholders’ approval requirements.

CONNECTED TRANSACTIONS

Application for waiver

In view of the Contractual Arrangements, in respect of transactions contemplated under the Structured Contracts and any New Intergroup Agreements, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with (i) the announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the transactions contemplated under the Contractual Arrangements pursuant to Rule 14A.105 of the Listing Rules; (ii) the requirement of setting an annual cap for the transactions under the Contractual Arrangements under Rule 14A.53 of the Listing Rules; and (iii) the requirement of limiting the term of the Contractual Arrangements to three years or less under Rule 14A.52 of the Listing Rules, for so long as our Shares are listed on the Stock Exchange and the Operating Entities will continue to be treated as our Company's subsidiaries subject to the following conditions:

(a) No change without independent non-executive Directors' approval

No change to the Contractual Arrangements (including with respect to any fees payable to WFOE thereunder) will be made without the approval of the independent non-executive Directors.

(b) No change without independent Shareholders' approval

Save as described in paragraph (d) below, no change to the agreements governing the Contractual Arrangements will be made without the approval of our independent Shareholders. Once independent Shareholders' approval of any change has been obtained, no further announcement or approval of the independent shareholders will be required under Chapter 14A of the Listing Rules unless and until further changes are proposed. The periodic reporting requirement regarding the Contractual Arrangements in the annual reports of our Company (as set out in paragraph (e) below) will however continue to be applicable.

(c) Economic benefits flexibility

The Contractual Arrangements shall continue to enable our Group to receive the economic benefits derived by our Operating Entities through (i) the WFOE's options (if and when so allowed under the applicable PRC laws) to acquire, all or part of the equity interests or assets of our Operating Entities for a nominal consideration of RMB1.0 or the minimum amount of consideration permitted by applicable PRC laws and regulations, (ii) the business structure under which the profit generated by the Operating Entities is substantially retained by us, such that no annual cap shall be set on the amount of service fees payable to the WFOE by the Operating Entities under the Exclusive Business Cooperation and Service Agreement, and (iii) WFOE's right to control the management and operation of, as well as, in substance, all of the voting rights of our Operating Entities.

CONNECTED TRANSACTIONS

(d) Renewal and reproduction

On the basis that the Contractual Arrangements provide an acceptable framework for the relationship between our Company and its subsidiaries in which our Company has direct shareholding, on the one hand, and the Operating Entities, on the other hand, that framework may be renewed and/or reproduced upon the expiry of the existing arrangements or in relation to any existing or new wholly foreign owned enterprise or operating company (including branch company) engaging in the same business as that of our Group which our Group might wish to establish when justified by business expediency, without obtaining the approval of our Shareholders, on substantially the same terms and conditions as the existing Contractual Arrangements. The directors, chief executive or substantial shareholders of any existing or new wholly foreign owned enterprise or operating company (including branch company) engaging in the same business as ours which we may establish will, upon renewal and/or reproduction of the Contractual Arrangements, however be treated as connected persons of our Company and transactions between these connected persons and our Company other than those under similar contractual arrangements shall comply with Chapter 14A of the Listing Rules. This condition is subject to relevant PRC laws, regulations and approvals.

(e) Ongoing reporting and approvals

We will disclose details relating to the Contractual Arrangements on an on-going basis as follows:

- The Contractual Arrangements in place during each financial period will be disclosed in our annual report and accounts in accordance with the relevant provisions of the Listing Rules.
- Our independent non-executive Directors will review the Contractual Arrangements annually and confirm in our annual report and accounts for the relevant year that (i) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the Contractual Arrangements and that the profit generated by our Operating Entities has been substantially retained by the WFOE, (ii) no dividends or other distributions have been made by our Operating Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to us, and (iii) any new contracts entered into, renewed or reproduced between us and our Operating Entities during the relevant financial period under paragraph (d) above are fair and reasonable, or advantageous to our Shareholders, so far as we are concerned and in the interests of the Shareholders as a whole.
- Our Company's auditor will carry out review procedures annually on the transactions carried out pursuant to the Contractual Arrangements and will provide a letter to our Directors with a copy to the Stock Exchange confirming that the transactions have received the approval of our Directors, have been entered into in accordance with the Contractual Arrangements and

CONNECTED TRANSACTIONS

that no dividends or other distributions have been made by the Operating Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to us.

- For the purpose of Chapter 14A of the Listing Rules, and in particular the definition of “connected person”, our Operating Entities will be treated as our Company’s subsidiaries, but at the same time, the directors, chief executives or substantial shareholders of the Operating Entities and its associates will be treated as connected persons of our Company (excluding for this purpose, the Operating Entities), and transactions between these connected persons and our Group (including for this purpose, the Operating Entities), other than those under the Contractual Arrangements, will be subject to requirements under Chapter 14A of the Listing Rules.

- Our Operating Entities will undertake that, for so long as the Shares are listed on the Stock Exchange, our Operating Entities will provide our management and our Company’s auditor full access to its relevant records for the purpose of our Company’s auditor’s review of the connected transactions.

CONFIRMATION FROM THE DIRECTORS

Our Directors, including the independent non-executive Directors, consider that the continuing connected transactions as disclosed in “Contractual Arrangements” have been entered into: (i) in the ordinary and usual course of the business of our Group; (ii) on normal commercial terms; and (iii) in accordance with the respective agreement governing them on terms that are fair and reasonable and in the interest of the Shareholders as a whole.

CONFIRMATION FROM THE SOLE SPONSOR

The Sole Sponsor has reviewed the relevant documents and information provided by our Group, has obtained necessary representations and confirmations from our Company and our Directors and has participated in the due diligence and discussions with our management and our PRC Legal Advisers. Based on the above, the Sole Sponsor is of the view that the transactions contemplated under the Contractual Arrangements have been and will be entered into in the ordinary and usual course of business of our Group, are fundamental to our Group’s legal structure and business operations and on normal commercial terms or better that are fair and reasonable and in the interests of our Company and our Shareholders as a whole. Based on the above, the Sole Sponsor is also of the view that with respect to the term of the relevant agreements underlying the Contractual Arrangements which is of a duration longer than three years, it is a justifiable and normal business practice to ensure that (i) the financial and operational policies of the Operating Entities can be effectively controlled by WFOE, (ii) WFOE can obtain the economic benefits derived from the Operating Entities, and (iii) any possible leakages of assets and values of the Operating Entities can be prevented, on an uninterrupted basis.

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following completion of the Global Offering and the Capitalisation Issue (without taking into account any Shares which may be issued under the Over-allotment Option or the exercise of any options may be granted under the Share Option Scheme), the following persons will have or be deemed or taken to have beneficial interests and/or short position in the Shares or the underlying Shares which would be required to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or be directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any of our Group:

Name	Nature of interest	Number of Shares as at the Latest Practicable Date ⁽¹⁾	Approximate percentage of interest in our Company as at the Latest Practicable Date	Number of Shares ⁽¹⁾	Approximate percentage of interest in our Company immediately after the Global Offering and the Capitalisation Issue
York Yu BVI ⁽²⁾	Beneficial owner	5,583 (L)	55.83%	418,725,000 (L)	41.8725%
David Xu BVI ⁽²⁾	Beneficial owner	667 (L)	6.67%	50,025,000 (L)	5.0025%
King Pan BVI ⁽³⁾	Beneficial owner	2,250 (L)	22.5%	168,750,000 (L)	16.875%
Jeffery Xu BVI ⁽⁴⁾	Beneficial owner	1,500 (L)	15%	112,500,000 (L)	11.25%
Mr. Yu ⁽²⁾	Interest in controlled corporation	10,000 (L)	100%	750,000,000 (L)	75%
Mr. Pan ⁽³⁾	Interest in controlled corporation	10,000 (L)	100%	750,000,000 (L)	75%
Mr. Xu ⁽⁴⁾	Interest in controlled corporation	10,000 (L)	100%	750,000,000 (L)	75%

Notes:

- (1) The letter "L" denotes the person's long position in the Shares.
- (2) York Yu BVI and David Xu BVI hold 418,725,000 Shares and 50,025,000 Shares respectively. Each of York Yu BVI and David Xu BVI is directly and wholly owned by Mr. Yu, who is therefore deemed to be interested in all the Shares held by each of York Yu BVI and David Xu BVI. Mr. Yu, Mr. Pan and Mr. Xu entered into a concert party agreement dated 13 April 2018, and are therefore deemed to be interested in the interests of each other.
- (3) King Pan BVI holds 168,750,000 Shares. King Pan BVI is directly and wholly owned by Mr. Pan, who is therefore deemed to be interested in all the Shares held by King Pan BVI. Mr. Yu, Mr. Pan and Mr. Xu entered into a concert party agreement dated 13 April 2018, and are therefore deemed to be interested in the interests of each other.
- (4) Jeffery Xu BVI holds 112,500,000 Shares. Jeffery Xu BVI is directly and wholly owned by Mr. Xu, who is therefore deemed to be interested in all the Shares held by Jeffery Xu BVI. Mr. Yu, Mr. Pan and Mr. Xu entered into a concert party agreement dated 13 April 2018, and are therefore deemed to be interested in the interests of each other.

SUBSTANTIAL SHAREHOLDERS

Save as disclosed above, our Directors are not aware of any other person who will, immediately following the completion of the Global Offering and the Capitalisation Issue (without taking into account any Shares which may be issued under the Over-allotment Option or the exercise of any options may be granted under the Share Option Scheme), have beneficial interests or short positions in any of our Shares or underlying Shares, which would be required to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in the circumstances at general meetings of any member of our Group. Our Directors are not aware of any arrangement which may at a subsequent date result in a change of control of our Company.

SHARE CAPITAL

AUTHORISED AND ISSUED SHARE CAPITAL

The following is a description of the authorised and issued share capital of our Company in issue and to be issued as fully paid or credited as fully paid immediately before and after completion of the Global Offering and the Capitalisation Issue:

As at the Date of this Prospectus

	<i>HK\$</i>
<i>Authorised share capital</i>	
1,500,000,000 Shares	15,000,000
<i>Issued share capital</i>	
10,000 Shares	100

Immediately after Completion of the Global Offering and the Capitalisation Issue

	<i>HK\$</i>
<i>Shares to be issued under the Global Offering</i>	
250,000,000 Shares	2,500,000
<i>Shares to be issued under the Capitalisation Issue</i>	
749,990,000 Shares	7,499,900
<i>Total Issued Shares on completion of the Global Offering and the Capitalisation Issue</i>	
1,000,000,000 Shares	10,000,000

ASSUMPTIONS

The above table assumes that the Global Offering has become unconditional and the Shares are issued pursuant to the Global Offering and the Capitalisation Issue. It takes no account of any Shares, which may be allotted and issued pursuant to the exercise of the Over-allotment Option or the options which may be granted under the Share Option Scheme or which may be allotted and issued or repurchased by our Company under the general mandates of any Shares referred to below.

RANKING

The Offer Shares will rank *pari passu* with all Shares in issue or to be issued as mentioned in this prospectus and will qualify for all dividends or other distributions declared, made or paid after the date of this prospectus save for the entitlement under the Capitalisation Issue.

SHARE OPTION SCHEME

On 1 March 2019, we conditionally adopted the Share Option Scheme. Summaries of the principal terms of the Share Option Scheme are set out in “Statutory and General Information – E. Share Option Scheme” in Appendix V to this prospectus.

SHARE CAPITAL

GENERAL MANDATE TO ISSUE NEW SHARES

Subject to the Global Offering becoming unconditional, our Directors have been granted a general unconditional mandate to allot or issue and deal with unissued Shares with an aggregate nominal value of not more than:

- (a) 20% of the total nominal amount of Shares in issue immediately following completion of the Global Offering and the Capitalisation Issue; and
- (b) the total nominal amount of Shares repurchased by our Company pursuant to the mandate referred to in “General mandate to repurchase Shares” below.

This mandate will expire:

- at the conclusion of the next annual general meeting of our Company; or
- at the expiration of the period within which our Company required by the Articles of Association or any applicable laws of the Cayman Islands to hold its next annual general meeting; or
- when varied or revoked by an ordinary resolution of the Shareholders in general meeting, whichever is the earliest.

Particulars of this general mandate are set out in “Statutory and General Information – A. Further information about the Company and its Subsidiaries – 3. Written resolutions of all the Shareholders passed on 1 March 2019” in Appendix V to this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

Subject to the Global Offering becoming unconditional, our Directors have been granted a general mandate to exercise all the powers of our Company to repurchase Shares with a total nominal value of not more than 10% of the total nominal amount of the Shares in issue immediately following completion of the Global Offering and the Capitalisation Issue (excluding Shares that may be allotted and issued pursuant to exercise of the Over-allotment Option or the Share Option Scheme).

This mandate only relates to repurchases made on the Main Board, or on any other stock exchange on which the Shares are listed (and which are recognised by the SFC and the Stock Exchange for this purpose), and which are in accordance with the Listing Rules. A summary of the relevant Listing Rules are set out in “Statutory and General Information – A. Further information about the Company and its Subsidiaries – 3. Written resolutions of all the Shareholders passed on 1 March 2019” in Appendix V to this prospectus.

This mandate will expire:

- at the conclusion of the next annual general meeting of our Company; or
- at the expiration of the period within which our Company is required by its Articles of Association or any applicable laws of the Cayman Islands to hold its next annual general meeting; or

SHARE CAPITAL

- when varied or revoked by an ordinary resolution of the Shareholders in general meeting,

whichever is the earliest.

Particulars of this general mandate are set out in “Statutory and General Information – A. Further information about the Company and its Subsidiaries – 3. Written resolutions of all the Shareholders passed on 1 March 2019” in Appendix V to this prospectus.

FINANCIAL INFORMATION

You should read this section in conjunction with our consolidated financial information as set out in the Accountants' Report in Appendix I to this prospectus. The consolidated financial information has been prepared in accordance with HKFRSs.

The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, our actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause future results to differ significantly from those projected in the forward-looking statements include those discussed in "Risk Factors".

OVERVIEW

We are a well-established and active outbound travel products and service provider in the PRC, with a particular focus in Japan bound package tours, day tours and related FIT Products. For FY2016, FY2017 and FY2018, our package tours and day tours bound for Japan accounted for approximately 63.7%, 85.1% and 78.4% of our total revenue for package tours and day tours, respectively, whilst sales of FIT Products for destinations in Japan accounted for approximately 90.4%, 96.7% and 79.4% of our total revenue from FIT Products in the respective years. Apart from Japan-related travel products, we also offer travel products to other destinations including South Korea, Australia, New Zealand and Southeast Asia. Our Directors believe that the sales of these travel products, services related to Japan will continue to contribute a significant proportion of our total revenue in the near future.

In addition to the revenue from the sales of travel products and services, we also generate revenue from duty-free and other retail shops operated by third parties in Japan by receiving commissions from these shops such as when our customers visit those shops as part of their package tour itinerary and make purchases at the shops and from our tour escorts and/or tour guides when our package tour customers make purchases for goods and souvenirs at the tour buses. Revenue generated from the aforementioned commissions (as included in our revenue from package tours bound for Japan) amounted to approximately RMB11.7 million, RMB17.0 million and RMB6.8 million for FY2016, FY2017 and FY2018, respectively.

For FY2016, FY2017 and FY2018, we generated revenue of approximately RMB227.8 million, RMB168.9 million and RMB205.1 million, respectively. Our profit for the corresponding years was approximately RMB15.0 million, RMB21.6 million and RMB7.1 million, representing net profit margin of approximately 6.6%, 12.8% and 3.5%, respectively, the fluctuations of which were mainly driven by, among other things, our gross profit margin for the corresponding years, which was approximately 20.9% 29.0% and 23.9%, respectively. Excluding non-recurring listing expenses of approximately RMB15.5 million incurred in FY2018, our profit for FY2018 would be approximately RMB22.6 million, representing an increase of approximately RMB1.0 million or 4.6% in comparison to FY2017.

FINANCIAL INFORMATION

BASIS OF PRESENTATION

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Cayman Companies Law on 27 February 2018. Pursuant to the Reorganisation, as more fully explained in “History, Reorganisation and Corporate Structure – Reorganisation”, our Company became the holding company of the companies now comprising our Group on 21 May 2018. As the Reorganisation involved inserting new holding companies at the top of an existing company, entering into Structured Contracts and business combinations under common control, that has not resulted in a change of respective voting and beneficial interests, the consolidated financial information for the Track Record Period has been presented as a continuation of the then holding company by applying the principles of merger accounting as if the Reorganisation had been completed at the beginning of the Track Record Period.

Due to regulatory prohibitions on foreign ownership in the outbound travel business in the PRC, the principal business carried out by the Operating Entities during the Track Record Period was prohibited from foreign ownership. WFOE has entered into the Structured Contracts with, among others, the Operating Entities and their respective equity holders. The Structured Contracts enable WFOE to exercise effective control over the Operating Entities and obtain substantially all economic benefits of the Operating Entities. Accordingly, our Company regards the Operating Entities as indirect subsidiaries for the purpose of the historical financial information and the Operating Entities are consolidated in the historical financial information for the Track Record Period. Please see “Contractual Arrangements” for details of the Structured Contracts. Our Group does not have any equity interest in the Operating Entities.

The consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of our Group for the Track Record Period include the results and cash flows of all companies now comprising our Group from the earliest date presented or since the date when the subsidiaries and/or businesses first came under the common control of the controlling shareholder, where this is a shorter period. The consolidated statements of financial position of our Group as of 31 December 2016, 2017 and 2018 have been prepared to present the assets and liabilities of the subsidiaries now comprising our Group using the existing book values from the controlling shareholders’ perspective. No adjustments are made to reflect fair values, or recognise any new assets or liabilities as a result of the Reorganisation.

All intra-group transactions and balances have been eliminated on consolidation.

The consolidated financial information has been prepared in accordance with HKFRSs issued by the HKICPA and accounting principles generally accepted in Hong Kong. All HKFRSs effective for the accounting period commencing from 1 January 2018, together with the relevant transitional provisions, have been early adopted by our Group in the preparation of the historical financial information throughout the Track Record Period. In particular, our Group had adopted HKFRSs 9 and 15 on a consistent basis throughout the Track Record Period.

FINANCIAL INFORMATION

The consolidated financial information has been prepared under the historical cost convention, except for investment properties and financial assets at fair value through profit or loss which have been measured at fair value.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations have been and will continue to be affected by a number of factors, including those set out below:

Changes in economic, political and social conditions in the PRC

Majority of our revenue is generated from our sales of travel products and services to outbound travellers in the PRC. Demand for outbound travel products and services in the PRC is significantly dependent on the level of disposable income of travellers, which, in turn, is affected by changes in economic, political and social conditions in the PRC to a great extent. In addition, the outbound travel industry may be affected by the diplomatic policy/relationship between PRC and the destination countries. Future changes in economic conditions in the PRC may adversely affect the level of disposable income available and the portion of disposable income spent on travel products for population in the PRC, which will in turn affect demand for travel products and services offered by our Group and, hence, substantially affect our business operations and financial conditions.

Changes in economic, political and social conditions in Japan

Japan is the most popular destination of our package tours and FIT Products during the Track Record Period. For FY2016, FY2017 and FY2018, our package tours bound for Japan (including commissions from duty-free and other retail shops operated by third parties in Japan and from our tour escorts and/or tour guides when our package tour customers make purchases of goods and souvenirs at the tour buses) accounted for approximately 63.7%, 84.8% and 74.4% of our total revenue for package tours and day tours, respectively, whilst sales of FIT Products for destinations in Japan accounted for approximately 90.4%, 96.7% and 79.4% of our total revenue from FIT Products in the respective year. Our Directors believe that the sales of these travel products and services related to Japan will continue to represent a significant proportion of our total revenue in the near future.

Our business and operating results might be adversely affected if there are any material adverse changes in the economic, political or social conditions relating to Japan, including China's diplomatic policy/relationships with Japan or changes in the preference of the customers in the PRC.

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Pricing of our travel products and services

We generally determine the price of our travel products and services on a cost-plus basis. For package tours and day tours, we take into consideration, among others, (i) the prevailing exchange rate; (ii) our enrollment situation; and (iii) cost of travel elements including flight, hotel accommodation, local transportation, meals and sight-seeing, market demands, the prices of similar products offered by our competitors. We review the prices of our travel products and services on a regular basis. Airfare costs, hotel tariffs and land operator cost together accounted for an aggregate of approximately 75.7%, 76.0% and 77.8% of our total cost of sales for FY2016, FY2017 and FY2018, respectively. In addition to the costs of the travel products, being the most important factor in determining the selling price of our travel products, we would also take into account other factors such as market demand, seasonality and the prevailing selling prices of comparable products offered by our competitors when we set the price of our travel products.

If costs for flights, accommodations and land operators increase, and we are unable to pass on such increases to our customer through adjustment of the selling prices of our products in a timely manner, our business, financial condition and results of operations may be materially or adversely affected.

The following tables set out the sensitivity analysis illustrating the changes in our profit before tax (excluding listing expenses for FY2018) of FY2016, FY2017 and FY2018 for hypothetical increase or decrease in our airfare costs, hotel accommodation tariffs and land operation costs, respectively, while all other factors remain unchanged:

	FY2016		FY2017		FY2018	
	Increase/ (decrease) in our profit before tax <i>RMB'000</i>	Adjusted profit before tax <i>RMB'000</i>	Increase/ (decrease) in our profit before tax <i>RMB'000</i>	Adjusted profit before tax <i>RMB'000</i>	Increase/ (decrease) in our profit before tax <i>RMB'000</i>	Adjusted profit before tax <i>RMB'000</i>
Airfare costs						
+5%	(3,511)	18,469	(1,689)	27,971	(1,552)	24,758
+3%	(2,107)	19,873	(1,013)	28,647	(931)	25,379
+1%	(702)	21,278	(338)	29,322	(310)	26,000
No change	–	21,980	–	29,660	–	26,310
–1%	702	22,682	338	29,998	310	26,620
–3%	2,107	24,087	1,013	30,673	931	27,241
–5%	3,511	25,491	1,689	31,349	1,552	27,862

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	FY2016		FY2017		FY2018	
	Increase/ (decrease) in our profit before tax RMB'000	Adjusted profit before tax RMB'000	Increase/ (decrease) in our profit before tax RMB'000	Adjusted profit before tax RMB'000	Increase/ (decrease) in our profit before tax RMB'000	Adjusted profit before tax RMB'000
Hotel accommodation tariffs						
+5%	(1,703)	20,277	(1,172)	28,488	(1,224)	25,086
+3%	(1,022)	20,958	(703)	28,957	(734)	25,576
+1%	(341)	21,639	(234)	29,426	(245)	26,065
No change	–	21,980	–	29,660	–	26,310
–1%	341	22,321	234	29,894	245	26,555
–3%	1,022	23,002	703	30,363	734	27,044
–5%	1,703	23,683	1,172	30,832	1,224	27,534

	FY2016		FY2017		FY2018	
	Increase/ (decrease) in our profit before tax RMB'000	Adjusted profit before tax RMB'000	Increase/ (decrease) in our profit before tax RMB'000	Adjusted profit before tax RMB'000	Increase/ (decrease) in our profit before tax RMB'000	Adjusted profit before tax RMB'000
Land operation costs						
+5%	(1,609)	20,371	(1,694)	27,966	(3,292)	23,018
+3%	(965)	21,015	(1,016)	28,644	(1,975)	24,335
+1%	(322)	21,658	(339)	29,321	(658)	25,652
No change	–	21,980	–	29,660	–	26,310
–1%	322	22,302	339	29,999	658	26,968
–3%	965	22,945	1,016	30,676	1,975	28,285
–5%	1,609	23,589	1,694	31,354	3,292	29,602

For illustrative purposes, for FY2016, FY2017 and FY2018, it is estimated that we would achieve breakeven on our profit before tax (excluding listing expenses for FY2018) if (i) our airfare costs increased by approximately 31.3%, 87.8% and 84.7%, respectively; (ii) our hotel accommodation tariffs increased by approximately 64.5%, 126.6% and 107.5%, respectively; or (iii) our land operation costs increased by approximately 68.3%, 87.6% and 40.0%, respectively, while all other factors remain unchanged.

Product and service mix

During FY2016, FY2017 and FY2018, we were able to derive a higher gross profit margin from our tours bound for Japan in comparison to our package tours to other destinations. Our gross profit margin for our package tours bound for Japan (including commissions from duty-free and other retail shops operated by third parties in Japan and from our tour escorts and/or tour guides when our package tour customers make purchases of goods and souvenirs at the tour buses) amounted to approximately 8.2%, 16.1%

FINANCIAL INFORMATION

and 9.8% for FY2016, FY2017 and FY2018, respectively, which was higher than or comparable with the average gross profit margin for our package tours of approximately 5.6%, 14.8% and 9.4% for the corresponding year. We derived substantial portion of our revenue from travel products bound for Japan. Revenue from package tours and day tours to Japan accounted for approximately 63.7%, 85.1% and 78.4% of our revenue from package tours and day tours for FY2016, FY2017 and FY2018, respectively. Also, as revenue for FIT Products are recognised on net basis, higher proportion of revenue generated from FIT Products will lead to a higher overall gross profit margin. Our Directors believe that any changes in outbound tourists' preference of travel products and destinations will affect our product mix and in turn affect our business operation results and financial positions.

In addition to the revenue from the sales of travel products and services, we also generate revenue from duty-free and other retail shops operated by third parties in Japan by receiving commissions from these shops such as when our package tour customers visit these shops as part of their package tour itinerary and make purchases with them and from our tour escorts and/or tour guides only when our package tour customers make purchases for goods and souvenirs at the tour buses. In light of the aforementioned arrangements, such commission revenue was included in our revenue from sales of package tours and day tours during the Track Record Period. Our gross profit derived from commissions received from duty-free and other retail shops operated by third parties, and our tour escorts and/or tour guides accounted for approximately 61.7%, 71.9% and 38.9% of our total gross profit from sales of package tours and day tours for FY2016, FY2017 and FY2018, respectively. Our gross profit derived from such commission also represented approximately 13.1%, 28.7% and 12.1% of our total gross profit for FY2016, FY2017 and FY2018, respectively. Since a considerable portion of the gross profit of our package tours and our total gross profit was derived from such commission revenue during the Track Record Period, our profitability may be adversely affected should our commission revenue decreases.

Competition from competing agents and online travel companies

The travel industry in the PRC and Japan is highly competitive. According to the F&S Report, there were more than 29,000 licensed travel agents and 4,500 outbound travel agencies in the PRC by the end of 2018. Revenue of top five licensed outbound travel agencies accounted for approximately 18.8% of total revenue of outbound travel agencies in China for the same year. Our Directors believe that our existing network of online and offline sale platforms have provided us with a public presence in Eastern China that will allow our Group to effectively compete with other travel agents in PRC. Also, our Japan office, and the Shizuoka Hotel have established our market presence in Japan. However, there is no assurance that we will be able to remain competitive, especially with the possible development of alternative travel booking media. Failure to continually offer quality packages to meet our customers' demands and changing needs or to develop and introduce new packages or enhance existing packages in a timely manner in response to changing market conditions or consumer preferences and tastes may materially and adversely affect our market share which in turn will adversely affect our business, financial conditions and operating results.

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Fluctuations in foreign exchange rates

We are exposed to the fluctuations in the exchange rate of JPY against RMB in a number of aspects. With the depreciation of JPY, the costs of a holiday to Japan will generally decrease since the costs of local services, amenities (such as land operators fees and hotel tariffs) and admission to tourist attractions will become lower in relative terms. In the event that JPY appreciates against RMB in the future, customer demand for our products and services related to Japan may materially decrease, which may in turn materially and adversely affect our business, financial condition and results of operations.

Also, our receipts from customers in RMB do not match with the JPY denominated costs of sales such as payments to hotel operators, land operators and various suppliers. For FY2016, FY2017 and FY2018, approximately 53.0%, 50.7% and 44.2% of our costs were denominated in currencies other than the units' functional currencies, among which 41.3%, 46.4% and 43.4% of our costs were denominated in JPY. The difference in the exchange rates at which the payables are recorded and finally settled may give rise to transactional foreign currency exchange gain or loss.

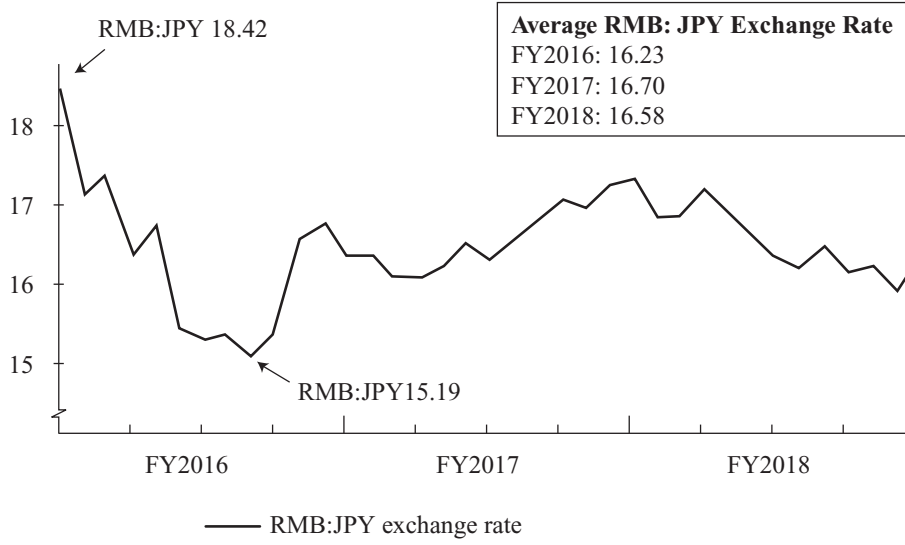
The following table sets forth the breakdown of our cost of sales by currencies for the years indicated:

	FY2016		FY2017		FY2018	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Costs denominated in currencies other than the units' functional currencies						
– JPY	74,508	41.3	55,590	46.4	67,781	43.4
– AUD	13,292	7.4	4,073	3.3	849	0.6
– NZD	7,823	4.3	1,123	1.0	305	0.2
	<u>95,623</u>	53.0	<u>60,786</u>	50.7	<u>68,935</u>	44.2
Costs denominated in the units' functional currencies	<u>84,695</u>	47.0	<u>59,116</u>	49.3	<u>87,130</u>	55.8
	<u><u>180,318</u></u>	<u>100.0</u>	<u><u>119,902</u></u>	<u>100.0</u>	<u><u>156,065</u></u>	<u>100.0</u>

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For illustrative purpose, the graph below sets out the movement of RMB:JPY exchange rate in the Track Record Period:

RMB:JPY Exchange Rate in the Track Record Period



Source: Thomson Reuters

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SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

We have identified certain accounting policies that are significant to the preparation of our Group's financial information. Some of our accounting policies involve subjective assumptions and estimates, as well as complex judgments relating to accounting items. In each case, the determination of these items requires management judgments based on information and financial data that may change in future periods. When reviewing our financial information, you should consider: (i) our selection of accounting policies; (ii) the results to changes in conditions and assumptions. We set forth below those accounting policies that we believe are of critical importance to us or involve the most significant estimates and judgments used in the preparation of our Group's financial information. Our significant accounting policies, estimates and judgments, which are important for an understanding of our financial condition and results of operations, are set forth in detail in notes 2.4 and 3 of the Accountants' Report in Appendix I to this prospectus, respectively.

Significant accounting policies

Revenue recognition

Revenue is measured based on the consideration to which our Group expects to be entitled in exchange for goods or services transferred to the customer. Our Group recognises revenue when it transfers control over a product or service to the counterparty.

- (i) Revenue from sales of package tours and day tours is recognised when the services are rendered based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided. This is determined based on the actual day spent at the destination relative to the total expected tours day.
- (ii) Margin income from sales of FIT Products is recognised when the services have been rendered.
- (iii) Margin income from the provision of visa application processing is recognised when the services have been rendered.
- (iv) Other income from sales of ancillary travel related products and services (such as insurance, transportation passes and admission tickets) is recognised when the services are sold to customers.
- (v) Hotel operation income is recognised upon the provision of the accommodation services and other ancillary services.
- (vi) Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

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(vii) Dividend income is recognised when the shareholders' right to receive payment has been established.

(viii) Forfeiture of customers' deposits is recognised upon the withdrawal or cancellation of orders for enrolled tours by customers when the likelihood of the customer exercising its remaining rights becomes remote.

Our Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, our Group does not adjust any of the transaction prices for the time value of money.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, our Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives of property, plant and equipment are as follows:

Leasehold land and buildings	over the shorter of the term of the land use rights or 40 years
Motor vehicles	4 years
Computer and office equipment	3-10 years
Leasehold improvements	5 years

The residual value rate of property, plant and equipment are as follows:

Leasehold land and buildings	1%~5%
Motor vehicles	5%
Computer and office equipment	1%~5%
Leasehold improvements	0%

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Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of each of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of the retirement or disposal.

For a transfer from investment properties to owner-occupied properties or inventories, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use. If a property occupied by our Group as an owner-occupied property becomes an investment property, our Group accounts for such property in accordance with the policy stated under “Property, plant and equipment and depreciation” up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under “Property, plant and equipment and depreciation” above. For a transfer from inventories to investment properties, any difference between the fair value of the property at that date and its previous carrying amount is recognised in profit or loss.

Transfers to, or from, investment property shall be made when, and only when, there is a change in use, evidenced by:

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- (a) commencement of owner-occupation, for a transfer from investment property to owner-occupied property;
- (b) commencement of development with a view to sale, for a transfer from investment property to inventories;
- (c) end of owner-occupation, for a transfer from owner-occupied property to investment property; or
- (d) commencement of an operating lease to another party, for a transfer from inventories to investment property.

Freehold land

Land is stated at acquisition cost less accumulated impairment. Our Group's freehold land is in Japan and is not depreciated. Our Group's land is tested for impairment annually as at 31 December and when circumstances indicate that the carrying value may be impaired.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Onsen use right is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 20 years. On 25 September 2012, Shuzenji Takitei entered into an onsen supply contract with the Shuzenji Onsen Business Cooperative Association* (修善寺温泉事業協同組合), an association responsible for the operation, maintenance and management of central onsen facilities in Shuzenji area, for a 20-year term (the “**Onsen Supply Contract**”). As such, the useful life of the onsen use right was estimated based on the original term of the Onsen Supply Contract which is 20 years.

Purchased software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 4 to 5 years.

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Goodwill

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of our Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Our Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of our Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of our Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

During the Track Record Period, we had goodwill arising from acquisition of Shuzenji Takitei which was subject for impairment testing as it was identified as an individual cash-generating unit.

The recoverable amount of the cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

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	As at 31 December		
	2016	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue			
(annual growth rate %)	1.65%	1.76%	1.24%
Gross margin (of revenue %)	83.40%	83.44%	83.27%
Long term growth rate	0.53%	0.52%	0.47%
Pre-tax discount rate	9.92%	9.95%	9.83%

Budgeted revenue – The budgeted sales amounts are based on the historical data and management's expectation on the future market.

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for the expected efficiency improvements, and the expected market development.

Long term growth rate – The long term growth rate is based on the historical data and management's expectation on the future market.

Pre-tax discount rate – The pre-tax discount rate reflects specific risks relating to our Group's cash-generating unit, which is determined using the capital asset pricing model with reference to the beta coefficient and debt ratio of certain publicly listed companies conducting business in Japan hotel industry.

The values assigned to the key assumptions on market development of the cash-generating unit and discount rate are consistent with external information sources.

As at 31 December 2016, 2017 and 2018, the recoverable amount of the cash-generating unit exceeded its carrying amount by approximately RMB4.7 million, RMB5.9 million and RMB4.6 million, respectively.

In the opinion of our Directors, if the pre-tax discount rate rose to 11%, the gross profit margin decreased to 82%, or the compound growth rate of revenue became 0.8% (with other assumptions remaining unchanged), the recoverable amount of the cash-generating unit would be decreased to the carrying amount of the cash-generating unit. Except for the above-mentioned possible changes, any reasonably possible changes in the other key assumptions used in the value-in-use assessment model would not cause the cash-generating unit's carrying amount to exceed its recoverable amount at 31 December 2018.

Based on the impairment assessment conducted by our Group utilising the above key assumptions, the recoverable amounts of the cash-generating unit estimated from the cash flow forecast exceeded the carrying amount of goodwill and no impairment was considered necessary as at 31 December 2018.

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HKAS 36 requires an entity to perform impairment tests on goodwill on an annual basis. Meanwhile, our Group did not identify any significant adverse changes in the operating results and macro environment during FY2018, and our Group has concluded that there was no impairment indicator of goodwill at 31 December 2018. Accordingly, our Group did not perform impairment testing on goodwill as at 31 December 2018.

Critical accounting estimates and judgements

Revenue recognition

Determining whether revenue of our Group should be reported gross or net is based on a continuing assessment of various factors. When determining whether our Group is acting as the principal or agent in offering goods or services to the customer, our Group needs to first identify who controls the specified goods or services before they are transferred to the customer. Our Group is a principal that obtains control any of the following: (i) a good or another asset from the other party that our Group then transfers to the customer; (ii) a right to a service to be performed by the other party, which gives our Group the ability to direct that party to provide the service to the customer on our Group's behalf; (iii) a good or service from the other party that our Group then combines with other goods or services in providing the specified good or service to the customer. If control is unclear, when our Group is primarily obligated in a transaction, is subject to inventory risk, has latitude in establishing prices and selecting suppliers, or has several but not all of these indicators, our Group records revenues on a gross basis. Otherwise, our Group records the net amount earned as commissions from products sold or services provided.

We perform the assessment based on the above mentioned factors and reaches the conclusion that our Group acts as a principal in the provision of package tour and day tour services and acts as an agent in the sale of FIT products since our Group does not obtain control over the service performed by the airline companies and hotels. Accordingly, our Group recognises revenue from the provision of package tour and day tour services on a gross basis and the revenue of the air tickets and hotel accommodation booking and agency service on a net basis.

Impairment of non-financial assets (other than goodwill)

Our Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each of the reporting period. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

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Estimate of fair value of investment properties

Investment properties were revalued at the end of each of the reporting period based on the appraised market value provided by independent professional valuers. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the estimation, our Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions existing at the end of each of the reporting periods.

The principal assumptions for our Group's estimation of the fair value include those related to estimated rental values with reference to the current market rents for similar properties in the same location and condition, appropriate capitalisation rates and expected profit margin. The carrying amounts of investment properties at 31 December 2016, 2017 and 2018 were approximately RMB8.7 million, RMB20.1 million and RMB20.3 million, respectively.

Adoption of HKFRS 9 and HKFRS 15

HKFRS 9 "*Financial Instruments*" replaces the provisions of HKAS 39 "*Financial Instruments: Recognition and Measurement*". HKFRS 15 "*Revenue from Contracts with Customers*" replaces the previous revenue standards HKAS 18 "*Revenue*" and HKAS 11 "*Construction Contracts*" and related interpretations. The standards are effective for annual periods beginning on or after 1 January 2018 and early adoption is permitted.

We have adopted HKFRSs 9 and 15 on a consistent basis throughout the Track Record Period.

The adoption of HKFRS 9 has no material impact on our financial position and performance during the Track Record Period.

The adoption of HKFRS 15 does not affect the timing and amount of revenue recognition during the Track Record Period. Upon adoption of HKFRS 15, contract liabilities which represented the obligation to transfer goods or services to a customer for which our Group has received a consideration (or an amount of consideration that is due) from the customer were included in "Advance from customers, other payables and accruals" at 31 December 2016, 2017 and 2018 amounted to approximately RMB11.8 million, RMB6.8 million and RMB11.0 million, respectively. Accordingly, we consider that the adoption of HKFRS 15 has no significant impact on our financial position and performance during the Track Record Period.

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RESULTS OF OPERATIONS

The following table summarises the consolidated statements of profit or loss and other comprehensive income during the Track Record Period, details of which are set out in the Accountants' Report in Appendix I to this prospectus.

	FY2016	FY2017	FY2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
REVENUE	227,830	168,867	205,051
Cost of sales	<u>(180,318)</u>	<u>(119,902)</u>	<u>(156,065)</u>
Gross profit	47,512	48,965	48,986
Other income and gains	1,760	2,778	2,166
Selling and distribution expenses	(9,294)	(7,423)	(7,237)
Administrative expenses	(15,272)	(11,556)	(13,215)
Other expenses	(238)	(215)	(1,929)
Finance costs	(2,488)	(2,889)	(2,461)
Listing expenses	<u>–</u>	<u>–</u>	<u>(15,539)</u>
PROFIT BEFORE TAX	21,980	29,660	10,771
Income tax expense	<u>(7,019)</u>	<u>(8,017)</u>	<u>(3,702)</u>
PROFIT FOR THE YEAR	<u><u>14,961</u></u>	<u><u>21,643</u></u>	<u><u>7,069</u></u>
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations (<i>Note</i>)	<u>(4,799)</u>	<u>(1,841)</u>	<u>2,752</u>
Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods:			
Gains on revaluation upon reclassification to investment properties	829	1,286	–
Income tax effect	<u>(207)</u>	<u>(321)</u>	<u>–</u>
	<u>622</u>	<u>965</u>	<u>–</u>

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	FY2016	FY2017	FY2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX	(4,177)	(876)	2,752
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	10,784	20,767	9,821

Note: Our exchange differences on translation of foreign operations represented translation of the assets and liabilities of our subsidiaries in Japan with functional currency in JPY into RMB at the end of each respective year on consolidation.

As at 1 January 2016, we had approximately RMB9.0 million accumulated losses primarily due to (i) the distribution of dividends a total of RMB11.4 million for the years ended 31 December 2009 and 2010, in which we recorded net profit for the corresponding year; and partially offset by (ii) the aggregate net profits of approximately RMB2.4 million from the establishment of our main operating subsidiary, Tuyi Group in 2008 to 2015. The losses recorded in the previous years, except for the years ended 31 December 2009, 2010, 2014 and 2015, which we recorded net profit, were mainly due to (i) our revenue were relatively low during our early stage of operations, while we incurred set up costs for our business, and as a result we incurred losses for the year ended 31 December 2008; (ii) earthquake and tsunami happened in Japan in March 2011 (the “**2011 Tsunami**”), as a result, many tourists refrained from going to Japan; (iii) we reduced Japan-bound package tour prices and lowered our gross profit margins after the 2011 Tsunami in order to attract more customers to visit Japan for the years ended 31 December 2012 and 2013; (iv) the expenses incurred on developing online businesses on online travel platforms to broaden our Group’s source of revenue; and (v) number of Chinese visitors to Japan recorded decline in 2013 which was affected by Senkaku Islands incident in September 2012, which intensified the diplomatic relationships between Japan and China. We recorded net profit for the year ended 31 December 2014 and 2015 and our performance had turned around since then.

Non-HKFRS measures

We recognised non-recurring item in the Track Record Period. To supplement our consolidated financial statements which are presented in accordance with HKFRS, we also presented the adjusted net profits, and adjusted net profit margin as non-HKFRS measures.

We present these additional financial measures as they were used by our management to evaluate our financial performance by eliminating the impact of non-recurring listing expenses which is considered not indicative for evaluation of the actual performance of our business. We believe that these non-HKFRS measures provide additional information to investors and others in understanding and evaluating our consolidated results of operations in the same manner as our management and in comparing financial results across accounting periods.

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The table below sets forth the adjusted net profit and adjusted net profit margin in each respective year during the Track Record Period:

	FY2016	FY2017	FY2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the year	14,961	21,643	7,069
Add: Non-recurring item			
– Listing expenses	–	–	15,539
Adjusted net profit for the year	14,961	21,643	22,608
Adjusted net profit margin for the year	6.6%	12.8%	11.0%

Our net profit margin deteriorated in FY2018 as compared to FY2017 mainly because of the inclusion of the listing expense of approximately RMB15.5 million. If excluding such non-recurring listing expenses, our adjusted net profit margin for the year would be approximately 11.0%. For FY2018, our Group also incurred a one-off item as the provision of the claimed amount of approximately RMB1.8 million derived from the litigation. Please see “Business – Legal Compliance and Proceedings – Legal Proceedings” in this prospectus for details of the provision of the claimed amount.

DESCRIPTION AND ANALYSIS OF PRINCIPAL ITEMS IN THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

Revenue

Our revenue was contributed by (i) the sales of package tours and day tours; (ii) hotel operation; (iii) margin income from the provision of visa application processing service; (iv) margin income from sales of FIT Products; and (v) other income from sales of ancillary travel related products and provision of services.

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The following table sets forth the breakdown of our revenue by business segment for the years indicated:

	FY2016		FY2017		FY2018	
	Revenue <i>RMB'000</i>	Percentage of revenue %	Revenue <i>RMB'000</i>	Percentage of revenue %	Revenue <i>RMB'000</i>	Percentage of revenue %
Sales of package tours and day tours ^{(1),(3)}	181,986	79.9	132,078	78.2	162,767	79.4
Hotel operation ⁽³⁾	13,286	5.8	12,254	7.3	12,801	6.2
Margin income from the provision of visa application processing service ^{(2),(4)}	15,672	6.9	11,990	7.1	13,345	6.5
Margin income from sales of FIT Products ⁽⁴⁾	15,221	6.7	10,071	6.0	13,825	6.7
Other income from sales of ancillary travel related products and provision of services ⁽³⁾	1,665	0.7	2,474	1.4	2,313	1.2
	227,830	100.0	168,867	100.0	205,051	100.0

Notes:

- (1) Include revenue of approximately RMB11.7 million, RMB17.0 million and RMB6.8 million derived from commissions received from duty-free and other retail shops operated by third parties in Japan and our tour escorts and/or tour guides in Japan in FY2016, FY2017 and FY2018, respectively. Among the duty-free shops we received commissions from, two of them are listed on the Tokyo Stock Exchange and one of them is listed on KOSDAQ of the Korea Exchange, respectively.
- (2) The revenue generated from visa application processing only includes our fees collected from our non-package tour customers. The fee we charged our package tour customers for visa application processing was included in the price of the package tours.
- (3) Revenue was recognised on a gross basis because our Group acts as the principal and has control over the provision of package tour and day tour services, hotel operation services and sales of ancillary travel related products before they are transferred to the customer.
- (4) Revenue was recognised on a net basis because our Group acts as an agent and does not obtain control over the service performed by the airline companies and hotels for FIT Products, and the relevant government authorities for visa application processing services.

Sales of package tours and day tours

Our revenue from sales of package tours and day tours mainly represents the fees received from customers for our package tours and day tours. During the Track Record Period, we generated the majority of our revenue from the sales of package tours and day tours which amounted to approximately RMB182.0 million, RMB132.1 million and RMB162.8 million for FY2016, FY2017 and FY2018, respectively, and accounted for approximately 79.9%, 78.2% and 79.4% of our total revenue for the corresponding year.

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Analysis by destinations

During the Track Record Period, we primarily provided package tours bound for Japan, Australia, New Zealand, South Korea and Southeast Asia. We provide our package tours and day tours with particular focus on Japan, our revenue from the sales of Japan bound package tours and day tours accounted for approximately 63.7%, 85.1% and 78.4% of our revenue from sales of package tours and day tours for FY2016, FY2017 and FY2018, respectively.

The following table sets forth a breakdown of our revenue, number of travellers and average revenue per traveller from sales of package tours and day tours by destinations for the years indicated:

	FY2016				FY2017				FY2018			
	Revenue	Percentage of revenue	Number of travellers	Average revenue per traveller	Revenue	Percentage of revenue	Number of travellers	Average revenue per traveller	Revenue	Percentage of revenue	Number of travellers	Average revenue per traveller
	RMB'000	%		RMB	RMB'000	%		RMB	RMB'000	%		RMB
<i>Sales of package tours</i>												
Japan												
– Package	104,211	57.3			94,995	71.9			114,317	70.2		
– Commissions ^(Note)	11,692	6.4			16,979	12.9			6,756	4.2		
	115,903	63.7	18,593	6,234	111,974	84.8	18,645	6,006	121,073	74.4	22,193	5,455
Australia & New Zealand	66,083	36.3	5,138	12,862	19,630	14.9	1,276	15,384	8,262	5.1	475	17,394
South Korea & Southeast Asia	–	–	–	–	–	–	–	–	21,516	13.2	4,091	5,259
Others	–	–	–	–	–	–	–	–	5,342	3.3	1,219	4,382
	181,986	100.0	–	–	131,604	99.7	–	–	156,193	96.0	–	–
<i>Sales of day tours</i>												
Japan												
	–	–	–	–	474	0.3	1,655	286	6,574	4.0	22,838	288
Total	181,986	100.0			132,078	100.0			162,767	100.0		

Note: Commissions were received from duty-free and other retail shops operated by third parties in Japan such as when our customers visit those shops as part of their package tour itinerary and make purchases at these shops, and from our tour escorts and/or tour guides in Japan when our package tour customers make purchases for goods and souvenirs at the tour buses.

Revenue from sales of package tours bound for Japan declined by approximately RMB3.9 million or 3.4% from approximately RMB115.9 million for FY2016 to approximately RMB112.0 million for FY2017 mainly due to the reduction in average revenue per traveller, while the number of travellers slightly increased. Revenue from sales of package tours bound for Japan then increased by approximately RMB9.1 million or 8.1% to approximately RMB121.1 million mainly because of the increase of number of travellers, partially offset by the decrease of average revenue per traveller.

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During the Track Record Period, the number of travellers for Japan bound package tours also showed an increase from 18,593 for FY2016 to 18,645 for FY2017 and further increased to 22,193 for FY2018. Despite the overall increasing trend in the number of Japan-bound travellers, the average revenue per traveller of Japan-bound package tour recorded decline from RMB6,234 for FY2016 to RMB6,006 for FY2017, and further to RMB5,455 for FY2018. Taking out the impact of cruise tours which only commenced in May 2017, the average revenue per traveller of Japan-bound package tours increased to RMB7,150 for FY2018, compared to RMB6,906 for FY2017.

Since March 2017, we also develop and manage our day tour product in Japan. Our revenue generated from day tours was approximately RMB0.5 million, and increased by approximately RMB6.1 million or 1,220.0% to approximately RMB6.6 million for FY2018, primarily attributable to (i) the increase in the number of travellers from 1,655 for FY2017 to 22,838 for FY2018; and (ii) increase in number of routes in Japan of our day tours for FY2018 in comparison to FY2017, while the average revenue per traveller from our day tours remained relatively stable for both FY2017 and FY2018.

Analysis by types of package tours

Our package tours can be classified into (i) standardised package tours where group travel services were provided based on the itinerary solely designed by us and cannot be altered by customers; and (ii) tailor-made and customised package tours where group travel services were provided based on an itinerary designed by us in accordance with the requirements and preferences of our customers.

The following table sets forth a breakdown of our revenue, number of tours and average revenue per tour from package tours by types of package tours for the years indicated:

	FY2016			FY2017			FY2018		
	Revenue <i>RMB'000</i>	Number of tours	Average revenue per tour <i>RMB'000</i>	Revenue <i>RMB'000</i>	Number of tours	Average revenue per tour <i>RMB'000</i>	Revenue <i>RMB'000</i>	Number of tours	Average revenue per tour <i>RMB'000</i>
Standardised package tours	84,933	590	144	53,521	520	103	78,781	792	99
Tailor-made and customised tours	85,361	495	172	61,104	357	171	70,656	387	183
Commissions	11,692			16,979			6,756		
Total	181,986			131,604			156,193		

The increase in the average revenue per tour of our Group's tailor-made and customised tours from approximately RMB171,000 in FY2017 to approximately RMB183,000 in FY2018 was mainly because in FY2018, we offered more premium tours as requested by our customers in which our Group was able to charge higher prices.

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Hotel operation

During the Track Record Period, our hotel operation revenue was derived from the Shizuoka Hotel and the Tokyo Hotel, our revenue from hotel operation amounted to approximately RMB13.3 million, RMB12.3 million and RMB12.8 million for FY2016, FY2017 and FY2018, respectively, representing approximately 5.8%, 7.3% and 6.2% of our total revenue for the corresponding year. Our hotel operation revenue was generally generated from customers who made reservations through the website of the Shizuoka Hotel, online travel platforms, local Japanese travel agents, etc. Revenue from our customers of package tours staying at the Shizuoka Hotel and the Tokyo Hotel was reflected in revenue from sale of package tours, while the relevant portion of the hotel operation revenue is eliminated at consolidation level.

Margin income from the provision of visa application processing services

We provided visa application processing services to our customers, mainly include visas to Japan, Australia and New Zealand. Our revenue from the provision of visa application processing service is recognised on net basis, and amounted to approximately RMB15.7 million, RMB12.0 million and RMB13.3 million for FY2016, FY2017 and FY2018, respectively, which accounted for approximately 6.9%, 7.1% and 6.5% of our total revenue for the corresponding year. The following table sets forth the revenue from visa application by destinations for the years indicated:

	FY2016		FY2017		FY2018	
	Revenue <i>RMB'000</i>	Percentage of revenue %	Revenue <i>RMB'000</i>	Percentage of revenue %	Revenue <i>RMB'000</i>	Percentage of revenue %
Japan	14,663	93.6	10,846	90.5	12,192	91.4
Australia & New Zealand	562	3.6	731	6.1	838	6.3
Others	447	2.8	413	3.4	315	2.3
	<u>15,672</u>	<u>100.0</u>	<u>11,990</u>	<u>100.0</u>	<u>13,345</u>	<u>100.0</u>

As the visa application processing fee for our package tour customers would be already included in the price of our package tour, our revenue generated from the provision of visa application processing service represented a separate service fee that we charged to our non-package tours customers.

Margin income from sales of FIT Products

Our FIT Products generally include air tickets, hotel accommodation, a combination of air tickets and hotel accommodation. Our revenue from the sales of FIT Products is recognised on net basis as we render the services as an agent, whereby we are only responsible for arranging the booking of air tickets and accommodations. Accordingly, our revenue from the sales of FIT Products represents the net income, being the sales invoice amount of the FIT Products netted with the associated direct costs, such as the costs of the air tickets and/or hotel accommodation.

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For FY2016, FY2017 and FY2018, our revenue from sales of FIT Products amounted to approximately RMB15.2 million, RMB10.1 million and RMB13.8 million, respectively, representing approximately 6.7%, 6.0% and 6.7% of our total revenue for the corresponding year. During the Track Record Period, most of our FIT Products were bound for Japan which accounted for approximately 90.4%, 96.7% and 79.4% of our revenue from sales of FIT products for FY2016, FY2017 and FY2018, respectively. For FY2018, we derived approximately RMB2.8 million from our domestic FIT Products, which mainly included domestic hotel accommodation representing approximately 20.4% of our revenue from sales of FIT Products in the same year.

The following table sets forth a breakdown of our revenue from FIT Products by destinations for the years indicated:

	FY2016				FY2017				FY2018			
	Revenue	Percentage of revenue	Number of travellers	Average net revenue per traveller	Revenue	Percentage of revenue	Number of travellers	Average net revenue per traveller	Revenue	Percentage of revenue	Number of travellers	Average net revenue per traveller
				RMB				RMB				RMB
Japan	13,753	90.4	30,561	450	9,738	96.7	22,480	433	10,982	79.4	27,161	404
South Korea & Southeast Asia	1,468	9.6	4,961	296	333	3.3	1,209	275	28	0.2	1,050	27
China	–	–	–	–	–	–	–	–	2,815	20.4	45,238	62
	<u>15,221</u>	<u>100.0</u>	<u>35,522</u>	428	<u>10,071</u>	<u>100.0</u>	<u>23,689</u>	425	<u>13,825</u>	<u>100.0</u>	<u>73,449</u>	188

The following table sets forth a breakdown of our revenue from FIT Products by nature for the years indicated:

	FY2016				FY2017				FY2018			
	Revenue	Percentage of revenue	Number of travellers	Average net revenue per traveller	Revenue	Percentage of revenue	Number of travellers	Average net revenue per traveller	Revenue	Percentage of revenue	Number of travellers	Average net revenue per traveller
				RMB				RMB				RMB
Air tickets	3,594	23.6	8,832	407	2,506	24.9	6,295	398	2,426	17.5	9,191	264
Hotel accommodation	949	6.2	2,562	370	728	7.2	2,979	244	3,091	22.4	46,217	67
Combination of air tickets and hotel accommodation	<u>10,678</u>	<u>70.2</u>	<u>24,128</u>	443	<u>6,837</u>	<u>67.9</u>	<u>14,415</u>	474	<u>8,308</u>	<u>60.1</u>	<u>18,041</u>	461
	<u>15,221</u>	<u>100.0</u>	<u>35,522</u>	428	<u>10,071</u>	<u>100.0</u>	<u>23,689</u>	425	<u>13,825</u>	<u>100.0</u>	<u>73,449</u>	188

Our average net revenue per traveller of hotel accommodation for FY2018 was particularly low at approximately RMB67 because we provided domestic FIT Products, which mainly included domestic hotel accommodation for 45,238 travellers, representing approximately 97.9% of total number of travellers of hotel accommodation and the net revenue from these domestic hotel accommodation were generally lower than those bound for Japan.

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Other income from sales of ancillary travel related products and provision of services

We also offer ancillary travel-related products and services to our customers, such as car-rental services, airport transportation, etc. It also included referral income from the issuance of letters of invitation only, which is recognised when the services are rendered. Our revenue from ancillary travel related products and services amounted to approximately RMB1.7 million, RMB2.5 million and RMB2.3 million for FY2016, FY2017 and FY2018, respectively, representing approximately 0.7%, 1.4% and 1.2% of our total revenue for the corresponding year.

Cost of sales

Our cost of sales mainly represented the direct costs incurred for our sales of package tours and hotel operation.

The following table sets forth the breakdown of our cost of sales by nature for the years indicated:

	FY2016		FY2017		FY2018	
	RMB'000	%	RMB'000	%	RMB'000	%
Land operator	32,170	17.8	33,874	28.3	65,842	42.2
Airfare	70,223	39.0	33,771	28.2	31,045	19.9
Hotel accommodation	34,065	18.9	23,436	19.5	24,473	15.7
Local transportation	13,725	7.6	8,871	7.4	12,959	8.3
Hotel operation	7,738	4.3	6,908	5.8	8,132	5.2
Commissions	6,028	3.3	3,364	2.8	991	0.6
Visa	7,620	4.2	3,339	2.8	2,152	1.4
Staff costs	1,063	0.6	1,307	1.1	1,356	0.9
Others	7,686	4.3	5,032	4.1	9,115	5.8
	<u>180,318</u>	<u>100.0</u>	<u>119,902</u>	<u>100.0</u>	<u>156,065</u>	<u>100.0</u>

During the Track Record Period, land operator, airfare and hotel accommodation in aggregate comprised 75.7%, 76.0% and 77.8% of our cost of sales for FY2016, FY2017 and FY2018, respectively. Land operator mainly represented costs of land operators and cruise tour operators we engaged for our package tours, including hotel booking, local transportation and the arrangement of local travel elements at destination countries. Airfare represented the costs of air tickets for our package tours. Hotel accommodation represented the costs of hotel accommodation for our package tours.

Our cost of sales also included local transportation, hotel operation, commissions, visa, staff costs and others. Local transportation mainly represented costs of local transportation and arranging car rental services. Hotel operation was attributable to the Shizuoka Hotel and the Tokyo Hotel. Commissions expenses represented costs attributable to our tour escorts and/or tour guides as their rewards for bringing our customers to make purchases at duty-free and other retail shops operated by third parties in Japan, or goods and souvenirs at the tour buses. Visa costs, represented visa application costs for our package tours, were mainly paid or payable to Consulate-General of Japan in Shanghai for applying Japan visas.

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Staff costs represented salaries of tour escorts and staff responsible for the visa application of our package tours. Others mainly referred to costs on meal and admission tickets in the course of our package tours.

Our land operator cost remained relatively stable at approximately RMB32.2 million and RMB33.9 million for FY2016 and FY2017, respectively. It significantly increased to approximately RMB65.8 million for FY2018, which was mainly due to the increase in the number of cruise tours directly procured from third party land operators. Our airfare decreased from approximately RMB70.2 million for FY2016 to approximately RMB33.8 million for FY2017, mainly resulted from the decrease in our package tours bound for Australia and New Zealand as the costs of flight tickets to Australia and New Zealand are generally higher than those to Japan, and remained relatively stable for FY2018. During the Track Record Period, the commission recorded decreasing trend at approximately RMB6.0 million, RMB3.4 million and RMB1.0 million, respectively, as a result of the decrease in commission received from duty-free shops and other retail shops operated by third parties in Japan.

Gross profit and gross profit margin

The following table sets forth the breakdown of our gross profit and gross profit margin by business segment for the years indicated:

	FY2016		FY2017		FY2018	
	Gross profit RMB'000	Gross profit margin %	Gross profit RMB'000	Gross profit margin %	Gross profit RMB'000	Gross profit margin %
Sales of package tours and day tours						
<i>Sales of package tours</i>						
Japan						
– Package	3,322	3.2	3,983	4.2	5,883	5.2
– Commissions	6,230	53.3	14,036	82.7	5,945	88.0
	9,552	8.2	18,019	16.1	11,828	9.8
Australia & New Zealand	552	0.8	1,468	7.5	702	8.5
South Korea & Southeast Asia	–	–	–	–	432	2.0
Others	–	–	–	–	704	13.2
	10,104	5.6	19,487	14.8	13,666	8.7
<i>Sales of day tours</i>						
Japan	–	–	32	6.8	1,632	24.8
	10,104	5.6	19,519	14.8	15,298	9.4
Hotel operation	5,550	41.7	5,347	43.6	4,669	36.5
Margin income from the provision of visa application processing service	15,672	N/A ^(Note)	11,990	N/A ^(Note)	13,345	N/A ^(Note)
Margin income from sales of FIT Products	15,221	N/A ^(Note)	10,071	N/A ^(Note)	13,825	N/A ^(Note)
Other income from sales of ancillary travel related products and provision of services	965	58.0	2,038	82.4	1,849	79.9
	47,512	20.9	48,965	29.0	48,986	23.9

Notes: The calculation of gross profit margin is not applicable for our margin income from the provision of visa application processing service and margin income from sales of FIT Products because the respective revenue is recognised on a net basis.

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For FY2016, FY2017 and FY2018, we recorded gross profit of approximately RMB47.5 million, RMB49.0 million and RMB49.0 million, respectively, representing an overall gross profit margin of approximately 20.9%, 29.0% and 23.9% for the corresponding year. Our overall gross profit margin was highly dependent on our product and service mix.

For FY2016, FY2017 and FY2018, the fluctuations of our gross profit margin from package tours bound for Japan, which was approximately 8.2%, 16.1% and 9.8%, respectively, were mainly attributable to the contribution of our gross profit generated by our commission, which generally derived higher gross profit margin than our package tours. Our gross profit from commissions were approximately RMB6.2 million, RMB14.0 million and RMB5.9 million, with gross profit margin of approximately 53.3%, 82.7% and 88.0%, respectively, for FY2016, FY2017 and FY2018. Our commission revenue decreased by approximately 10.2 million from approximately RMB17.0 million for FY2017 to approximately RMB6.8 million to FY2018 as we offered more premium sightseeing tours and reduced number of shopping tours.

Excluding the commission revenue and its relevant commission costs, our gross profit margin from package tours would be approximately 2.3%, 4.8% and 5.2% for FY2016, FY2017 and FY2018, respectively, and in particular, our gross profit margin from package tours bound for Japan (excluding the commission revenue and its relevant commission costs) would be approximately 3.2%, 4.2% and 5.2% for FY2016, FY2017 and FY2018, respectively.

The gross profit margin of package tours was particularly low for FY2016 because there were more Australia and New Zealand bound tours, which were generally less profitable compared to Japan bound tours because of our market penetration strategy to increase sales by lowering our prices. As we adjust our business strategy to focus on products with higher profitability by reducing our number of tours bound for Australia and New Zealand from 391 tours for FY2016 to 124 tours for FY2017, our gross profit margin of package tours (excluding the commission revenue and its relevant commission costs) started to improve from 2.3% for FY2016 to 4.8% for FY2017 and remained relatively stable at 5.2% for FY2018.

In addition, we also derive contributions from package tours bound for South Korea and Southeast Asia in FY2018, representing approximately 13.2% of our total revenue from sales of package tours and day tours, the gross profit margin of which was particularly low at approximately 2.0% because we generally purchased ready-made package tours from other travel agencies, as opposed to package tours designed and developed by ourselves, resulting in a relatively high cost of sales for package tours bound for South Korea and Southeast Asia.

Since March 2017, we began providing day tours bound for Japan, our gross profit margin from sales of day tours were approximately 6.8% and 24.8% for FY2017 and FY2018, respectively. The increase of our gross profit margin for day tours was primarily because the average cost per traveller decreased as the number of travellers per tour increased for FY2018 in comparison with FY2017.

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Other income and gains

Our other income and gains amounted to approximately RMB1.8 million, RMB2.8 million and RMB2.2 million for FY2016, FY2017 and FY2018, respectively. The following table sets forth the breakdown of our other income and gains for the years indicated:

	FY2016		FY2017		FY2018	
	RMB'000	%	RMB'000	%	RMB'000	%
Bank interest income	823	46.8	804	28.9	164	7.6
Changes in fair value of investment properties	–	–	627	22.6	225	10.4
Rental income on properties	106	6.0	603	21.7	727	33.6
Government grants	95	5.4	376	13.5	513	23.7
Foreign exchange gains, net	185	10.5	271	9.8	361	16.7
Gain on bargain purchase of subsidiaries	405	23.0	–	–	–	–
Gains on disposal of items of property, plant and equipment	95	5.4	–	–	–	–
Other interest income from financial assets at fair value through profit or loss	–	–	–	–	113	5.2
Others	51	2.9	97	3.5	63	2.8
	<u>1,760</u>	<u>100.0</u>	<u>2,778</u>	<u>100.0</u>	<u>2,166</u>	<u>100.0</u>

Our other income mainly comprised bank interest income, various non-recurring government grants, with no unfulfilled conditions or contingencies, because of our fiscal contributions to the local government and our employment of certain types of labour that was promoted by the local municipal government, and rental income on properties arising from certain units of our self-owned properties in the PRC which were leased to third parties, and gain on bargain purchases of Haizhilv Travel. In January 2016, we re-purchased Haizhilv Travel for the sake of risk diversification purpose and our future business development to have an additional platform for outbound travel qualifications, which resulted in gain on bargain purchase of approximately RMB0.4 million. As at the Latest Practicable Date, Haizhilv Travel remained as our subsidiary and is currently applying for inclusion of outbound travel business to its Travel Agency Business License to engage in outbound travel for PRC mainland residents. Please see “History, Reorganisation and Corporate Structure – Corporate Development – 4. Haizhilv Travel” and note 29 to the Accountants’ Report in Appendix I to this prospectus for details.

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Selling and distribution expenses

For FY2016, FY2017 and FY2018, our Group recorded selling and distribution expenses of approximately RMB9.3 million, RMB7.4 million and RMB7.2 million, respectively. The following table sets forth the breakdown of our selling and distribution expenses for the years indicated:

	FY2016		FY2017		FY2018	
	RMB'000	%	RMB'000	%	RMB'000	%
Staff costs	5,918	63.7	4,607	62.1	4,658	64.4
Travelling, transportation and entertainment expense	1,756	18.9	1,254	16.9	1,268	17.5
Online platform charges	576	6.2	409	5.5	166	2.3
Office expenses	398	4.3	389	5.2	427	5.9
Advertising and marketing expense	465	5.0	513	6.9	563	7.8
Others	181	1.9	251	3.4	155	2.1
	<u>9,294</u>	<u>100.0</u>	<u>7,423</u>	<u>100.0</u>	<u>7,237</u>	<u>100.0</u>

Our selling and distribution expenses mainly comprised (i) staff cost, amounted to approximately RMB5.9 million, RMB4.6 million and RMB4.7 million for FY2016, FY2017 and FY2018, respectively; and (ii) travelling, transportation and entertainment expense, amounted to approximately RMB1.8 million, RMB1.3 million and RMB1.3 million for FY2016, FY2017 and FY2018, respectively. In addition, during Track Record Period, we paid online platform charges to online travel platforms such as Fliggy (飛豬旅遊), Mafengwo (馬蜂窩) and qyer.com (窮遊), and online travel agencies such as Traveling Bestone (旅遊百事通), Ctrip.com (攜程) and Ly.com (同程) for selling and promoting our travelling products and services, for the amount of approximately RMB0.6 million, RMB0.4 million and RMB0.2 million, respectively.

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Administrative expenses

The following table sets forth the breakdown of our administrative expenses for the years indicated:

	FY2016		FY2017		FY2018	
	RMB'000	%	RMB'000	%	RMB'000	%
Staff costs	4,652	30.5	4,256	36.8	4,886	37.0
Office, rental and utility expense	1,664	10.9	2,095	18.1	2,657	20.1
Other taxes	1,231	8.1	1,214	10.5	1,062	8.0
Payment channel charges	2,011	13.2	1,154	10.0	1,351	10.2
Depreciation and amortisation	1,681	11.0	1,102	9.5	1,086	8.2
Travelling, transportation and entertainment	1,339	8.8	457	4.0	409	3.1
Legal and professional fee	1,614	10.5	421	3.6	996	7.5
Repair and maintenance	449	2.9	–	–	–	–
Others ^(Note)	631	4.1	857	7.5	768	5.9
	15,272	100.0	11,556	100.0	13,215	100.0

Note: Others mainly included conference fees and telecommunication expenses.

Our Group's administrative expenses amounted to approximately RMB15.3 million, RMB11.6 million and RMB13.2 million for FY2016, FY2017 and FY2018, respectively, primarily include (i) staff salaries and welfare benefits for management and administrative personnel; (ii) office rental and utility expenses for our headquarter and branch companies in Wenzhou, Shanghai and Rui'an; (iii) taxes other than income tax expense paid to the relevant PRC regulatory authorities; (iv) payment channel charges, which represented commissions paid to credit card companies and online payment channels such as Alipay; and (v) depreciation and amortisation expenses mainly arising from our office premises. During Track Record Period, we also incurred legal and professional fee of approximately RMB1.6 million, RMB0.4 million and RMB1.0 million, respectively, mainly represented general legal services, and professional fees paid to lawyers and auditors for the consideration of listing on another stock exchange in FY2016, while for FY2018 our legal and professional fee mainly represented valuation service fee for our properties. Please see "History, Reorganisation and Corporate Structure – Corporate Development – 2. Tuyi Group" in this prospectus and "Review of historical results of operations – FY2017 compared to FY2016 – Administrative expenses" in this section for details.

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Other expenses

Our other expenses amounted to approximately RMB0.2 million, RMB0.2 million and RMB1.9 million for FY2016, FY2017 and FY2018, respectively, mainly comprised donation and losses on disposal of items of property, plant and equipment. Our other expenses for FY2018 also included the provision of the claimed amount of approximately RMB1.8 million derived from the litigation. Please see “Business – Legal Compliance and Proceedings – Legal Proceedings” in this prospectus for details of the provision of the claimed amount.

Finance costs

Our finance costs amounted to approximately RMB2.5 million, RMB2.9 million and RMB2.5 million for FY2016, FY2017 and FY2018, respectively, representing interest on bank borrowings.

Income tax expense

Our Group is subject to income tax on an entity basis on profit arising in or derived from the jurisdictions in which members of our Group are domiciled and operate.

(i) Cayman Islands and BVI

Our Group is not subject to any income tax in the Cayman Islands or BVI during the Track Record Period.

(ii) Hong Kong

No provision for profits tax has been made as our Group did not generate any assessable profits arising in Hong Kong during the Track Record Period.

(iii) Japan

The subsidiary incorporated in Japan is subject mainly to corporate tax, inhabitant tax and enterprise tax, and the effective statutory tax rates for these taxes ranged approximately from 33.6% to 33.8% during the Track Record Period.

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(iv) PRC

The provision for income tax is based on the statutory rate of 25% of the assessable profits of certain PRC subsidiaries of our Group as determined in accordance with the Law of the PRC on Enterprise Income Tax which was approved and became effective on 1 January 2008, except for certain subsidiaries of our Group in Mainland China which are granted tax concession and are taxed at preferential tax rates.

Our income tax expense amounted to approximately RMB7.0 million, RMB8.0 million and RMB3.7 million for FY2016, FY2017 and FY2018, respectively. Our effective tax rate was approximately 31.9%, 27.0% and 34.4% for FY2016, FY2017 and FY2018, respectively. For FY2018, we recorded an increase of effective tax rate from approximately 27.0% for FY2017 to approximately 34.4% for FY2018 was primarily due to non-recurring and non-deductible portion of listing expenses and provision of the claimed amount incurred in FY2018.

During the Track Record Period and up to the Latest Practicable Date, we had fulfilled all our income tax obligations and have not had any unresolved tax issues or disputes with the relevant tax authorities.

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REVIEW OF HISTORICAL RESULTS OF OPERATIONS

FY2018 compared to FY2017

Revenue

Our revenue increased by approximately RMB36.2 million or approximately 21.4% from approximately RMB168.9 million for FY2017 to approximately RMB205.1 million for FY2018 mainly as a result of the increase in (i) revenue from sales of package tours and days tours; and (ii) margin income from sales of FIT Products.

Sales of package tours and day tours

Our revenue from package tours and day tours increased by approximately RMB30.7 million or 23.2% from approximately RMB132.1 million for FY2017 to approximately RMB162.8 million for FY2018 mainly because in order to further diversify our product offerings, we provided package tours bound for South Korea and Southeast Asia in FY2018, the revenue from which increased from nil for FY2017 to approximately RMB21.5 million for FY2018. Our revenue from package tours bound for Japan increased by approximately RMB9.1 million or 8.1% from approximately RMB112.0 million for FY2017 to approximately RMB121.1 million for FY2018. Such increase was mainly because of the increase in number of travellers from 18,645 for FY2017 to 22,193 for FY2018, which was partially offset by the decrease in average revenue per traveller from RMB6,006 for FY2017 to RMB5,455 for FY2018, which was due to the increase of our revenue from cruise tours, which commenced in May 2017. Our cruise tours generally recorded lower average spending per traveller compared to other traditional package tours because such cruise tours travellers would embark on a ferry in China directly to Japan and ferry tickets were normally cheaper than flight tickets. During FY2018, we offered more premium sightseeing tours and reduced the number of shopping tours. As such, we recorded a significant decrease in commissions received from duty-free shops and other retail shops operated by third parties in Japan by approximately RMB10.2 million or 60.0% from approximately RMB17.0 million for FY2017 to approximately RMB6.8 million for FY2018. Revenue from package tours bound for Australia and New Zealand decreased by approximately RMB11.3 million or 57.7% from approximately RMB19.6 million for FY2017 to approximately RMB8.3 million for FY2018 as we continued to streamline travel routes bound for Australia and New Zealand by cutting several routes with unsatisfactory profitability.

Furthermore, our revenue from day tours increased by approximately RMB6.1 million or 1,220.0% from RMB0.5 million for FY2017 to RMB6.6 million for FY2018, which was primarily due to an increase in number of traveller who joined our day tours in Japan that were launched in March 2017.

Hotel operation

Our revenue from hotel operation remained relatively stable at approximately RMB12.3 million and RMB12.8 million for FY2017 and FY2018, respectively.

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Margin income from visa application processing service

Our revenue from visa application processing service increased by approximately RMB1.3 million or 10.8% from approximately RMB12.0 million for FY2017 to approximately RMB13.3 million for FY2018 mainly because of the increase in number of Japan visa applications.

Sales of FIT Products

Our revenue from FIT Products increased by approximately RMB3.7 million or 36.6% from approximately RMB10.1 million for FY2017 to approximately RMB13.8 million for FY2018. Such increase was mainly due to (i) the increase from our FIT Products bound for Japan by approximately RMB1.3 million or 13.4% from approximately RMB9.7 million for FY2017 to approximately RMB11.0 million for FY2018, which was primarily attributable to the increase in number of travellers to Japan from 22,480 for FY2017 to 27,161 for FY2018; and (ii) the increase in revenue from domestic FIT Products from nil for FY2017 to approximately RMB2.8 million for FY2018, which was attributable to our new cooperation with an online travel platform to provide domestic FIT Products, mainly included domestic hotel accommodation during FY2018.

Cost of sales

Our cost of sales increased by approximately RMB36.2 million or 30.2% from approximately RMB119.9 million for FY2017 to approximately RMB156.1 million for FY2018 mainly because of (i) the increase in land operator by approximately RMB31.9 million from approximately RMB33.9 million for FY2017 to approximately RMB65.8 million for FY2018; (ii) the increase of local transportation by approximately RMB4.1 million from approximately RMB8.9 million for FY2017 to approximately RMB13.0 million for FY2018 as a result of increase in day tours during FY2018; (iii) the increase in others, mainly representing costs on meals and admission tickets, by approximately RMB4.1 million from approximately RMB5.0 million for FY2017 to approximately RMB9.1 million for FY2018; and (iv) hotel operation by approximately RMB1.2 million from approximately RMB6.9 million for FY2017 to approximately RMB8.1 million for FY2018; which were primarily due to the increase in our revenue from sales of package tours as the number of tours increased from 877 tours for FY2017 to 1,179 tours for FY2018, which was partially offset by (i) the decrease of commissions of approximately RMB2.4 million from approximately RMB3.4 million for FY2017 to approximately RMB1.0 million for FY2018 as we offered more premium sightseeing tours and reduced the number of shopping tours; (ii) the decrease of airfare by approximately RMB2.8 million from approximately RMB33.8 million for FY2017 to approximately RMB31.0 million for FY2018; and (iii) the decrease of visa by approximately RMB1.1 million from approximately RMB3.3 million for FY2017 to approximately RMB2.2 million for FY2018; which were primarily due to the decrease in number of travellers from our sale of package tours bound for Australia and New Zealand.

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Gross profit and gross profit margin

As a result of the above, our gross profit remained relative stable a RMB49.0 million for both FY2017 and FY2018 while our gross profit margin decreased by approximately 5.1 percentage points from approximately 29.0% for FY2017 to approximately 23.9% for FY2018 mainly because of (i) the decrease in gross profit margin from sales of package tours bound for Japan from approximately 16.1% for FY2017 to 9.8% for FY2018 primarily due to the decrease in commissions received from duty-free and other retail shops operated by third parties in Japan and from our tour escorts and/or tour guides, which generally derived higher gross profit margin, by approximately RMB10.2 million; (ii) gross profit margin from sales of package tours bound for South Korea and Southeast Asia of approximately 2.0% as we purchased ready-made package tours from other travel agencies, which generated lower gross profit margins as mentioned above; and (iii) the decrease in gross profit margin from hotel operation from approximately 43.6% for FY2017 to approximately 36.5% for FY2018 due to our pricing strategy of offering discounts to attract customers of large tour groups.

Other income and gains

Our other income and gains decreased by approximately RMB0.6 million or 21.4% from approximately RMB2.8 million for FY2017 to approximately RMB2.2 million for FY2018, mainly because (i) decrease in bank interest by approximately RMB0.6 million from approximately RMB0.8 million for FY2017 to approximately RMB0.2 million for FY2018 as a result of expiration of time deposits during FY2017 with no subsequent renewal; and (ii) decrease in change in fair value of investment properties of approximately RMB0.4 million, which was partially offset by (i) increase in rental income on properties of approximately RMB0.1 million; and (ii) increase in government grants of approximately RMB0.1 million.

Selling and distribution expenses

Our selling and distribution expenses decreased slightly by approximately RMB0.2 million or 2.7% from approximately RMB7.4 million for FY2017 to approximately RMB7.2 million for FY2018 mainly because of the decrease in online platform charges by approximately RMB0.2 million from approximately RMB0.4 million for FY2017 to approximately RMB0.2 million for FY2018 because we are required to pay lower amount of online platform charges as two of the major online platforms merged into one.

Administrative expenses

Our administrative expenses increased by approximately RMB1.6 million or approximately 13.8% from approximately RMB11.6 million for FY2017 to approximately RMB13.2 million for FY2018 mainly because of the net effect of (i) the increase in staff costs of approximately RMB0.6 million from approximately RMB4.3 million for FY2017 to approximately RMB4.9 million for FY2018 as a result of the increase in bonus as compensation to our staff for the preparation of the Listing; and (ii) the increase in legal and

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professional fee by approximately RMB0.6 million from approximately RMB0.4 million for FY2017 to approximately RMB1.0 million for FY2018 mainly because of valuation service fee for our properties.

Other expenses

Our other expenses increased by approximately RMB1.7 million or 850.0% from RMB0.2 million for FY2017 to approximately RMB1.9 million for FY2018 mainly because of the inclusion of the provision of the claimed amount of approximately RMB1.8 million derived from the litigation. Please see “Business – Legal Compliance and Proceedings – Legal Proceedings” in this prospectus for details.

Finance costs

Our finance costs decreased by approximately RMB0.4 million or 13.8% from approximately RMB2.9 million for FY2017 to approximately RMB2.5 million for FY2018 mainly because of the decrease in our average bank borrowings during FY2018.

Income tax

Our income tax expense decreased by approximately RMB4.3 million or 53.8% from approximately RMB8.0 million for FY2017 to approximately RMB3.7 million for FY2018. Our effective tax rate increased from approximately 27.0% for FY2017 to approximately 34.4% for FY2018 which was primarily attributable to non-recurring and non-deductible portion of listing expenses and provision of the claimed amount.

Profit for the year

As a result of the foregoing, our profit for the year decreased by approximately RMB14.5 million or 67.1% from approximately RMB21.6 million for FY2017 to approximately RMB7.1 million for FY2018. Our net profit margin decreased from approximately 12.8% for FY2017 to approximately 3.5% for FY2018 mainly due to (i) listing expenses of approximately RMB15.5 million incurred during FY2018; and (ii) the provision of the claimed amount of approximately RMB1.8 million derived from the litigation recognised during FY2018. Excluding non-recurring listing expenses of approximately RMB15.5 million, our adjusted net profit margin for FY2018 would be approximately 11.0%, which was lower than that of approximately 12.8% for FY2017 mainly because our gross profit margin decreased by approximately 5.1 percentage points as discussed above.

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FY2017 compared to FY2016

Revenue

Our revenue decreased by approximately RMB58.9 million or 25.9% from approximately RMB227.8 million for FY2016 to approximately RMB168.9 million for FY2017 mainly as a result of the decrease in revenue from (i) sale of package tours and day tours; (ii) margin income from the provision of visa application processing service; and (iii) margin income from sales of FIT Products.

Sales of package tours and day tours

Our revenue from package tours and day tours decreased by approximately RMB49.9 million or 27.4% from approximately RMB182.0 million for FY2016 to approximately RMB132.1 million for FY2017 mainly attributable to the decrease in revenue from package tours bound for Australia and New Zealand of approximately RMB46.5 million or 70.3% from approximately RMB66.1 million for FY2016 to approximately RMB19.6 million for FY2017, mainly due to the withdrawal of our resources on the destinations that generated relatively lower profit margin and focused more on the profitable routes. Revenue from package tours bound for Japan decreased by approximately RMB3.9 million or 3.4% from approximately RMB115.9 million for FY2016 to approximately RMB112.0 million for FY2017 due to the general unfavourable sentiment in the PRC for Chinese tourists to travel to Japan caused by the social and media pressure during FY2017. As a result, our number of package tours bound for Japan (excluding cruise tours) decreased from 694 to 652 while minimal growth was noted in the number of travellers from 18,593 in 2016 to 18,645 in 2017.

Average revenue per traveller of our package tours bound for Japan decreased from RMB6,234 in FY2016 to RMB6,006 in 2017, which was due to the commencement of cruise tours in May 2017, which generally recorded lower tour average spending per traveller compared to other traditional package tours because such cruise tours travellers would embark on a ferry in China directly to Japan and no flight tickets were involved. During FY2017, the average spending of the cruise tours per traveller amounted to approximately RMB2,906.0. If cruise tour spending was excluded in the calculation for average spending per traveller, the average spending per traveller for our package tours bound for Japan amounted to RMB6,906 in FY2017, which was higher than RMB6,234 in FY2016, and accordingly, the average revenue per traveller for Japan-bound package tour actually increased in FY2017 when compared to FY2016.

Hotel operation

Our revenue from hotel operation decreased by approximately RMB1.0 million or 7.5% from approximately RMB13.3 million for FY2016 to approximately RMB12.3 million for FY2017 mainly attributable to the loss of a local land operator who used to bring its customers to our Shizuoka Hotel regularly because that local land operator shifted their business focus and provided budget accommodations to their clients instead.

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Margin income from visa application processing service

Our revenue from visa application processing service decreased by approximately RMB3.7 million or 23.6% from approximately RMB15.7 million for FY2016 to approximately RMB12.0 million for FY2017 mainly because of the reduced number of tourists travelling to Japan as mentioned above.

Sales of FIT Products

Our revenue from FIT Products decreased by approximately RMB5.1 million or 33.6% from approximately RMB15.2 million for FY2016 to approximately RMB10.1 million for FY2017. Our Directors believe that such decrease was mainly due to the general unfavorable sentiment in the PRC for Chinese tourists to travel to Japan as mentioned above. As such, we launched a new FIT product for day tours in Japan, which led to the decrease in the average net revenue per traveller of our Japan FIT Products from RMB450 for FY2016 to RMB405 for FY2017.

Cost of sales

Our cost of sales decreased by approximately RMB60.4 million or 33.5% from approximately RMB180.3 million for FY2016 to approximately RMB119.9 million for FY2017 mainly because of the decrease in our revenue from sales of package tours. In particular, (i) airfare cost decreased by approximately RMB36.4 million from approximately RMB70.2 million for FY2016 to approximately RMB33.8 million for FY2017; (ii) hotel accommodation cost decreased by approximately RMB10.7 million from approximately RMB34.1 million for FY2016 to approximately RMB23.4 million for FY2017; and (iii) local transportation cost decreased by approximately RMB5.2 million from approximately RMB13.7 million for FY2016 to approximately RMB8.5 million for FY2017. Such decreases were mainly due to the decrease in number of our package tours bound for Australia and New Zealand.

Gross profit and gross profit margin

Despite the decrease in our revenue, our gross profit increased by approximately RMB1.5 million or 3.2% from approximately RMB47.5 million for FY2016 to approximately RMB49.0 million for FY2017, and our gross profit margin increased by approximately 8.1 percentage points from approximately 20.9% for FY2016 to approximately 29.0% for FY2017 mainly because of (i) the increase in commissions received from duty-free and other retail shops operated by third parties in Japan and from our tour escorts and/or tour guides by approximately RMB5.3 million; and (ii) our business strategy to focus on products with higher profitability by reducing our number of tours bound for Australia and New Zealand. During FY2016, we recorded thin gross profit margin of 0.8% for our Australia and New Zealand package tours. As a result, we reduced our number of tours to Australia and New Zealand from 391 tours during FY2016 to 124 tours during FY2017.

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Other income and gains

Our other income and gains increased by approximately RMB1.0 million or 55.6% from approximately RMB1.8 million for FY2016 to approximately RMB2.8 million for FY2017 mainly due to (i) the increase in fair value gain of RMB0.6 million of investment properties in FY2017; and (ii) the increase in rental income on properties attributable to the two office units transferred as investment properties upon the commencement of the lease term near the end of FY2016 and during FY2017, respectively, because we rented them out; net off by (iii) the absence of one-off RMB0.4 million in gain on bargain purchase of Haizhilv Travel in 2016. Please see “History, Reorganisation and Corporate Structure – Corporate Development – 4. Haizhilv Travel” and note 29 to the Accountants’ Report in Appendix I to this prospectus for details of the purchases of Haizhilv Travel.

Selling and distribution expenses

Our selling and distribution expenses decreased by approximately RMB1.9 million or 20.4% from approximately RMB9.3 million for FY2016 to approximately RMB7.4 million for FY2017 mainly because of (i) the decrease in staff costs by approximately RMB1.3 million from approximately RMB5.9 million for FY2016 to approximately RMB4.6 million for FY2017 mainly due to the decrease in share incentive payments for eligible employees and decrease in headcount resulted from the withdrawal of our resources on package tours bound for Australia and New Zealand that generated relatively low profit margin; and (ii) the decrease in travelling, transportation and entertainment expense by approximately RMB0.5 million from approximately RMB1.8 million for FY2016 to approximately RMB1.3 million for FY2017 as a result of our slowdown on the expansion of the Australia and New Zealand market.

Administrative expenses

Our administrative expenses decreased by approximately RMB3.7 million or 24.2% from approximately RMB15.3 million for FY2016 to approximately RMB11.6 million for FY2017 mainly because of the net effect of (i) the increase in office, rental and utility expenses of approximately RMB0.4 million or 23.5% from approximately RMB1.7 million for FY2016 to approximately RMB2.1 million for FY2017, which was mainly due to the establishment of the branch companies in Rui’an and Wenzhou in October 2017 and May 2017, respectively; (ii) the decrease in payment channel charges of approximately RMB0.8 million or 40.0% from approximately RMB2.0 million for FY2016 to approximately RMB1.2 million for FY2017, which was resulted from the decrease in sales and relatively less commissions paid to credit card companies and online payment platforms such as Alipay; (iii) the decrease in depreciation and amortisation of approximately RMB0.6 million or 35.3% from approximately RMB1.7 million for FY2016 to approximately RMB1.1 million for FY2017, which was mainly due to that both of our office premises were transferred from property, plant and equipment to investment properties; (iv) the decrease in travelling, transportation and entertainment by approximately RMB0.8 million or 61.5% from approximately RMB1.3 million for FY2016 to approximately RMB0.5 million for FY2017, as a result of the slowdown on the expansion of the Australia and New Zealand market; and (v) the decrease in legal and professional fee of approximately RMB1.2 million from approximately RMB1.6 million for FY2016 to approximately RMB0.4 million for

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FY2017, mainly resulted from the one-off professional fees paid to lawyers and auditors during FY2016 for the consideration of listing on the Small and Medium Enterprise Board of the Shenzhen Stock Exchange (“SME Board”). Such plan was subsequently terminated by our management after considering that (i) our future business strategies where substantial amount of proceeds would be used outside of the PRC and that Hong Kong has a more favourable environment for foreign outbound investment; and (ii) Hong Kong has access to a more diversified investor base and a more liquid market. Our Directors confirmed that no listing application was submitted to other stock exchange outside Hong Kong.

Other expenses

Our other expenses remained relatively stable at approximately RMB0.2 million for FY2016 and FY2017.

Finance costs

Our finance costs remained relatively stable at approximately RMB2.5 million and RMB2.9 million for FY2016 and FY2017, respectively.

Income tax expense

Our income tax expense increased by approximately RMB1.0 million from approximately RMB7.0 million for FY2016 to RMB8.0 million for FY2017 primarily attributable to the increase in our assessable profits mainly as a result of the decrease in profit before tax. Our effective tax rate decreased from approximately 31.9% for FY2016 to approximately 27.0% for FY2017 mainly due to the decrease in non-deductible expenses for tax purposes and the decrease in tax losses not recognised attributable to our loss-making subsidiaries.

Profit for the year

As a result of the foregoing, our profit for the year increased by approximately RMB6.6 million or 44.0% from approximately RMB15.0 million for FY2016 to approximately RMB21.6 million for FY2017. Net profit margin increased by approximately 6.2 percentage points from approximately 6.6% for FY2016 to approximately 12.8% for FY2017, which was mainly due to (i) the increase in gross profit margin by approximately 8.1 percentage points from approximately 20.9% for FY2016 to approximately 29.0% for FY2017 mainly because of the increase in commissions received from duty-free and other retail shops operated by third parties in Japan and from our tour escorts and/or tour guides, and the reduced number of tours bound for Australia and New Zealand due to the lower profitability; and (ii) the decrease in administrative expenses primarily resulting from the decrease in payment channel charges, and travelling, transportation and entertainment expenses.

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LIQUIDITY AND CAPITAL RESOURCES

Cash flow

Our use of cash primarily related to operating activities and capital expenditure. We have historically financed our operations primarily through a combination of cash flow generated from our operations, bank borrowings, advances from our related parties and Directors. The following table sets forth a summary of our cash flows information for the years indicated:

	FY2016	FY2017	FY2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax	21,980	29,660	10,771
Adjustments for:			
Depreciation of property, plant and equipment	2,822	2,241	2,622
Amortisation of intangible assets	54	51	49
Bank interest income	(823)	(804)	(164)
Finance costs	2,488	2,889	2,461
Gain on disposal of items of property, plant and equipment	(95)	–	–
Foreign exchange gains, net	(185)	(271)	(361)
Gain on bargain purchase of subsidiaries	(405)	–	–
Changes in fair value of investment properties	–	(627)	(225)
Other interest income from financial assets at fair value through profit or loss	–	–	(113)
Equity-settled share award expenses	<u>1,375</u>	<u>321</u>	<u>–</u>
Operating cash flows before movements in working capital	27,211	33,460	15,040
Net cash flows generated from/(used in) operating activities	(22,462)	20,994	3,153
Net cash flows generated from/(used in) investing activities	(48,740)	16,222	(56,730)
Net cash flows generated from/(used in) financing activities	<u>79,045</u>	<u>(35,306)</u>	<u>34,588</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
	7,843	1,910	(18,989)
Net foreign exchange differences	(3,280)	(2,085)	1,488
Cash and cash equivalents at beginning of year	<u>24,409</u>	<u>28,972</u>	<u>28,797</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR			
	<u><u>28,972</u></u>	<u><u>28,797</u></u>	<u><u>11,296</u></u>

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Operating activities

During our Track Record Period, our cash inflows from operating activities were principally from cash receipts from customers. Our cash outflows used in operating activities principally represented direct costs incurred for our business operations, which primarily consisted of land operator costs, airfare costs, hotel accommodation tariffs, local transportation costs, hotel operation costs, commissions expenses, visa costs, staff costs and etc.

For FY2016, our Group had net cash flows used in operating activities of approximately RMB22.5 million mainly as a result of (i) the profit before tax of approximately RMB22.0 million, negatively adjusted for (ii) the increase in trade receivables of approximately RMB8.7 million; (iii) the increase in prepayments, deposits and other receivables of approximately RMB13.3 million; (iv) the increase in amounts due from directors of approximately RMB7.2 million; and (v) the decrease in amounts due to the directors of approximately RMB14.3 million.

For FY2017, our Group had net cash flows generated from operating activities of approximately RMB21.0 million mainly as a result of the profit before tax of approximately RMB29.7 million, adjusted for (i) the decrease in trade and receivables of approximately RMB5.5 million; and (ii) the decrease in amounts due from directors of approximately RMB6.9 million, which was partly offset by (i) the decrease in advance from customers, other payables and accruals of approximately RMB5.0 million; and (ii) the decrease in amounts due to the directors of approximately RMB9.6 million.

For FY2018, our Group had net cash flows generated from operating activities of approximately RMB3.2 million mainly as a result of the profit before tax of approximately RMB10.8 million as a result of the one-off listing expenses of approximately RMB15.5 million, adjusted for (i) the increase in trade receivables of approximately RMB17.2 million; (ii) the increase of prepayments, deposits and other receivables of approximately RMB6.9 million; and (iii) the income tax paid of approximately RMB5.2 million, which was partly offset by (i) the increase in advance from customers, other payables and accruals of approximately RMB10.4 million; and (ii) increase in trade payables by approximately RMB8.3 million.

Having considered that (i) the Listing is expected to complete in June 2019; and (ii) the commencement of operation of the Tokyo Hotel; and (iii) the expected growth from sales of package tours and FIT products, the cash flow position is expected to improve for FY2019. Going forward, to better manage our working capital and to improve our cash flow position, we will (i) closely monitor the collection of receivables; (ii) better utilise the credit period provided by our suppliers; and (iii) make use of the unutilised banking facilities if necessary.

Investing activities

During our Track Record Period, our cash inflows from investing activities were principally from proceeds from disposal of property, plant and equipment, decrease in pledged time deposits, and interest received. Our cash outflows used in investing activities

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were principally for purchases of items of property, plant and equipment, acquisition of freehold land and incidental costs incurred, acquisition of subsidiaries, and increase in pledged time deposits.

For FY2016, our Group had net cash flows used in investing activities of approximately RMB48.7 million primarily attributable to (i) the purchases of items of property, plant and equipment of approximately RMB1.2 million, which mainly represented renovation of the Shizuoka Hotel; (ii) acquisition of freehold land and incidental costs incurred of approximately RMB42.8 million for the construction of Tokyo Hotel; and (iii) the increase in pledged time deposits of approximately RMB8.9 million, which was partly offset by the proceeds from disposal of property, plant and equipment of approximately RMB4.0 million, which mainly represented a staff amenities house.

For FY2017, our Group had net cash flows generated from investing activities of approximately RMB16.2 million primarily attributable to (i) the decrease in pledged time deposits of approximately RMB42.2 million; (ii) the interest received of approximately RMB1.7 million; and (iii) the proceeds from disposal of property, plant and equipment of approximately RMB1.0 million, which mainly represented the disposal of a staff amenities house, which was partly offset by the purchases of items of property, plant and equipment of approximately RMB28.4 million mainly represented the construction cost of the Tokyo Hotel.

For FY2018, our Group had net cash flows used in investing activities of approximately RMB56.7 million primarily attributable to the purchases of items of property, plant and equipment of approximately RMB57.3 million mainly due to construction of our Tokyo Hotel.

Financing activities

During our Track Record Period, our cash inflows from financing activities were principally from proceeds from loans, and shareholders contribution. Our cash outflows used in financing activities were principally for repayment of bank loans, and interest paid.

For FY2016, our Group had net cash flows generated from financing activities of approximately RMB79.0 million primarily attributable to (i) the proceeds from loans of approximately RMB70.2 million; and (ii) the shareholders contribution of approximately RMB57.0 million, which was partly offset by the repayment of bank loans of approximately RMB45.6 million.

For FY2017, our Group had net cash flows used in financing activities of approximately RMB35.3 million primarily attributable to the repayment of bank loans of approximately RMB124.6 million, which was partly offset by the proceeds from loans of approximately RMB92.2 million.

For FY2018, our Group had net cash flows generated from financing activities of approximately RMB34.6 million primarily attributable to the proceeds from bank loans of approximately RMB60.5 million, which was partly offset by the repayment of bank loans of approximately RMB23.4 million.

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Net current liabilities

The following table sets forth the selected information for our current assets and current liabilities as at the dates indicated, respectively:

	As at 31 December			As at
	2016	2017	2018	30 April
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(Unaudited)</i>
CURRENT ASSETS				
Inventories	329	838	750	1,405
Trade receivables	13,711	8,218	25,387	30,908
Prepayments, deposits and other receivables	24,655	22,024	28,927	25,770
Due from directors	7,197	310	185	–
Pledged short-term deposits	44,298	2,104	1,761	1,761
Cash and cash equivalents	28,972	28,797	11,296	9,628
Financial assets at fair value through profit or loss	–	–	100	5,145
	<u>119,162</u>	<u>62,291</u>	<u>68,406</u>	<u>74,617</u>
CURRENT LIABILITIES				
Trade payables	6,242	3,475	11,813	13,370
Advance from customers, other payables and accruals	17,343	12,321	22,755	22,778
Interest-bearing bank borrowings	86,231	53,518	54,417	47,369
Lease liabilities	–	–	–	1,477
Due to a related party	30	–	–	–
Due to directors	6,225	922	–	–
Tax payable	5,576	5,294	4,305	4,739
	<u>121,647</u>	<u>75,530</u>	<u>93,290</u>	<u>89,733</u>
Total current liabilities				
NET CURRENT LIABILITIES	<u><u>(2,485)</u></u>	<u><u>(13,239)</u></u>	<u><u>(24,884)</u></u>	<u><u>(15,116)</u></u>

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Net current liabilities increased from RMB2.5 million as at 31 December 2016 to RMB13.2 million as at 31 December 2017 mainly due to the RMB42.2 million decrease in pledged short-term deposit primarily because the relevant loan was repaid during 2017. An interest-bearing bank loan of JPY700.0 million, representing RMB40.5 million, was obtained in 2017 in Japan and such loan shall be automatically extended for every one year until the completion (or opening) of the Tokyo Hotel, which has been converted into a long-term loan for approximately 14 years on 25 October 2018. Therefore, this RMB40.5 million loan was entirely classified in current portion of interest-bearing bank borrowings as at 31 December 2017.

Our net current liabilities further increased to approximately RMB24.9 million as at 31 December 2018 mainly resulted from (i) the increase in advance receipt from customers mainly due to the down payments we collected for our package tours and FIT Products to be organized during the peak season of the Spring Festival in early February 2019; (ii) the accrued listing expenses of approximately RMB3.9 million; (iii) the increase in trade payables to approximately RMB11.8 million mainly because of sales from the Singles' Day (雙十一) and the "Double 12" (雙十二) in November and December 2018; (iv) the decrease in cash and cash equivalents of approximately RMB17.5 million mainly due to the settlement of the construction cost of our Tokyo Hotel payable to the our contractors after its completion in September 2018; and partially offset by (v) the increase in trade receivables of approximately RMB17.2 million.

Our net current liabilities position improved from RMB24.9 million as at 31 December 2018 to RMB15.1 million as at 30 April 2019 mainly due to (i) the increase in trade receivables of approximately RMB5.5 million resulted from our business growth; (ii) increase in financial assets at fair value through profit or loss of approximately RMB5.0 million, representing our investment in structured deposits from two PRC licensed banks in 2019, which has been fully redeemed as at Latest Practicable Date; (iii) the decrease in interest-bearing bank borrowings of approximately RMB7.0 million resulting from the net effect of our repayment of bank loans of approximately RMB50.0 million and renewal of bank loans of approximately RMB43.0 million during January to April 2019; partially net off by (iv) the decrease in prepayments, deposits and other receivables of approximately RMB3.2 million primarily resulted from the decrease in prepayments paid for air tickets and prepaid land operator expenses subsequent to Spring Festival in February 2019; and (v) the increase in lease liabilities of approximately RMB1.5 million upon the adoption of HKFRS 16 from 1 January 2019.

In order to further improve its net current liabilities position, our Directors will first consider methods other than short-term loans, such as equity financing or long-term loans in the event that financing is required for our Group's future expansion or operation in order to minimise any impact on our Group's net current liabilities position. With the listing status, our Directors are of the view that it will be easier to negotiate with banks for long-term loans.

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Working capital sufficiency

Notwithstanding that we recorded net current liabilities of approximately RMB15.1 million as at 30 April 2019, our Directors are of the view that we have sufficient working capital for our present requirements and for at least the next 12 months commencing from the date of this prospectus after considering the following factors:

- (i) Our Group had unutilised banking facility of RMB5.0 million as at 30 April 2019;
- (ii) Based on the written confirmations provided by relevant banks in PRC, it is further confirmed that, if there is no material adverse circumstances to our Group, the banks will continue to support and renew two of the banking facilities of RMB47.0 million upon their expiry of the one year term, which we have successfully renewed for one year term in February 2019 and March 2019, respectively.
- (iii) We had cash and cash equivalents of approximately RMB9.6 million as at 30 April 2019; and
- (iv) We had no material default in the repayment of bank borrowings and we had not experienced any withdrawal of facilities nor request for early repayment of bank borrowings during the Track Record Period.

Our Directors confirm that, having considered the above and taking into consideration the financial resources presently available to us, which is primarily our internal resources, and the estimated net proceeds from the Global Offering, we have sufficient working capital for our present requirements and for at least the next 12 months commencing from the date of this prospectus.

Our Directors are not aware of any other factors that would have a material impact on our Group's liquidity. Details of the funds necessary to meet our existing operations and to fund our future plans are set out in "Future Plans and Use of Proceeds".

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DESCRIPTION OF CERTAIN ITEMS OF CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Inventories

Our inventories, representing primarily food and beverages, and consumables for our hotel operation, increased from approximately RMB329,000 as at 31 December 2016 to approximately RMB838,000 as at 31 December 2017 primarily due to increase in inventories of food and beverages for our hotel operation. Our inventories decreased to approximately RMB750,000 as at 31 December 2018 primary due to increase in sale of liquor near the year end.

As at 31 December 2016, 2017 and 2018, our Group did not make any material provision for impairment on inventories.

The following table sets forth a summary of average turnover days of inventories for the years indicated:

	FY2016	FY2017	FY2018
Average turnover days of inventory ^(Note)	21.6	67.5	88.6

(Note) Average inventory turnover days is derived from dividing the arithmetic mean of the opening and closing balances of inventories for the Track Record Period by cost of inventories sold in the year and multiplying by 366 days or 365 days, where appropriate.

Our average inventory turnover days increased from 21.6 days for FY2016 to 67.5 days for FY2017, and further increased to 88.6 days for FY2018, which was mainly due to the increase of liquor in stock, which can last for more than one year.

As at Latest Practicable Date, approximately RMB658,000 or 87.7% of our inventories outstanding as at 31 December 2018 were sold or utilised. The remaining inventories were mainly liquor which can last for more than one year.

Trade receivables

Our trade receivables as at 31 December 2016, 2017 and 2018 were approximately RMB13.7 million, RMB8.2 million and RMB25.4 million, respectively. Our trade receivables primarily consist of receivables from (i) online travel agencies, offline travel companies, corporate customers, online payment platforms and credit card companies for travel products; and (ii) duty-free and other retail shops operated by third parties in Japan for commissions from such shops.

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The following table sets forth the breakdown of our trade receivables as at the dates indicated:

	As at 31 December		
	2016	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	13,711	8,322	25,491
Impairment	—	(104)	(104)
	<u>13,711</u>	<u>8,218</u>	<u>25,387</u>

Our trade receivables decreased from approximately RMB13.7 million as at 31 December 2016 to approximately RMB8.2 million as at 31 December 2017, which was in line with our sales performance. Our trade receivables increased to approximately RMB25.4 million as at 31 December 2018, which was primarily because of our business growth.

As at Latest Practicable Date, approximately RMB25.4 million or 100.0% of our trade receivables outstanding as at 31 December 2018 were settled.

Our Group generally granted credit terms up to 30 days. Our finance and settlement department reviews the credit terms for each existing and prospective corporate customers and travel companies. The settlement and credit terms granted by our Group are determined with reference to, among other things (i) the length of business relationship with us; (ii) the payment history of the customer; and (iii) the financial strength and credibility of such customers.

We closely monitor our outstanding trade receivables. As at 31 December 2017 and 2018, our Group made provision for impairment of trade receivables of RMB104,000 mainly attributable to an offline travel company which went bankrupt. Save as disclosed above, we did not experience any material payment defaults from our customers during the Track Record Period.

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The following table sets forth the ageing analysis of the trade receivables based on the revenue recognition and net of credit loss allowance as at the dates indicated:

	As at 31 December		
	2016	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
1 to 30 days	10,091	6,860	22,472
31 to 90 days	2,546	900	2,623
91 to 180 days	955	28	292
181 to 360 days	75	252	–
1 to 2 years	44	178	–
	<u>13,711</u>	<u>8,218</u>	<u>25,387</u>

The ageing analysis of the trade receivables that are not considered to be impaired is as follows:

	As at 31 December		
	2016	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Neither past due nor impaired	10,091	6,860	22,472
Less than 2 months past due	2,546	900	2,623
Over 3 months past due	1,074	458	292
	<u>13,711</u>	<u>8,218</u>	<u>25,387</u>

Receivables that were neither past due nor impaired relate to a large number of diversified 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 our Group. Based on past experience, our Directors are of the opinion that no provision for impairment 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 following table sets forth a summary of average turnover days of trade receivables for the years indicated:

	FY2016	FY2017	FY2018
Average turnover days of trade receivables ^(Note)	15.0	23.7	29.9

(Note) Average turnover days of trade receivables is derived from dividing the arithmetic mean of the opening and closing balances of the gross trade receivables (before impairment) for the Track Record Period by revenue in the respective year and multiplying by 366 days or 365 days, where appropriate.

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Our average turnover days of trade receivables was at 15.0 days, 23.7 days and 29.9 days for FY2016, FY2017 and FY2018, respectively.

For FY2016, FY2017 and FY2018, our average turnover days of trade receivables were within our credit terms. Our average turnover days of trade receivables increased to 29.9 days for FY2018, which was mainly attributable to the increased balance of trade receivables.

Prepayments, deposits and other receivables

Our prepayments, deposits and other receivables as at 31 December 2016, 2017 and 2018 were approximately RMB24.7 million, RMB22.0 million and RMB28.9 million, respectively.

The following table sets forth the breakdown of our prepayments, deposits and other receivables as of the dates indicated:

	As at 31 December		
	2016	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Prepayments	12,362	12,559	14,849
Deferred listing expenses	–	–	3,721
Deposits and other receivables	11,371	9,465	9,848
Prepaid expenses	–	–	509
Interest receivables	922	–	–
	<u>24,655</u>	<u>22,024</u>	<u>28,927</u>

Prepayments

Our prepayments mainly represented (i) air tickets or packages (air tickets combined with hotel accommodation) placed with travel companies either because the travel companies held the charter flight, therefore, their prices were cheaper or the seats with airline operators were sold out; (ii) air tickets placed with airline operators for our package tours which had not departed; and (iii) hotel accommodation placed with certain hotels operators for reservation of their hotel room throughout the year because of their popularity among our customers.

Our prepayments remained stable at approximately RMB12.4 million and RMB12.6 million as at 31 December 2016 and 2017, respectively. Our prepayments further increased to approximately RMB14.8 million as at 31 December 2018 mainly due to the increase in prepaid air tickets and prepaid land operator expenses to our suppliers in order to prepare for the Spring Festival in early February 2019.

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Deposits and other receivables

The following table sets forth the breakdown of our deposits and other receivables as at the dates indicated:

	As at 31 December		
	2016	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Other receivables	5,741	3,022	389
Deposits paid	1,553	1,947	2,139
Receivables from tour escorts	4,020	2,528	1,124
VAT and consumption tax receivable	57	1,968	6,196
	11,371	9,465	9,848

Other receivables

Our other receivables decreased by approximately RMB2.7 million from approximately RMB5.7 million as at 31 December 2016 to approximately RMB3.0 million as at 31 December 2017 as a result of (i) cash advance to the father-in-law of Mr. Yu was partially repaid; (ii) cash advance to the independent third party business partner was fully repaid because the development plan was subsequently terminated after taking into account the forecasted profitability was lower than expected; and (iii) receivable from the disposal of items of property, plant and equipment was also fully settled. As a result, our other receivables as at 31 December 2017 mainly represented cash advance of RMB2.4 million to the father-in-law of Mr. Yu, which was subsequently repaid in full during FY2018.

Our other receivables were non-trade related, unsecured, non-interest-bearing and repayable either on demand or within one year.

Deposits

Our deposits paid mainly represented (i) refundable guarantee deposit for our tourism operation as required by the PRC government; and (ii) refundable guarantee deposit placed with airline operators.

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Receivables from tour escorts

Our receivables from tour escorts represented (i) advances paid to our tour escorts for tour operations (details of which are set out in “Business – Cash Control Policy – Advances paid to our tour escorts for tour operations”); and (ii) commissions receivable from tour escorts for their sales of goods and souvenirs to our customers during their tours at the tour buses. Our receivables from tour escorts decreased from approximately 4.0 million as at 31 December 2016 to approximately 2.5 million as at 31 December 2017 as a result of our sales performance. The amount further decreased to approximately RMB1.1 million as at 31 December 2018, mainly resulted from the decrease in commission received from tour escorts, which was in line with the decrease in our commission revenue.

VAT and consumption tax receivable

Our VAT and consumption tax receivable represented VAT and consumption tax that had been paid by us and could be recovered upon fulfilling certain conditions, according to relevant tax rules and regulations in the PRC and Japan, respectively. For FY2018, our VAT and consumption tax receivable increased to approximately RMB6.2 million, which was primarily because the construction of our Tokyo Hotel was completed in September 2018 and hence we were entitled to consumption tax refund according to relevant tax rules and regulations in Japan. As at the Latest Practicable Date, we have received the full amount of such consumption tax refund.

Interest receivables

Our interest receivables were primarily attributable to our pledged deposits and amounted to approximately RMB922,000 as at 31 December 2016.

Financial asset at fair value through profit or loss

Our financial asset at fair value through profit or loss represented an investment in a structured deposit which was stated at fair value and placed with a bank. As at 31 December 2018, the deposit amounted to approximately RMB100,000. Our Group used the structured deposit primarily to enhance the return on idle working capital.

Trade payables

Our trade payables, representing payables to airline operators, hotel operators, ticketing agents, land operators, tour bus and other local transportation operators, restaurants and attraction operators, amounted to approximately RMB6.2 million, RMB3.5 million and RMB11.8 million as at 31 December 2016, 2017 and 2018, respectively.

Our trade payables decreased from approximately RMB6.2 million as at 31 December 2016 to approximately RMB3.5 million as at 31 December 2017 primarily due to the decrease in sales. Our trade payables increased to approximately RMB11.8 million as at 31 December 2018 mainly attributable to the increased purchase of travel related products and

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services from our suppliers to cope with the increased sales for FY2018, especially for the Singles' Day (雙十一) and the "Double 12" (雙十二) during November and December in FY2018.

The following table sets forth the ageing analysis of our trade payables based on the invoice date as at the dates indicated:

	As at 31 December		
	2016	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
1 to 30 days	4,965	3,234	8,935
31 to 90 days	811	132	2,460
91 to 180 days	121	109	229
181 to 360 days	149	–	100
1 to 2 years	196	–	89
	6,242	3,475	11,813

Trade payables are non-interest-bearing and are normally settled on 30-day terms.

The following table sets forth a summary of average turnover days of trade payables for the years indicated:

	FY2016	FY2017	FY2018
Average turnover days of trade payables ^(Note)	12.8	14.8	17.9

(Note) Average turnover days of trade payables is derived from dividing the arithmetic mean of the opening and closing balances of trade payables for the Track Record Period by cost of sales in the year and multiplying by 366 days or 365 days, where appropriate.

Our average turnover days of trade payables was at 12.8 days, 14.8 days and 17.9 days for FY2016, FY2017 and FY2018, respectively, and were within our normal credit terms granted by our suppliers of 30 days.

As at Latest Practicable Date, approximately RMB11.6 million or 98.5% of our trade payables outstanding as at 31 December 2018 were settled.

Other payables and accruals

Our other payables and accruals amounted to approximately RMB17.3 million, RMB12.3 million and RMB22.8 million as at 31 December 2016, 2017 and 2018, respectively.

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The following table sets forth the breakdown of our other payables and accruals as of the dates indicated:

	As at 31 December		
	2016	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Advance receipt from customers	11,767	6,787	10,961
Payroll payables	1,542	1,205	1,416
Tax payable other than income tax	2,001	2,788	2,221
Accrued listing expenses	–	–	3,863
Provision of the claimed amount derived from the litigation	–	–	1,841
Other payables	<u>2,033</u>	<u>1,541</u>	<u>2,453</u>
	<u><u>17,343</u></u>	<u><u>12,321</u></u>	<u><u>22,755</u></u>

Advance receipt from customers

Our advance receipt from customers represented the down payment given by customers prior to their tour departure. Our advance receipt from customers decreased as at 31 December 2017 as a result of our sales performance. The increase as at 31 December 2018 was attributable to down payments for our package tours and FIT Products during the peak season of Spring Festival in early February 2019.

Payroll payables

Our payroll payables decreased as at 31 December 2017 mainly due to the decrease in headcount. Our payroll payable increased from approximately RMB1.2 million as at 31 December 2017 to approximately RMB1.4 million as at 31 December 2018 due to increase in headcount for the Tokyo Hotel.

Tax payable other than income tax

Our tax payable other than income tax mainly represented business tax, property tax, value-added tax and surcharges.

Our tax payable other than income tax increased from RMB2.0 million as at 31 December 2016 to approximately RMB2.8 million as at 31 December 2017 primarily due to the increase in property tax because of the increase in number of properties leasing out, which were subject to a higher tax rate. The amount decreased to approximately RMB2.2 million, which was primary due to settlement of such other taxes prior to year ended 31 December 2018.

Provision of the claimed amount derived from the litigation

Please see “Business – Legal Compliance and Proceedings – Legal Proceedings” in this prospectus for details.

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Other payables

The following table sets forth the breakdown of our other payables as at the dates indicated:

	As at 31 December		
	2016	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Deposits received	623	615	737
Reimbursement to tour escorts	343	321	653
Accrued audit fee	686	–	–
Payables for purchase and construction of property, plant and equipment	–	–	501
Others	<u>381</u>	<u>605</u>	<u>562</u>
	<u><u>2,033</u></u>	<u><u>1,541</u></u>	<u><u>2,453</u></u>

Deposits received mainly represented refundable guarantee deposit placed by certain visa applicants directly to us or their respective travel agents who were our B2B customers if they were regarded as person with potential risk of overstaying or engaging in illegal activities in Japan or South Korea. Reimbursement to tour escorts represented the excess of expenses that our tour escorts incurred over cash advanced to them prior to tour departure (details of which are set out in “Business – Cash Control Policy – Advances paid to our tour escorts for tour operations”). Amount due to third party represented interest-free cash advance from the father-in-law of Mr. Yu, which was settled during FY2016.

Our other payables decreased from approximately RMB2.0 million as at 31 December 2016 to approximately RMB1.5 million as at 31 December 2017 primarily due to the absence of accrued audit fee. Our other payables increased from approximately RMB1.5 million as at 31 December 2017 to approximately RMB2.5 million as at 31 December 2018 primarily due to (i) the payables for purchase and construction of property, plant and equipment representing remaining portions of the payables to contractor in relation to the construction of the Tokyo Hotel; and (ii) the increase of deposits received and reimbursement to tour escorts, which was in line with our sales performance.

Interest-bearing bank borrowings

Our interest-bearing bank borrowings totalled approximately RMB104.8 million, RMB70.3 million and RMB111.2 million as at 31 December 2016, 2017 and 2018, respectively.

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The following table sets forth the breakdown of our interest-bearing bank borrowings by usage as of the dates indicated:

	As at 31 December		
	2016	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Acquisition of the Shizuoka Hotel	36,231	–	–
Purchase of land and construction of the Tokyo Hotel	31,000	40,518	59,936
Working capital and other general corporate purposes	<u>37,540</u>	<u>29,774</u>	<u>51,285</u>
Total interest-bearing bank borrowings	104,771	70,292	111,221
Portion classified as non-current	<u>(18,540)</u>	<u>(16,774)</u>	<u>(56,804)</u>
Current portion	<u><u>86,231</u></u>	<u><u>53,518</u></u>	<u><u>54,417</u></u>

Our total interest-bearing bank borrowings decreased from approximately RMB104.8 million as at 31 December 2016 to approximately RMB70.3 million as at 31 December 2017 mainly due to (i) the increase of approximately RMB40.5 million to finance the construction of the Tokyo Hotel; offset by (ii) the repayment of bank borrowings in relation to the acquisition of the Shizuoka Hotel during the year and (iii) the repayment of bank borrowings in relation to the land acquisition of the Tokyo Hotel during FY2017. The amount increased to approximately RMB111.2 million as at 31 December 2018 primarily to (i) further finance the construction of the Tokyo Hotel and (ii) enhancing working capital and other general corporate purposes.

Please see “Indebtedness” in this section for further details on our interest-bearing bank borrowings.

Balances with related parties

Our balances with related parties were unsecured, interest-free and repayable on demand. Our Directors confirm that all amounts due to and from related parties will be settled prior to Listing.

CAPITAL EXPENDITURES

Our Group’s capital expenditures principally consist of additions and acquisition of subsidiaries of (i) property, plant and equipment; and (ii) freehold land. During the Track Record Period, our Group incurred capital expenditures of approximately, RMB51.0 million, RMB28.7 million and RMB57.3 million for FY2016, FY2017 and FY2018, respectively, majority of which related to the Shizuoka Hotel and the Tokyo Hotel.

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PROPERTY INTERESTS AND PROPERTY VALUATION

Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent property valuer, has valued our property interests in (i) the Shizuoka Hotel in Japan; (ii) the Tokyo Hotel; and (iii) office premises in the PRC as at 31 March 2019. The texts of its letter, summary of values and valuation certificates are set out in Appendix III to this prospectus.

In respect of (i) the Shizuoka Hotel in Japan; (ii) the Tokyo Hotel in Japan; and (iii) office premises in the PRC, the statement below show the reconciliation of the net book value as selected from our audited consolidated financial information as at 31 December 2018 as sets forth in Appendix I to this prospectus with the valuation as at 31 March 2019 as set forth in Appendix III to this prospectus, respectively:

	<i>RMB'000</i>
Net book value of our Group's property interests included in the followings as at 31 December 2018 as sets out in the Accountants' Report in Appendix I to this prospectus	
– Property, plant and equipment	124,856
– Investment properties	20,334
– Freehold land	<u>48,426</u>
	193,616
Adjustments for the three months ended 31 March 2019	
– Addition	206
– Depreciation and amortisation	(1,029)
– Exchange realignments	<u>(2,319)</u>
Net book value of our Group's property interests as at 31 March 2019	190,474
Net valuation surplus	<u>8,596</u>
Valuation of our Group's property interests as at 31 March 2019 as sets out in the property valuation report in Appendix III to this prospectus	<u><u>199,070</u></u>

As at 31 December 2018, the property interest forming part of our Group's non-property activities had a carrying amount of 15% or more of our total assets. This prospectus is in compliance with the requirements of Rule 5.01B of the Listing Rules and the requirements of section 342(1) of the Companies (WUMP) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (WUMP) Ordinance, with respect to the inclusion of a property valuation report in this prospectus. Please see Appendix III of this prospectus for the property valuation report.

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CONTRACTUAL AND CAPITAL COMMITMENTS

Operating lease arrangements

As lessor

Our Group leases our investment properties under operating lease arrangements, with leases negotiated for terms ranging from one to four years.

As at 31 December 2016, 2017 and 2018, our Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	As at 31 December		
	2016	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	88	795	765
In the second to fifth years, inclusive	<u>–</u>	<u>830</u>	<u>120</u>
	<u><u>88</u></u>	<u><u>1,625</u></u>	<u><u>885</u></u>

As lessee

Our Group leases certain of our office properties and retail shops under operating lease arrangements. Leases for the office premises are negotiated for terms ranging from one to five years.

As at 31 December 2016, 2017 and 2018, our Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 31 December		
	2016	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	258	305	1,577
In the second to fifth years, inclusive	<u>400</u>	<u>427</u>	<u>6,655</u>
	<u><u>658</u></u>	<u><u>732</u></u>	<u><u>8,232</u></u>

Our future minimum lease payments under non-cancellable operating leases increased significantly as at 31 December 2018 mainly due to the increased amount of obligations arising from leasing the furniture in the Tokyo Hotel.

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Capital commitments

As at 31 December 2016, 2017 and 2018, our Group had capital commitments as follows:

	As at 31 December		
	2016	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Contracted, but not provided for:			
Land and buildings	<u>2,993</u>	<u>57,065</u>	<u>11</u>

Our significant contracted (but not provided) amount of RMB57.1 million, representing JPY985.8 million as at 31 December 2017, was for the purpose of the construction of the Tokyo Hotel. This amount then decreased to approximately RMB11,000 because most of the contracted amount was provided for in other payables and settled as the construction was completed in 2018.

Details of our Group's operating lease arrangements and capital commitments are disclosed in notes 32 and 33 of the Accountants' Report in Appendix I to this prospectus, respectively.

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INDEBTEDNESS

	Effective interest rate (%)	Maturity	As at 31 December			As at
			2016 RMB'000	2017 RMB'000	2018 RMB'000	30 April 2019 RMB'000 (Unaudited)
Current						
Bank loans – secured	1.28	2017	36,231 ⁽¹⁾	–	–	–
Bank loans – secured	1.88	2018	–	40,518 ⁽²⁾	–	–
Bank loans – secured	1.88	2019	–	–	3,132 ⁽³⁾	–
Bank loans – secured	1.88	2020	–	–	–	3,049 ⁽³⁾
Bank loans – unsecured	1.88	2020	–	–	–	302 ⁽⁴⁾
Bank loans – secured	1.88	2020	–	–	–	1,285 ⁽⁵⁾
Bank loans – secured	4.79	2017	9,000	–	–	–
Bank loans – secured	4.79	2017	8,500	–	–	–
Bank loans – secured	4.35	2017	13,000	–	–	–
Bank loans – secured	4.35	2017	19,500	–	–	–
Bank loans – secured	4.35	2018	–	13,000	–	–
Bank loans – secured	5.22	2019	–	–	6,000	–
Bank loans – secured	5.66	2019	–	–	6,000	–
Bank loans – secured	5.66	2019	–	–	4,000	–
Bank loans – secured	5.66	2019	–	–	–	3,000
Bank loans – secured	5.66	2019	–	–	–	7,000
Bank loans – secured	5.66	2020	–	–	–	25,000
Bank loans – secured	5.22	2019	–	–	9,000	–
Bank loans – secured	5.44	2019	–	–	25,000	–
Bank loans – secured	6.09	2020	–	–	–	2,700
Bank loans – secured	6.09	2020	–	–	–	4,300
Other borrowings – unsecured	13.25	2019	–	–	500	333
Other borrowings – unsecured	9.13	2019	–	–	389	–
Other borrowings – unsecured	11.21	2019	–	–	396	400
			86,231	53,518	54,417	47,369

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Non-current

	Effective interest rate (%)	Maturity	As at 31 December			As at 30 April 2019
			2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000 (Unaudited)
Bank loans – secured	1.88	2021	18,540 ⁽⁶⁾	16,774 ⁽⁷⁾	16,615 ⁽⁸⁾	14,463 ⁽¹⁰⁾
Bank loans – unsecured	1.88	2024	–	–	–	1,506 ⁽¹¹⁾
Bank loans – secured	1.88	2032	–	–	40,189 ⁽⁹⁾	38,113 ⁽¹²⁾
			18,540	16,774	56,804	54,082

Notes:

- (1) representing JPY608.0 million
- (2) representing JPY700.0 million, reclassified to non-current on 25 October 2018
- (3) representing JPY50.6 million
- (4) representing JPY5.0 million
- (5) representing JPY21.3 million
- (6) representing JPY311.1 million
- (7) representing JPY289.8 million
- (8) representing JPY268.5 million
- (9) representing JPY649.4 million
- (10) representing JPY240.0 million
- (11) representing JPY25.0 million
- (12) representing JPY632.5 million

As at 31 December			As at 30 April 2019
2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000 (Unaudited)

Analysed into:

Bank loans repayable				
– within one year or on demand	86,231	53,518	54,417	47,369
– in the second year to fifth year	18,540	16,774	56,804	54,082
	104,771	70,292	111,221	101,451

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Our bank borrowings are secured by (i) mortgages over our buildings in the PRC, which had aggregate net carrying values of RMB32.2 million, RMB21.9 million, RMB20.6 million and RMB20.4 million as at 31 December 2016, 2017, 2018 and 30 April 2019, respectively; (ii) mortgages over our hotel buildings situated in Japan, which had aggregate net carrying values of RMB18.2 million, RMB17.2 million, RMB16.5 million and RMB16.0 million as at 31 December 2016, 2017, 2018 and 30 April 2019, respectively; (iii) mortgages over our investment properties in the PRC, which had aggregate net carrying values of RMB8.7 million, RMB20.1 million, RMB20.3 million and RMB20.4 million as at 31 December 2016, 2017 and 2018 and 30 April 2019, respectively; (iv) mortgages over our freehold land in Japan, which had aggregate net carrying values of RMB46.4 million, RMB45.4 million, RMB48.4 million and RMB47.2 million as at 31 December 2016, 2017 and 2018 and 30 April 2019, respectively; and (v) the pledge of certain of our time deposits amounting to RMB42.9 million as at 31 December 2016, respectively. Also, Mr. Yu and his wife have guaranteed certain of our bank loans of up to RMB80.0 million as at 31 December 2016. Such guarantee provided by Mr. Yu and his wife for our bank loans had been released as at 31 December 2017.

Except for the secured bank loans amounting to RMB54.8 million, RMB57.3 million, RMB60.0 million and RMB58.7 million as at 31 December 2016, 2017 and 2018 and 30 April 2019, respectively, which were denominated in JPY, all borrowings were denominated in RMB.

As at 30 April 2019, we had available banking facilities of approximately RMB106.5 million in aggregate, of which approximately RMB5.0 million were unutilised.

During the Track Record Period and up to the Latest Practicable Date, our Directors confirmed that we did not experience any delay or default in repayment of bank and other loans, withdrawal of banking facilities, request for early repayment by banks nor experience any difficulty in obtaining banking facilities with terms that are commercially acceptable to us nor breach of finance covenants. Save as disclosed, as at the date of prospectus, we confirmed that there had been no material change in our indebtedness position and we did not have any plan for further material external debt financing.

Lease liabilities

Our Group has adopted HKFRS 16 for the accounting period beginning on 1 January 2019 as stated in note 2.3 of the Accountants' Report in Appendix I to this prospectus. As such, leases have been recognised in the form of an asset (for the right of use) and a financial liability (for the payment obligation) in our Group's consolidated statement of financial position for accounting period beginning on 1 January 2019. As at 30 April 2019, our total lease liabilities were approximately RMB7.4 million.

Contingent liabilities

As at 31 December 2016, 2017 and 2018, we did not have any material contingent liabilities or guarantees.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, as at the Latest Practicable Date, our Group did not have outstanding loans, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances, trade receivables or acceptable credits, debentures, mortgages, charges, finance leases or hire purchases commitments, guarantees, material covenants, or other material contingent liabilities. As at the Latest Practicable Date, our Group did not have any external financing plans.

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OFF-BALANCE SHEET ARRANGEMENT

Our Directors confirm that there has been no material off-balance sheet arrangement since 31 December 2018 to the date of this prospectus.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The main risks arising from our Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. For details, see Note 37 of the Accountants' Report attached as Appendix I to this prospectus.

Credit risk

Our Group is exposed to credit risk in relation to its cash and cash equivalents, pledged deposits, amounts due from directors, trade receivables and other receivables. The carrying amounts of each class of the above financial assets represent our Group's maximum exposure to credit risk in relation to financial assets.

To manage risk arising from cash and cash equivalents and pledged deposits, our Group only transacts with state-owned or reputable financial institutions in mainland China and reputable international financial institutions outside of mainland China. There has been no recent history of default in relation to these financial institutions. The expected credit loss rate is close to zero.

To manage risk arising from trade receivables, our Group has policies in place to ensure that credit terms are made to counterparties with an appropriate credit history and the management performs ongoing credit evaluations of its counterparties. The credit period granted to the customers is usually no more than 30 days and the credit quality of these customers is assessed, which takes into account their financial position, past experience and other factors. Our Group applies the simplified approach to providing for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. The expected credit loss rate is very low and the expected loss allowance provision for these balances was not material during the Relevant Periods. In view of the sound collection history of receivables, management believes that the credit risk inherent in our Group's outstanding trade receivable balances is not significant.

For amounts due from directors and other receivables, management makes periodic collective assessments as well as individual assessments on the recoverability of other receivables based on historical settlement records and past experiences. As at 31 December 2016, 2017 and 2018, the credit assessment of other receivables and due from directors were performed. Our Group assessed that the expected credit losses for these receivables and due from directors are not material under the 12 months expected losses method and the expected credit loss rate is minimal. In view of the history of cooperation with debtors and the sound collection history of receivables, our Group believes that the credit risk inherent in our Group's outstanding other receivable balances and due from directors is not significant.

TRANSACTIONS WITH RELATED PARTIES

With respect to the related party transactions set forth in note 34 of the Accountants' Report in Appendix I to this prospectus, our Directors confirm that these transactions were conducted on normal commercial terms or such terms that were no less favourable to our Group than those available to independent third parties and were fair and reasonable and in the interest of our Shareholders as a whole.

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KEY FINANCIAL RATIOS

The following table sets forth our key financial ratios as of the dates indicated:

	FY2016	FY2017	FY2018
Return on equity ⁽¹⁾	25.2%	20.4%	5.9%
Return on total assets ⁽²⁾	7.6%	9.5%	2.9%
Interest coverage ⁽³⁾	<u>9.8 times</u>	<u>11.3 times</u>	<u>5.4 times</u>
	As at 31 December		
	2016	2017	2018
Current ratio ⁽⁴⁾	1.0 times	0.8 times	0.7 times
Quick ratio ⁽⁵⁾	1.0 times	0.8 times	0.7 times
Gearing ratio ⁽⁶⁾	107.5%	61.5%	90.0%
Net debt to equity ratio ⁽⁷⁾	<u>77.8%</u>	<u>36.3%</u>	<u>80.9%</u>

Notes:

- (1) Return on equity for each of FY2016, FY2017 and FY2018 was calculated based on net profit of the respective year divided by the arithmetic mean of the opening and closing balances of total equity and multiplied by 100%.
- (2) Return on total assets for each of FY2016, FY2017 and FY2018 was calculated based on net profit of the respective year divided by the arithmetic mean of the opening and closing balances of total assets and multiplied by 100%.
- (3) Interest coverage for each of FY2016, FY2017 and FY2018 was calculated based on profit before interest and tax divided by finance costs of the respective year.
- (4) Current ratio as at 31 December 2016, 2017 and 2018 was calculated based on the total current assets divided by the total current liabilities.
- (5) Quick ratio as at 31 December 2016, 2017 and 2018 was calculated based on the total current assets less inventories and divided by the total current liabilities.
- (6) Gearing ratio as at 31 December 2016, 2017 and 2018 was calculated based on total debts (being interest-bearing bank borrowings) divided by total equity as at the end of the respective year and multiplied by 100%.
- (7) Net debt to equity ratio as at 31 December 2016, 2017 and 2018 was calculated based on net debts (being interest-bearing bank borrowings net of cash and cash equivalents) divided by total equity as at the end of the respective year and multiplied by 100%.

FINANCIAL INFORMATION

Return on equity

Our return on equity decreased from approximately 25.2% for FY2016 to approximately 20.4% for FY2017 mainly due to the increase in our equity, which was primarily attributable to the net profit generated from our operation. Our return on equity decreased to approximately 5.9% for FY2018 mainly due to the decreased profit for the year. Excluding non-recurring listing expenses of approximately RMB15.5 million, our adjusted return on equity would be approximately 19.0% for FY2018, which was slightly lower than that of FY2017 primarily due to the increased equity as a result of profit generated from our operation.

Return on total assets

Our return on total assets increased from approximately 7.6% for FY2016 to approximately 9.5% for FY2017 mainly due to the increase in our net profit. Our return on total assets decreased to approximately 2.9% for FY2018 mainly due to the decreased profit for the year. Excluding non-recurring listing expenses of approximately RMB15.5 million, our adjusted return on total assets would be approximately 9.2% for FY2018, which was slightly lower than that of FY2017 primarily due to the increased total assets as the construction of the Tokyo Hotel was commenced and completed during FY2018.

Interest coverage

Our interest coverage increased from approximately 9.8 times for FY2016 to approximately 11.3 times for FY2017 mainly due to the increase in our profit before interest and tax. Our interest coverage decreased to approximately 5.4 times for FY2018 mainly due to the decrease of our profit before interest and tax. Excluding non-recurring listing expenses of approximately RMB15.5 million, our interest coverage would be approximately 11.7 times for FY2018, which was comparable to that of FY2017.

Current ratio and quick ratio

Our current ratio and quick ratio remained stable at approximately 1.0 times, 0.8 times and 0.7 times as at 31 December 2016, 2017 and 2018, respectively.

Gearing ratio and net debt to equity ratio

Our gearing ratio was approximately 107.5%, 61.5% and 90.0% as at 31 December 2016, 2017 and 2018, respectively. This is consistent with our net debt to equity ratio at approximately 77.8%, 36.3% and 80.9% as at 31 December 2016, 2017 and 31 December 2018, respectively. The decrease in our gearing ratio and net debt to equity ratio as at 31 December 2017 compared with 31 December 2016 was mainly due to the net repayment of bank loans of RMB34.5 million during FY2017. The increase in our gearing ratio and net debt to equity ratio as at 31 December 2018 compared with 31 December 2017 was mainly due to increase in interest-bearing bank borrowings of approximately RMB40.9 million mainly because we obtained new interest-bearing bank borrowings from three commercial banks in the PRC.

FINANCIAL INFORMATION

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors confirm that as at the Latest Practicable Date, there were no circumstances that would give rise to the disclosure requirements under Rules 13.13 to 13.19 of the Listing Rules.

LISTING EXPENSES

Assuming an Offer Price of HK\$0.60 per Share, being the mid-point of the indicative Offer Price range of HK\$0.52 to HK\$0.68 per Offer Share, the total estimated listing expenses in connection with the Global Offering (including underwriting commission) was approximately HK\$45.0 million.

During FY2018, listing expenses of approximately HK\$18.0 million were charged to our consolidated statements of profit or loss. For FY2019, we estimate that listing expenses of approximately HK\$9.1 million, will be charged to profit or loss account. For FY2019, we estimate that listing expenses of approximately HK\$17.9 million will be accounted for as a deduction from equity upon successful Listing under relevant accounting standards.

DIVIDENDS

No dividends have been paid or declared by our Group during the Track Record Period and up to the Latest Practicable Date. We do not have a fixed dividend policy. The declaration of dividends is subject to the discretion of our Board and the approval of our Shareholders. Our Directors may recommend a payment of dividends in the future after taking into account our operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions, capital expenditure and future development requirements, shareholders' interests and other factors which they may deem relevant at such time. Any declaration and payment as well as the amount of the dividends will be subject to constitutional documents, any applicable laws and regulations, including the Cayman Companies Law, and the approval of our Shareholders. Any future declarations of dividends may or may not reflect our historical declarations of dividends and will be at the absolute discretion of our Directors.

Any distributable profits that are not distributed in any given year will be retained and available for distribution in subsequent years. To the extent profits are distributed as dividends, such portion of profits will not be available to be reinvested in our operations.

DISTRIBUTABLE RESERVES

Our Company was incorporated on 27 February 2018 and is an investment holding company. There were no reserves available for distribution to our Shareholders as at the Latest Practicable Date.

FINANCIAL INFORMATION

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted consolidated net tangible assets of our Group have been prepared in accordance with paragraph 4.29 of Listing Rules and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for inclusion in Investment Circulars” issued by the HKICPA for illustration purposes only, and is set out here to illustrate the effect of the Global Offering on the consolidated net tangible assets of our Group attributable to owners of our Company as at 31 December 2018 as if Global Offering had taken place on 31 December 2018.

The unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owners of our Company has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of our Group had the Global Offering been completed as at 31 December 2018 or any future date. It is prepared based on the consolidated net tangible assets as at 31 December 2018 as set out in the Accountants’ Report as set out in Appendix I to this prospectus, and adjusted as described below.

	Consolidated net tangible assets attributable to owners of our Company as at 31 December 2018	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted consolidated net tangible assets	Unaudited pro forma adjusted consolidated net tangible assets per Share	
	<i>RMB'000</i> <i>(Note 1)</i>	<i>RMB'000</i> <i>(Note 2)</i>	<i>RMB'000</i>	<i>RMB</i> <i>(Note 3)</i>	<i>HK\$</i> <i>equivalent</i> <i>(Note 4)</i>
Based on an Offer Price of HK\$0.52 per Share	106,675	89,766	196,441	0.20	0.23
Based on an Offer Price of HK\$0.68 per Share	106,675	122,143	228,818	0.23	0.27

Notes:

- (1) The consolidated net tangible assets attributable to owners of our Company as at 31 December 2018 is arrived at after deducting goodwill of RMB13,686,000 and other intangible assets of RMB592,000 from the consolidated equity attributable to owners of our Company of RMB120,953,000 as at 31 December 2018, as shown in Appendix I to this prospectus.
- (2) The estimated net proceeds from the Global Offering are calculated based on the Offer Price of HK\$0.52 per Share or HK\$0.68 per Share, being the low-end price and high-end price, after deduction of the underwriting fees and related expenses payable by our Company and do not take into account any Shares which may be issued upon exercise of the Over-allotment Option.

FINANCIAL INFORMATION

- (3) The unaudited pro forma adjusted consolidated net tangible assets per Share are calculated based on 1,000,000,000 Shares in issue immediately following the completion of the Global Offering without taking into account any Shares which may be issued upon exercise of the Over-allotment Option or any option which may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased under the general mandates for the allotment and issue or repurchase of the Shares as described in “Appendix V – Statutory and General Information”.
- (4) The unaudited pro forma adjusted consolidated net tangible assets per Share are converted into Hong Kong dollars at an exchange rate of RMB1.00 to HK\$1.16.
- (5) No adjustment has been made to reflect any trading result or open transaction of our Group entered into subsequent to 31 December 2018.

CORNERSTONE INVESTORS

THE CORNERSTONE PLACING

We and the Joint Global Coordinators have entered into cornerstone investment agreements with two cornerstone investors (the “**Cornerstone Investors**” and each a “**Cornerstone Investor**”) who have agreed to subscribe for such number of Offer Shares (rounded down to the nearest whole board lot of 4,000 Shares) which may be purchased for an aggregate amount of HK\$27,000,000 at the Offer Price (exclusive of the brokerage, the SFC transaction levy and the Stock Exchange trading fee) (the “**Cornerstone Placing**”):

- assuming an Offer Price of HK\$0.68 (being the high-end of the Offer Price range set out in this prospectus), assuming no Shares are issued under the Share Option Scheme, in the respective cases where the Over-allotment Option is not exercised and where the same is exercised, the total number of the Shares to be subscribed for by the Cornerstone Investors will both be 39,704,000 Shares (rounded down to the nearest whole board lot), representing approximately 4.0% of the Shares in issue immediately upon completion of the Global Offering in both cases, and approximately 15.9% and 13.8% of the Offer Shares immediately upon completion of the Global Offering, respectively;
- assuming an Offer Price of HK\$0.60 (being the mid-point of the Offer Price range set out in this prospectus), assuming no Shares are issued under the Share Option Scheme, in the respective cases where the Over-allotment Option is not exercised and where the same is exercised, the total number of the Shares to be subscribed for by the Cornerstone Investors will both be 45,000,000 Shares (rounded down to the nearest whole board lot), representing approximately 4.5% of the Shares in issue immediately upon completion of the Global Offering in both cases, and approximately 18.0% and 15.7% of the Offer Shares immediately upon completion of the Global Offering, respectively; and
- assuming an Offer Price of HK\$0.52 (being the low-end of the Offer Price range set out in this prospectus), assuming no Shares are issued under the Share Option Scheme, in the respective cases where the Over-allotment Option is not exercised and where the same is exercised, the total number of the Shares to be subscribed for by the Cornerstone Investors will both be 51,920,000 Shares (rounded down to the nearest whole board lot), representing approximately 5.2% of the Shares in issue immediately upon completion of the Global Offering in both cases, and approximately 20.8% and 18.1% of the Offer Shares immediately upon completion of the Global Offering, respectively.

The subscriptions of the Offer Shares by the Cornerstone Investors will form part of the International Placing. To the best of the Directors’ knowledge, information and belief having made all reasonable enquiry, each of the Cornerstone Investors is an independent third party, is not our connected person, is independent of each other, our Group, its connected person(s) and respective associate(s) and is not an existing shareholder or close associate of our Group. The Shares to be subscribed for by the Cornerstone Investor will be counted towards the public float of our Company and will rank pari passu with the Shares then in issue and to be listed on the Stock Exchange. Immediately following the completion of the Global Offering, the Cornerstone Investors will not have any Board representation in our Company, nor will any of them become a substantial shareholder or connected person of our Company, and will not further subscribe any Offer Shares in the Global Offering. None of the Cornerstone Investors has any preferential rights compared with other public shareholders pursuant to the cornerstone investment agreements. The Offer Shares to be subscribed for by the Cornerstone Investors will not be affected by any reallocation of the Offer Shares between the International Placing and the Hong Kong Public Offer described in “Structure and Conditions of the Global Offering – Allocation”.

CORNERSTONE INVESTORS

Details of allocation to the Cornerstone Investors will be disclosed in the announcement of allotment results of our Company to be published on or about Thursday, 27 June 2019.

THE CORNERSTONE INVESTORS

We set out below a brief description of each of the Cornerstone Investors:

Navibell Venture Corp.

Our Company and the Joint Global Coordinators have entered into a cornerstone investment agreement with Navibell Venture Corp. (“**Navibell**”) on 13 June 2019, pursuant to which Navibell agreed to subscribe for such number of Offer Shares (rounded down to the nearest whole board lot of 4,000 Shares) which may be purchased with an aggregate amount of HK\$25,000,000 at the Offer Price (exclusive of the brokerage, the SFC transaction levy and the Stock Exchange trading fee). In the respective cases where the Over-allotment Option is not exercised and where the same is exercised, at the Offer Price of HK\$0.52, being the low-end of the Offer Price range set out in this prospectus, the total number of Shares that Navibell would subscribe for would be 48,076,000 Shares, representing approximately 19.2% and 16.7% of the total number of the Offer Shares, respectively, and 4.8% of our total shares in issue immediately following completion of the Global Offering; at the Offer Price of HK\$0.60, being the mid-point of the Offer Price range set out in this prospectus, the total number of Shares that Navibell would subscribe for would be 41,664,000 Shares, representing approximately 16.7% and 14.5% of the total number of the Offer Shares, respectively, and 4.2% of our total shares in issue immediately following completion of the Global Offering; and at the Offer Price of HK\$0.68, being the high-end of the Offer Price range set out in this prospectus, the total number of Shares that Navibell would subscribe for would be 36,764,000 Shares, representing approximately 14.7% and 12.8% of the total number of the Offer Shares, respectively, and 3.7% of our total shares in issue immediately following completion of the Global Offering. The number of Shares to be subscribed by Navibell should not exceed 10% of the total shares in issue immediately following the completion of the Global Offering.

Navibell is a limited liability company incorporated in the BVI and is principally engaged in investment. Navibell is wholly owned by Colombo Development Limited, which is wholly owned by Equity Trustee Limited as trustee of The XIE Family Trust. Mr. Xie Shihuang (謝世煌), an independent third party, is the settlor and a discretionary beneficiary of The XIE Family Trust.

Mr. Sheng Sen(盛森)

Our Company and the Joint Global Coordinators have entered into a cornerstone investment agreement with Mr. Sheng Sen (盛森) (“**Mr. Sheng**”) on 13 June 2019, pursuant to which Mr. Sheng agreed to subscribe for such number of Offer Shares (rounded down to the nearest whole board lot of 4,000 Shares) which may be purchased with an aggregate amount of HK\$2,000,000 at the Offer Price (exclusive of the brokerage, the SFC transaction levy and the Stock Exchange trading fee). In the respective cases where the Over-allotment Option is not exercised and where the same is exercised, at the Offer Price of HK\$0.52,

CORNERSTONE INVESTORS

being the low-end of the Offer Price range set out in this prospectus, the total number of Shares that Mr. Sheng would subscribe for would be 3,844,000 Shares, representing approximately 1.5% and 1.3% of the total number of the Offer Shares, respectively, and 0.4% of our total shares in issue immediately following completion of the Global Offering; at the Offer Price of HK\$0.60, being the mid-point of the Offer Price range set out in this prospectus, the total number of Shares that Mr. Sheng would subscribe for would be 3,332,000 Shares, representing approximately 1.3% and 1.2% of the total number of the Offer Shares, respectively, and 0.3% of our total shares in issue immediately following completion of the Global Offering; and at the Offer Price of HK\$0.68, being the high-end of the Offer Price range set out in this prospectus, the total number of Shares that Mr. Sheng would subscribe for would be 2,940,000 Shares, representing approximately 1.2% and 1.0% of the total number of the Offer Shares, respectively, and 0.3% of our total shares in issue immediately following completion of the Global Offering. The number of Shares to be subscribed by Mr. Sheng should not exceed 10% of the total shares in issue immediately following the completion of the Global Offering.

Mr. Sheng Sen (盛森), an independent third party, is the founder of Hupan Hongsheng Fund (湖畔宏盛基金). Mr. Sheng has over 20 years of experience in relation to operation, sales and marketing and strategic investments regarding telecommunication and internet products.

CONDITIONS PRECEDENT

The subscription obligation of the Cornerstone Investors is subject to, among other things, the following conditions precedent:

- (a) the Hong Kong Underwriting Agreement and the International Underwriting Agreement having been entered into, become effective and having become unconditional (in accordance with their respective original terms, as subsequently varied by agreement of the parties thereto or waived, to the extent it may be waived, by the relevant parties) by no later than the time and date as respectively specified in the Hong Kong Underwriting Agreement and the International Underwriting Agreement;
- (b) neither of the Hong Kong Underwriting Agreement nor the International Underwriting Agreement having been terminated;
- (c) no laws having been enacted or promulgated by any governmental authority which prohibit the consummation of the transactions contemplated under the cornerstone investment agreements and there being no orders or injunctions from a court of competent jurisdiction in effect precluding or prohibiting consummation of the transactions contemplated under the cornerstone investment agreements; and
- (d) the respective representations, warranties and confirmations of the Cornerstone Investors and our Company are accurate and true and not misleading and that there is no material breach of the cornerstone investment agreements on the part of the Cornerstone Investors or our Company.

CORNERSTONE INVESTORS

RESTRICTIONS ON DISPOSALS BY THE CORNERSTONE INVESTORS

Each of the Cornerstone Investors has agreed that, without the prior written consent of each of our Company and the Joint Global Coordinators, it will not at any time during the period of six months following the Listing Date (the “**Lock-up Period**”) (a) offer, pledge, charge, sell, lend, transfer, mortgage, contract to sell, sell any options or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any legal or beneficial interests in the Shares to be subscribed pursuant to the cornerstone investment agreement (the “**Relevant Shares**”) or any securities convertible into or exercisable or exchangeable for, or that represent any rights to receive, the Relevant Shares; (b) enter into any swaps or other arrangements that transfer to another, in whole or in part, any economic consequences of ownership of the Relevant Shares; (c) enter into any transactions directly or indirectly with the same economic effect as any transactions described in sub-paragraphs (a) and (b) above; (d) agree or contract to, or publicly announce any intention to enter into, any transactions described in sub-paragraphs (a) and (b) above; (e) agree or contract to do any of the transactions described in sub-paragraphs (a) to (d) above during the Lock-up Period and whether any such transactions described in sub-paragraphs (a) or (b) or (c) above is to be settled by delivery of such Relevant Shares or other securities, in cash or otherwise.

FUTURE PLANS AND USE OF PROCEEDS

BUSINESS STRATEGIES

Please see “Business – Our Business Strategies” for detailed description of our business strategies.

USE OF PROCEEDS

We estimate that the aggregate net proceeds to us from the Global Offering (after deducting underwriting fees and estimated expenses payable by us in connection with the Global Offering, and assuming an Offer Price of HK\$0.60 per Offer Share, being the mid-point of the indicative Offer Price range) will be approximately HK\$105.0 million, assuming that Over-allotment Option is not exercised. We currently intend to apply such net proceeds in the following manner:

- (i) approximately 2% of the net proceeds of the Global Offering (approximately HK\$2.1 million, based on the mid-point of the indicative Offer Price range) will be used to enhance our product portfolio by developing new products and services. For example, we will continue to explore new destinations and develop new itineraries for our existing tours to give our customers new and different travel experience;
- (ii) approximately 13% of the net proceeds of the Global Offering (approximately HK\$13.7 million, based on the mid-point of the indicative Offer Price range) will be used to purchase tour buses and for the engagement of the third party tour bus operators, of which approximately HK\$11.3 million is used to purchase such tour buses and approximately HK\$2.4 million is used for the engagement of the third party tour bus operators;
- (iii) approximately 20% of the net proceeds of the Global Offering (approximately HK\$21.0 million, based on the mid-point of the indicative Offer Price range) will be used (i) to establish sales network in Hong Kong; (ii) to expand our customer base by opening new office(s) in Hong Kong in the next two years; (iii) for the operation of our new Hong Kong office(s); and (iv) for hiring of personnels to be based at our Hong Kong office(s);
- (iv) approximately 20% of the net proceeds of the Global Offering (approximately HK\$21.0 million, based on the mid-point of the indicative Offer Price range) will be used to acquire hospitality asset In Kyoto, Japan. Our Group intends to acquire a traditional Japanese home (町家) and convert it into bed and breakfast guesthouse, also known as minshuku in Japan. In evaluating the acquisition target, we will consider the following criteria such as (a) geographical location; (b) growth potential; and (c) estimated capital expenditure. As at the Latest Practicable Date, there is no identifiable or specific acquisition target identified by us;
- (v) approximately 20% of the net proceeds of the Global Offering (approximately HK\$21.0 million, based on the mid-point of the indicative Offer Price range) will be used to invest in a travel agency company in Tokyo, Japan. Our Group intends

FUTURE PLANS AND USE OF PROCEEDS

to invest in a travel agency company in Tokyo which has an established sales channel and developed local tour products of new destination in Japan which caters for Chinese tourists. We will consider the following criteria such as (a) target geographical locations; (b) management team; (c) business focus and resources; and (d) financial condition and profitability when seeking investment opportunities. As at the Latest Practicable Date, we had not formulated any concrete plan to invest in the potential target nor progressed to formal negotiations or signed any definitive and finalised understanding, commitment or agreement with these potential targets;

- (vi) approximately 15% of the net proceeds of the Global Offering (approximately HK\$15.7 million, based on the mid-point of the indicative Offer Price range) will be used to engage more personnel in Japan as we plan to strengthen our land operation capability and in view of the commencement of operation of the Tokyo Hotel in October 2018; and
- (vii) approximately 10% of the net proceeds of the Global Offering (approximately HK\$10.5 million, based on the mid-point of the indicative Offer Price range) will be used for general working capital.

For the period from the Latest Practicable Date to 31 December 2020, our net proceeds from the Global Offering, based on the mid-point of the indicate Offer Price range, will be used as follows:

	From the Latest Practicable Date to 30 June 2019 <i>HK\$'000</i>	For the six months ending			Total <i>HK\$'000</i>	Approximate % of the total net proceeds
	31 December 2019 <i>HK\$'000</i>	30 June 2020 <i>HK\$'000</i>	31 December 2020 <i>HK\$'000</i>	<i>HK\$'000</i>		
Continue to enhance our product portfolio by developing new products and services	–	700	700	700	2,100	2.0%
– To develop new destinations and itineraries for Japan tours	–	560	560	560	1,680	1.6%
– To develop more one to six-day local tours in Tokyo and Kyoto	–	140	140	140	420	0.4%
Purchase tour buses and establish our bus fleet	–	13,700	–	–	13,700	13.0%

FUTURE PLANS AND USE OF PROCEEDS

	From the Latest Practicable Date to 30 June 2019	For the six months ending			Total	Approximate % of the total net proceeds
	<i>HK\$'000</i>	31 December 2019	30 June 2020	31 December 2020		
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>		
Establish sales network in Hong Kong and to expand our customer base	–	6,800	6,040	8,160	21,000	20.0%
– To recruit, train and employ around 20 additional staff for the operation of new office(s)	–	1,000	1,440	3,560	6,000	5.7%
– To renovate and set up new office(s) and sales centre, including management fees, rents and utility bills	–	3,000	3,000	3,000	9,000	8.6%
– To implement sales and marketing strategies	–	2,000	1,500	1,500	5,000	4.8%
– To apply for the necessary licenses and to engage professionals for such application	–	800	100	100	1,000	0.9%
Identify and pursue hospitality asset acquisition opportunities in Kyoto, Japan	–	21,000	–	–	21,000	20.0%
– To acquire the hospitality asset	–	18,165	–	–	18,165	17.3%
– To engage tax consultants, agents and professionals	–	2,835	–	–	2,835	2.7%
Strengthen our market position and increase our market share by investing in a travel agency company in Tokyo, Japan	–	21,000	–	–	21,000	20.0%
– To invest in a travel agency company in Tokyo, Japan	–	18,165	–	–	18,165	17.3%
– To engage tax consultants, agents and professionals	–	2,835	–	–	2,835	2.7%
Continue to attract experienced personnel through recruitment and provide trainings and professional development to existing personnel	100	5,200	5,200	5,200	15,700	15.0%
Working capital and other general corporate purposes	–	3,500	3,500	3,500	10,500	10.0%
Totals:	<u>100</u>	<u>71,900</u>	<u>15,440</u>	<u>17,560</u>	<u>105,000</u>	<u>100.0%</u>

If the final Offer Price (assuming the Over-allotment Option is not exercised) is set at (i) the lowest; or (ii) the highest of the indicative Offer Price, the net proceeds from the Global Offering are estimated to be (i) approximately HK\$86.2 million or (ii) approximately

FUTURE PLANS AND USE OF PROCEEDS

HK\$123.8 million respectively. In such event, the estimated net proceeds will decrease or increase by approximately HK\$18.8 million respectively and are intended to be used in the same proportions as disclosed above.

If the Over-allotment Option is exercised in full, the estimated net proceeds from the Global Offering will increase to (i) approximately HK\$104.5 million (assuming that the final Offer Price is set at the lowest of the indicative Offer Price), (ii) approximately HK\$127.5 million (assuming that the final Offer Price is set at the mid-point of the indicative Offer Price), and (iii) approximately HK\$147.8 million (assuming that the final Offer Price is set at the highest of the indicative Offer Price) respectively, Our Group intends to apply the additional net proceeds from the exercise of the Over-allotment Option in the same proportions as disclosed above.

Should our Directors decide to re-allocate the intended use of proceeds to other business plans and/or new projects of our Group to a material extent and/or there is to be any material modification to the use of proceeds as described above, we will make appropriate announcement(s) in due course.

To the extent that the net proceeds from the Global Offering are not immediately required for the above purposes or if we are unable to effect any part of our future development plans as intended, we may hold such funds in short-term deposits with licensed banks and authorised financial institutions in Hong Kong and/or the PRC for so long as it is in our best interests.

REASONS FOR THE LISTING

The followings are our main purposes for seeking the Listing:

- since Renminbi is not a freely convertible currency and overseas investment might be subject to the registration, filings and approval requirements of the relevant PRC government authority, the Directors consider that Listing in Hong Kong with no foreign exchange controls in force is more suitable for us in light of our business strategies to (a) establish sales network in Hong Kong; (b) identify and pursue hospitality asset acquisition opportunities in Tokyo, Japan; and (c) invest a travel agency company in Tokyo, Japan;
- providing a platform for our Group to access the capital markets for future secondary fund-raising through either (i) the issuance of shares or (ii) for debt securities, depending on the prevailing market condition at the time of capital needs. It can also provide additional funding sources to cater for our Group's further expansion plans (other than those future plans stated in this prospectus) and when opportunities arise. Furthermore, the ability to obtain bank financing is generally easier with a listed entity as compared to a private entity and our Directors believe that a Listing status will allow us to gain leverage in obtaining bank financing with relatively more favourable terms in the PRC and Hong Kong, in which the latter in general has a lower interest rate than in the PRC;

FUTURE PLANS AND USE OF PROCEEDS

- broadening our shareholder base and enhance the liquidity of the Shares, as compared to the limited liquidity of the Shares that are privately held before the Listing;
- enhancing our corporate profile, visibility and our market presence to generate reassurance among our clients and suppliers. By way of the Listing, we can elevate our corporate image and status and provide reassurance and confidence to our clients and suppliers, which in turn provides a stronger bargaining position when exploring new business opportunities with our clients and suppliers. Furthermore, with a more established corporate image, it will enable us to take on projects of greater size; and
- enhancing employee incentive and commitment. Human resources and talents are vital to our business, being a listed company can help to attract, recruit and retain our valued management personnel, employees and skilled professionals to provide additional incentive. To this end, we have also put in place the Share Option Scheme for our employees in order to attract and retain talents. Please see “Statutory and General Information – D. Proposed Share Award Plan” in Appendix V to this prospectus for a summary of principal terms of the scheme.

UNDERWRITING

HONG KONG UNDERWRITERS

Innovax Securities
Crosby Securities
Mason Securities
BOA International Securities
Haitong International Securities

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offer

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, our Company is offering 25,000,000 Hong Kong Offer Shares for subscription by the public in Hong Kong on, and subject to, the terms and conditions set out in this prospectus and the Application Forms.

Subject to:

- (a) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, our Shares in issue and to be issued as mentioned in this prospectus and such listing and permission not subsequently being revoked; and
- (b) certain other conditions set out in the Hong Kong Underwriting Agreement (including but not limited to the Offer Price being agreed upon between us and the Joint Global Coordinators (for themselves and on behalf of the other Underwriters)),

the Hong Kong Underwriters have agreed severally, and not jointly, to subscribe for, or procure subscribers for, the Hong Kong Offer Shares which are being offered but are not taken up under the Hong Kong Public Offer, on the terms and conditions set out in this prospectus, the Application Forms and the Hong Kong Underwriting Agreement. If, for any reason, the Offer Price is not agreed between us and the Joint Global Coordinators (for themselves and on behalf of the other Hong Kong Underwriters), the Global Offering will not proceed and will lapse.

The Hong Kong Underwriting Agreement is conditional upon and subject to the International Underwriting Agreement having been signed and becoming unconditional and not having been terminated.

Grounds for termination

The obligations of the Hong Kong Underwriters to subscribe or procure subscribers for the Hong Kong Offer Shares will be subject to termination by notice in writing to our Company from the Joint Global Coordinators (for themselves and on behalf of the other Hong Kong Underwriters) with immediate effect if any of the following events occur at or prior to 8:00 a.m. on the Listing Date:

UNDERWRITING

- (a) there has come to the notice of the Joint Global Coordinators:
- (i) that any statement contained in any of this prospectus and the Application Forms and/or any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of our Company in connection with the Global Offering (including any supplement or amendments thereto) (collectively, the “**Relevant Documents**”), was, when it was issued, or has become, untrue, incorrect, misleading or deceptive in any respect or that any forecast, expression of opinion, intention or expectation expressed in any of the Relevant Documents is not, in the sole and absolute opinion of the Joint Global Coordinators (for themselves and on behalf of the other Hong Kong Underwriters), fair and honest and based on reasonable assumptions, when taken as a whole; or
 - (ii) that any matter has arisen or has been discovered which would or might, had it arisen or been discovered immediately before the respective dates of the publication of the Relevant Documents, constitute an omission therefrom; or
 - (iii) any breach of any of the obligations imposed or to be imposed upon any party to the Hong Kong Underwriting Agreement or the International Underwriting Agreement (in each case, other than on the part of any of the Underwriters); or
 - (iv) any event, act or omission which gives or is likely to give rise to any liability of any of our Company, our executive Directors and the Controlling Shareholders (the “**Warrantors**”) pursuant to the indemnities given by them under the Hong Kong Underwriting Agreement or under the International Underwriting Agreement; or
 - (v) any change or development involving a prospective adverse change in the assets, liabilities, general affairs, management, business prospects, shareholders’ equity, profits, losses, results of operations, position or conditions (financial, trading or otherwise) or performance of any member of our Group (“**Group Company**”); or
 - (vi) any breach of, or any event or circumstance rendering untrue or incorrect in any respect, any of the representations, warranties, agreements and undertakings to be given by the Warrantors respectively in terms set out in the Hong Kong Underwriting Agreement; or
 - (vii) the approval by the Listing Committee of the Stock Exchange of the listing of, and permission to deal in, the Shares (including any additional Shares that may be issued upon the exercise of the Over-allotment Option) is refused or not granted, or is qualified (other than subject to customary conditions), on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or

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- (viii) our Company withdraws any of the Relevant Documents or the Global Offering; or
 - (ix) any person (other than the Hong Kong Underwriters) has withdrawn or sought to withdraw its consent to being named in any of the Offer Documents or to the issue of any of the Offer Documents; or
 - (x) that a petition or an order is presented for the winding-up or liquidation of any Group Company or any Group Company makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of any Group Company or a provisional liquidator, receiver or manager is appointed to take over all or part of the assets or undertaking of any Group Company or anything analogous thereto occurs in respect of any Group Company; or
 - (xi) an authority or a political body or organisation in any relevant jurisdiction has commenced any investigation or other action, or announced an intention to investigate or take other action, against any of the Directors and senior management member of our Group as set out in the “Directors and Senior Management” section of this prospectus; or
 - (xii) a portion of the orders in the bookbuilding process, which is considered by the Joint Global Coordinators (for themselves and on behalf of the other Hong Kong Underwriters) in its absolute opinion to be material, at the time the International Underwriting Agreement is entered into, or the investment commitments by any cornerstone investors after signing of agreements with such cornerstone investors, have been withdrawn, terminated or cancelled, and the Joint Global Coordinators (for themselves, in its sole and absolute discretion, conclude that it is therefore inadvisable or inexpedient or impracticable to proceed with the Global Offering; or
 - (xiii) any loss or damage has been sustained by any Group Company (howsoever caused and whether or not the subject of any insurance or claim against any person) which is considered by the Joint Global Coordinators (for themselves and on behalf of the other Hong Kong Underwriters) in its sole absolute opinion to be material; or
- (b) there shall develop, occur, exist or come into effect:
- (i) any local, national, regional, international event or circumstance, or series of events or circumstances, beyond the reasonable control of the Underwriters (including, without limitation, any acts of government or orders of any courts, strikes, calamity, crisis, lock-outs, fire, explosion, flooding, civil commotion, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God, acts of terrorism, declaration of a local, regional, national or international emergency, riot, public disorder, economic sanctions, outbreaks of diseases, pandemics or epidemics (including, without

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limitation, Severe Acute Respiratory Syndrome, avian influenza A (H5N1), Swine Flu (H1N1), Middle East Respiratory Syndrome or such related or mutated forms) or interruption or delay in transportation); or

- (ii) any change or development involving a prospective change, or any event or circumstance or series of events or circumstances likely to result in any change or development involving a prospective change, in any local, regional, national, international, financial, economic, political, military, industrial, fiscal, legal regulatory, currency, credit or market conditions (including, without limitation, conditions in the stock and bond markets, money and foreign exchange markets, the interbank markets and credit markets); or
- (iii) any moratorium, suspension or restriction on trading in securities generally (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) on the Stock Exchange, the New York Stock Exchange, the London Stock Exchange, the NASDAQ Global Market, the Shanghai Stock Exchange, the Shenzhen Stock Exchange and the Tokyo Stock Exchange; or
- (iv) any new law(s), rule(s), statute(s), ordinance(s), regulation(s), guideline(s), opinion(s), notice(s), circular(s), order(s), judgment(s), decree(s) or ruling(s) of any governmental authority (“**Law(s)**”), or any change or development involving a prospective change in existing Laws, or any event or circumstance or series of events or circumstances likely to result in any change or development involving a prospective change in the interpretation or application of existing Laws by any court or other competent authority, in each case, in or affecting any of Hong Kong, the PRC, the United States, Cayman Islands, the European Union (or any member thereof) or any other jurisdictions relevant to any Group Company or the Global Offering (the “**Specific Jurisdictions**”); or
- (v) any general moratorium on commercial banking activities, or any disruption in commercial banking activities, foreign exchange trading or securities settlement or clearance services or procedures or matters, in or affecting any of the Specific Jurisdictions; or
- (vi) the imposition of economic sanctions, in whatever form, directly or indirectly, by or for any of the Specific Jurisdictions; or
- (vii) a change or development involving a prospective change in or affecting taxation or exchange control (or the implementation of any exchange control), currency exchange rates or foreign investment Laws (including, without limitation, any change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or a material fluctuation in the exchange rate of the Hong Kong dollar or the Renminbi against any foreign currency) in or affecting any of the Specific Jurisdictions or affecting an investment in the Shares; or

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- (viii) any change or development involving a prospective change, or a materialisation of, any of the risks set out in “Risk Factors”; or
- (ix) any litigation or claim of any third party being threatened or instigated against any Group Company or any of the Warrantors; or
- (x) any of the Directors and senior management member of our Company as set out in “Directors and Senior Management” being charged with an indictable offence or prohibited by operation of Law or otherwise disqualified from taking part in the management of a company; or
- (xi) the chairman or chief executive officer of our Company vacating his or her office; or
- (xii) the commencement by any governmental, regulatory or political body or organisation of any action against a Director in his or her capacity as such or an announcement by any governmental, regulatory or political body or organisation that it intends to take any such action; or
- (xiii) a contravention by any Group Company or any Director of the Listing Rules, the Companies Ordinance or any other Laws applicable to the Global Offering; or
- (xiv) a prohibition on our Company for whatever reason from allotting, issuing or selling the Offer Shares and/or the Over-allotment Shares pursuant to the terms of the Global Offering; or
- (xv) non-compliance of this prospectus and the other Relevant Documents or any aspect of the Global Offering with the Listing Rules or any other Laws applicable to the Global Offering; or
- (xvi) the issue or requirement to issue by our Company of a supplement or amendment to this prospectus and/or any other documents in connection with the Global Offering pursuant to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Listing Rules or any requirement or request of the Stock Exchange and/or the SFC; or
- (xvii) a valid demand by any creditor for repayment or payment of any indebtedness of any Group Company or in respect of which any Group Company is liable prior to its stated maturity,

which in each case individually or in aggregate in the sole and absolute opinion of the Joint Global Coordinators (for themselves and on behalf of the other Hong Kong Underwriters):

- (a) has or is or will or may or could be expected to have an adverse effect on the assets, liabilities, business, general affairs, management, shareholders’ equity, profits, losses, results of operation, financial, trading or other condition or

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position or prospects or risks of our Company or our Group or any Group Company or on any present or prospective shareholder of our Company in his, her or its capacity as such; or

- (b) has or will or may have or could be expected to have an adverse effect on the success, marketability or pricing of the Global Offering or the level of applications under the Hong Kong Public Offer or the level of interest under the International Placing; or
- (c) makes or will make or may make it inadvisable, inexpedient or impracticable for any part of the Hong Kong Underwriting Agreement or the Global Offering to be performed or implemented or proceeded with as envisaged or to market the Global Offering or shall otherwise result in an interruption to or delay thereof; or
- (d) has or will or may have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof.

Undertakings given to the Stock Exchange pursuant to the Listing Rules

By our Company

We have undertaken to the Stock Exchange that we shall not issue any further Shares or securities convertible into our equity securities (whether or not of a class already listed) or enter into any agreement to issue any such Shares or securities within six months from the Listing Date (whether or not such issue of Shares will be completed within six months from the Listing Date), except in certain circumstances prescribed by Rule 10.08 of the Listing Rules.

By our Controlling Shareholders

Pursuant to Rule 10.07 of the Listing Rules, each of our Controlling Shareholders has undertaken to us and to the Stock Exchange that except pursuant to the Global Offering, the Over-allotment Option or the Stock Borrowing Agreement, it shall not:

- (a) in the period commencing on the date by reference to which disclosure of its shareholdings in our Company is made in this prospectus and ending on the date which is six months from the Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of our securities that it is shown to beneficially own in this prospectus (the “**Relevant Shares**”); or
- (b) in the period of a further six months commencing on the date on which the period referred to in paragraph (a) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Relevant Shares if, immediately following

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such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it will cease to be a controlling shareholder (as defined in the Listing Rules) of our Company.

Each of our Controlling Shareholders has further undertaken to us and the Stock Exchange that, within the period commencing on the date by reference to which disclosure of its shareholdings in our Company is made in this prospectus and ending on the date which is 12 months from the Listing Date, it will:

- (a) when it pledges or charges any securities in our Company beneficially owned by it in favor of an authorised institution pursuant to Note (2) to Rule 10.07(2) of the Listing Rules, immediately inform us in writing of such pledge or charge together with the number of our securities so pledged or charged; and
- (b) when it receives indications, either verbal or written, from the pledgee or chargee that any of our pledged or charged securities beneficially owned by it will be disposed of, immediately inform us in writing of such indications.

We will also inform the Stock Exchange as soon as we have been informed of the matters mentioned in the paragraphs (a) and (b) above by any of our Controlling Shareholders and subject to the then requirements of the Listing Rules disclose such matters by way of an announcement which is published in accordance with Rule 2.07C of the Listing Rules as soon as possible.

Undertakings given to the Hong Kong Underwriters

Undertakings by our Company

Our Company has undertaken to each of the Sole Sponsor, the Joint Global Coordinators and the Hong Kong Underwriters that except pursuant to the Global Offering (including pursuant to the Over-allotment Option) and the exercise of any options granted or to be granted under the Share Option Scheme, during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on, and including, the date that is six months after the Listing Date (the “**First Six-Month Period**”), we will not, and will procure each other Group Company not to, without the prior written consent of the Sole Sponsor and the Joint Global Coordinators (for themselves and on behalf of the other Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (a) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an pledge, charge, lien, mortgage, option, restriction, right of first refusal, security interest, claim, pre-emption rights, equity interest, third party rights or interests or rights of the same nature as that of the foregoing or other encumbrances or security interest of any kind or another type of preferential arrangement (including without limitation, retention arrangement) having similar effect (“**Encumbrance**”) over, or agree to transfer or dispose of or

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create an Encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of our Company or any shares or other securities of such other Group Company, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any other warrants or other rights to purchase, any Shares or any shares of such other Group Company, as applicable), or deposit any Shares or other securities of our Company or any shares or other securities of such other Group Company, as applicable, with a depository in connection with the issue of depository receipts; or repurchase any Shares or other securities of our Company or any shares or other securities of such other Group Company, as applicable; or

- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or other securities of our Company or any shares or other securities of such other Group Company, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or other securities of our Company or any shares or other securities of such other Group Company, as applicable); or
- (c) enter into any transaction with the same economic effect as any transactions specified in (a) or (b) above; or
- (d) offer to or agree to or announce any intention to effect any transaction specified in (a), (b) or (c) above,

in each case, whether any of the transactions specified in (a), (b) or (c) above is to be settled by delivery of Shares or other securities of our Company or shares or other securities of such other Group Company, as applicable, or in cash or otherwise (whether or not the issue of such Shares or other shares or securities will be completed within the First Six-Month Period).

Our Company has also undertaken that it will not, and will procure each other Group Company not to, enter into any of the transactions specified in (a), (b) or (c) above or offer to or agree to or announce any intention to effect any such transaction, such that any of our Controlling Shareholders would cease to be a controlling shareholder (as defined in the Listing Rules) of our Company during the period of six months immediately following the expiry of the First Six-Month Period (the “**Second Six-Month Period**”).

In the event that, during the Second Six-Month Period, our Company enters into any of the transactions specified in (a), (b) or (c) above or offers to or agrees to or announces any intention to effect any such transaction, our Company shall take all reasonable steps to ensure that it will not create a disorderly or false market in any Shares or other securities of our Company.

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By our Controlling Shareholders

Each of our Controlling Shareholders has undertaken jointly and severally to each of our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the other Hong Kong Underwriters that, except pursuant to the Stock Borrowing Agreement and in compliance with the requirements under Rule 10.07(3) of the Listing Rules, without the prior written consent of the Sole Sponsor and the Joint Global Coordinators (for themselves and on behalf of the other Hong Kong Underwriters):

- (i) at any time during the First Six-Month Period, it/he/she shall not, and shall procure that the relevant registered holder(s), any nominee or trustee holding on trust for it/him/her and the companies controlled by it/he/she (together, the “**Controlled Entities**”) shall not,
 - (a) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an Encumbrance over, or agree to transfer or dispose of or create an Encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares) beneficially owned by it/him/her directly or indirectly through its Controlled Entities (the “**Relevant Securities**”), or deposit any Relevant Securities with a depository in connection with the issue of depository receipts; or
 - (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Relevant Securities; or
 - (c) enter into or effect any transaction with the same economic effect as any of the transactions referred to in sub-paragraphs (a) or (b) above; or
 - (d) offer to or agree to or announce any intention to enter into or effect any of the transactions referred to in sub-paragraphs (a), (b) or (c) above, which any of the foregoing transactions referred to in sub-paragraphs (a), (b), (c) or (d) is to be settled by delivery of Shares or such other securities of our Company or in cash or otherwise (whether or not the issue of such Shares or other securities will be completed within the First Six-Month Period);
- (ii) at any time during the Second Six-Month Period, it/he/she shall not, and shall procure that the Controlled Entities shall not, enter into any of the transactions referred to in (i)(a), (b) or (c) above or offer to or agree to or announce any intention to enter into any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or Encumbrance pursuant to such transaction, it/he/she would cease to be

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a “controlling shareholder” (as defined in the Listing Rules) of our Company or would together with the other Controlling Shareholders cease to be “Controlling Shareholders” (as defined in the Listing Rules) of our Company;

- (iii) in the event that it/he/she enters into any of the transactions specified in (i)(a), (b) or (c) above or offer to or agrees to or announce any intention to effect any such transaction within the Second Six-Month Period, it/he/she shall take all reasonable steps to ensure that it/he/she will not create a disorderly or false market for any Shares or other securities of our Company; and
- (iv) it/he/she shall, and shall procure that the relevant registered holder(s) and other Controlled Entities shall, comply with all the restrictions and requirements under the Listing Rules on the sale, transfer or disposal by it/he/she or by the registered holder(s) and/or other Controlled Entities of any Shares or other securities of our Company.

Each of the Controlling Shareholders has further undertaken to each of our Company, the Stock Exchange, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the other Hong Kong Underwriters that, within the period from the date by reference to which disclosure of their shareholding in our Company is made in this prospectus and ending on the date which is twelve months from the Listing Date, it/he/she will:

- (i) when it/he/she pledges or charges any securities or interests in the Relevant Securities in favour of an authorised institution pursuant to Note 2 to Rule 10.07(2) of the Listing Rules, immediately inform our Company and the Sole Sponsor in writing of such pledges or charges together with the number of securities and nature of interest so pledged or charged; and
- (ii) when it receives indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged securities or interests in the securities of our Company will be sold, transferred or disposed of, immediately inform our Company and the Sole Sponsor in writing of such indications.

Underwriters’ interests in our Group

Save for their respective obligations under the Hong Kong Underwriting Agreement and the International Underwriting Agreement or as otherwise disclosed in this prospectus, as of the Latest Practicable Date, none of the Underwriters was interested directly or indirectly in any of our Shares or securities or any shares or securities of any other member of our Group or had any right or option (whether legally enforceable or not) to subscribe for, or to nominate persons to subscribe for, any of our Shares or securities or any shares or securities of any other member of our Group.

Following the completion of the Global Offering, the Underwriters and their affiliated companies may hold a certain portion of our Shares as a result of fulfilling their respective obligations under the Hong Kong Underwriting Agreement and International Underwriting Agreement.

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The Sole Sponsor's Independence

The Sole Sponsor satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

The International Placing

International Placing

In connection with the International Placing, we expect to enter into the International Underwriting Agreement on the Price Determination Date with, among others, the International Underwriters. Under the International Underwriting Agreement, the International Underwriters would, subject to certain conditions, severally and not jointly, agree to purchase the International Placing Shares or procure purchasers for the International Placing Shares initially being offered pursuant to the International Placing. Please refer to "Structure and Conditions of the Global Offering – The International Placing".

Under the International Underwriting Agreement, we intend to grant to the International Underwriters the Over-allotment Option, exercisable in whole or in part at one or more times, at the sole and absolute discretion of the Joint Global Coordinators on behalf of the International Underwriters from the date of the International Underwriting Agreement until 30 days from the last day for the lodging of applications under the Hong Kong Public Offer to require us to issue and allot up to an aggregate of 37,500,000 additional Offer Shares, representing 15% of the Offer Shares initially available under the Global Offering and at the Offer Price, to cover any over-allocations in the International Placing, if any.

Total Commission and Expenses

We will pay the Joint Global Coordinators (for themselves and on behalf of the other Underwriters) an underwriting commission of 6.0% of the aggregate Offer Price of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offer (excluding any International Placing Shares reallocated to the Hong Kong Public Offer and any Hong Kong Offer Shares reallocated to the International Placing), out of which the Underwriters will pay all sub-underwriting commission, if any. For unsubscribed Hong Kong Offer Shares reallocated to the International Placing, we will pay an underwriting commission at the rate applicable to the International Placing and such commission will be paid to the Joint Global Coordinators and the relevant International Underwriters, but not the Hong Kong Underwriters. In addition, we may, at our discretion, pay to the Joint Global Coordinators an additional incentive fee.

Assuming the Over-allotment Option is not exercised and based on an Offer Price of HK\$0.60 (being the mid-point of the stated range of the Offer Price between HK\$0.52 and HK\$0.68), the aggregate commissions and estimated expenses, together with the Stock Exchange listing fee, SFC transaction levy, Stock Exchange trading fee, legal and other professional fees, printing and other fees and expenses relating to the Global Offering, are estimated to amount in aggregate to HK\$45.0 million in total and are payable by us.

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Indemnity

We have undertaken to indemnify and keep indemnified on demand (on an after-tax basis) and hold harmless each of the Joint Global Coordinators, the Sole Sponsor and the Hong Kong Underwriters (for themselves and on trust for its directors, officers, employees, agents, assignees and affiliates) from and against certain losses which they may suffer, including losses arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach by us of the Hong Kong Underwriting Agreement.

Restrictions on the Offer Shares

No action has been taken to permit a public offering of the Offer Shares, other than in Hong Kong, or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offer as part of the Global Offering. The Global Offering comprises (assuming the Over-allotment Option is not exercised):

- (i) the Hong Kong Public Offer of an initial 25,000,000 Hong Kong Offer Shares (subject to adjustment as mentioned below) in Hong Kong as described below in “The Hong Kong Public Offer”; and
- (ii) the International Placing of an initial 225,000,000 International Placing Shares, subject to adjustment and the Over-allotment Option as mentioned below, outside the U.S. (including to professional investors within Hong Kong) in offshore transactions in reliance on Regulation S or pursuant to another exemption from the registration requirements under the U.S. Securities Act.

Investors may apply for Hong Kong Offer Shares under the Hong Kong Public Offer or apply for or indicate an interest for Offer Shares under the International Placing, but cannot do both. Our Directors and the Joint Global Coordinators will take all reasonable steps to identify any multiple applications under the Hong Kong Public Offer and the International Placing which are not allowed and are bound to be rejected. The Hong Kong Public Offer is open to members of the public in Hong Kong as well as to professional investors in Hong Kong. The International Placing will involve selective marketing of Offer Shares to professional and institutional investors expected to have a sizeable demand for Shares in Hong Kong and other jurisdictions outside the U.S. in reliance on Regulation S. The International Underwriters are soliciting from prospective investors indications of interest in acquiring Offer Shares in the International Placing. Prospective professional and institutional investors will be required to specify the number of Offer Shares under the International Placing they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building”, is expected to continue up to, and to cease on or around Friday, 21 June 2019.

The number of Shares to be offered under the Hong Kong Public Offer and the International Placing may be subject to reallocation as described in “– Pricing and Allocation” below.

References in this prospectus to applications, Application Forms, application monies or the procedure for application refer solely to the Hong Kong Public Offer.

PRICING AND ALLOCATION

Pricing

The Offer Price is expected to be fixed by an agreement between us and the Joint Global Coordinators (on behalf of the Underwriters) on the Price Determination Date, when market demand for the Offer Shares will be determined. The Price Determination Date is expected to be on or around Friday, 21 June 2019 and in any event no later than

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Thursday, 27 June 2019 and the Offer Shares are expected to be allocated shortly thereafter. If for any reason, we and the Joint Global Coordinators (on behalf of the Underwriters) are unable to reach agreement on the Offer Price, the Global Offering will not proceed and will lapse.

The Offer Price will be not more than HK\$0.68 per Offer Share and is expected to be not less than HK\$0.52 per Offer Share, unless otherwise announced not later than the morning of the last day for lodging applications under the Hong Kong Public Offer, as explained below.

Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative offer price range stated in this prospectus.

Reduction in offer price range and/or number of Offer Shares

If, based on the level of interest expressed by prospective professional and institutional investors during the book-building process, the Joint Global Coordinators (on behalf of the Underwriters), with our consent, considers it appropriate, the number of Offer Shares being offered under the Global Offering and/or the indicative offer price range may be reduced below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offer.

In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offer, expected to be on Friday, 21 June 2019, cause to be published notice(s) on the Stock Exchange at www.hkexnews.hk and our Company at www.tuyigroup.com. Such notice(s) will also include confirmation or revision, as appropriate, of the working capital statement, the offering statistics as currently set out in “Summary”, and any other financial information which may change as a result of such reduction(s). As soon as practicable of such reduction of the number of Offer Shares and/or the indicative Offer Price range, we will also issue a supplemental prospectus updating investors of such reduction together with an update of all financial and other information in connection with such change, where appropriate, extend the period under which the Hong Kong Public Offer was open for acceptance, and give potential investors who had applied for the Offer Shares the right to withdraw their applications. Before submitting applications for Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares and/or the indicative offer price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offer.

In the event of a reduction in the number of Offer Shares, the Joint Global Coordinators may, at their discretion, reallocate the number of Offer Shares to be offered in the Hong Kong Public Offer and the International Placing, provided that the number of Offer Shares comprised in the Hong Kong Public Offer shall not be less than 10% of the total number of Offer Shares available under the Global Offering. The Offer Shares to be offered in the Hong Kong Public Offer and the Offer Shares to be offered in the International Placing may, in certain circumstances, be reallocated between these offerings solely in the discretion of the Joint Global Coordinators. **If applications for the Hong Kong Offer Shares have been submitted prior to the day which is the last day for lodging applications under the Hong Kong Public Offer, applicants under the Hong Kong Public Offer should note that in no circumstances can such applications be subsequently withdrawn, even if the indicative offer price range and/or the number of Offer Shares is so reduced.**

Upon the issuance of such notice, the revised number of Offer Shares and/or the revised offer price range will be final and conclusive. The Offer Price, if agreed upon, will be fixed within such revised offer price range. In the absence of any notice of a reduction in the indicative offer price range and/or the number of Offer Shares stated in this prospectus being published on or before the last day for lodging applications under the Hong Kong Public Offer, the Offer Price, if agreed upon, will under no circumstances be set outside the offer price range stated in this prospectus, and the number of Offer Shares will under no circumstances be fewer than the number stated in this prospectus.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Allocation

The Offer Shares to be offered in the Hong Kong Public Offer and the International Placing may, in certain circumstances (including but not limited to at the request(s) of the Stock Exchange and/or the SFC), be reallocated as between these offerings at the discretion of the Joint Global Coordinators.

Allocation of our Offer Shares pursuant to the International Placing will be determined by the Joint Global Coordinators and will be based on a number of factors including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Shares, and/or hold or sell Offer Shares, after the listing of the Offer Shares on the Stock Exchange. Such allocation may be made to professional and institutional investors and is intended to result in a distribution of the Offer Shares on a basis which would lead to the establishment of a solid shareholder base to the benefit of our Company and our Shareholders as a whole.

Allocation of Offer Shares to investors under the Hong Kong Public Offer will be based solely on the level of valid applications received under the Hong Kong Public Offer. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants, although the allocation of Hong Kong Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

The net proceeds from the Global Offering accruing to us are estimated to be approximately HK\$105.0 million. The estimated net proceeds are calculated assuming an Offer Price of HK\$0.60 per Offer Share (being the mid-point of the stated offer price range of HK\$0.52 to HK\$0.68 per Offer Share) and after deduction of underwriting fees and estimated expenses payable by us in relation to the Global Offering, assuming that the Over-allotment Option is not exercised.

Announcement of Offer Price and Basis of Allocations

The Offer Price under the Global Offering, the level of indications of interest in the International Placing, and the level of applications and the results of and basis of allocations under the Hong Kong Public Offer are expected to be announced on Thursday, 27 June 2019 on the Stock Exchange's website at www.hkexnews.hk and the Company's website at www.tuyigroup.com in the manner described in "How to Apply for Hong Kong Offer Shares – Publication of Results". You should note that our website, and all information contained in our website, does not form part of this prospectus.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

CONDITIONS OF THE HONG KONG PUBLIC OFFER

Acceptance of all applications for the Hong Kong Offer Shares pursuant to the Hong Kong Public Offer will be conditional on:

- (i) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including an additional 37,500,000 Offer Shares which may be made available pursuant to the exercise of the Over-allotment Option), and such listing and permission not subsequently having been revoked prior to commencement of dealing in the Shares on the Stock Exchange;
- (ii) the Offer Price having been duly determined between us and the Joint Global Coordinators (on behalf of the Underwriters), and the execution and delivery of the Price Determination Agreement on or around the Price Determination Date;
- (iii) the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and
- (iv) the obligations of the Underwriters under each of the Hong Kong Underwriting Agreement and the International Underwriting Agreement having become unconditional (including, if relevant, as a result of the waiver of any conditions by the Joint Global Coordinators (on behalf of the Underwriters)) and not having been terminated in accordance with the terms of the respective Underwriting Agreements,

in each case on or before the dates and times specified in the respective Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the date which is 30 days after the date of this prospectus.

If for any reason the Offer Price is not agreed by Thursday, 27 June 2019 between us and the Joint Global Coordinators (on behalf of the Underwriters), the Global Offering will not proceed and will lapse. If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. We will cause a notice of the lapse of the Hong Kong Public Offer to be published by us on the websites of the Stock Exchange at www.hkexnews.hk and our Company at www.tuyigroup.com on the next day following such lapse. In such eventuality, all application monies will be returned to the applicants, without interest, on the terms set out in “How to Apply for Hong Kong Offer Shares”. In the meantime, the application monies will be held in separate bank account(s) with the receiving banks or other bank(s) in Hong Kong licensed under the Banking Ordinance.

The consummation of each of the Hong Kong Public Offer and the International Placing is conditional upon, among other things, the other becoming unconditional and not having been terminated in accordance with its terms.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Share certificates for the Hong Kong Offer Shares are expected to be issued on Thursday, 27 June 2019 but will only become valid certificates of title at 8:00 a.m. on Friday, 28 June 2019, the date of commencement of dealings in the Shares, provided that (i) the Global Offering has become unconditional in all respects, and (ii) the right of termination as described in “Underwriting – Underwriting Arrangements and Expenses – Hong Kong Public Offer – Grounds for Termination” has not been exercised. Investors who trade Shares prior to the receipt of share certificates or prior to the share certificates becoming valid certificates of title do so entirely at their own risk.

THE HONG KONG PUBLIC OFFER

We are initially offering 25,000,000 Hong Kong Offer Shares at the Offer Price, representing 10% of the 250,000,000 Offer Shares initially available under the Global Offering, for subscription by the public in Hong Kong. Subject to adjustment as mentioned below, the number of Shares offered under the Hong Kong Public Offer will represent 25% of our total issued share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

In Hong Kong, individual retail investors are expected to apply for the Hong Kong Offer Shares through the Hong Kong Public Offer and individual retail investors, including individual investors in Hong Kong applying through banks and other institutions, seeking Offer Shares in the International Placing will not be allotted Offer Shares in the International Placing.

Applications

Each applicant under the Hong Kong Public Offer will be required to give an undertaking and confirmation in the Application Form or applying online through the **HK eIPO White Form** service or the **electronic application instructions** to HKSCC submitted by him or her, that he or she, and any person(s) for whose benefit he or she is making the application (if any), have not indicated an interest for or taken up and will not indicate an interest for or take up any International Placing Shares, and such applicant’s application will be rejected if this undertaking and/or confirmation is breached and/or untrue.

Our Company, our Directors, the Sole Sponsor and the Joint Global Coordinators will take reasonable steps to identify and reject applicants under the Hong Kong Public Offer from investors who have received Offer Shares in the International Placing, and to identify and reject indications of interest in the International Placing from investors who have received Offer Shares in the Hong Kong Public Offer.

The Joint Global Coordinators, on behalf of the Underwriters, may require any investor who has been offered Shares under the International Placing, and who has made an application under the Hong Kong Public Offer, to provide sufficient information to the Joint Global Coordinators so as to allow them to identify the relevant applications under the Hong Kong Public Offer and to ensure that he or she is excluded from any application for Shares under the Hong Kong Public Offer.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

The Offer Price will be not more than HK\$0.68 per Offer Share and is expected to be not less than HK\$0.52 per Offer Share. Applicants under the Hong Kong Public Offer are required to pay, on application, the maximum Offer Price of HK\$0.68 on each Hong Kong Offer Share plus 1% brokerage fee, 0.0027% SFC transaction levy and 0.005% Stock Exchange trading fee on each Hong Kong Offer Share. If the Offer Price, as finally determined on the Price Determination Date, is lower than HK\$0.68 per Offer Share, being the maximum Offer Price, we will refund the respective difference (including the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee attributable to the surplus application monies) to successful applicants, without interest. Further details are set out in “How to Apply for Hong Kong Offer Shares”.

References in this prospectus to applications, Application Forms, application monies or to the procedure for application relate solely to the Hong Kong Public Offer.

Allocation

The total number of Offer Shares available for subscription under the Hong Kong Public Offer (after taking into account any reallocation and clawback referred to below) is to be divided equally into two pools for allocation purposes: pool A and pool B (subject to adjustment of odd lot size). The Hong Kong Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate subscription price of HK\$5 million (excluding brokerage, SFC transaction levy and Stock Exchange trading fee) or less. The Hong Kong Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate subscription price of more than HK\$5 million (excluding brokerage, SFC transaction levy and Stock Exchange trading fee) and up to the value of pool B. For this purpose, the “subscription price” for the Hong Kong Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined).

Applicants should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If the Hong Kong Offer Shares in one (but not both) of the pools are under-subscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly.

Applicants can only receive an allocation of Hong Kong Offer Shares from either pool A or pool B but not from both pools. When there is over-subscription, allocation of the Hong Kong Offer Shares to investors under the Hong Kong Public Offer, in relation to both pool A and pool B, will be based solely on the level of valid applications received under the Hong Kong Public Offer. The basis of allocation in each pool may vary, depending on the number of Hong Kong Offer Shares validly applied for by each applicant. The allocation of Hong Kong Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares. Multiple or suspected multiple applications within either pool or between pools and any application for more than 12,500,000 Hong Kong Offer Shares, being 50% of the Hong Kong Offer Shares initially being offered for subscription under the Hong Kong Public Offer, will be rejected.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Reallocation and Clawback

The allocation of the Offer Shares between the Hong Kong Public Offer and the International Placing is subject to reallocation at the discretion of the Joint Global Coordinators, subject to the following:

- (a) where the International Placing Shares are fully subscribed or oversubscribed:
 - (i) if the Hong Kong Offer Shares are undersubscribed, the Joint Global Coordinators have the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Placing, in such proportions as the Joint Global Coordinators deem appropriate;
 - (ii) if the number of Offer Shares validly applied for under the Hong Kong Public Offer represents less than 15 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offer, then up to 25,000,000 Offer Shares may be reallocated to the Hong Kong Public Offer from the International Placing, so that the total number of the Offer Shares available under the Hong Kong Public Offer will be increased to 50,000,000 Offer Shares, representing 20% of the total number of the Offer Shares initially available under the Global Offering;
 - (iii) if the number of Offer Shares validly applied for under the Hong Kong Public Offer represents (1) 15 times or more but less than 50 times, (2) 50 times or more but less than 100 times, and (3) 100 times or more of the number of Offer Shares initially available under the Hong Kong Public Offer, the Offer Shares will be reallocated to the Hong Kong Public Offer from the International Placing in accordance with the clawback requirements set forth in paragraph 4.2 of Practice Note 18 of the Listing Rules, so that the total number of Hong Kong Offer Shares will be increased to 75,000,000 Offer Shares (in the case of (1)), 100,000,000 Offer Shares (in the case of (2)) and 125,000,000 Offer Shares (in the case of (3)), representing approximately 30%, 40% and 50% of the Offer Shares initially available under the Global Offering, respectively;
- (b) where the International Placing Shares are undersubscribed:
 - (i) if the Hong Kong Offer Shares are also undersubscribed, the Global Offering will not proceed unless the Underwriters would subscribe for or procure subscribers for their respective applicable proportions of the Offer Shares being offered which are not taken up under the Global Offering on the terms and conditions of this Prospectus, the Application Forms and the Underwriting Agreements; and
 - (ii) if the Hong Kong Offer Shares are fully subscribed or oversubscribed (irrespective of the extent of over-subscription), then up to 25,000,000 Offer Shares may be reallocated to the Hong Kong Public Offer from the International Placing, so that the total number of the Offer Shares available

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

under the Hong Kong Public Offer will be increased to 50,000,000 Offer Shares, representing 20% of the total number of the Offer Shares initially available under the Global Offering.

In the event of reallocation of Offer Shares from the International Placing to the Hong Kong Public Offer in the circumstances described in paragraph (a)(ii) or (b)(ii) above, the final Offer Price shall be fixed at the bottom end of the Offer Price Range (i.e. HK\$0.52 per Offer Share) according to HKEX Guidance Letter HKEX-GL91-18 issued by the Stock Exchange.

In all cases of reallocation of Offer Shares from the International Placing to the Hong Kong Public Offer, the additional Offer Shares reallocated to the Hong Kong Public Offer will be allocated between pool A and pool B in equal proportion and the number of Offer Shares allocated to the International Placing will be correspondingly reduced.

THE INTERNATIONAL PLACING

The International Placing will consist of initially 225,000,000 Shares and is subject to adjustment and the Over-allotment Option, to be offered outside the United States (within the meaning of Regulation S under the U.S. Securities Act) in reliance on Regulation S under the U.S. Securities Act, including to professional investors in Hong Kong. The International Placing will be subject to, among other matters, the Hong Kong Public Offer becoming unconditional.

Pursuant to the International Placing, the International Underwriters will conditionally place our Shares with institutional and professional investors expected to have a sizeable demand for our Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. Allocation of Offer Shares pursuant to the International Placing will be effected in accordance with the “book-building” process described in “Pricing and Allocation” above and based on a number of factors, including the level and timing of demand, total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Shares, and/or hold or sell its Shares, after the listing of the Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the Shares on a basis which would lead to the establishment of a solid professional and institutional Shareholder base to the benefit of our Company and our Shareholders as a whole.

OVER-ALLOTMENT OPTION

In connection with the Global Offering, we expect to grant the Over-allotment Option to the International Underwriters, exercisable by the Joint Global Coordinators on behalf of the International Underwriters.

Pursuant to the Over-Allotment Option, the Joint Global Coordinators have the right, exercisable at any time from the date of the International Underwriting Agreement until 30 days after the last date for the lodging of applications under the Hong Kong Public Offer, to require us to issue and allot up to an aggregate of 37,500,000 additional Offer Shares (representing 15% of the Offer Shares initially available under the Global Offering, at the

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

same price per Offer Share under the International Placing to cover over-allocations in the International Placing, if any. If the Over-Allotment Option is exercised in full, the additional Offer Shares will represent approximately 0.36% of our enlarged share capital immediately following the completion of the Global Offering and the exercise of the Over-Allotment Option. In the event that the Over-Allotment Option is exercised, an announcement will be made.

STOCK BORROWING ARRANGEMENT

In order to facilitate the settlement of over-allocations in connection with the Global Offering, the Stabilising Manager may choose to borrow, whether on its own or through any person acting for it, up to 37,500,000 Shares (being the maximum number of Shares which may be issued or sold upon exercise of the Over-allotment Option) from Controlling Shareholder pursuant to the Stock Borrowing Agreement, and/or acquire Shares from other sources, including the exercise of the Over-allotment Option.

If such stock borrowing arrangement with York Yu BVI is entered into, it will only be effected by the Stabilising Manager or any person acting for it for settlement of over-allocation in the International Placing and such arrangement is not subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules provided that the requirements set forth in Rule 10.07(3) of the Listing Rules are complied with. The same number of Shares so borrowed must be returned to Controlling Shareholder or its nominees, as the case may be, on or before the third Business Day following the earlier of (i) the last day on which the Over-allotment Option may be exercised, (ii) the day on which the Over-allotment Option is exercised in full, or (iii) such earlier time as may be agreed in writing between the Stabilising Manager and Controlling Shareholder. The stock borrowing arrangement will be effected in compliance with all applicable laws, rules and regulatory requirements. No payment will be made to Controlling Shareholder by the Stabilising Manager or any person acting for it in relation to such stock borrowing arrangement.

STABILISATION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to minimise, and, if possible, prevent any decline in the market price of the securities below the Offer Price. In Hong Kong and certain other jurisdictions, the price at which stabilisation is effected is not permitted to exceed the Offer Price.

In connection with the Global Offering, the Stabilising Manager or any person acting for it, on behalf of the International Underwriters, may, to the extent permitted by applicable laws in Hong Kong, over-allocate and/or effect any other transactions with a view to stabilising or maintaining the market price of our Shares at a level higher than that which might otherwise prevail in the open market for a limited period commencing on the Listing Date and ending on the 30th day after the last day for the lodging of applications under the Hong Kong Public Offer. The stabilising action which may be taken by the Stabilising Manager or any person acting for it may include primary and ancillary stabilising actions such as purchasing or agreeing to purchase any of the Offer Shares, exercising the

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Over-allotment Option, stock borrowing, establishing a short position in the Shares, liquidating long positions in the Shares or offering or attempting to do any such actions. However, there is no obligation on the Stabilising Manager or any person acting for it to conduct any such stabilising activity. Any such stabilising activities will be effected in compliance with all applicable laws and regulatory requirements, including the Securities and Futures (Price Stabilizing) Rules. Such stabilisation, if commenced, will be conducted at the sole and absolute discretion of the Stabilising Manager or any person acting for it, and may be discontinued at any time, and is required to be brought to an end within 30 days of the last day for the lodging of applications under the Hong Kong Public Offer. The number of Shares that may be over-allocated will not exceed the number of Shares which may be issued or sold upon exercise of the Over-allotment Option, being 37,500,000 Shares, which is 15% of our Offer Shares initially available under the Global Offering and before the exercise of the Over-allotment Option.

The Stabilising Manager or any person acting for it, may take all or any of the following stabilising actions in Hong Kong during the stabilisation period:

- (a) purchase, or agree to purchase, any of our Shares or offer or attempt to do so for the sole purpose of preventing or minimising any reduction in the market price of our Shares; and/or
- (b) in connection with any action described in paragraph (a) above:
 - (i) (A) over-allocate our Shares; or
 - (B) sell or agree to sell our Shares so as to establish a short position in them,

for the sole purpose of preventing or minimising any reduction in the market price of our Shares;
 - (ii) exercise the Over-allotment Option so as to purchase or subscribe for or agree to purchase or subscribe for our Shares in order to close out any position established under paragraph (i) above;
 - (iii) sell or agree to sell any of our Shares acquired by it in the course of the stabilising action referred to in paragraph (a) above in order to liquidate any position that has been established by such action; and/or
 - (iv) offer or attempt to do anything as described in paragraph (b)(i)(B), (b)(ii) or (b)(iii) above.

The Stabilising Manager or any person acting for it, may, in connection with the stabilising action, maintain a long position in our Shares, and there is no certainty as to the extent to which or the time period for which it or any person acting for it will maintain such a position. Investors should be warned of the possible impact of any liquidation of the long position by the Stabilising Manager or any person acting for it, which may have an adverse impact on the market price of our Shares.

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Stabilisation cannot be used to support the price of our Shares for longer than the stabilisation period, which begins on the day on which dealings in our Shares commence on the Stock Exchange and ends on the last trading day before the 30th day after the last day for the lodging of applications under the Hong Kong Public Offer which will be Friday, 19 July 2019. After this date, when no further stabilising action may be taken, demand for our Shares, and therefore their market price, could fall. Our Company will ensure or procure that a public announcement will be made within seven days after the end of the stabilising period in compliance with the Securities and Futures (Price Stabilizing) Rules.

Any stabilising action taken by the Stabilising Manager or any person acting for it, may not necessarily result in the market price of our Shares staying at or above the Offer Price either during or after the stabilisation period. Stabilisation bids or market purchases effected in the course of the stabilising action may be made at any price at or below the Offer Price and can therefore be done at a price below the price investors have paid in acquiring our Shares.

In connection with the Global Offering, the Joint Global Coordinators may over-allocate up to an aggregate of 37,500,000 additional Shares and cover such over-allocation by exercising the Over-allotment Option, which will be exercisable by the Joint Global Coordinators on behalf of the International Underwriters, or by making purchases in the secondary market at prices that do not exceed the Offer Price or a combination of these means.

In particular, for the purpose of settlement of over-allocation in connection with the International Placing, the Stabilising Manager may borrow up to 37,500,000 Shares, under the stock borrowing arrangement. The stock borrowing arrangement will be effected in compliance with all applicable laws, rules and regulatory requirements. No payments or other benefit will be made to Controlling Shareholder by the Joint Global Coordinators in relation to the stock borrowing arrangement.

DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offer becomes unconditional at or before 8:00 a.m. in Hong Kong on Friday, 28 June 2019, it is expected that dealings in our Shares on the Stock Exchange will commence at 9:00 a.m. on Friday, 28 June 2019. Our Shares will be traded in board lots of 4,000 Shares each.

UNDERWRITING ARRANGEMENTS

The Hong Kong Public Offer is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement, subject to agreement on the Offer Price between the Joint Global Coordinators (on behalf of the Underwriters) and us on the Price Determination Date.

We expect that we will, on or around the Price Determination Date, shortly after determination of the Offer Price, enter into the International Underwriting Agreement relating to the International Placing.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

The underwriting arrangements, the Hong Kong Underwriting Agreement and the International Underwriting Agreement are summarised in “Underwriting”.

HOW TO APPLY FOR HONG KONG OFFER SHARES

1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Placing Shares.

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **HK eIPO White Form** service at www.hkeipo.hk; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Jonit Global Coordinators, the **HK eIPO White Form** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you apply online through the **HK eIPO White Form** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Joint Global Coordinators may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of **HK eIPO White Form** service for the Hong Kong Offer Shares.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you are:

- an existing beneficial owner of Shares in our Company and/or any its subsidiaries;
- a Director or chief executive officer of our Company and/or any of its subsidiaries;
- an associate (as defined in the Listing Rules) of any of the above;
- a connected person (as defined in the Listing Rules) of our Company or will become a connected person of our Company immediately upon completion of the Global Offering; and
- have been allocated or have applied for any International Placing Shares or otherwise participate in the International Placing.

3. APPLYING FOR HONG KONG OFFER SHARES

Which Application Channel to Use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through **www.hkeipo.hk**.

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Tuesday, 18 June 2019 to 12:00 noon on Friday, 21 June 2019 from:

- (i) the offices of the Joint Bookrunners:

Innovax Securities Limited

Unit A-C, 20/F
Neich Tower
128 Gloucester Road
Wan Chai
Hong Kong

Crosby Securities Limited

5/F
Capital Centre
151 Gloucester Road
Wan Chai
Hong Kong

HOW TO APPLY FOR HONG KONG OFFER SHARES

Mason Securities Limited	Portion 1, 12/F The Center 99 Queen's Road Central Hong Kong
BOA International Securities Limited	Flat A, 9th Floor CKK Commercial Centre 289 Hennessy Road Wanchai Hong Kong
Haitong International Securities Company Limited	22/F Li Po Chun Chambers 189 Des Voeux Road Central Hong Kong

(ii) any of the designated branches of the following receiving banks:

Bank of China (Hong Kong) Limited

	Branch name	Address
Hong Kong Island	Chai Wan Branch	Block B, Walton Estate, 341-343 Chai Wan Road, Chai Wan, Hong Kong
	409 Hennessy Road Branch	409-415 Hennessy Road, Wan Chai, Hong Kong
Kowloon	Olympian City Branch	Shop 133, 1/F, Olympian City 2, 18 Hoi Ting Road, Kowloon
New Territories	Sheung Shui Branch Securities Services Centre	136 San Fung Avenue, Sheung Shui, New Territories

HOW TO APPLY FOR HONG KONG OFFER SHARES

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Tuesday, 18 June 2019 until 12:00 noon on Friday, 21 June 2019 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to **BANK OF CHINA (HONG KONG) NOMINEES LIMITED – TU YI HOLDING PUBLIC OFFER** for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving banks listed above, at the following times:

- 9:00 a.m. to 5:00 p.m., Tuesday, 18 June 2019
- 9:00 a.m. to 5:00 p.m., Wednesday, 19 June 2019
- 9:00 a.m. to 5:00 p.m., Thursday, 20 June 2019
- 9:00 a.m. to 12:00 noon – Friday, 21 June 2019

The application lists will be open from 11:45 a.m. to 12:00 noon on Friday, 21 June 2019, the last application day or such later time as described in “– Effect of Bad Weather on the Opening of the Application Lists” in this section.

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **HK eIPO White Form** service, among other things, you:

- (i) undertake to execute all relevant documents and instruct and authorise our Company and/or the Joint Global Coordinators (or their agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (ii) agree to comply with the Hong Kong Companies Ordinance and the Articles of Association;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (v) confirm that you are aware of the restrictions on the Global Offering in this prospectus;
- (vi) agree that none of our Company, the Joint Global Coordinators, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Placing nor participated in the International Placing;
- (viii) agree to disclose to our Company, our Hong Kong Branch Share Registrar, receiving banks, the Joint Global Coordinators, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Joint Global Coordinators and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;
- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (xv) authorise our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and our Company and/or its agents to send any share certificate(s) and/or any e-Auto Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have chosen to collect the share certificate(s) and/or refund cheque(s) in person;
- (xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xvii) understand that our Company and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider by you or by any one as your agent or by any other person; and
- (xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

Additional Instructions for YELLOW Application Form

You may refer to the **YELLOW** Application Form for details.

5. APPLYING THROUGH HK eIPO WHITE FORM SERVICE

General

Individuals who meet the criteria in “– Who can apply” in this section may apply through the **HK eIPO White Form** service for the Offer Shares to be allotted and registered in their own names through the designated website at **www.hkeipo.hk**.

Detailed instructions for application through the **HK eIPO White Form** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the

HOW TO APPLY FOR HONG KONG OFFER SHARES

designated website, you authorise the **HK eIPO White Form** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **HK eIPO White Form** service.

Time for Submitting Applications under the HK eIPO White Form

You may submit your application to the **HK eIPO White Form** Service Provider at **www.hkeipo.hk** (24 hours daily, except on the last application day) from 9:00 a.m. on Tuesday, 18 June 2019 until 11:30 a.m. on Friday, 21 June 2019 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Friday, 21 June 2019 or such later time under “– Effects of Bad Weather on the Opening of the Application Lists”.

No Multiple Applications

If you apply by means of **HK eIPO White Form**, once you complete payment in respect of any **electronic application instructions** given by you or for your benefit through the **HK eIPO White Form** service to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instructions** under **HK eIPO White Form** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **HK eIPO White Form** service or by any other means, all of your applications are liable to be rejected.

Section 40 of the Companies (WUMP) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (WUMP) Ordinance (as applied by Section 342E of the Companies (WUMP) Ordinance).

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

HOW TO APPLY FOR HONG KONG OFFER SHARES

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling +852 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Center
1/F, One & Two Exchange Square
8 Connaught Place
Central
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Joint Global Coordinators and our Hong Kong Branch Share Registrar.

Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
 - agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
 - agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Placing;
- (if the electronic application instructions are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
- (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as their agent;
- confirm that you understand that our Company, our Directors and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;
- authorise our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
- agree that none of our Company, the Joint Global Coordinators, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to our Company, our Hong Kong Branch Share Registrar, receiving banks, the Joint Global Coordinators, the Underwriters and/or its respective advisers and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Hong Kong Companies Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;
- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Hong Kong Public Offer results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Hong Kong Offer Shares;
- agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Hong Kong Companies Ordinance and the Articles of Association; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

HOW TO APPLY FOR HONG KONG OFFER SHARES

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 4,000 Hong Kong Offer Shares. Instructions for more than 4,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:⁽¹⁾

- 9:00 a.m. to 8:30 p.m., Tuesday, 18 June 2019
- 8:00 a.m. to 8:30 p.m., Wednesday, 19 June 2019
- 8:00 a.m. to 8:30 p.m., Thursday, 20 June 2019
- 8:00 a.m. to 12:00 noon – Friday, 21 June 2019

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Tuesday, 18 June 2019 until 12:00 noon on Friday, 21 June 2019 (24 hours daily, except on Friday, 21 June, 2019, the last application day).

Note:

- (1) The times in this sub-section are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants and/or CCASS Investor Participants.

HOW TO APPLY FOR HONG KONG OFFER SHARES

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Friday, 21 June 2019, the last application day or such later time as described in “– 10. Effect of Bad Weather on the Opening of the Application Lists” in this section.

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (WUMP) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (WUMP) Ordinance (as applied by Section 342E of the Companies (WUMP) Ordinance).

Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by our Company, the Hong Kong Branch Share Registrar, the receiving bankers, the Joint Global Coordinators, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **HK eIPO White Form** service is also only a facility provided by the **HK eIPO White Form** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **HK eIPO White Form** service will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection

HOW TO APPLY FOR HONG KONG OFFER SHARES

to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Friday, 21 June 2019.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through **HK eIPO White Form** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company, then the application will be treated as being for your benefit.

"**Unlisted company**" means a company with no equity securities listed on the Stock Exchange.

"**Statutory control**" means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

9. HOW MUCH ARE THE HONG KONG OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

HOW TO APPLY FOR HONG KONG OFFER SHARES

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **HK eIPO White Form** service in respect of a minimum of 4,000 Hong Kong Public Offer Shares. Each application or **electronic application instructions** in respect of more than 4,000 Hong Kong Public Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at **www.hkeipo.hk**.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, please see “Structure and Conditions of the Global Offering – Pricing and Allocation”.

10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 21 June 2019. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Friday, 21 June 2019 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in “Expected Timetable”, an announcement will be made in such event.

11. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest in the International Placing, the level of applications in the Hong Kong Public Offer and the basis of allocation of the Hong Kong Offer Shares on Thursday, 27 June 2019 on our Company’s website at **www.tuyigroup.com** and the website of the Stock Exchange at **www.hkexnews.hk**.

HOW TO APPLY FOR HONG KONG OFFER SHARES

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offer will be available at the times and date and in the manner specified below:

- in the announcement to be posted on our Company's website at **www.tuyigroup.com** and the Stock Exchange's website at **www.hkexnews.hk** by no later than 8:00 a.m. on Thursday, 27 June 2019;
- from the designated results of allocations website at **www.tricor.com.hk/ipo/result** (or **www.hkeipo.hk/IPOResult**) with a "search by ID Number/Business Registration Number" function on a 24-hour basis from 8:00 am on Thursday, 27 June 2019 to 12:00 midnight on Thursday, 4 July 2019;
- by telephone enquiry line by calling 3691 8488 between 9:00 a.m. and 6:00 p.m. from Thursday, 27 June 2019 to Wednesday, 3 July 2019 on a business day;
- in the special allocation results booklets which will be available for inspection during opening hours from Thursday, 27 June 2019 to Tuesday, 2 July 2019 at all the receiving bank designated branches.

If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in "Structure and Conditions of the Global Offering".

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Hong Kong Offer shares will not be allotted to you:

(i) If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to **HK eIPO White Form** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Hong Kong Companies Ordinance (as applied by Section 342E of the Hong Kong Companies Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) If our Company or its agents exercise their discretion to reject your application:

Our Company, the Joint Global Coordinators, the **HK eIPO White Form** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) If the allotment of Hong Kong Offer Shares is void:

The allotment of Hong Kong Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.

(iv) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Placing Shares;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **HK eIPO White Form** service are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- our Company or the Joint Global Coordinators believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offer.

13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum offer price of HK\$0.68 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offer are not fulfilled in accordance with "Structure and Conditions of the Global Offering – Conditions of the Hong Kong Public Offer" or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on Thursday, 27 June 2019.

14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offer (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

HOW TO APPLY FOR HONG KONG OFFER SHARES

- share certificate(s) for all the Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest).

Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on dispatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or around Thursday, 27 June 2019. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker’s cashier’s order(s).

Share certificates will only become valid at 8:00 a.m. on the Listing Date provided that the Global Offering has become unconditional and the right of termination described in the “Underwriting” has not been exercised. Investors who trade shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

Personal Collection

(i) If you apply using a WHITE Application Form

If you apply for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from the Hong Kong Branch Share Registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, 27 June 2019 or such other date as notified by our Company on the website of the Stock Exchange at www.hkexnews.hk or the website of the Company at www.tuyigroup.com.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation’s chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Branch Share Registrar.

HOW TO APPLY FOR HONG KONG OFFER SHARES

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on Thursday, 27 June 2019, by ordinary post and at your own risk.

(ii) If you apply using a YELLOW Application Form

If you apply for 1,000,000 Hong Kong Offer Shares or more, please follow the same instructions as described above for collection of your refund cheque(s). If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on Thursday, 27 June 2019, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Thursday, 27 June 2019, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- If you apply through a designated CCASS participant (other than a CCASS investor participant)

For Hong Kong Public Offer shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Public Offer shares allotted to you with that CCASS participant.

- If you are applying as a CCASS investor participant

Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offer in the manner described in "Publication of Results" above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 27 June 2019 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

(iii) If you apply through the HK eIPO White Form service

If you apply for 1,000,000 Hong Kong Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from the Hong Kong Branch Share Registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, 27 June 2019, or such other date as notified by our Company on the

HOW TO APPLY FOR HONG KONG OFFER SHARES

website of the Stock Exchange at www.hkexnews.hk or the website of the Company at www.tuyigroup.com as the date of despatch/collection of Share certificates/e-Auto Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on Thursday, 27 June 2019 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Auto Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

(iv) If you apply via Electronic Application Instructions to HKSCC

Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Thursday, 27 June 2019, or, on any other date determined by HKSCC or HKSCC Nominees.
- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offer in the manner specified in "Publication of Results" above on Thursday, 27 June 2019. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 27 June 2019 or such other date as determined by HKSCC or HKSCC Nominees.

HOW TO APPLY FOR HONG KONG OFFER SHARES

- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Thursday, 27 June 2019. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Thursday, 27 June 2019.

15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

The following is the text of a report received from our Company's reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.



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

The Directors
Tu Yi Holding Company Limited
Innovax Capital Limited

Dear Sirs,

We report on the historical financial information of Tu Yi Holding Company Limited (the “Company”) and its subsidiaries (together, the “Group”) set out on pages I-4 to I-71 which comprises the consolidated statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group for each of the years ended 31 December 2016, 2017 and 2018 (the “Relevant Periods”), and the consolidated statements of financial position of the Group as at 31 December 2016, 2017 and 2018 and the statement of financial position of the Company as at 31 December 2018 and a summary of significant accounting policies and other explanatory information (together, the “Historical Financial Information”). The Historical Financial Information set out on pages I-4 to I-71 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 18 June 2019 (the “Prospectus”) in connection with the initial listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

Directors’ responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively, and for such internal control as the directors determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants’ responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 *Accountants’ Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively, in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical 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, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the financial position of the Group as at 31 December 2016, 2017 and 2018 and the financial position of the Company as at 31 December 2018 and of the financial performance and cash flows of the Group for each of the Relevant Periods in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively.

Report on matters under the Rules Governing the Listing of Securities on the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

Dividends

We refer to note 11 to the Historical Financial Information which states that no dividends have been paid by the Company in respect of the Relevant Periods.

No historical financial statements for the Company

As at the date of this report, no statutory financial statements have been prepared for the Company since its date of incorporation.

Yours faithfully,

Ernst & Young

Certified Public Accountants

Hong Kong

18 June 2019

I HISTORICAL FINANCIAL INFORMATION**Preparation of Historical Financial Information**

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of the Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by Ernst & Young in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "Underlying Financial Statements").

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

**CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

		Year ended 31 December 2016	Year ended 31 December 2017	Year ended 31 December 2018
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
REVENUE	5	227,830	168,867	205,051
Cost of sales		<u>(180,318)</u>	<u>(119,902)</u>	<u>(156,065)</u>
Gross profit		47,512	48,965	48,986
Other income and gains	5	1,760	2,778	2,166
Selling and distribution expenses		(9,294)	(7,423)	(7,237)
Administrative expenses		(15,272)	(11,556)	(28,754)
Other expenses		(238)	(215)	(1,929)
Finance costs	7	<u>(2,488)</u>	<u>(2,889)</u>	<u>(2,461)</u>
 PROFIT BEFORE TAX	 6	 21,980	 29,660	 10,771
Income tax expense	10	<u>(7,019)</u>	<u>(8,017)</u>	<u>(3,702)</u>
 PROFIT FOR THE YEAR		 <u>14,961</u>	 <u>21,643</u>	 <u>7,069</u>
 OTHER COMPREHENSIVE INCOME/ (LOSS)				
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:				
Exchange differences on translation of foreign operations		<u>(4,799)</u>	<u>(1,841)</u>	<u>2,752</u>
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:				
Gains on revaluation upon reclassification to investment properties		829	1,286	–
Income tax effect		<u>(207)</u>	<u>(321)</u>	<u>–</u>
		<u>622</u>	<u>965</u>	<u>–</u>
 OTHER COMPREHENSIVE INCOME/ (LOSS) FOR THE YEAR, NET OF TAX		 <u>(4,177)</u>	 <u>(876)</u>	 <u>2,752</u>
 TOTAL COMPREHENSIVE INCOME FOR THE YEAR		 <u><u>10,784</u></u>	 <u><u>20,767</u></u>	 <u><u>9,821</u></u>

	Year ended 31 December 2016	Year ended 31 December 2017	Year ended 31 December 2018
<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Profit attributable to:			
Owners of the parent	15,246	21,639	6,994
Non-controlling interests	<u>(285)</u>	<u>4</u>	<u>75</u>
	<u>14,961</u>	<u>21,643</u>	<u>7,069</u>
Total comprehensive income attributable to:			
Owners of the parent	11,066	20,758	9,746
Non-controlling interests	<u>(282)</u>	<u>9</u>	<u>75</u>
	<u>10,784</u>	<u>20,767</u>	<u>9,821</u>
Earnings per share attributable to ordinary equity holders of the parent			
Basic and diluted	<i>12</i> <u>N/A</u>	<u>N/A</u>	<u>N/A</u>

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		As at 31 December 2016	As at 31 December 2017	As at 31 December 2018
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
NON-CURRENT ASSETS				
Property, plant and equipment	<i>13</i>	51,927	68,351	125,462
Investment properties	<i>14</i>	8,730	20,109	20,334
Freehold land	<i>15</i>	46,371	45,404	48,426
Goodwill	<i>16</i>	13,686	13,686	13,686
Other intangible assets	<i>17</i>	664	600	592
Deferred tax assets	<i>25</i>	<u>1,455</u>	<u>1,272</u>	<u>1,102</u>
Total non-current assets		<u>122,833</u>	<u>149,422</u>	<u>209,602</u>
CURRENT ASSETS				
Inventories	<i>18</i>	329	838	750
Trade receivables	<i>19</i>	13,711	8,218	25,387
Prepayments, deposits and other receivables	<i>20</i>	24,655	22,024	28,927
Due from directors	<i>34(c)</i>	7,197	310	185
Pledged short-term deposits	<i>21</i>	44,298	2,104	1,761
Cash and cash equivalents	<i>21</i>	28,972	28,797	11,296
Financial assets at fair value through profit or loss	<i>35</i>	<u>–</u>	<u>–</u>	<u>100</u>
Total current assets		<u>119,162</u>	<u>62,291</u>	<u>68,406</u>
CURRENT LIABILITIES				
Trade payables	<i>22</i>	6,242	3,475	11,813
Advance from customers, other payables and accruals	<i>23</i>	17,343	12,321	22,755
Interest-bearing bank borrowings	<i>24</i>	86,231	53,518	54,417
Due to a related party	<i>34(b)</i>	30	–	–
Due to directors	<i>34(c)</i>	6,225	922	–
Tax payable		<u>5,576</u>	<u>5,294</u>	<u>4,305</u>
Total current liabilities		<u>121,647</u>	<u>75,530</u>	<u>93,290</u>
NET CURRENT LIABILITIES		<u>(2,485)</u>	<u>(13,239)</u>	<u>(24,884)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>120,348</u>	<u>136,183</u>	<u>184,718</u>

		As at 31 December 2016	As at 31 December 2017	As at 31 December 2018
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
NON-CURRENT LIABILITIES				
Deferred tax liabilities	25	4,371	5,052	4,358
Interest-bearing bank borrowings	24	<u>18,540</u>	<u>16,774</u>	<u>56,804</u>
Total non-current liabilities		<u>22,911</u>	<u>21,826</u>	<u>61,162</u>
Net assets		<u>97,437</u>	<u>114,357</u>	<u>123,556</u>
EQUITY				
Equity attributable to owners of the parent				
Issued capital	26	–	–	–
Reserves	28	<u>90,107</u>	<u>111,186</u>	<u>120,953</u>
		90,107	111,186	120,953
Non-controlling interests		<u>7,330</u>	<u>3,171</u>	<u>2,603</u>
Total equity		<u>97,437</u>	<u>114,357</u>	<u>123,556</u>

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the parent						Total	Non-controlling interests	Total equity
	Issued capital	Capital reserves*	Statutory surplus reserves*	(Accumulated losses)/ retained earnings*	Revaluation reserves*	Foreign currency translation reserves*			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
	(note 26)	(note 28)	(note 28)						
At 1 January 2016	–	25,000	–	(9,010)	–	(574)	15,416	5,862	21,278
Profit for the year	–	–	–	15,246	–	–	15,246	(285)	14,961
Other comprehensive income/(loss) for the year:									
Gains on revaluation upon reclassification to investment properties, net of tax	–	–	–	–	619	–	619	3	622
Exchange differences related to foreign operations	–	–	–	–	–	(4,799)	(4,799)	–	(4,799)
Total comprehensive income for the year	–	–	–	15,246	619	(4,799)	11,066	(282)	10,784
Transfer to statutory reserves	–	–	794	(794)	–	–	–	–	–
Equity-settled share award of a subsidiary (note 27)	–	–	–	–	–	–	–	1,375	1,375
Capital injection from the then shareholders (note 31(a))	–	63,625	–	–	–	–	63,625	375	64,000
At 31 December 2016	–	88,625	794	5,442	619	(5,373)	90,107	7,330	97,437

	Attributable to owners of the parent								
	Issued capital	Capital reserves*	Statutory surplus reserves*	Retained earnings*	Revaluation reserves*	Foreign currency translation reserves*	Total	Non-controlling interests	Total equity
	RMB'000 (note 26)	RMB'000 (note 28)	RMB'000 (note 28)	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2017	-	88,625	794	5,442	619	(5,373)	90,107	7,330	97,437
Profit for the year	-	-	-	21,639	-	-	21,639	4	21,643
Other comprehensive income/(loss) for the year:									
Gains on revaluation upon reclassification to investment properties, net of tax	-	-	-	-	960	-	960	5	965
Exchange differences related to foreign operations	-	-	-	-	-	(1,841)	(1,841)	-	(1,841)
Total comprehensive income for the year	-	-	-	21,639	960	(1,841)	20,758	9	20,767
Transfer to statutory reserves	-	-	2,038	(2,038)	-	-	-	-	-
De-registration of subsidiaries**	-	-	-	-	-	-	-	(4,168)	(4,168)
Equity-settled share award of a subsidiary (note 27)	-	321	-	-	-	-	321	-	321
At 31 December 2017	-	88,946	2,832	25,043	1,579	(7,214)	111,186	3,171	114,357
	Attributable to owners of the parent								
	Issued capital	Capital reserves*	Statutory surplus reserves*	Retained earnings*	Revaluation reserves*	Foreign currency translation reserves*	Total	Non-controlling interests	Total equity
	RMB'000 (note 26)	RMB'000 (note 28)	RMB'000 (note 28)	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2018	-	88,946	2,832	25,043	1,579	(7,214)	111,186	3,171	114,357
Profit for the year	-	-	-	6,994	-	-	6,994	75	7,069
Other comprehensive income for the year:									
Exchange differences related to foreign operations	-	-	-	-	-	2,752	2,752	-	2,752
Total comprehensive income for the year	-	-	-	6,994	-	2,752	9,746	75	9,821
Transfer to statutory reserves	-	-	860	(860)	-	-	-	-	-
De-registration of a subsidiary***	-	-	-	-	-	-	-	(663)	(663)
Capital injection from non-controlling shareholders	-	21	-	-	-	-	21	20	41
At 31 December 2018	-	88,967	3,692	31,177	1,579	(4,462)	120,953	2,603	123,556

* These reserve accounts comprise the consolidated reserves of RMB90,107,000, RMB111,186,000 and RMB120,953,000 in the consolidated statements of financial position as at 31 December 2016, 2017 and 2018, respectively.

** On 17 April 2017 and 6 June 2017, Hangzhou Ningce Business Exhibition Co., Ltd. and Hangzhou Qingkang Electronic Technology Co., Ltd., two subsidiaries of Tu Yi Group Company Limited, were de-registered pursuant to written resolutions of their shareholders. These subsidiaries had no material business operation during the year ended 31 December 2017 before their de-registration.

*** On 9 May 2018, Hangzhou Ningce Trading Company Limited, a subsidiary of Tu Yi Group Company Limited, was de-registered pursuant to the written resolutions of its shareholders. The subsidiary had no material business operation during the year ended 31 December 2018 before its de-registration.

CONSOLIDATED STATEMENTS OF CASH FLOWS

		Year ended 31 December 2016	Year ended 31 December 2017	Year ended 31 December 2018
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		21,980	29,660	10,771
Adjustments for:				
Depreciation of property, plant and equipment	<i>13</i>	2,822	2,241	2,622
Amortisation of other intangible assets	<i>17</i>	54	51	49
Bank interest income	<i>5</i>	(823)	(804)	(164)
Finance costs	<i>7</i>	2,488	2,889	2,461
Gain on disposal of items of property, plant and equipment	<i>6</i>	(95)	–	–
Foreign exchange gains, net	<i>5</i>	(185)	(271)	(361)
Gain on bargain purchase of subsidiaries	<i>5</i>	(405)	–	–
Changes in fair value of investment properties	<i>5</i>	–	(627)	(225)
Other interest income from financial assets at fair value through profit or loss	<i>5</i>	–	–	(113)
Equity-settled share award expenses	<i>27</i>	1,375	321	–
		27,211	33,460	15,040
Decrease/(increase) in inventories		(134)	(509)	88
Decrease/(increase) in trade receivables		(8,706)	5,493	(17,169)
Decrease/(increase) in prepayments, deposits and other receivables		(13,340)	873	(6,903)
Decrease/(increase) in amounts due from directors		(7,197)	6,887	125
Increase/(decrease) in trade payables		(177)	(2,767)	8,338
Increase/(decrease) in advance from customers, other payables and accruals		685	(5,022)	10,434
Decrease in amounts due to directors		(14,338)	(9,635)	(1,585)
Decrease in amounts due to related parties		(414)	(30)	–
Cash generated from/(used in) operations		(16,410)	28,750	8,368
Income tax paid		(6,052)	(7,756)	(5,215)
Net cash flows from/(used in) operating activities		(22,462)	20,994	3,153

APPENDIX I

ACCOUNTANTS' REPORT

		Year ended 31 December 2016	Year ended 31 December 2017	Year ended 31 December 2018
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of items of property, plant and equipment		(1,198)	(28,380)	(57,250)
Acquisition of freehold land and incidental costs incurred	15	(42,817)	(313)	–
Purchases of other intangible assets	17	(5)	(7)	–
Purchase of financial assets at fair value through profit or loss		–	–	(39,100)
Proceeds from disposal of property, plant and equipment		4,000	1,000	–
Proceeds from disposal of other intangible assets		12	2	–
Proceeds from disposal of financial assets at fair value through profit or loss		–	–	39,113
Decrease/(increase) in pledged time deposits		(8,865)	42,194	343
Interest received		133	1,726	164
		<u>(48,740)</u>	<u>16,222</u>	<u>(56,730)</u>
Net cash flows from/(used in) investing activities				
CASH FLOWS FROM FINANCING ACTIVITIES				
Repayment of bank borrowings		(45,559)	(124,623)	(23,442)
Proceeds from bank borrowings		70,164	92,206	60,450
Interest paid		(2,560)	(2,889)	(2,461)
Contribution from non-controlling shareholders		–	–	41
Contribution from the then shareholders		57,000	–	–
		<u>79,045</u>	<u>(35,306)</u>	<u>34,588</u>
Net cash flows from/(used in) financing activities				
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS				
		7,843	1,910	(18,989)
Net foreign exchange difference		(3,280)	(2,085)	1,488
Cash and cash equivalents at beginning of year		<u>24,409</u>	<u>28,972</u>	<u>28,797</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	21	<u><u>28,972</u></u>	<u><u>28,797</u></u>	<u><u>11,296</u></u>

STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	As at 31 December 2018 <i>RMB'000</i>
NON-CURRENT ASSETS	
Investment in a subsidiary (note 1)	—
CURRENT ASSETS	
Cash and cash equivalents	—
CURRENT LIABILITIES	
Other payables and accruals	132
NET CURRENT LIABILITIES	(132)
TOTAL ASSETS LESS CURRENT LIABILITIES	(132)
Net liabilities	<u>(132)</u>
EQUITY	
Issued capital (note 26)	—
Reserves	(132)
Total shareholders' deficit	<u>(132)</u>

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. Corporate information

Tu Yi Holding Company Limited (the “Company”) is a limited liability company incorporated in the Cayman Islands on 27 February 2018. The registered address of the Company is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The principal place of business is located at Room 303, Jia Lian Hua Ming Zuo Commercial Building, No. 586 Jianguo North Road, Xiacheng District, Hangzhou City, Zhejiang Province, the People’s Republic of China (the “PRC”).

The Company is an investment holding company. During the Relevant Periods, the Company’s subsidiaries were principally involved in (i) the design, development and sale of outbound travel package tours and day tours; (ii) the design, development and sale of free independent traveller (“FIT”) products; (iii) the provision of visa application processing service; and (iv) the provision of other ancillary travel-related products and services. In the opinion of the directors of the Company, the ultimate controlling shareholders of the Company and its subsidiaries (together, the “Group”) are Mr. Yu Dingxin, Mr. Pan Wei and Mr. Xu Jiong (collectively the “Controlling Shareholders”).

The Company and its subsidiaries now comprising the Group underwent the Reorganisation as set out in the section headed “History, Reorganisation and Corporate Structure” in the Prospectus. Apart from the Reorganisation, the Company has not commenced any business or operation since its incorporation.

As at the date of this report, the Company had direct and indirect interests in its subsidiaries, all of which are private limited liability companies (or, if incorporated outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong), the particulars of which are set out below:

Name	Place and date of incorporation/ registration and place of business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Citizen Holiday Co., Ltd. (b)**	British Virgin Islands/ Hong Kong 6 March 2018	United States dollar (“USD”) 1	100	–	Investment holding
Tuyi HK Group Co., Limited (c) 途益香港有限公司	Hong Kong 19 March 2018	USD 1	–	100	Investment holding
Hangzhou Tuyi Information Technology Company Limited* (“WFOE”) (c)* 杭州途屹信息技術有限公司	PRC/ Mainland China 3 April 2018	USD5 million	–	100	Investment holding
Tu Yi Group Company Limited (“Tuyi Group”) (a)* 途益集團有限公司	PRC/ Mainland China 29 April 2008	RMB0.3 million	–	100	Travel business
Zhejiang Kaida Ticketing Company Limited (“Kaida Ticketing”) (a)* 浙江凱達票務有限公司*	PRC/ Mainland China 18 August 2010	RMB5 million	–	90	Air ticket booking service
Tu Yi Group Japan Co., Ltd. (“Tuyi Group Japan”) (b)** (途易集團日本株式會社)	Japan 31 March 2015	Japanese yen (“JPY”) 5 million	–	100	Travel and hotel accommodation agency service

Name	Place and date of incorporation/ registration and place of business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Hangzhou Guge Travel Company Limited ("Guge Travel") (b)* 杭州谷歌旅行社有限公司	PRC/ Mainland China 23 April 2010	RMB0.3 million	–	100	Travel business
Hangzhou Haizhilv Holidays Travel Company Limited ("Haizhilv Travel") (b)* 杭州海之旅假日旅行社有限公司	PRC/ Mainland China 14 January 2003	RMB0.6 million	–	100	Travel business
Hangzhou Tuyi Investment Management Company Limited ("Tuyi Investment") (b)* 杭州途易投资管理有限公司	PRC/ Mainland China 2 June 2015	RMB1 million	–	98	Investment holding
Tu Yi Tourism Development Company Limited ("Tuyi Tourism Development") (b)** 途易觀光開發株式會社	Japan 7 May 2015	JPY1 million	–	100	Investment holding
Shuzenji Takitei Company Limited ("Shuzenji Takitei") (b)** 修善寺滝亭株式會社	Japan 15 March 2010	JPY0.1 million	–	100	Onsen hotel operation

(a) The statutory financial statements of Tuyi Group and Kaida Ticketing for the year ended 31 December 2016 prepared under PRC Generally Accepted Accounting Principles (the "PRC GAAP") were audited by ZhongHui Certified Public Accountants Co., Ltd. (中匯會計師事務所(特殊普通合夥)), certified public accountants registered in the PRC. The statutory financial statements of Tuyi Group and Kaida Ticketing for the year ended 31 December 2017 prepared under the PRC GAAP were audited by Zhejiang Huaxia Public Accountants Co., Ltd. (浙江華夏會計師事務所(特殊普通合夥)), certified public accountants registered in the PRC.

(b) No audited financial statements have been prepared for these entities since their dates of incorporation as these subsidiaries are not required by the local government to prepare statutory accounts.

(c) No audited financial statements have been prepared for these entities as the entities were incorporated in 2018.

* The English names of these entities registered in Mainland China represent the best efforts made by the management of the Company to directly translate their Chinese names as they did not register any official English names.

** The English names of these entities registered in Japan represent the best efforts made by the management of the Company to directly translate their Japanese names as they did not register any official English names.

*** One ordinary share with no par value was allotted and issued.

2.1 Basis of presentation

Pursuant to the Reorganisation, as more fully explained in the section headed “History, Reorganisation and Corporate Structure” in the Prospectus, the Company became the holding company of the companies now comprising the Group on 21 May 2018. As the Reorganisation involved inserting new holding companies at the top of an existing company, entering into structured contracts (the “Structured Contracts”) and business combinations under common control, that has not resulted in a change of respective voting and beneficial interests, the Historical Financial Information for the Relevant Periods has been presented as a continuation of the then holding company by applying the principles of merger accounting as if the Reorganisation had been completed at the beginning of the Relevant Periods.

Due to regulatory prohibitions on foreign ownership in the outbound travel business in the PRC, the principal business carried out by Tuyi Group, Haizhilv Travel and Guge Travel (the “PRC Operating Entities”) during the Relevant Periods was prohibited from foreign ownership. A wholly-owned subsidiary of the Company, WFOE has entered into the Structured Contracts with, among others, the PRC Operating Entities and their respective equity holders (hereafter the equity holders of the PRC Operating Entities referred to “Registered Shareholders”). The Structured Contracts enable WFOE to exercise effective control over the PRC Operating Entities and obtain substantially all economic benefits of the PRC Operating Entities. Accordingly, the Company regards the PRC Operating Entities as indirect subsidiaries for the purpose of the Historical Financial Information and the PRC Operating Entities are consolidated in the Historical Financial Information for the Relevant Periods. Details of the Structured Contracts are disclosed in the section headed “Contractual Arrangements” in the Prospectus. The Group does not have any equity interests in the PRC Operating Entities.

The consolidated statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group for the Relevant Periods include the results and cash flows of all companies now comprising the Group from the earliest date presented or since the date when the subsidiaries and/or businesses first came under the common control of the Controlling Shareholders, where this is a shorter period. The consolidated statements of financial position of the Group as of 31 December 2016, 2017 and 2018 have been prepared to present the assets and liabilities of the subsidiaries now comprising the Group using the existing book values from the Controlling Shareholders’ perspective. No adjustments are made to reflect fair values, or recognise any new assets or liabilities as a result of the Reorganisation.

All intra-group transactions and balances have been eliminated on consolidation.

2.2 Basis of preparation

The Historical Financial Information has been prepared in accordance with HKFRSs (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong. All HKFRSs effective for the accounting period commencing from 1 January 2018, together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the Historical Financial Information throughout the Relevant Periods. Accordingly, the Group had adopted HKFRSs 9 and 15 on a consistent basis throughout the Relevant Periods.

The Historical Financial Information has been prepared under the historical cost convention, except for investment properties and financial assets at fair value through profit or loss which have been measured at fair value.

The Group recorded net current liabilities of RMB24,884,000 as at 31 December 2018. In view of the net current liabilities position, the directors of the Company have given careful consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern.

The liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflows from operations and sufficient financing to meet its financial obligations as and when they fall due. In preparing the Historical Financial Information, the directors of the Company have considered the Group’s sources of liquidity and believe that adequate funding is available to fulfil the Group’s debt obligations and capital expenditure requirements.

As at 31 December 2018, the Group's total borrowings due within twelve months amounted to RMB54,417,000. The Group has not experienced any significant difficulties in renewing its short-term borrowings upon their maturities and there is no indication that the banks will not renew the existing borrowings if the Group applies for the renewal. As at 31 December 2018, the Group had unutilised credit facilities from banks of RMB8,000,000 to meet the debt obligations.

Accordingly, the directors of the Company are of the opinion that it is appropriate to prepare the Historical Financial Information on a going concern basis. Should the Group be unable to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, and to provide for any further liabilities which might arise. The effect of these adjustments has not been reflected in the Historical Financial Information.

2.3 Issued but not yet effective Hong Kong Financial Reporting Standards

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in the Historical Financial Information.

Amendments to HKFRS 3	<i>Definition of a Business</i> ²
Amendments to HKFRS 9	<i>Prepayment Features with Negative Compensation</i> ¹
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ⁴
HKFRS 16	<i>Leases</i> ¹
HKFRS 17	<i>Insurance Contracts</i> ³
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i> ²
Amendments to HKAS 19	<i>Plan Amendment, Curtailment or Settlement</i> ¹
Amendments to HKAS 28	<i>Long-term Interests in Associates and Joint Ventures</i> ¹
HK(IFRIC)-Int 23	<i>Uncertainty over Income Tax Treatments</i> ¹
<i>Annual Improvements to HKFRSs 2015-2017 Cycle</i>	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23 ¹

¹ Effective for annual periods beginning on or after 1 January 2019

² Effective for annual periods beginning on or after 1 January 2020

³ Effective for annual periods beginning on or after 1 January 2021

⁴ No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is described below:

Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020.

HKFRS 16, replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and

any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group will adopt HKFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in HKFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balances of right-of-use assets and lease liabilities at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying HKAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application.

The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. During 2018, the Group has performed a detailed assessment on the impact of adoption of HKFRS 16. Based on the Group's undiscounted operating lease commitments as at 31 December 2018 of RMB8,232,000 as lessee as set out in note 32 to the Historical Financial Information, the Group has estimated that right-of-use assets of RMB7,843,000 and lease liabilities of RMB7,843,000 will be recognised at 1 January 2019.

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group will adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

HK(IFRIC)-Int 23, addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group adopts the interpretation from 1 January 2019. The interpretation is not expected to have any significant impact on the Group's financial position and financial performance.

2.4 Summary of significant accounting policies

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

The results of subsidiaries are included in the Company's profit or loss to the extent of dividends received and receivable.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investments retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, investment properties, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each of the Relevant Periods as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Business combination and goodwill

Business combination not under common control is accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of

liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date through fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Merger accounting for business combination under common control

As explained in note 2.1, the acquisition of subsidiaries under common control has been accounted for using merger accounting principles. The merger method of accounting involves incorporating the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been consolidated from the date when the combining entities or businesses first came under the control of the controlling shareholders.

Revenue recognition

Revenue is measured based on the consideration to which the Group expects to be entitled in exchange for goods or services transferred to the customer. The Group recognises revenue when it transfers control over a product or service to the counterparty.

- (i) Revenue from sales of package tours and day tours is recognised when the services are rendered based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided. This is determined based on the actual day spent at the destination relative to the total expected tours day.
- (ii) Margin income from sales of FIT products is recognised when the services have been rendered.
- (iii) Margin income from the provision of visa application processing service is recognised when the services have been rendered.
- (iv) Other income from sales of ancillary travel related products and services (such as insurance, transportation passes and admission tickets) is recognised when the services are sold to customers.
- (v) Hotel operation income is recognised upon the provision of the accommodation services and other ancillary services.
- (vi) Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.
- (vii) Dividend income is recognised when the shareholders' right to receive payment has been established.

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

Share-based payments

A subsidiary of the Company operates a share award scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value of the shares at the date at which they are granted less the subscription prices paid by the employees. Further details of fair value measurement of the subsidiary's share award scheme are given in note 27 to the Historical Financial Information.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity of the subsidiary, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but

without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each of the Relevant Periods taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on temporary differences at the end of each of the Relevant Periods between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- (a) where the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- (b) in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- (a) when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- (b) in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each of the Relevant Periods and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each of the Relevant Periods and recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Other employee benefits

Pension scheme

Contributions made to the government retirement benefit fund under defined contribution retirement plans are charged to profit or loss as incurred.

The Group participates in the national pension schemes as defined by the laws of the countries in which it has operations.

The employees of the Group's subsidiaries which operate in Mainland China and Japan are required to participate in central pension schemes operated by the local municipal government and the central government, respectively. These subsidiaries are required to contribute a certain percentage of payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Financial assets

The Group classifies its financial assets as subsequently measured at amortised cost or measured at fair value through profit or loss on the basis of both:

- The entity's business model for managing the financial assets.
- The contractual cash flow characteristics of the financial asset.

Financial assets measured at amortised cost

A debt instrument is measured at amortised cost if it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and its contractual terms give rise to specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The Group includes in this category short-term non-financing receivables including trade receivables, financial assets included in prepayments, deposits and other receivables, due from directors and pledged deposits and cash and cash equivalents.

Debt instruments that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A gain or loss on a debt investment that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss when the asset is derecognised or impaired. Interest income from these financial assets is included in other income and gains using the effective interest rate method.

Financial assets measured at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value as further explained below. In addition, a financial asset is measured at fair value through profit or loss if:

- (a) its contractual terms do not give rise to cash flows on specified dates that are solely payments of principal and interest on the principal amount outstanding; or
- (b) it is not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell; or
- (c) at initial recognition, it is irrevocably designated as measured at fair value through profit or loss when doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

Debt instruments that do not meet the criteria for amortised cost or financial assets at fair value through other comprehensive income are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented net in profit or loss within other income and gains in the period in which it arises. Interest income from these financial assets is included in other income and gains.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or a part of a group of similar financial assets) is derecognised where the rights to receive cash flows from the asset have expired, or the Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a pass-through arrangement and the Group has:

- (a) transferred substantially all of the risks and rewards of the asset; or
- (b) neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its right to receive cash flows from an asset (or has entered into a pass-through arrangement), and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Impairment of financial assets

The Group assesses on a forward looking basis the expected credit losses associated with its assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

Expected credit losses are a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial assets.

Impairment on other receivables is measured as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or fair value through profit or loss.

Financial liabilities measured at fair value through profit or loss

Financial liabilities are classified as at fair value through profit or loss when the financial liability is designated as at fair value through profit or loss.

A financial liability may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis.

Financial liabilities measured at amortised cost

Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premium or discounts) though the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives of property, plant and equipment are as follows:

Leasehold land and buildings	over the shorter of the term of the land use rights or 40 years
Computer and office equipment	3~10 years
Motor vehicles	4 years
Leasehold improvements	5 years

The residual value rate of property, plant and equipment are as follows:

Leasehold land and buildings	1%~5%
Computer and office equipment	1%~5%
Motor vehicles	5%
Leasehold improvements	0%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of each of the Relevant Periods.

Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of the retirement or disposal.

For a transfer from investment properties to owner-occupied properties or inventories, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation with changes recognised in revaluation reserve. On disposal of a revalued property, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves. For a transfer from inventories to investment properties, any difference between the fair value of the property at that date and its previous carrying amount is recognised in profit or loss.

Transfers to or from investment property shall be made when, and only when, there is a change in use evidenced by:

- (a) commencement of owner-occupation, for a transfer from investment property to owner-occupied property;
- (b) commencement of development with a view to sale, for a transfer from investment property to inventories;
- (c) end of owner-occupation, for a transfer from owner-occupied property to investment property; or
- (d) commencement of an operating lease to another party, for a transfer from inventories to investment property.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Freehold land

Land is stated at acquisition cost less any accumulated impairment. The Group's freehold land is situated in Japan and is not depreciated. It is tested for impairment annually as at 31 December and when circumstances indicate that the carrying value may be impaired.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Onsen use right is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 20 years.

Purchased software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 4 to 5 years.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis. Net realisable value is based on estimated selling prices in the ordinary course of business less the estimated applicable selling expenses.

Cash and cash equivalents

For the purpose of the consolidated statements of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group 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 Group or an entity related to the 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); and
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Foreign currencies

The Historical Financial Information is presented in Renminbi because the Group's principal operations are carried out in Mainland China. This is also the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of each of the Relevant Periods. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries, are currencies other than Renminbi. As at the end of each of the Relevant Periods, the assets and liabilities of these entities are translated into Renminbi at the exchange rates prevailing at the end of each of the Relevant Periods and their profit or loss are translated into Renminbi at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

3. Significant accounting judgements, estimates and assumptions

The preparation of the Group's financial information requires management to make significant judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the Historical Financial Information:

Structured Contracts

The PRC Operating Entities are engaged in the outbound travel business. Under the scope of "Catalogue for Guidance of Foreign Investment Industries (2017 version)", foreign investors are prohibited to invest in such business.

As disclosed in note 2.1, as part of the Reorganisation, the Group exercises control over the PRC Operating Entities and enjoys substantially all economic benefits of the PRC Operating Entities through the Structured Contracts.

The Group does not have any equity interests in the PRC Operating Entities. However, as a result of the Structured Contracts, the Company has powers over the PRC Operating Entities, has rights to variable returns from its involvement with the PRC Operating Entities and has the ability to affect those returns through its power over the PRC Operating Entities and is therefore considered to have control over them. Consequently, the Company regards the PRC Operating Entities as indirect subsidiaries. The Group has consolidated the financial positions and results of the PRC Operating Entities in the Historical Financial Information during the Relevant Periods.

Principal versus agent

Determining whether revenue of the Group should be reported gross or net is based on a continuing assessment of various factors. When determining whether the Group is acting as the principal or agent in offering goods or services to the customer, the Group needs to first identify who controls the specified goods or services before they are transferred to the customer. The Group is a principal that obtains control any of the following: (i) a good or another asset from the other party that the Group then transfers to the customer; (ii) a right to a service to be performed by the other party, which gives the Group the ability to direct that party to provide the service to the customer on the Group's behalf; (iii) a good or service from the other party that the Group then combines with other goods or services in providing the specified good or service to the customer. If control is unclear, when the Group is primarily obligated in a transaction, is subject to inventory risk, has latitude in establishing prices and selecting suppliers, or has several but not all of these indicators, the Group records revenues on a gross basis. Otherwise, the Group records the net amount earned as commissions from products sold or services provided.

The Group's management performs the assessment based on the above-mentioned factors and reaches the conclusion that the Group acts as a principal in the provision of package tour and day tour services since the Group controls the services before they are transferred to the customers and the Group acts as an agent in the sale of FIT products since the Group does not obtain control over the services performed by the airline companies, hotels and the relevant government authorities for visa application processing service. Accordingly, the Group recognises revenue from the provision of package tour and day tour services on a gross basis and the revenue of the air tickets and hotel accommodation booking and agency service on a net basis.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each of the Relevant Periods, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period, are described below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amounts of goodwill at 31 December 2016, 2017 and 2018 were RMB13,686,000, RMB13,686,000 and RMB13,686,000, respectively. Further details are given in note 16 to the Historical Financial Information.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each of the Relevant Periods. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value

of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Estimate of fair value of investment properties

Investment properties were revalued at the end of each of the Relevant Periods based on the appraised market value provided by independent professional valuers. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the estimation, the Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions existing at the end of each of the Relevant Periods.

The principal assumptions for the Group's estimation of the fair value include those related to estimated rental values with reference to the current market rents for similar properties in the same location and condition, appropriate capitalisation rates and expected profit margin. The carrying amounts of investment properties at 31 December 2016, 2017 and 2018 were RMB8,730,000, RMB20,109,000 and RMB20,334,000, respectively. Further details, including the key assumptions used for fair value measurement and a sensitivity analysis, are given in note 14 to the Historical Financial Information.

Useful lives and residual values of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset and the legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way.

Additional depreciation is recognised if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from the previous estimation. Useful lives and residual values are reviewed at each financial year end date based on changes in circumstances.

4. Operating segment information

For management purpose, the Group's businesses include selling of package tours and day tours, and FIT products, provision of visa application processing service, selling of certain ancillary travel related products and services and hotel operation. Revenue recognised during the Relevant Periods is as follows:

	Year ended 31 December 2016	Year ended 31 December 2017	Year ended 31 December 2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue			
Sales of package tours and day tours	181,986	132,078	162,767
Margin income from sales of FIT products	15,221	10,071	13,825
Margin income from the provision of visa application processing service	15,672	11,990	13,345
Other income from sales of ancillary travel related products and services	1,665	2,474	2,313
Hotel operation income	<u>13,286</u>	<u>12,254</u>	<u>12,801</u>
Total	<u>227,830</u>	<u>168,867</u>	<u>205,051</u>

The Group's chief operating decision makers are the executive directors of the Company. The information reported to the Company's executive directors, for the purpose of resource allocation and assessment of performance, does not contain discrete operating segment financial information and the executive directors reviewed the financial results of the Group as a whole.

Geographic information

(a) *Revenue from external customers*

	Year ended 31 December 2016	Year ended 31 December 2017	Year ended 31 December 2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Domestic – Mainland China*	202,853	139,634	185,494
Japan#	<u>24,977</u>	<u>29,233</u>	<u>19,557</u>
Total	<u><u>227,830</u></u>	<u><u>168,867</u></u>	<u><u>205,051</u></u>

* Place of domicile of the Group's principal subsidiaries.

Mainly from hotel operation and commission from Japan customers.

The revenue information is based on the locations of the customers. No revenue from the Group's sales to a single customers amounted to 10% or more of the Group's revenue during the Relevant Periods.

(b) *Non-current assets*

	As at 31 December 2016	As at 31 December 2017	As at 31 December 2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Domestic – Mainland China	41,789	42,737	42,335
Japan	<u>79,589</u>	<u>105,413</u>	<u>166,165</u>
Total	<u><u>121,378</u></u>	<u><u>148,150</u></u>	<u><u>208,500</u></u>

The non-current asset information above is based on the locations of assets and excludes financial instruments and deferred tax assets.

5. Revenue, other income and gains

Revenue represents the net invoiced value of products and services sold after trade discounts and net of value added tax and government surcharges during the Relevant Periods.

An analysis of revenue, other income and gains is as follows:

	Year ended 31 December 2016 <i>RMB'000</i>	Year ended 31 December 2017 <i>RMB'000</i>	Year ended 31 December 2018 <i>RMB'000</i>
Revenue from contracts with customers	227,830	168,867	205,051
Other income			
Bank interest income	823	804	164
Government grants	95	376	513
Rental income on properties	106	603	727
Other interest income from financial assets at fair value through profit or loss	–	–	113
Others	51	97	63
	<u>1,075</u>	<u>1,880</u>	<u>1,580</u>
Gains			
Gain on bargain purchase of subsidiaries (note 29)	405	–	–
Changes in fair value of investment properties	–	627	225
Foreign exchange gains, net	185	271	361
Gain on disposal of items of property, plant and equipment	95	–	–
	<u>685</u>	<u>898</u>	<u>586</u>
	<u><u>1,760</u></u>	<u><u>2,778</u></u>	<u><u>2,166</u></u>

Notes:

(a) Disaggregation of revenue from contracts with customers

The Group derives revenue from the transfer of goods and services over time and at a point in time in the following major product lines:

	Year ended 31 December 2016 <i>RMB'000</i>	Year ended 31 December 2017 <i>RMB'000</i>	Year ended 31 December 2018 <i>RMB'000</i>
Timing of revenue recognition			
Over time			
– Sales of package tours and day tours	<u>181,986</u>	<u>132,078</u>	<u>162,767</u>
At a point in time			
– Margin income from the sales of FIT products	15,221	10,071	13,825
– Margin income from the provision of visa application processing service	15,672	11,990	13,345
– Other income from the sales of ancillary travel related products and the provision of services	1,665	2,474	2,313
– Hotel operation	<u>13,286</u>	<u>12,254</u>	<u>12,801</u>
	<u>45,844</u>	<u>36,789</u>	<u>42,284</u>
Total	<u><u>227,830</u></u>	<u><u>168,867</u></u>	<u><u>205,051</u></u>

(b) Contract liabilities

The Group recognised the following revenue-related contract liabilities:

	As at 31 December 2016 <i>RMB'000</i>	As at 31 December 2017 <i>RMB'000</i>	As at 31 December 2018 <i>RMB'000</i>
Current*	<u><u>11,767</u></u>	<u><u>6,787</u></u>	<u><u>10,961</u></u>

* Included in “Advance from customers, other payables and accruals” in the consolidated statements of financial position.

(i) Significant changes in contract liabilities

Contract liabilities representing the obligations to transfer goods or services to a counterparty for which the Group has received consideration. The changes in the contract liabilities are mainly attributable to the receipt of advances from customers and the recognition of revenue when fulfilling the performance obligations.

(ii) Revenue recognised in relation to contract liabilities

The following table shows the revenue recognised during the Relevant Periods related to carried-forward contract liabilities.

	Year ended 31 December 2016	Year ended 31 December 2017	Year ended 31 December 2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue recognised that was included in the contract liabilities balance at the beginning of the year	<u>8,962</u>	<u>11,767</u>	<u>6,787</u>

(iii) Unsatisfied performance obligations

The following table shows the unsatisfied performance obligations as at 31 December 2016, 2017 and 2018.

	As at 31 December 2016	As at 31 December 2017	As at 31 December 2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current	<u>14,547</u>	<u>7,949</u>	<u>14,328</u>

6. Profit before tax

The Group's profit before tax is arrived at after charging/(crediting):

		Year ended 31 December 2016 RMB'000	Year ended 31 December 2017 RMB'000	Year ended 31 December 2018 RMB'000
	<i>Notes</i>			
Cost of services provided		175,871	116,747	152,793
Cost of inventories sold		4,447	3,155	3,272
Depreciation of property, plant and equipment	13	2,822	2,241	2,622
Amortisation of other intangible assets	17	54	51	49
Minimum lease payments under operating lease		229	311	768
Auditor's remuneration		660	–	–
Gain on bargain purchase of subsidiaries	29	(405)	–	–
Government grants*		(95)	(376)	(513)
Bank interest income		(823)	(804)	(164)
Rental income on properties		(106)	(603)	(727)
Foreign exchange gains, net		(185)	(271)	(361)
Gain on disposal of items of property, plant and equipment		(95)	–	–
Impairment of receivables arising from contracts with customers		–	104	–
Changes in fair value of investment properties	14	–	(627)	(225)
Listing expenses		–	–	15,539
Provision for litigation		–	–	1,841
Employee benefit expense (excluding directors' remuneration (note 8)):				
Wages and salaries		14,785	12,945	14,791
Pension scheme contributions		1,692	1,686	2,736
Staff welfare expenses		281	159	455
Equity-settled share award expenses	27	642	104	–
		<u>17,400</u>	<u>14,894</u>	<u>17,982</u>

* The government grants mainly represent incentives awarded by the local governments to support the Group's operation in Zhejiang, the PRC. There are no unfulfilled conditions or contingencies relating to these grants.

7. Finance costs

An analysis of finance costs is as follows:

	Year ended 31 December 2016 RMB'000	Year ended 31 December 2017 RMB'000	Year ended 31 December 2018 RMB'000
Interest on bank borrowings	2,488	3,368	3,317
Less: Interest capitalised	–	(479)	(856)
	<u>2,488</u>	<u>2,889</u>	<u>2,461</u>

The rates used to determine the amounts of the borrowing costs eligible for capitalisation were 1.88%, 1.88% and 1.88% for the years ended 31 December 2016, 2017 and 2018, respectively.

8. Directors' remuneration

Mr. Yu Dingxin was appointed as Chairman and an executive director of the Company on 27 February 2018. Mr. Pan Wei and Mr. Xu Jiong were appointed as executive directors of the Company on 27 February 2018, and Mr. An Jiajin, Mr. Peng Ying and Ms. Qiu Xiang were appointed as executive directors of the Company on 9 April 2018. Ms. Zhou Li, Mr. Zhao Jianbo and Mr. Gu Jiong were appointed as independent non-executive directors of the Company on 1 March 2019.

The Company did not have any chief executive, non-executive directors and independent non-executive directors at any time during the Relevant Periods since the Company was incorporated on 27 February 2018.

Certain of the directors received remuneration from the subsidiaries now comprising the Group for their appointment as directors of these subsidiaries. The remuneration of each of these directors as recorded in the financial statements of the subsidiaries is set out below:

	Year ended 31 December 2016 RMB'000	Year ended 31 December 2017 RMB'000	Year ended 31 December 2018 RMB'000
Fees	—	—	—
Other emoluments:			
Salaries, allowances and benefits in kind	1,031	908	958
Pension scheme contributions	54	85	191
Equity-settled share award	733	217	—
	<u>1,818</u>	<u>1,210</u>	<u>1,149</u>

(a) Independent non-executive directors

There were no fees and other emoluments payable to the independent non-executive directors during the Relevant Periods.

(b) Executive directors

	Salaries, allowances and benefits in kind <i>RMB'000</i>	Pension scheme contributions <i>RMB'000</i>	Equity-settled share award <i>RMB'000</i>	Total <i>RMB'000</i>
Year ended 31 December 2016				
Executive directors:				
Mr. Yu Dingxin	306	9	–	315
Mr. Pan Wei	252	9	–	261
Mr. Xu Jiong	252	9	–	261
Mr. An Jiajin	75	9	–	84
Mr. Peng Ying	30	9	733	772
Ms. Qiu Xiang	116	9	–	125
	<u>1,031</u>	<u>54</u>	<u>733</u>	<u>1,818</u>
Year ended 31 December 2017				
Executive directors:				
Mr. Yu Dingxin	252	16	–	268
Mr. Pan Wei	192	16	–	208
Mr. Xu Jiong	192	16	–	208
Mr. An Jiajin	97	12	52	161
Mr. Peng Ying	52	12	165	229
Ms. Qiu Xiang	123	13	–	136
	<u>908</u>	<u>85</u>	<u>217</u>	<u>1,210</u>
Year ended 31 December 2018				
Executive directors:				
Mr. Yu Dingxin	241	43	–	284
Mr. Pan Wei	181	41	–	222
Mr. Xu Jiong	181	41	–	222
Mr. An Jiajin	94	23	–	117
Mr. Peng Ying	91	15	–	106
Ms. Qiu Xiang	170	28	–	198
	<u>958</u>	<u>191</u>	<u>–</u>	<u>1,149</u>

There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Periods.

9. Five highest paid employees

The five highest paid employees during each of the years ended 31 December 2016, 2017 and 2018 included three directors, two directors and one director, respectively, details of whose remuneration are set out in note 8 above. Details of the remuneration for the remaining two, three and four highest paid employees who are neither a director nor chief executive of the Company during the Relevant Periods are as follows:

	Year ended 31 December 2016 <i>RMB'000</i>	Year ended 31 December 2017 <i>RMB'000</i>	Year ended 31 December 2018 <i>RMB'000</i>
Salaries, allowances and benefits in kind	304	785	1,023
Pension scheme contributions	48	143	144
Equity-settled share award	<u>275</u>	<u>–</u>	<u>–</u>
	<u>627</u>	<u>928</u>	<u>1,167</u>

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees		
	Year ended 31 December 2016	Year ended 31 December 2017	Year ended 31 December 2018
Nil to HKD1,000,000	<u>2</u>	<u>3</u>	<u>4</u>

During the years ended 31 December 2016 and 2017, certain equity interests of Hangzhou Tuyi Investments Management Partnership Enterprise were granted to one non-director and non-chief executive highest paid employee in respect of his services to the Group, further details of which are included in the disclosures in note 27 to the Historical Financial Information. The fair value of such equity interests at the grant date less the subscription price paid by the employees, which has been recognised in profit or loss, included in the Historical Financial Information for the years ended 31 December 2016 and 2017, respectively, are included in the above non-director and non-chief executive highest paid employees' remuneration disclosures. No such expenses have been recognised for the year ended 31 December 2018.

10. Income tax

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which the members of the Group are domiciled and operate.

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and British Virgin Islands.

Pursuant to the rules and regulations of Japan, the subsidiaries incorporated in Japan are subject mainly to corporate tax, inhabitant tax and enterprise tax, and the effective statutory tax rates for these taxes were from 33.6% to 33.8% during the Relevant Periods.

No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from or earned in Hong Kong during the Relevant Periods.

During the Relevant Periods, except for Kaida Ticketing which was entitled to a preferential income tax rate of 10% as a small and micro enterprise, the provision for Mainland China current income tax was based on the statutory rate of 25% of the assessable profits of the PRC subsidiaries as determined in accordance with the PRC Corporate Income Tax Law.

The income tax expense of the Group is analysed as follows:

	Year ended 31 December 2016 <i>RMB'000</i>	Year ended 31 December 2017 <i>RMB'000</i>	Year ended 31 December 2018 <i>RMB'000</i>
Current – Mainland China	6,439	7,228	4,141
Current – Japan	277	246	85
Deferred (note 25)	<u>303</u>	<u>543</u>	<u>(524)</u>
Total tax charge for the year	<u><u>7,019</u></u>	<u><u>8,017</u></u>	<u><u>3,702</u></u>

A reconciliation of the tax expense applicable to profit before tax at the statutory rates in Mainland China and Japan to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

For the year ended 31 December 2016

	Mainland China		Japan		Total	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Profit before tax	20,861		1,119		21,980	
Tax at the statutory tax rate of 25% in Mainland China	5,215	25.0	–	–	5,215	23.7
Tax at the statutory tax rate of 33.8% in Japan	–	–	378	33.8	378	1.7
Lower tax rates enacted by the local authority	(53)	(0.2)	–	–	(53)	(0.2)
Non-deductible expenses for tax purposes	581	2.8	–	–	581	2.6
Tax losses not recognised	<u>696</u>	<u>3.3</u>	<u>202</u>	<u>18.0</u>	<u>898</u>	<u>4.1</u>
Tax charge at the Group's effective tax rate	<u><u>6,439</u></u>	<u><u>30.9</u></u>	<u><u>580</u></u>	<u><u>51.8</u></u>	<u><u>7,019</u></u>	<u><u>31.9</u></u>

For the year ended 31 December 2017

	Mainland China		Japan		Total	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Profit before tax	28,972		688		29,660	
Tax at the statutory tax rate of 25% in Mainland China	7,243	25.0	–	–	7,243	24.4
Tax at the statutory tax rate of 33.8% in Japan	–	–	232	33.8	232	0.8
Lower tax rates enacted by the local authority	(17)	(0.1)	–	–	(17)	(0.1)
Non-deductible expenses for tax purposes	111	0.4	12	1.8	123	0.4
Tax losses not recognised	<u>226</u>	<u>0.8</u>	<u>210</u>	<u>30.5</u>	<u>436</u>	<u>1.5</u>
Tax charge at the Group's effective tax rate	<u><u>7,563</u></u>	<u><u>26.1</u></u>	<u><u>454</u></u>	<u><u>66.1</u></u>	<u><u>8,017</u></u>	<u><u>27.0</u></u>

For the year ended 31 December 2018

	Mainland China		Japan		Total	
	RMB'000	%	RMB'000	%	RMB'000	%
Profit before tax	10,469		302		10,771	
Tax at the statutory tax rate of 25% in Mainland China	2,617	25.0	–	–	2,617	24.3
Tax at the statutory tax rate of 33.6% in Japan	–	–	101	33.6	101	0.9
Lower tax rates enacted by the local authority	(68)	(0.6)	–	–	(68)	(0.6)
Non-deductible expenses for tax purposes	908	8.7	16	5.3	924	8.6
Tax losses not recognised	14	0.1	114	37.7	128	1.2
Tax charge at the Group's effective tax rate	<u>3,471</u>	<u>33.2</u>	<u>231</u>	<u>76.6</u>	<u>3,702</u>	<u>34.4</u>

11. Dividends

No dividend was declared and paid by the Company since its incorporation.

12. Earnings per share attributable to ordinary equity holders of the parent

Earnings per share information is not presented as its inclusion, and for the purpose of the Historical Financial Information, is not considered meaningful due to the Reorganisation and the basis of presentation of the Group for the Relevant Periods as disclosed in note 2.1.

13. Property, plant and equipment

	Leasehold land and buildings RMB'000	Computer and office equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2016						
At 1 January 2016:						
Cost	59,522	468	1,962	925	247	63,124
Accumulated depreciation	(2,389)	(179)	(1,743)	(289)	–	(4,600)
Net carrying amount	<u>57,133</u>	<u>289</u>	<u>219</u>	<u>636</u>	<u>247</u>	<u>58,524</u>
At 1 January 2016, net of accumulated depreciation						
Additions	7,716	306	3	–	173	8,198
Disposals	(4,905)	–	–	–	–	(4,905)
Transfer to investment properties	(7,901)	–	–	–	–	(7,901)
Depreciation provided during the year	(2,428)	(111)	(121)	(162)	–	(2,822)
Exchange realignments	794	12	–	–	27	833
At 31 December 2016, net of accumulated depreciation	<u>50,409</u>	<u>496</u>	<u>101</u>	<u>474</u>	<u>447</u>	<u>51,927</u>

	Leasehold land and buildings RMB'000	Computer and office equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
At 31 December 2016:						
Cost	53,531	787	1,965	925	447	57,655
Accumulated depreciation	(3,122)	(291)	(1,864)	(451)	–	(5,728)
Net carrying amount	<u>50,409</u>	<u>496</u>	<u>101</u>	<u>474</u>	<u>447</u>	<u>51,927</u>
31 December 2017						
At 1 January 2017:						
Cost	53,531	787	1,965	925	447	57,655
Accumulated depreciation	(3,122)	(291)	(1,864)	(451)	–	(5,728)
Net carrying amount	<u>50,409</u>	<u>496</u>	<u>101</u>	<u>474</u>	<u>447</u>	<u>51,927</u>
At 1 January 2017, net of accumulated depreciation						
Additions	321	74	–	–	27,985	28,380
Transfer to investment properties	(9,466)	–	–	–	–	(9,466)
Depreciation provided during the year	(1,928)	(138)	–	(175)	–	(2,241)
Exchange realignments	(227)	(9)	–	–	(13)	(249)
At 31 December 2017, net of accumulated depreciation	<u>39,109</u>	<u>423</u>	<u>101</u>	<u>299</u>	<u>28,419</u>	<u>68,351</u>
At 31 December 2017:						
Cost	43,295	851	1,965	925	28,419	75,455
Accumulated depreciation	(4,186)	(428)	(1,864)	(626)	–	(7,104)
Net carrying amount	<u>39,109</u>	<u>423</u>	<u>101</u>	<u>299</u>	<u>28,419</u>	<u>68,351</u>
31 December 2018						
At 1 January 2018:						
Cost	43,295	851	1,965	925	28,419	75,455
Accumulated depreciation	(4,186)	(428)	(1,864)	(626)	–	(7,104)
Net carrying amount	<u>39,109</u>	<u>423</u>	<u>101</u>	<u>299</u>	<u>28,419</u>	<u>68,351</u>
At 1 January 2018, net of accumulated depreciation						
Additions	–	127	–	–	57,123	57,250
Transfers	87,508	–	–	–	(87,508)	–
Depreciation provided during the year	(2,260)	(187)	–	(175)	–	(2,622)
Exchange realignments	499	18	–	–	1,966	2,483
At 31 December 2018, net of accumulated depreciation	<u>124,856</u>	<u>381</u>	<u>101</u>	<u>124</u>	<u>–</u>	<u>125,462</u>

	Leasehold land and buildings <i>RMB'000</i>	Computer and office equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Leasehold improvements <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
At 31 December 2018:						
Cost	131,433	996	1,965	925	–	135,319
Accumulated depreciation	(6,577)	(615)	(1,864)	(801)	–	(9,857)
Net carrying amount	<u>124,856</u>	<u>381</u>	<u>101</u>	<u>124</u>	<u>–</u>	<u>125,462</u>

As at 31 December 2016, 2017 and 2018, certain of the Group's leasehold land and buildings with aggregate net carrying amounts of RMB50,409,000, RMB39,109,000 and RMB37,117,000, respectively, were pledged to secure bank loan facilities granted to the Group (note 24).

14. Investment properties

	<i>RMB'000</i>
Carrying amount at 1 January 2016	–
Transfer from property, plant and equipment (note 13)	7,901
Gains on revaluation upon reclassification to investment properties	<u>829</u>
Carrying amount at 31 December 2016 and 1 January 2017	8,730
Transfer from property, plant and equipment (note 13)	9,466
Gains on revaluation upon reclassification to investment properties	1,286
Gain from a fair value adjustment recognised in profit or loss	<u>627</u>
Carrying amount at 31 December 2017 and 1 January 2018	20,109
Gain from a fair value adjustment recognised in profit or loss	<u>225</u>
Carrying amount at 31 December 2018	<u>20,334</u>

The Group's investment properties are situated in Mainland China and are held under medium term leases.

As at 31 December 2016, 2017 and 2018, the Group's investment properties with aggregate net carrying amounts of RMB8,730,000, RMB20,109,000 and RMB20,334,000, respectively, were pledged to secure bank loan facilities granted to the Group (note 24).

The Group's investment properties consist of retail shops and offices in Mainland China. As at 31 December 2016 and 2017, the Group's investment properties were revalued based on valuations performed by Zhejiang Hengxin Real Estate Land Valuation Advisory Limited (浙江恒信房地產土地評估有限公司), an independent professionally qualified valuer. As at 31 December 2018, the Group's investment properties were revalued based on valuations performed by Zhejiang Guozhongyingxin Real Estate Land Valuation Advisory Limited (浙江國仲盈信房地產土地資產評估諮詢有限公司), an independent professionally qualified valuer. The investment properties were leased to third parties under operating leases, further details of which are included in note 32.

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
As at 31 December 2016:				
Recurring fair value measurement for:				
Retail shops	–	–	8,730	8,730
As at 31 December 2017:				
Recurring fair value measurement for:				
Retail shops	–	–	10,254	10,254
Office units	–	–	9,855	9,855
Total	–	–	20,109	20,109
As at 31 December 2018:				
Recurring fair value measurement for:				
Retail shops	–	–	10,424	10,424
Office units	–	–	9,910	9,910
Total	–	–	20,334	20,334

During the Relevant Periods, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

Below is a summary of the valuation techniques used and the key inputs to the valuation of investment properties:

As at 31 December 2016:

Investment properties	Valuation techniques	Significant unobservable inputs	Rate of unobservable inputs
Retail shops	Income method	Estimated market rent	RMB160.50 per square metre per month
		Term yield	5.4%

As at 31 December 2017:

Investment properties	Valuation techniques	Significant unobservable inputs	Rate of unobservable inputs
Retail shops	Income method	Estimated market rent	RMB169.00 per square metre per month
		Term yield	5.4%
Office units	Income method	Estimated market rent	RMB143.70 per square metre per month
		Term yield	5.4%

As at 31 December 2018:

Investment properties	Valuation techniques	Significant unobservable inputs	Rate of unobservable inputs
Retail shops	Income method	Estimated market rent	RMB164.00 per square metre per month
		Term yield	5.2%
Office units	Income method	Estimated market rent	RMB132.00 per square metre per month
		Term yield	4.8%

Estimated market rents are estimated based on the independent valuer's view of recent letting transactions within the subject properties and other comparable properties. A significant increase (decrease) in the estimated rental value in isolation would result in a significant increase (decrease) in the fair value of the investment properties. A significant increase (decrease) in the term yield in isolation would result in a significant decrease (increase) in the fair value of the investment properties. Generally, a change in the assumption made for the estimated rental value is accompanied by an opposite change in the term yield.

15. Freehold land

	As at 31 December 2016 RMB'000	As at 31 December 2017 RMB'000	As at 31 December 2018 RMB'000
Carrying amount at beginning of year	3,378	46,371	45,404
Additions	42,817	313	–
Exchange realignments	176	(1,280)	3,022
Carrying amount at the end of year	<u>46,371</u>	<u>45,404</u>	<u>48,426</u>

As at 31 December 2016, 2017 and 2018, the Group's freehold land with aggregate carrying amounts of RMB46,371,000, RMB45,404,000 and RMB48,426,000, were pledged to secure bank loan facilities granted to the Group (note 24).

16. Goodwill

	As at 31 December 2016 RMB'000	As at 31 December 2017 RMB'000	As at 31 December 2018 RMB'000
Cost and carrying amount:			
At beginning of year	<u>13,686</u>	<u>13,686</u>	<u>13,686</u>
At end of year	<u><u>13,686</u></u>	<u><u>13,686</u></u>	<u><u>13,686</u></u>

Impairment testing of goodwill

Goodwill acquired through business combination is allocated to the individual cash-generating unit, Shuzenji Takitei unit, which is one of the Group's subsidiaries for impairment testing.

The recoverable amount of the cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

	As at 31 December 2016 RMB'000	As at 31 December 2017 RMB'000	As at 31 December 2018 RMB'000
Revenue (annual growth rate %)	1.65%	1.76%	1.24%
Gross margin (of revenue %)	83.40%	83.44%	83.27%
Long term growth rate	0.53%	0.52%	0.47%
Pre-tax discount rate	9.92%	9.95%	9.83%

Budgeted revenue – The budgeted sales amounts are based on the historical data and management's expectation on the future market.

Budgeted gross margin – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for the expected efficiency improvements, and the expected market development.

Long term growth rate – The long term growth rate is based on the historical data and management's expectation on the future market.

Pre-tax discount rate – The pre-tax discount rate reflects specific risks relating to the Group's cash-generating unit, which is determined using the capital asset pricing model with reference to the beta coefficient and debt ratio of certain publicly listed companies conducting business in Japan hotel industry.

The values assigned to the key assumptions on market development of the cash-generating unit and discount rate are consistent with external information sources.

As at 31 December 2016, 2017 and 2018, the recoverable amount of the cash-generating unit exceeded its carrying amount by RMB4,710,000, RMB5,860,000 and RMB4,551,000, respectively.

In the opinion of the directors of the Company, if the pre-tax discount rate rose to 11%, the gross profit margin decreased to 82%, or the compound growth rate of revenue became 0.8% (with other assumptions remaining unchanged), the recoverable amount of the cash-generating unit would be decreased to the carrying amount of the cash-generating unit. Except for the above-mentioned possible changes, any

reasonably possible changes in the other key assumptions used in the value-in-use assessment model would not cause the cash-generating unit's carrying amount to exceed its recoverable amount at 31 December 2018.

Based on the impairment assessment conducted by the Group utilising the above key assumptions, the recoverable amounts of the cash-generating unit estimated from the cash flow forecast exceeded the carrying amount of goodwill and no impairment was considered necessary as at 31 December 2018.

17. Other intangible assets

	Onsen use right	Software	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
31 December 2016			
Cost at 1 January 2016, net of accumulated amortisation	619	39	658
Addition	–	5	5
Disposal	–	(12)	(12)
Amortisation provided during the year	(41)	(13)	(54)
Exchange realignments	66	1	67
	<u>644</u>	<u>20</u>	<u>664</u>
At 31 December 2016	<u>644</u>	<u>20</u>	<u>664</u>
At 31 December 2016:			
Cost	699	41	740
Accumulated amortisation	(55)	(21)	(76)
	<u>644</u>	<u>20</u>	<u>664</u>
Net carrying amount	<u>644</u>	<u>20</u>	<u>664</u>
31 December 2017			
Cost at 1 January 2017, net of accumulated amortisation	644	20	664
Addition	–	7	7
Disposal	–	(2)	(2)
Amortisation provided during the year	(40)	(11)	(51)
Exchange realignments	(18)	–	(18)
	<u>586</u>	<u>14</u>	<u>600</u>
At 31 December 2017	<u>586</u>	<u>14</u>	<u>600</u>
At 31 December 2017:			
Cost	679	46	725
Accumulated amortisation	(93)	(32)	(125)
	<u>586</u>	<u>14</u>	<u>600</u>
Net carrying amount	<u>586</u>	<u>14</u>	<u>600</u>

	Onsen use right <i>RMB'000</i>	Software <i>RMB'000</i>	Total <i>RMB'000</i>
31 December 2018			
Cost at 1 January 2018, net of accumulated amortisation	586	14	600
Amortisation provided during the year	(44)	(5)	(49)
Exchange realignments	41	–	41
	<u>583</u>	<u>9</u>	<u>592</u>
At 31 December 2018	<u>583</u>	<u>9</u>	<u>592</u>
At 31 December 2018:			
Cost	726	46	772
Accumulated amortisation	(143)	(37)	(180)
	<u>583</u>	<u>9</u>	<u>592</u>
Net carrying amount	<u>583</u>	<u>9</u>	<u>592</u>
18. Inventories			
	As at 31 December 2016 <i>RMB'000</i>	As at 31 December 2017 <i>RMB'000</i>	As at 31 December 2018 <i>RMB'000</i>
Hotel supplies	<u>329</u>	<u>838</u>	<u>750</u>
19. Trade receivables			
	As at 31 December 2016 <i>RMB'000</i>	As at 31 December 2017 <i>RMB'000</i>	As at 31 December 2018 <i>RMB'000</i>
Trade receivables	13,711	8,322	25,491
Impairment	–	(104)	(104)
	<u>13,711</u>	<u>8,218</u>	<u>25,387</u>

The credit terms granted by the Group generally ranged up to one month. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancement over its trade receivable balances. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of each of the Relevant Periods, based on the revenue recognition date and net of credit loss allowance, is as follows:

	As at 31 December 2016 RMB'000	As at 31 December 2017 RMB'000	As at 31 December 2018 RMB'000
1 to 30 days	10,091	6,860	22,472
31 to 90 days	2,546	900	2,623
91 to 180 days	955	28	292
181 to 360 days	75	252	–
1 to 2 years	44	178	–
	<u>13,711</u>	<u>8,218</u>	<u>25,387</u>

The movement in provision for impairment of trade receivables is as follows:

	As at 31 December 2016 RMB'000	As at 31 December 2017 RMB'000	As at 31 December 2018 RMB'000
At beginning of year	–	–	(104)
Impairment losses recognised	–	(104)	–
At end of year	<u>–</u>	<u>(104)</u>	<u>(104)</u>

Included in the above provision for impairment of trade receivables were provisions for individually trade receivables of nil, RMB104,000 and RMB104,000 with carrying amounts before provision of nil, RMB104,000 and RMB104,000 as at the end of each of the Relevant Periods, respectively.

The ageing analysis of the trade receivables that are not considered to be impaired is as follows:

	As at 31 December 2016 RMB'000	As at 31 December 2017 RMB'000	As at 31 December 2018 RMB'000
Neither past due nor impaired	10,091	6,860	22,472
Less than 2 months past due	2,546	900	2,623
Over 3 months past due	<u>1,074</u>	<u>458</u>	<u>292</u>

Receivables that were neither past due nor impaired relate to a large number of diversified 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 Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment 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.

20. Prepayments, deposits and other receivables

	As at 31 December 2016 RMB'000	As at 31 December 2017 RMB'000	As at 31 December 2018 RMB'000
Prepayments	12,362	12,559	14,849
Deferred listing expenses	–	–	3,721
Deposits and other receivables	11,371	9,465	9,848
Prepaid expenses	–	–	509
Interest receivables	922	–	–
	<u>24,655</u>	<u>22,024</u>	<u>28,927</u>

Other receivables are unsecured and non-interest-bearing and have no fixed terms of repayment.

21. Cash and cash equivalents and pledged deposits

	As at 31 December 2016 RMB'000	As at 31 December 2017 RMB'000	As at 31 December 2018 RMB'000
Cash and bank balances	28,972	28,797	11,296
Pledged deposits	<u>44,298</u>	<u>2,104</u>	<u>1,761</u>
	73,270	30,901	13,057
Less: Pledged time deposits:			
Pledged for bank loans (note 24)	(42,900)	–	–
Pledged for service quality*	<u>(1,398)</u>	<u>(2,104)</u>	<u>(1,761)</u>
Cash and cash equivalents	<u>28,972</u>	<u>28,797</u>	<u>11,296</u>
Denominated in RMB	24,331	12,089	9,634
Denominated in JPY	4,641	16,702	1,655
Denominated in other currencies	<u>–</u>	<u>6</u>	<u>7</u>
Cash and cash equivalents	<u>28,972</u>	<u>28,797</u>	<u>11,296</u>

* A guarantee deposit for the Group's tourism operation as required by the PRC government

The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods of between one day and twelve months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged time deposits are deposited with creditworthy banks with no recent history of default.

The carrying amounts of the cash and cash equivalents approximate to their fair values.

22. Trade payables

An ageing analysis of the trade payables as at the end of each of the Relevant Periods, based on the invoice date, is as follows:

	As at 31 December 2016	As at 31 December 2017	As at 31 December 2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
1 to 30 days	4,965	3,234	8,935
31 to 90 days	811	132	2,460
91 to 180 days	121	109	229
181 to 360 days	149	–	100
1 to 2 years	196	–	89
	<u>6,242</u>	<u>3,475</u>	<u>11,813</u>

Trade payables are non-interest-bearing and are normally settled on 30-day terms.

23. Advance from customers, other payables and accruals

	As at 31 December 2016	As at 31 December 2017	As at 31 December 2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Advance from customers	11,767	6,787	10,961
Payroll payables	1,542	1,205	1,416
Tax payable other than income tax	2,001	2,788	2,221
Other payables	2,033	1,541	8,157
	<u>17,343</u>	<u>12,321</u>	<u>22,755</u>

Other payables are non-interest-bearing and repayable on demand.

24. Interest-bearing bank borrowings

	Effective interest rate (%)	Maturity	As at 31 December 2016 RMB'000	As at 31 December 2017 RMB'000	As at 31 December 2018 RMB'000
Current					
JPY608,000,000 secured bank loans	1.28	2017	36,231	–	–
JPY700,000,000 secured bank loans	1.88	2018	–	40,518	–
Bank loans – secured	4.79	2017	9,000	–	–
Bank loans – secured	4.79	2017	8,500	–	–
Bank loans – secured	4.35	2017	13,000	–	–
Bank loans – secured	4.35	2017	19,500	–	–
Bank loans – secured	4.35	2018	–	13,000	–
JPY50,604,000 current portion of long-term secured bank loans	1.88	2019	–	–	3,132
Bank loans – secured	5.22	2019	–	–	9,000
Bank loans – secured	5.22	2019	–	–	6,000
Bank loans – secured	5.66	2019	–	–	4,000
Bank loans – secured	5.66	2019	–	–	6,000
Bank loans – secured	5.44	2019	–	–	25,000
Bank loans – unsecured	11.21	2019	–	–	396
Bank loans – unsecured	13.25	2019	–	–	389
Bank loans – unsecured	9.13	2019	–	–	500
			86,231	53,518	54,417
Non-current					
	Effective interest rate (%)	Maturity	As at 31 December 2016 RMB'000	As at 31 December 2017 RMB'000	As at 31 December 2018 RMB'000
JPY 268,467,000 (2017: JPY289,791,000) (2016: JPY311,115,000) secured bank loans	1.88	2021	18,540	16,774	16,615
JPY 649,396,000 secured bank loans	1.88	2032	–	–	40,189
			18,540	16,774	56,804
			As at 31 December 2016 RMB'000	As at 31 December 2017 RMB'000	As at 31 December 2018 RMB'000
Analysed into:					
Bank loans repayable					
– Within one year or on demand			86,231	53,518	54,417
– In the second year to fifth year			18,540	16,774	56,804
			104,771	70,292	111,221

Notes:

- (a) The Group's bank borrowings are secured by:
- (i) mortgages over the Group's leasehold land and buildings situated in Mainland China, which had aggregate net carrying values of RMB32,169,000, RMB21,894,000 and RMB20,588,000 as at 31 December 2016, 2017 and 2018, respectively; and mortgages over the Group's buildings situated in Japan, which had aggregate net carrying values of RMB18,240,000 RMB17,215,000 and RMB16,529,000 as at 31 December 2016, 2017 and 2018, respectively (note 13);
 - (ii) mortgages over the Group's investment properties situated in Mainland China, which had aggregate net carrying values of RMB8,730,000, RMB20,109,000 and RMB20,334,000 as at 31 December 2016, 2017 and 2018, respectively (note 14);
 - (iii) mortgages over the Group's freehold land situated in Japan, which had aggregate carrying values of RMB46,371,000, RMB45,404,000 and RMB48,426,000 as at 31 December 2016, 2017 and 2018, respectively (note 15); and
 - (iv) the pledge of certain of the Group's time deposits amounting to RMB42,900,000, nil and nil as at 31 December 2016, 2017 and 2018, respectively (note 21).
- (b) Mr. Yu Dingxin, one of the Controlling Shareholders, and Ms. Zhu Beini, the spouse of Mr. Yu Dingxin, have jointly guaranteed certain of the Group's bank loans of up to RMB80,000,000, nil and nil as at 31 December 2016, 2017 and 2018, respectively.
- (c) Except for the secured bank loans amounting to RMB54,771,000, RMB57,292,000 and RMB59,936,000 as at 31 December 2016, 2017 and 2018, respectively, which were denominated in JPY, all borrowings were denominated in RMB.

25. Deferred tax

The movements in deferred tax assets and liabilities during the Relevant Periods are as follows:

Deferred tax assets

	Impairment of trade receivables <i>RMB'000</i>	Tax losses <i>RMB'000</i>	Accrued expenses <i>RMB'000</i>	Total <i>RMB'000</i>
Deferred tax as at 1 January 2016	–	1,860	–	1,860
Deferred tax charged to profit or loss during the year (note 10)	–	(405)	–	(405)
Deferred tax as at 31 December 2016 and 1 January 2017	–	1,455	–	1,455
Deferred tax credited/(charged) to profit or loss during the year (note 10)	26	(209)	–	(183)
Deferred tax as at 31 December 2017 and 1 January 2018	26	1,246	–	1,272
Deferred tax credited/(charged) to profit or loss during the year (note 10)	–	(146)	973	827
Deferred tax as at 31 December 2018	<u>26</u>	<u>1,100</u>	<u>973</u>	<u>2,099</u>

Deferred tax liabilities

	Fair value adjustments arising from acquisition of subsidiaries <i>RMB'000</i>	Accelerated depreciation for tax purposes <i>RMB'000</i>	Fair value change of investment properties <i>RMB'000</i>	Total <i>RMB'000</i>
Deferred tax as at 1 January 2016	4,243	23	–	4,266
Deferred tax charged/(credited) to profit or loss during the year (note 10)	(126)	24	–	(102)
Deferred tax charged to other comprehensive income during the year	<u>–</u>	<u>–</u>	<u>207</u>	<u>207</u>
Deferred tax as at 31 December 2016 and 1 January 2017	4,117	47	207	4,371
Deferred tax charged/(credited) to profit or loss during the year (note 10)	(83)	285	158	360
Deferred tax charged to other comprehensive income during the year	<u>–</u>	<u>–</u>	<u>321</u>	<u>321</u>
Deferred tax as at 31 December 2017 and 1 January 2018	4,034	332	686	5,052
Deferred tax charged/(credited) to profit or loss during the year (note 10)	<u>(92)</u>	<u>339</u>	<u>56</u>	<u>303</u>
Deferred tax as at 31 December 2018	<u><u>3,942</u></u>	<u><u>671</u></u>	<u><u>742</u></u>	<u><u>5,355</u></u>

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	As at 31 December 2016 <i>RMB'000</i>	As at 31 December 2017 <i>RMB'000</i>	As at 31 December 2018 <i>RMB'000</i>
Net deferred tax assets recognised in the consolidated statements of financial position	1,455	1,272	1,102
Net deferred tax liabilities recognised in the consolidated statements of financial position	<u><u>4,371</u></u>	<u><u>5,052</u></u>	<u><u>4,358</u></u>

The Group has tax losses arising in Mainland China of RMB3,263,000, RMB4,167,000 and RMB4,223,000 as at 31 December 2016, 2017 and 2018, respectively, that will expire in one to five years for offsetting against taxable profits.

The Group has tax losses arising in Japan of RMB2,163,000, RMB2,785,000 and RMB3,124,000 as at 31 December 2016, 2017 and 2018, respectively, that will expire in nine years for offsetting against taxable profits, respectively.

Deferred tax assets have not been recognised in respect of these losses as it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement was effective from 1 January 2008 and applied to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008. As of 31 December 2016, 2017 and 2018, no deferred tax liability has been recognised for withholding taxes that would be payable on unremitted earnings of the Group's subsidiaries established in Mainland China. In the opinion of the Company's directors, it is not probable that these subsidiaries will distribute such earnings to foreign entities in the foreseeable future. The aggregate amounts of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB5,785,000, RMB25,348,000 and RMB31,407,000 as at 31 December 2016, 2017 and 2018, respectively.

26. Share capital

The Company was incorporated as an exempted company with limited liability under the laws of the Cayman Islands on 27 February 2018 with authorised share capital of HKD380,000 divided into 38,000,000 shares with a nominal or par value of HKD0.01 each. On the date of incorporation, 10,000 shares of the Company with a par value of HKD0.01 each were allotted and issued fully paid at par.

27. Share award scheme

On 10 March 2016, the directors of Tuyi Group approved the adoption of a share award scheme (the "Scheme") to recognise and reward the contribution of certain eligible employees to the growth and development of the Group and to give incentives thereto in order to retain them for the continual operation and development of the Group; and to attract suitable personnel for further development of the Group through an award of Tuyi Group's shares. The Group grants shares of Tuyi Group under the Scheme through Tuyi Investment Management Partnership Enterprise, a limited partnership ("Tuyi Management LLP").

On 9 May 2016, Tuyi Group and Tuyi Management LLP entered into an equity interest subscription agreement, pursuant to which Tuyi Management LLP subscribed for approximately 6.67% equity interests in Tuyi Group at a cash consideration of RMB5,000,000. Mr. Yu Dingxin, being one of the Controlling Shareholders of the Group, as the general partner, and certain of the Group's employees, as limited partners, subscribed for 92.5% and 7.5% equity interests in Tuyi Management LLP, respectively, by way of entering into partnership agreement.

On 14 November 2017, Mr. Yu Dingxin transferred 1.75% equity interests he owned in Tuyi Management LLP to Mr. Peng Ying, one of the directors of the Company which is a limited partner of Tuyi Management LLP, and Mr. An Jiajin, one of the directors of the Company. Mr. An Jiajin has become a limited partner of Tuyi Management LLP since 14 November 2017.

There is no service period or performance target requirements for the eligible employees. The fair value of the services received in return for the equity interests of Tuyi Management LLP acquired by the eligible employees is measured based on the difference between (a) the fair value of equity interests of Tuyi Management LLP acquired at the grant date as determined based on the estimated enterprise value of Tuyi Group and the respective shareholding of Tuyi Group held by Tuyi Management LLP and (b) the subscription price paid by employees.

During the years ended 31 December 2016, 2017 and 2018, share award expenses of RMB1,375,000, RMB321,000 and nil, respectively, were charged to profit or loss.

28. Reserves

The amounts of the Group's reserves and the movements therein for the Relevant Periods are presented in the consolidated statements of changes in equity of the Group.

Capital reserve

The capital reserve of the Group represents the aggregate paid-up capital of the subsidiaries comprising the Group and the deemed contribution from Mr. Yu Dingxin, one of the Controlling Shareholders, arising from the transfer of the 1.75% equity interests he owned in Tuyi Management LLP to Mr. Peng Ying and Mr. An Jiajin as mentioned in note 27 above. Details of the movements in the capital reserves are set out in the consolidated statements of changes in equity.

Statutory surplus reserves

In accordance with the Company Law of the PRC, certain subsidiaries of the Group which are domestic enterprises are required to allocate 10% of their profit after tax, as determined in accordance with the relevant PRC accounting standards, to their respective statutory surplus reserves until the reserves reach 50% of their respective registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the statutory surplus reserves may be converted to increase share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

29. Business combinations*Acquisition of Shuzenji Takitei*

On 25 June 2015, Tuyi Tourism Development (the “Buyer”, an indirect wholly-owned subsidiary of the Company), the Tuyi Group and AAMS Hotels Co., Ltd. (the “Seller”) entered into a share purchase agreement, pursuant to which the Buyer had conditionally agreed to purchase the 100% equity interests of Shuzenji Takitei, and the Seller had conditionally agreed to sell the 100% equity interests of Shuzenji Takitei (the “Acquisition”).

On 14 September 2015, the Acquisition was completed with all conditions fulfilled. Following the completion, Shuzenji Takitei has become a subsidiary of the Group.

Shuzenji Takitei is engaged in onsen hotel business located in Izu, Japan. The Acquisition was made as part of the Group’s international expansion strategy and plan to leverage the Shuzenji Takitei hotel expertise to achieve various strategic goals. The purchase consideration for the Acquisition was in the form of cash, with JPY340,000,000 (equivalent to approximately RMB17,918,000) paid on 8 September 2015.

The fair values of the identifiable assets and liabilities of Shuzenji Takitei as at the date of acquisition were as follows:

	Fair value recognised on acquisition RMB'000
Property, plant and equipment	18,354
Other intangible assets	636
Freehold land	3,341
Deferred tax assets	1,898
Inventories	168
Trade receivables	208
Prepayments, deposits and other receivables	211
Cash and bank balances	1,503
Other current asset	61
Interest-bearing bank borrowings	(14,540)
Trade and notes payables	(777)
Tax payable	(345)
Other payables and accruals	(2,213)
Deferred tax liabilities	(4,273)
	<hr/>
Total identifiable net assets at fair value	4,232
Goodwill on acquisition (note 16)	13,686
	<hr/>
Total consideration	<u>17,918</u>

The fair values of the trade receivables and other receivables as at the date of acquisition amounted to JPY3,951,000 and JPY4,509,000 (equivalent to RMB208,000 and RMB211,000), respectively. The gross contractual amounts of trade receivables and other receivables were JPY3,951,000 and JPY4,509,000 (equivalent to RMB208,000 and RMB211,000), respectively. None of the trade receivables and other receivables have been impaired and it is expected that the full contractual amounts can be collected.

The Group incurred transaction costs of RMB1,296,000 for this acquisition. These transaction costs have been expensed off and are included in other expenses in the consolidated statement of profit or loss and other comprehensive income.

The goodwill of RMB13,686,000 recognised above comprises the value of expected synergies arising from the Acquisition. None of the goodwill recognised is expected to be deductible for income tax purposes.

An analysis of the cash flows in respect of the Acquisition is as follows:

	<i>RMB'000</i>
Cash consideration	(17,918)
Cash and bank balances acquired	1,503
	<hr/>
Net outflow of cash and cash equivalents included in cash flows from investing activities	(16,415)
	<hr/>
Transaction costs of the Acquisition included in cash flows from operating activities	(1,296)
	<hr/>
	<u>(17,711)</u>

Since the acquisition, Shuzenji Takitei contributed RMB4,479,000 to the Group's revenue and RMB174,000 to the consolidated profit for the year ended 31 December 2015.

Had the acquisition taken place at the beginning of the year, the revenue of the Group for the year ended 31 December 2015 would have been RMB172,944,000 and the profit of the Group for the year ended 31 December 2015 would have been RMB16,398,000.

Acquisition of Haizhilv Travel

On 18 March 2015, Tuyi Group acquired the entire equity interests in Haizhilv Travel from Ms. Zhao Yanping, an independent third party, at a consideration of RMB50,000. Haizhilv Travel became a subsidiary of the Group since then. The fair values of the identifiable assets and liabilities of Haizhilv Travel as at the date of acquisition were as follows:

	Fair value recognised on acquisition <i>RMB'000</i>
Other receivables and total identifiable net assets at fair value	440
Gain on bargain purchase recognised in profit or loss	(390)
	<hr/>
Total consideration	50
	<hr/> <hr/>
Net outflow of cash and cash equivalents included in cash flows from investing activities	(50)
	<hr/> <hr/>

On 26 June 2015, Tuyi Group disposed of the entire equity interests in Haizhilv Travel to Mr. Shi Hongbin, an independent third party, for nil consideration. The net assets disposed of included other receivables amounting to RMB440,000 and the loss on disposal of the subsidiary amounting to RMB440,000 were recognised in profit or loss.

On 5 January 2016, Tuyi Group acquired the entire equity interests in Haizhilv Travel back again from Mr. Shi Hongbin at nil consideration. Since then, Haizhilv Travel has been held as to 100% by Tuyi Group. The fair values of the identifiable assets and liabilities of Haizhilv Travel as at the date of acquisition were as follows:

	Fair value recognised on acquisition <i>RMB'000</i>
Other receivables	302
Other current assets	103
Gain on bargain purchase recognised in profit or loss (note 5)	(405)
	<hr/>
Total consideration	–
	<hr/> <hr/>

30. Pledge of assets

Details of the Group's assets pledged for bank loans and for tour business granted to the Hangzhou Tourism Commission, are included in notes 13, 14, 15, 21 and 24, respectively, to the Historical Financial Information.

31. Notes to the consolidated statements of cash flows

(a) Major non-cash transactions

In May 2016, the then shareholders of Tuyi Group in proportion of the then ownership injected capital amounting to RMB64,000,000 to Tuyi Group including certain buildings with a fair value of RMB7,000,000.

(b) Changes in liabilities arising from financing activities

	Interest payable <i>RMB'000</i>	Interest-bearing bank borrowings <i>RMB'000</i>
At 1 January 2016	72	77,756
Changes from financing cash flows	(2,560)	24,605
Finance costs	2,488	–
Foreign exchange movement	–	2,410
	<u>–</u>	<u>2,410</u>
At 31 December 2016 and 1 January 2017	–	104,771
Changes from financing cash flows	(2,889)	(32,417)
Finance costs	2,889	–
Foreign exchange movement	–	(2,062)
	<u>–</u>	<u>(2,062)</u>
At 31 December 2017 and 1 January 2018	–	70,292
Changes from financing cash flows	(2,461)	37,008
Finance costs	2,461	–
Foreign exchange movement	–	3,921
	<u>–</u>	<u>3,921</u>
At 31 December 2018	<u>–</u>	<u>111,221</u>

32. Operating lease arrangements*As lessor*

The Group leases its investment properties (note 14) under operating lease arrangements, with leases negotiated for terms ranging from one to four years.

At the end of each of the Relevant Periods, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	As at 31 December 2016 <i>RMB'000</i>	As at 31 December 2017 <i>RMB'000</i>	As at 31 December 2018 <i>RMB'000</i>
Within one year	88	795	765
In the second to fifth years, inclusive	–	830	120
	<u>88</u>	<u>1,625</u>	<u>885</u>

As lessee

The Group leases certain of office properties and retail shops under operating lease arrangements. Leases for the office properties and retail shops are negotiated for terms ranging from one to five years.

At the end of each of the Relevant Periods, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 31 December 2016 RMB'000	As at 31 December 2017 RMB'000	As at 31 December 2018 RMB'000
Within one year	258	305	1,577
In the second to fifth years, inclusive	400	427	6,655
	<u>658</u>	<u>732</u>	<u>8,232</u>

33. Capital commitments

In addition to the operating lease commitments detailed in note 32 above, the Group had the following capital commitments at the end of each of the Relevant Periods:

	As at 31 December 2016 RMB'000	As at 31 December 2017 RMB'000	As at 31 December 2018 RMB'000
Contracted, but not provided for:			
Land and buildings	2,993	57,065	11
	<u>2,993</u>	<u>57,065</u>	<u>11</u>

34. Related party transactions

The Group's principal related parties are as follows:

Name	Relationship with the Company
Mr. Yu Dingxin	One of the Controlling Shareholders
Ms. Zhu Beini	Spouse of Mr. Yu Dingxin
Mr. Pan Wei	One of the Controlling Shareholders
Mr. Xu Jiong	One of the Controlling Shareholders
Ms. Qiu Xiang	Executive Director
Ms. Wang Jing	Senior Management

- (a) In addition to the transactions disclosed elsewhere in this Historical Financial Information, the Group had the following transactions with related parties during the Relevant Periods:

		Year ended 31 December 2016 RMB'000	Year ended 31 December 2017 RMB'000	Year ended 31 December 2018 RMB'000
	<i>Note</i>			
Payments by directors on behalf of the Group:	(i)			
Mr. Yu Dingxin		468	–	–
Ms. Qiu Xiang		201	–	–
Mr. Pan Wei		5,400	–	–
Mr. Xu Jiong		3,600	3,000	310
		<u> </u>	<u> </u>	<u> </u>
Receipts by a related party on behalf of the Group:	(i)			
Ms. Wang Jing		–	500	–
		<u> </u>	<u> </u>	<u> </u>
Receipts by directors on behalf of the Group:	(i)			
Mr. Yu Dingxin		8,029	1,418	610
Ms. Qiu Xiang		436	140	–
Mr. Pan Wei		2,500	–	–
Mr. Xu Jiong		8,820	310	–
		<u> </u>	<u> </u>	<u> </u>

Note:

- (i) The receipts and payments by directors and the receipts by a related party on behalf of the Group were based on the actual amounts incurred.
- (b) Outstanding balances with related parties:

	As at 31 December 2016 RMB'000	As at 31 December 2017 RMB'000	As at 31 December 2018 RMB'000
Due to a related party			
Ms. Zhu Beini	30	–	–
	<u> </u>	<u> </u>	<u> </u>
	Year ended 31 December 2016 RMB'000	Year ended 31 December 2017 RMB'000	Year ended 31 December 2018 RMB'000
Advances to a related party:			
Maximum amount outstanding during the year:			
Ms. Wang Jing	–	500	–
	<u> </u>	<u> </u>	<u> </u>

The balances with related parties are non-trade, unsecured, interest-free and repayable on demand.

(c) Outstanding balances with directors:

	As at 31 December 2016 RMB'000	As at 31 December 2017 RMB'000	As at 31 December 2018 RMB'000
Due from directors:			
Mr. Yu Dingxin	–	–	185
Ms. Qiu Xiang	436	–	–
Mr. Pan Wei	2,246	–	–
Mr. Xu Jiong	4,515	310	–
	<u>7,197</u>	<u>310</u>	<u>185</u>
Due to directors:			
Mr. Yu Dingxin	6,225	425	–
Mr. Pan Wei	–	497	–
	<u>6,225</u>	<u>922</u>	<u>–</u>
	Year ended 31 December 2016 RMB'000	Year ended 31 December 2017 RMB'000	Year ended 31 December 2018 RMB'000
Advances to directors:			
Maximum amount outstanding during the year:			
Mr. Yu Dingxin	8,029	1,418	610
Ms. Qiu Xiang	436	140	–
Mr. Pan Wei	2,500	–	–
Mr. Xu Jiong	8,820	310	–
	<u>8,820</u>	<u>310</u>	<u>–</u>

The balances with directors are non-trade, unsecured, interest-free and repayable on demand.

(d) Compensation of key management personnel of the Group:

	Year ended 31 December 2016 RMB'000	Year ended 31 December 2017 RMB'000	Year ended 31 December 2018 RMB'000
Salaries, allowances and benefits in kind	1,445	1,394	1,540
Pension scheme contributions	90	134	278
Equity-settled share award	916	252	–
	<u>2,451</u>	<u>1,780</u>	<u>1,818</u>
Total compensation paid to key management personnel	<u>2,451</u>	<u>1,780</u>	<u>1,818</u>

Further details of directors' emoluments are included in note 8 to the Historical Financial Information.

35. Financial instruments by category

The carrying amounts of each of the categories of financial instruments as at the end of each of the Relevant Periods are as follows:

Financial assets – at amortised cost

	As at 31 December 2016 RMB'000	As at 31 December 2017 RMB'000	As at 31 December 2018 RMB'000
Trade receivables	13,711	8,218	25,387
Financial assets included in prepayments, deposits and other receivables	12,293	9,465	9,848
Due from directors	7,197	310	185
Pledged deposits	44,298	2,104	1,761
Cash and cash equivalents	28,972	28,797	11,296
	<u>106,471</u>	<u>48,894</u>	<u>48,477</u>

Financial assets – at fair value through profit or loss

	As at 31 December 2016 RMB'000	As at 31 December 2017 RMB'000	As at 31 December 2018 RMB'000
Financial assets at fair value through profit or loss	<u>–</u>	<u>–</u>	<u>100</u>

The financial assets at fair value through profit or loss represent investments in certain wealth management products issued by a commercial bank in the PRC, denominated in RMB, with an expected interest rate of 4.2% per annum and a maturity period within one year.

Financial liabilities – at amortised cost

	As at 31 December 2016 RMB'000	As at 31 December 2017 RMB'000	As at 31 December 2018 RMB'000
Trade payables	6,242	3,475	11,813
Financial liabilities included in advance from customers, other payables and accruals	2,033	1,541	8,157
Due to a related party	30	–	–
Due to directors	6,225	922	–
Interest-bearing bank borrowings	104,771	70,292	111,221
	<u>119,301</u>	<u>76,230</u>	<u>131,191</u>

36. Fair value and fair value hierarchy of financial instruments

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade receivables, trade payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in advance from customers, other payables and accruals, the current portion of interest-bearing bank borrowings, amounts due from and to directors and amounts due to a related party approximate to their carrying amounts largely due to the short term maturities of these instruments.

Management has assessed that the fair values of the non-current portion of interest-bearing bank borrowings approximate to their carrying amounts largely due to the fact that such borrowings were made between the Group and an independent third party financial institution based on prevailing market interest rates.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The fair values of the financial assets at fair value through profit or loss have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

As at 31 December 2018	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Financial assets at fair value through profit or loss	—	100	—	100
	<u>—</u>	<u>100</u>	<u>—</u>	<u>100</u>

The Group did not have any financial assets measured at fair value as at 31 December 2016 and 2017.

The Group did not have any financial liabilities measured at fair value as at 31 December 2016, 2017 and 2018.

During the Relevant Periods, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities.

37. Financial risk management objectives and policies

The Group's principal financial instruments comprise interest-bearing bank borrowings, amounts due from and to directors and amounts due to a related party, cash and cash equivalents and pledged deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing bank borrowings with floating interest rates.

The Group's policy is to manage interest cost using a mix of fixed and floating rate debts.

The following table demonstrates the sensitivity to a reasonably possible change in the RMB interest rate, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings and deposits).

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000
Year ended 31 December 2016		
RMB	50	(12)
RMB	(50)	12
Year ended 31 December 2017		
RMB	50	(1)
RMB	(50)	1
Year ended 31 December 2018		
RMB	50	–
RMB	(50)	–

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. Approximately 5%, 10% and 3% of the Group's sales for the years ended 31 December 2016, 2017 and 2018, respectively, were denominated in currencies other than the functional currencies of the operating units making the sale, whilst approximately 53%, 51% and 44% of costs were denominated in currencies other than the units' functional currencies. At present, the Group does not intend to hedge its exposure to foreign exchange fluctuations. However, management constantly monitors the economic situation and the Group's foreign exchange risk profile and will consider appropriate hedging measures in the future should the need arise.

The following table demonstrates the sensitivity at the end of each of the Relevant Periods to a reasonably possible change in the JPY exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair values of monetary assets and liabilities) and the Group's equity.

	Increase/ (decrease) in rate of foreign currency %	Increase/ (decrease) in profit/ (loss) before tax RMB'000	Increase/ (decrease) in equity RMB'000
Year ended 31 December 2016			
If RMB weakens against JPY	5	(155)	(155)
If RMB strengthens against JPY	(5)	155	155
Year ended 31 December 2017			
If RMB weakens against JPY	5	(135)	(135)
If RMB strengthens against JPY	(5)	135	135
Year ended 31 December 2018			
If RMB weakens against JPY	5	(99)	(99)
If RMB strengthens against JPY	(5)	99	99

Credit risk

The Group is exposed to credit risk in relation to its cash and cash equivalents, pledged deposits, amounts due from directors, trade receivables and other receivables. The carrying amounts of each class of the above financial assets represent the Group's maximum exposure to credit risk in relation to financial assets.

To manage risk arising from cash and cash equivalents and pledged deposits, the Group only transacts with state-owned or reputable financial institutions in mainland China and reputable international financial institutions outside of mainland China. There has been no recent history of default in relation to these financial institutions. The expected credit loss rate is close to zero.

To manage risk arising from trade receivables, the Group has policies in place to ensure that credit terms are made to counterparties with an appropriate credit history and the management performs ongoing credit evaluations of its counterparties. The credit period granted to the customers is usually no more than 30 days and the credit quality of these customers is assessed, which takes into account their financial position, past experience and other factors. The Group applies the simplified approach to providing for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. The expected credit loss rate is very low and the expected loss allowance provision for these balances was not material during the Relevant Periods. In view of the sound collection history of receivables, management believes that the credit risk inherent in the Group's outstanding trade receivable balances is not significant.

For amounts due from directors and other receivables, management makes periodic collective assessments as well as individual assessments on the recoverability of other receivables based on historical settlement records and past experiences. As at 31 December 2016, 2017 and 2018, the credit assessment of other receivables and amounts due from directors was performed. The Group assessed that the expected credit losses for these receivables and amounts due from directors are not material under the 12-month expected losses method and the expected credit loss rate is minimal. In view of the history of cooperation with debtors and the sound collection history of receivables, management believes that the credit risk inherent in the Group's outstanding other receivable balances and amounts due from directors is not significant.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets (e.g., trade receivables and other financial assets) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank and other borrowings.

The maturity profile of the Group's financial liabilities as at the end of each of the Relevant Periods, based on the contractual undiscounted payments, is as follows:

31 December 2016						
	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	1,277	4,965	–	–	–	6,242
Financial liabilities included in advance from customers, other payables and accruals	2,033	–	–	–	–	2,033
Interest-bearing bank borrowings	–	766	87,871	19,779	–	108,416
Due to directors	6,225	–	–	–	–	6,225
Due to a related party	30	–	–	–	–	30
	<u>9,565</u>	<u>5,731</u>	<u>87,871</u>	<u>19,779</u>	<u>–</u>	<u>122,946</u>
31 December 2017						
	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	241	3,234	–	–	–	3,475
Financial liabilities included in advance from customers, other payables and accruals	1,541	–	–	–	–	1,541
Interest-bearing bank borrowings	–	53,676	236	17,576	–	71,488
Due to directors	922	–	–	–	–	922
	<u>2,704</u>	<u>56,910</u>	<u>236</u>	<u>17,576</u>	<u>–</u>	<u>77,426</u>

31 December 2018

	On demand <i>RMB'000</i>	Less than 3 months <i>RMB'000</i>	3 to 12 months <i>RMB'000</i>	1 to 5 years <i>RMB'000</i>	Over 5 years <i>RMB'000</i>	Total <i>RMB'000</i>
Trade payables	2,878	8,935	–	–	–	11,813
Financial liabilities included in advance from customers, other payables and accruals	8,157	–	–	–	–	8,157
Interest-bearing bank borrowings	–	16,983	39,184	67,043	–	123,210
	<u>11,035</u>	<u>25,918</u>	<u>39,184</u>	<u>67,043</u>	<u>–</u>	<u>143,180</u>

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. Net debt includes interest-bearing bank borrowings, trade payables, advance from customers, other payables and accruals, amounts due to a related party and directors, less cash and cash equivalents, and pledged deposits. Total capital represents equity attributable to the owners of the parent. The gearing ratios as at the end of each of the Relevant Periods were as follows:

	As at 31 December 2016 <i>RMB'000</i>	As at 31 December 2017 <i>RMB'000</i>	As at 31 December 2018 <i>RMB'000</i>
Interest-bearing bank borrowings	104,771	70,292	111,221
Due to a related party	30	–	–
Due to directors	6,225	922	–
Trade payables	6,242	3,475	11,813
Advance from customers, other payables and accruals	17,343	12,321	22,755
Less: Cash and cash equivalents	(28,972)	(28,797)	(11,296)
Pledged deposits	(44,298)	(2,104)	(1,761)
Net debt	<u>61,341</u>	<u>56,109</u>	<u>132,732</u>
Equity attributable to owners of the parent	<u>90,107</u>	<u>111,186</u>	<u>120,953</u>
Total capital and net debt	<u>151,448</u>	<u>167,295</u>	<u>253,685</u>
Gearing ratio	<u>41%</u>	<u>34%</u>	<u>52%</u>

38. Events after the Relevant Periods

Pursuant to a resolution in writing passed by the shareholders on 1 March 2019, the authorised share capital of the Company was increased from HKD380,000 to HKD15,000,000 by the creation of an additional 1,462,000,000 shares.

39. Subsequent financial statements

No audited financial statements have been prepared by the Company, the Group or any of the companies now comprising the Group in respect of any period subsequent to 31 December 2018.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following information does not form part of the Accountants' Report from Ernst & Young, Certified Public Accountants, Hong Kong, the Company's reporting accountants, as set out in Appendix I to this prospectus, and is included for information purposes only. The unaudited pro forma financial information should be read in conjunction with "Financial Information" and the Accountants' report set out in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted consolidated net tangible assets of the Group have been prepared in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants for illustration purposes only, and is set out here to illustrate the effect of the Global Offering on the consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2018 as if Global Offering had taken place on 31 December 2018.

The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the Global Offering been completed as at 31 December 2018 or any future date. It is prepared based on the consolidated net tangible assets as of 31 December 2018 as set out in the Accountants' Report as set out in Appendix I to this prospectus, and adjusted as described below. The unaudited pro forma adjusted consolidated net tangible assets does not form part of the Accountants' Report as set out in Appendix I to this prospectus.

	Consolidated net tangible assets attributable to owners of the Company as at 31 December 2018	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted consolidated net tangible assets	Unaudited pro forma adjusted consolidated net tangible assets per Share	
	RMB'000 (Note 1)	RMB'000 (Note 2)	RMB'000	RMB (Note 3)	HK\$ equivalent (Note 4)
Based on an Offer Price of HK\$0.52 per Share	106,675	89,766	196,441	0.20	0.23
Based on an Offer Price of HK\$0.68 per Share	106,675	122,143	228,818	0.23	0.27

Notes:

- (1) The consolidated net tangible assets attributable to owners of the Company as at 31 December 2018 is arrived at after deducting goodwill of RMB13,686,000 and other intangible assets of RMB592,000 from the consolidated equity attributable to owners of the Company of RMB120,953,000 as at 31 December 2018, as shown in Appendix I to this Prospectus.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

- (2) The estimated net proceeds from the Global Offering are calculated based on the Offer Price of HK\$0.52 per Share or HK\$0.68 per Share, being the low-end price and high-end price, after deduction of the underwriting fees and related expenses payable by the Company and do not take into account any Shares which may be issued upon exercise of the Over-allotment Option.
- (3) The unaudited pro forma adjusted consolidated net tangible assets per Share are calculated based on 1,000,000,000 Shares in issue immediately following the completion of the Global Offering without taking into account any Shares which may be issued upon exercise of the Over-allotment Option or any option which may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased under the general mandates for the allotment and issue or repurchase of the Shares as described in “Appendix V – Statutory and General Information”.
- (4) The unaudited pro forma adjusted consolidated net tangible assets per Share are converted into Hong Kong dollars at an exchange rate of RMB1.00 to HK\$1.16.
- (5) No adjustment has been made to reflect any trading result or open transaction of the Group entered into subsequently to 31 December 2018.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

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

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong, in respect of the unaudited pro forma financial information.



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

To the Directors of Tu Yi Holding Company Limited

We have completed our assurance engagement to report on the compilation of pro forma financial information of Tu Yi Holding Company Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) by the directors of the Company (the “Directors”) for illustrative purposes only. The pro forma financial information consists of the pro forma consolidated net tangible assets as at 31 December 2018, and related notes as set out on pages II-1 and II-2 of the prospectus dated 18 June 2019 issued by the Company (the “Pro Forma Financial Information”). The applicable criteria on the basis of which the Directors have compiled the Pro Forma Financial Information are described in Appendix II (A) to the prospectus.

The Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the global offering of shares of the Company on the Group’s financial position as at 31 December 2018 as if the transaction had taken place at 31 December 2018. As part of this process, information about the Group’s financial position has been extracted by the Directors from the Group’s financial statements for the year ended 31 December 2018, on which an accountants’ report has been published.

Directors’ responsibility for the Pro Forma Financial Information

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

Our independence and quality control

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

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

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

Reporting accountants' responsibilities

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

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

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

The purpose of the Pro Forma Financial Information included in the Prospectus is solely to illustrate the impact of the global offering of shares of the Company on unadjusted financial information of the Group as if 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 transaction would have been as presented.

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

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

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the 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 purpose of the Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

Ernst & Young
Certified Public Accountants
Hong Kong

18 June 2019

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this prospectus received from Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent valuer, in connection with its valuation as at 31 March 2019 of the properties held by the Company.



仲量聯行

Jones Lang LaSalle Corporate Appraisal and Advisory Limited
7/F, One Taikoo Place, 979 King's Road Hong Kong
tel +852 2846 5000 fax +852 2169 6001
Licence No: C-030171

18 June 2019

The Board of Directors
Tu Yi Holding Company Limited

Dear Sirs,

In accordance with your instructions to value the properties held by Tu Yi Holding Company Limited (the "Company") and its subsidiaries in Japan and the People's Republic of China (the "PRC"), we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the Market values of the property interests as at 31 March 2019 (the "valuation date").

Our valuation is carried out on a market value basis. Market value is defined as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

We have valued portions of the property interests in Group I which are hotels held for owner-occupation by the Company in Japan, we have considered it as fully operational and going concern hotel having regard to the trading accounts of previous years, where available, and taking into account the future income stream, following consultation with the instructing party. To this income stream, an appropriate annual present value discount rate has been applied to arrive at an indicated market value.

In valuing the property interests in Group II which are offices held for owner-occupation and Group III which are offices held for investment by the Company in the PRC, we have adopted the comparison approach assuming sale of the property interests in their existing state with the benefit of immediate vacant possession and by making reference to comparable sales transactions as available in the market. This approach rests on the wide acceptance of the market transactions as the best indicator and pre-supposes that evidence of relevant transactions in the market place can be extrapolated to similar properties, subject to allowances for variable factors.

Our valuation has been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests.

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

In valuing the property interests, we have complied with all requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the RICS Valuation – Professional Standards published by the Royal Institution of Chartered Surveyors; the HKIS Valuation Standards on Properties published by the Hong Kong Institute of Surveyors; and the International Valuation Standards published by the International Valuation Standards Council.

We have relied to a very considerable extent on the information given by the Company and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and other relevant matters.

We have been shown copies of various title documents including land title documents relating to the property interests and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing title to the property interests in the countries and any material encumbrance that might be attached to the property interests or any tenancy amendment. We have reviewed and considered the legal opinion issued by the legal adviser of the PRC – T&C Law Firm concerning the validity of the property interests in the PRC.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the properties but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, we have not carried out investigation to determine the suitability of the ground conditions and services for any development thereon. Our valuation has been prepared on

the assumption that these aspects are satisfactory and that no unexpected cost and delay will be incurred during construction. Moreover, no structural survey has been made, but, in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defect. No tests were carried out on any of the services.

Inspection of the properties in Japan was carried out in 16 March 2018 and 18 November 2018 by Ms. Hamano Michiyo, Mr. Ozeki Miguel and Mr. Johnny Lee. Ms. Hamano Michiyo is a Certified Real Estate Appraiser in Japan and have more than 10 years' experience in the valuation of properties in Japan. Mr. Johnny Lee is a probationer of the RICS and have more than 10 years' experience in the valuation of properties in the Asia-Pacific region. Inspection of the properties in the PRC was carried out in 30 March 2018 by Miss Queena Qiao. Miss Queena Qiao has more than 2 years' experience in the valuation of properties in the PRC.

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

Unless otherwise stated, all monetary figures stated in this report are in Renminbi (RMB). In valuing property interests, we have adopted an exchange rate of JPY100 to RMB6.052, which was approximately the prevailing exchange rate as at the date of valuation.

Our valuation is summarised below and the valuation certificates are attached.

Yours faithfully,
for and on behalf of
Jones Lang LaSalle Corporate Appraisal and Advisory Limited
Gilbert C. H. Chan
MRICS MHKIS RPS (GP)
Director

Note: Gilbert C.H. Chan is a Chartered Surveyor who has 26 years' experience in the valuation of properties in Hong Kong and 25 years of property valuation experience in the PRC as well as relevant experience in the Asia-Pacific region.

SUMMARY OF VALUES

No.	Property	Group I	Group II	Group III	Total
		Property interest held for owner- occupation by the Company in Japan Market value in existing state as at 31 March 2019 RMB	Property interest held for owner- occupation by the Company in the PRC Market value in existing state as at 31 March 2019 RMB	Property interest held for investment by the Company in the PRC Market value in existing state as at 31 March 2019 RMB	
1	722 Shuzenji, Izu-shi, Shizuoka Prefecture, Japan 410-2416	25,840,000	N.A.	N.A.	25,840,000
2	Lot Nos.126-1 and 126-4, Shitaya 1-chome, Taito-ku, Tokyo, Japan	131,930,000	N.A.	N.A.	131,930,000
3	Office unit Nos.102, 201, 202 and 303, Jia Lian Huan Ming Zuo, No.586 Jian Guo Road North, Xiacheng District, Hangzhou City, Zhejiang Province, the PRC	N.A.	20,580,000	20,720,000	41,300,000
Total:		<u>157,770,000</u>	<u>20,580,000</u>	<u>20,720,000</u>	<u>199,070,000</u>

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value
				in existing state as at 31 March 2019 RMB
1.	722 Shuzenji, Izu-shi, Shizuoka Prefecture, Japan 410-2416 Lot No.755-1, 755-7, 759-15 and 35,686/ 100,000 shares of and in Land Lot No.722, 739, 753, 3654-1, 3655-1	<p>The Property comprises 8 parcels of land with a total site area of approximately 6,177.03 sq.m., a building with gross floor area (“GFA”) of approximately 7,536.71 sq.m. and ancillary structures erected thereon which were completed in 1994 and 1995.</p> <p>The building and ancillary structures mainly include hotel, machine room and dormitory.</p> <p>The hotel comprises a 9 stories building and provides 46 guest rooms, with hot spring facility and restaurant.</p> <p>The Property is held under fee simple interests.</p>	The Property is currently under operation by Shuzenji Takitei K.K. as a hotel under the trade name “Shuzen-ji Hot Springs Hotel Takitei” as at the date of valuation.	25,840,000

Notes:

- Pursuant to the registration at the Legal Affairs Bureau, the registered owner of 35,686/100,000 shares of land Lot No.722, 739, 753, 3654-1, 3655-1 with a total site area of approximately 6,076.02 sq.m. and land Lot No. 755-1, 755-7, 759-15 with a total site area of approximately 101.01 sq.m. is Shuzenji Takitei K.K., which is a 100% owned subsidiary of the Company.
- Pursuant to a Building title certificate No.0801005944302 dated 17 March 2008, the registered owner of the Building with a total GFA of approximately 7,379.25 sq.m. is Shuzenji Takitei K.K..

3. Details of the property:

- a) General description of location of the property : The property is located in Shuzenji hot spring resort area and is approximately 2 km to Shuzenji station on the Izu-Hakone Railway. The subject site is 2 minutes' walk from Miyukibashi bus stop or 8 minutes' drive from Shuzenji station.
- The site is irregular in shape and the surrounding developments are mainly shops and hotels. The location of the property is zoned as Category 2 Residential District.
- b) Details of encumbrances, liens, pledges, mortgages against the property : Nil
- c) Details of investigations, notices, pending litigation, breaches of law or title defects : Nil
- d) Future plans for construction, renovation, improvement or development of the property and estimated associated costs : Nil

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2019 RMB
2.	Lot Nos.126-1 and 126-4, Shitaya 1-chome, Taito-ku, Tokyo, Japan	<p>The Property comprises 2 parcels of land with a total site area of approximately 329.58 sq.m., a building with GFA of approximately 2,408.36 sq.m. erected therein which was completed in September 2018.</p> <p>The hotel comprises a 11 stories with 1 basement building and provides 88 guest rooms, with restaurant, retail and parking spaces.</p> <p>The Property is held under fee simple interest.</p>	The Property is operated by Shuzenji Takitei K.K. as a hotel under the trade name of "Hotel Comfact" as at the date of valuation.	131,930,000

Notes:

1. Pursuant to 2 copies of Certificate of Real Property Registration (Land) Nos.0105000047323 and 0105000047326 dated on 22 November 1990 provided to us by the Company, 2 parcels of land Lot Nos. 126-1 and 126-4 with a total site area of approximately 329.58 sq.m. have been transferred to Shuzenji Takitei K.K. on 25 November 2016, which is a 100% owned subsidiary of the Company.
2. Pursuant to a copy of Property sale and purchase agreement No.33 signed between TzBC Co., Ltd. and Shuzenji Takitei K.K. dated on 6 September 2016, the purchase price for 2 parcels of land Lot Nos. 126-1 and 126-4 with a total site area of approximately 329.58 sq.m. was JPY670,000,000.
3. Pursuant to a Certificate of Building Construction Permit No.CBL17000106 dated on 12 September 2017 provided to us by the Company, the Property is permitted to be developed into a Building will total GFA of approximately 2,424.66 sq.m.
4. Pursuant to a Building title certificate No.0105001180402 dated 14 September 2018, the registered owner of the Building with a total GFA of approximately 2,408.36 sq.m. is Shuzenji Takitei K.K.
5. As advised by the Company, a loan agreement dated 9 February 2017 in favour of Shizuoka Bank in connection with a loan amount of JPY700,000,000 was secured by the land of the property with a total site area of approximately 329.58 sq.m.

6. Details of the property:

- a) General description of location of the property : The property is located in the vicinity of Ueno in Tokyo. The subject site is 4 minutes' walk from Iriya station (Tokyo Metro Hibiya Line), 7 minutes' walk from Uguisudani station (JR Line), 10 minutes' walk from Ueno station (JR Line) and 15 minutes' walk from Keisei Ueno station (Keisei Skyliner and Keisei Main Line).
- The site is irregular in shape and the surrounding developments are mainly mid-to-high rise condominiums and office buildings. The location of the property is zoned as Commercial District.
- b) Details of encumbrances, liens, pledges, mortgages against the property : Nil
- c) Details of investigations, notices, pending litigation, breaches of law or title defects : Nil
- d) Future plans for construction, renovation, improvement or development of the property and estimated associated costs : Nil

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2019 RMB
3.	Office unit Nos. 102, 201, 202 and 303, Jia Lian Huan Ming Zuo No.586 Jian Guo Road North, Xiacheng District, Hangzhou City, Zhejiang Province, the PRC	<p>The property comprises 4 office units on level 1, 2 and 3 and various car parking spaces of a commercial/office building with 26-storey plus 2 levels of basement completed in 2008.</p> <p>The office units have a total GFA of approximately 1,772.9 sq.m.</p> <p>The land use rights of the property have been granted for a term expiring on 4 September 2047 for composite (office)/non domestic use.</p>	<p>Portion of the Property with a total GFA of approximately 893.84 sq.m. are subject to 2 tenancies. Please refer to Note 2 for details.</p> <p>Remaining portion of the Property is currently under operation by the Company as office purpose as at the date of valuation.</p>	41,300,000

Notes:

- Pursuant to 4 copies of Building Ownership Certificates – Zhe (2018) Hang Zhou Shi Bu Dong Chan Quan Di Nos.0017875, 0017876, 0017874 and 0017877 provided to us by the Company, 4 office units with a total GFA of approximately 1,772.9 sq.m. is owned by Tu Yi Group Holding Limited (now known as Tu Yi Holding Company Limited).
- Pursuant to two Tenancy Agreements, office units Nos. 201 and portion of 102 of the property with a total gross floor area of approximately 893.84 sq.m. were rented to two parties for deferent terms with expiry dates on 1 January 2020 and 30 April 2020 respectively at a total current annual rent of RMB710,000 for retail and office use.
- The notional apportionment for value between different groups of property interests as at 31 March 2019 are as follows:

Group II (RMB)	Group III (RMB)	Total (RMB)
20,580,000	20,720,000	41,300,000

- Our valuation has been made on the following basis and analysis:
 - In our valuation, we have identified and analysed various relevant sales evidence in the locality which have similar characteristic as the subject property. The unit price of these comparables on upper floors range from RMB20,000/sq.m. to RMB23,340/sq.m. on GFA and comparables on ground floor range from RMB31,090/sq.m. to RMB34,780/sq.m. on GFA. Appropriate adjustments and analysis are considered to the differences in location, size and other characters between the comparable properties and the subject property; and
 - The unit rate of the property is in line with the unit rate of these comparables within a reasonable range.

5. In the valuation of this property, we have attributed no commercial value to the carparking spaces which have not obtained any proper title certificates. However, for reference purpose, we are of the opinion that the market value of the carparking spaces as at the date of valuation would be RMB1,265,000 assuming all relevant title certificates have been obtained and the units could be freely transferred.

6. The existing financial securities registered against the Property title are as follows:-
- a. Pursuant to a mortgage agreement No. 021C1102019000451 in favour of Bank of Hangzhou (Yu Hang branch) in connection with the maximum loan amount of RMB12,000,000 from 11 April 2019 to 10 April 2022 is secured by the office unit No. 102 with GFA of approximately 447.23 sq.m.
 - b. Pursuant to a mortgage agreement No. 8011320190005261 in favour of Hangzhou United Bank in connection with the maximum loan amount of RMB7,220,000 from 9 April 2019 to 8 April 2024 is secured by the office unit No. 303 with GFA of approximately 290.32 sq.m.
 - c. Pursuant to a mortgage agreement No 021C1102018000662 in favour of Bank of Hangzhou (Yu Hang branch) in connection with the maximum loan amount of RMB26,310,000 from 9 April 2018 to 8 April 2021 is secured by office units Nos. 201 and 202 with a total GFA of approximately 1,035.35 sq.m.
7. Pursuant to an Auction confirm letter and 2 real estate transfer agreements, the acquisition costs and dates of the office units Nos.102, 201 and 202 are as follows:

Unit No.	Area (sq.m.)	Acquisition date	Acquisition cost (RMB)
102	447.23	8 May 2013	10,957,135
201	446.61	13 August 2014	9,113,350
202	588.74	8 May 2015	13,540,000

8. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
- a. The Company has obtained the Building Ownership Certificates of the property and is entitled to legally use, transfer, lease, mortgage or otherwise dispose of the ownership rights of the property.
 - b. Portion of the property is subject to the tenancies mentioned in Note 2.
 - c. The property is subject to the financial securities mentioned in Note 6.

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 27 February 2018 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the “**Companies Law**”). The Company’s constitutional documents consist of its Amended and Restated Memorandum of Association (the “**Memorandum**”) and its Amended and Restated Articles of Association (the “**Articles**”).

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were conditionally adopted on 1 March 2019 with effect from the Listing Date. The following is a summary of certain provisions of the Articles:

(a) Shares

(i) *Classes of shares*

The share capital of the Company consists of ordinary shares.

(ii) *Variation of rights of existing shares or classes of shares*

Subject to the Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles

relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy (whatever the number of shares held by them) shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(iii) Alteration of capital

The Company may by ordinary resolution of its members:

- (i) increase its share capital by the creation of new shares;
- (ii) consolidate all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) subdivide its shares or any of them into shares of smaller amount than is fixed by the Memorandum; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(iv) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time.

Notwithstanding the foregoing, for so long as any shares are listed on the Stock Exchange, titles to such listed shares may be evidenced and transferred in accordance with the laws applicable to and the rules and regulations of the Stock Exchange that are or shall be applicable to such listed shares. The register of members in respect of its listed shares (whether the principal register or a branch register) may be kept by recording the particulars required by Section 40 of the Companies Law in a form otherwise than legible if such recording otherwise complies with the laws applicable to and the rules and regulations of the Stock Exchange that are or shall be applicable to such listed shares.

The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee. The transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect of that share.

The board may, in its absolute discretion, at any time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

The board may decline to recognise any instrument of transfer unless a fee (not exceeding the maximum sum as the Stock Exchange may determine to be payable) determined by the Directors is paid to the Company, the instrument of transfer is properly stamped (if applicable), it is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in any newspaper or by any other means in accordance with the requirements of the Stock Exchange, at such times and for such periods as the board may determine. The register of members must not be closed for periods exceeding in the whole thirty (30) days in any year.

Subject to the above, fully paid shares are free from any restriction on transfer and free of all liens in favour of the Company.

(v) Power of the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles to purchase its own shares subject to certain restrictions and the board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by the Stock Exchange.

Where the Company purchases for redemption a redeemable share, purchases not made through the market or by tender must be limited to a maximum price determined by the Company in general meeting. If purchases are by tender, tenders must be made available to all members alike.

The board may accept the surrender for no consideration of any fully paid share.

(vi) Power of any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

(vii) Calls on shares and forfeiture of shares

The board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

(b) Directors

(i) Appointment, retirement and removal

Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors. A majority of the Directors of the Company shall at all times be PRC Nationals.

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire by rotation shall include any Director who wishes to retire and not offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification. Further, there are no provisions in the Articles relating to retirement of Directors upon reaching any age limit.

Subject to the Articles and the Law, and provided that (i) any person so elected has been proposed by a resolution passed by the Directors, and (ii) following any such election, a majority of the Directors shall be PRC Nationals, the Company may by ordinary resolution elect any person to be a Director either to fill a casual vacancy on the Board, or as an addition to the existing Board.

The Directors have the power to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board, provided that following any such election, a majority of the Directors shall be PRC Nationals. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and members of the Company may by ordinary resolution appoint another in his place, provided that following any such election, a majority of the Directors shall be PRC Nationals.

The office of director shall be vacated if:

- (aa) he resigns by notice in writing delivered to the Company;
- (bb) he becomes of unsound mind or dies;
- (cc) without special leave, he is absent from meetings of the board for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) he is prohibited from being a director by law; or
- (ff) he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed must, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

The Company shall establish a Nomination Committee. Subject to the provisions of the Companies Law and the Memorandum and Articles, the Company may by ordinary resolution amend to the terms of reference of the Nomination Committee provided that such amendment has been proposed by a resolution passed by the Directors.

(ii) Power to allot and issue shares and warrants

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued (a) with or have attached thereto such rights,

or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Directors may determine, or (b) on terms that, at the option of the Company or the holder thereof, it is liable to be redeemed.

The board may issue warrants or convertible securities or securities of similar nature conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of the Stock Exchange and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company are at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount to their nominal value.

Neither the Company nor the board is obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(iii) Power to dispose of the assets of the Company or any of its subsidiaries

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iv) Borrowing powers

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

(v) *Remuneration*

The ordinary remuneration of the Directors is to be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors are also entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or past Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

The board may resolve to capitalise all or any part of any amount for the time being standing to the credit of any reserve or fund (including a share premium account and the profit and loss account) whether or not the same is available for distribution by applying such sum in paying up unissued shares to be allotted to (i) employees (including directors) of the Company and/or its affiliates (meaning any individual, corporation, partnership, association, joint-stock company, trust, unincorporated association or other entity (other than the Company) that directly, or indirectly through one or more intermediaries, controls, is controlled by or is under common control with, the Company) upon exercise or vesting of any options or awards granted under any share incentive scheme or employee benefit scheme or other arrangement which relates to such persons that has been adopted or approved by the members in general meeting, or (ii) any trustee of any trust to whom shares are to be allotted and issued by the Company in connection with the operation of any share incentive scheme or employee benefit scheme or other arrangement which relates to such persons that has been adopted or approved by the members in general meeting.

(vi) Compensation or payments for loss of office

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(vii) Loans and provision of security for loans to Directors

The Company must not make any loan, directly or indirectly, to a Director or his close associate(s) if and to the extent it would be prohibited by the Companies Ordinance (Chapter 622 of the laws of Hong Kong) as if the Company were a company incorporated in Hong Kong.

(viii) Disclosure of interests in contracts with the Company or any of its subsidiaries

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and upon such terms as the board may determine, and may be paid such extra remuneration therefor in addition to any remuneration provided for by or pursuant to the Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. The board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit,

including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

No Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company must declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his close associates is materially interested, but this prohibition does not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his close associate(s) any security or indemnity in respect of money lent by him or any of his close associates or obligations incurred or undertaken by him or any of his close associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

- (dd) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company; or
- (ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his close associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his close associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(c) Proceedings of the Board

The board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it considers appropriate. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(d) Alterations to constitutional documents and the Company's name

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(e) Meetings of members

(i) Special and ordinary resolutions

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

Under the Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

(ii) Voting rights and right to demand a poll

Subject to any special rights or restrictions as to voting for the time being attached to any shares, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorised representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Stock Exchange, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(iii) Annual general meetings and extraordinary general meetings

The Company must hold an annual general meeting of the Company every year within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of not more than eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of the Stock Exchange.

Extraordinary general meetings may be convened on the requisition of one or more shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the board or the secretary for the purpose of requiring an extraordinary general meeting to be called by the board for the transaction of any business specified in such requisition. Such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit, the board fails to proceed to convene such meeting, the requisitionist(s) himself/herself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the board shall be reimbursed to the requisitionist(s) by the Company.

(iv) Notices of meetings and business to be conducted

An annual general meeting must be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days. All other general meetings must be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice is exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time and place of the meeting and particulars of resolutions to be considered at the meeting and, in the case of special business, the general nature of that business.

In addition, notice of every general meeting must be given to all members of the Company other than to such members as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to, among others, the auditors for the time being of the Company.

Any notice to be given to or by any person pursuant to the Articles may be served on or delivered to any member of the Company personally, by post to such member's registered address or by advertisement in newspapers in accordance with the requirements of the Stock Exchange. Subject to compliance with Cayman Islands law and the rules of the Stock Exchange, notice may also be served or delivered by the Company to any member by electronic means.

All business that is transacted at an extraordinary general meeting and at an annual general meeting is deemed special, save that in the case of an annual general meeting, each of the following business is deemed an ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors and other officers; and
- (ee) the fixing of the remuneration of the directors and of the auditors.

(v) *Quorum for meetings and separate class meetings*

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

The quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

(vi) *Proxies*

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and is entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy is entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(f) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records must be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting. However, an exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles; however, subject to compliance with all applicable laws, including the rules of the Stock Exchange, the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

At the annual general meeting or at a subsequent extraordinary general meeting in each year, the members shall appoint an auditor to audit the accounts of the Company and such auditor shall hold office until the next annual general meeting. Moreover, the members may, at any general meeting, by special resolution remove the auditors at any time before the expiration of his terms of office and shall by ordinary resolution at that meeting appoint another auditor for the remainder of his term. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards which may be those of a country or jurisdiction other than the Cayman Islands. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor must be submitted to the members in general meeting.

(g) Dividends and other methods of distribution

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit.

The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a

good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(h) Inspection of corporate records

Pursuant to the Articles, the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the office where the branch register of members is kept, unless the register is closed in accordance with the Articles.

(i) Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman Islands law, as summarised in paragraph 3(f) of this Appendix.

(j) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

- (i) if the Company is wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively; and
- (ii) if the Company is wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company is wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(k) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Company operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium.

The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the "**Court**"), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

(c) Financial assistance to purchase shares of a company or its holding company

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company is to be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company is not be treated as a member for any purpose and must not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share must not be voted, directly or indirectly, at any meeting of the company and must not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Law.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

The Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account. With the exception of the foregoing, there are no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits.

No dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

(f) Protection of minorities and shareholders' suits

The Courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Disposal of assets

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company must cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

An exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to the Tax Concessions Law of the Cayman Islands, the Company has obtained an undertaking:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 14 March 2018.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of the Company have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

(n) Register of members

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. A branch register must be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time.

There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

(o) Register of Directors and Officers

The Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within sixty (60) days of any change in such directors or officers.

(p) Beneficial Ownership Register

An exempted company is required to maintain a beneficial ownership register at its registered office that records details of the persons who ultimately own or control, directly or indirectly, more than 25% of the equity interests or voting rights of the company or have rights to appoint or remove a majority of the directors of the company. The beneficial ownership register is not a public document and is only accessible by a designated competent authority of the Cayman Islands. Such requirement does not, however, apply to an exempted company with its shares listed on an approved stock exchange, which includes the Stock Exchange. Accordingly, for so long as the shares of the Company are listed on the Stock Exchange, the Company is not required to maintain a beneficial ownership register.

(q) Winding up

A company may be wound up (a) compulsorily by order of the Court, (b) voluntarily, or (c) under the supervision of the Court.

The Court has authority to order winding up in a number of specified circumstances including where the members of the company have passed a special resolution requiring the company to be wound up by the Court, or where the company is unable to pay its debts, or where it is, in the opinion of the Court, just and equitable to do so. Where a petition is presented by members of the company as contributories on the ground that it is just and equitable that the company should be wound up, the Court has the jurisdiction to make certain other orders as an alternative to a winding-up order, such as making an order regulating the conduct of the company's affairs in the future, making an order authorising civil proceedings to be brought in the name and on behalf of the company by the petitioner on such terms as the Court may direct, or making an order providing for the purchase of the shares of any of the members of the company by other members or by the company itself.

A company (save with respect to a limited duration company) may be wound up voluntarily when the company so resolves by special resolution or when the company in general meeting resolves by ordinary resolution that it be wound up voluntarily because it is unable to pay its debts as they fall due. In the case of a voluntary winding up, such company is obliged to cease to carry on its business (except so far as it may be beneficial for its winding up) from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court therein, there may be appointed an official liquidator or official liquidators; and the court may appoint to such office such person, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court must declare whether any act required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court.

As soon as the affairs of the company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and how the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting must be called by at least 21 days' notice to each contributory in any manner authorised by the company's articles of association and published in the Gazette.

(r) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(s) Take-overs

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(t) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in "Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection – Documents Available for Inspection" in Appendix VI to this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT THE COMPANY AND ITS SUBSIDIARIES**1. Incorporation of the Company**

The Company was incorporated in the Cayman Islands under the Cayman Companies Law as an exempted company with limited liability on 27 February 2018. The Company has established its principal place of business in Hong Kong at Unit 402, 4/F, Fairmont Hse, No. 8 Cotton Tree Drive, Admiralty, Hong Kong and was registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on 10 May 2018. The Company has appointed Ms. Yeung Josephine Yan of 13/F, Wah Yuen Building, 149 Queen's Road Central, Central, Hong Kong as the authorised representative of the Company for the acceptance of service of process and notices in Hong Kong.

As the Company was incorporated in the Cayman Islands, it operates subject to the Cayman Companies Law and to its constitution comprising the Memorandum and the Articles. A summary of various provisions of the Company's constitution and certain relevant aspects of the Cayman Companies Law is set out in Appendix IV to this prospectus.

2. Changes in Share Capital of the Company

As at the date of incorporation of the Company, its authorised share capital was HK\$380,000 divided into 38,000,000 Shares with par value of HK\$0.01 each. Upon its incorporation, one Share was allotted and issued to its initial subscriber fully paid at par, who then transferred the same to York Yu BVI on the same day. On the same day, the Company further allotted and issued 5,582 Shares, 667 Shares, 2,250 Shares and 1,500 Shares, all fully paid at par, to York Yu BVI, David Xu BVI, King Pan BVI and Jeffery Xu BVI, respectively. After completion of the said transfer and issuance, the Company was owned as to 55.83% by York Yu BVI, 6.67% by David Xu BVI, 22.5% by King Pan BVI and 15% by Jeffery Xu BVI, respectively. On 1 March 2019, the Company increased its authorised share capital from HK\$380,000 divided into 38,000,000 Shares to HK\$15,000,000 divided into 1,500,000,000 Shares with a par value of HK\$0.01 each by the creation of an additional 1,462,000,000 Shares.

Assuming that the Global Offering becomes unconditional and the issue of the Shares pursuant to the Global Offering and the Capitalisation Issue mentioned herein are made, but not taking into account of any Shares which may be issued upon the exercise of the Over-allotment Option and any Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme, the issued share capital of the Company will be HK\$10,000,000 divided into 1,000,000,000 Shares fully paid or credited as fully paid. Other than pursuant to any options which may be granted under the Share Option Scheme, the exercise of the Over-allotment Option or the exercise of the general mandate to issue shares referred to in “– A. Further information about the Company and its Subsidiaries – 3. Written resolutions of all the Shareholders passed on 1 March 2019” below, there is no present intention to

issue any part of the authorised but unissued share capital of the Company and, without prior approval of the Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of the Company.

Save as disclosed herein and “– A. Further information about the Company and its Subsidiaries – 4. Corporate Reorganisation” below, there has been no alteration in the share capital of the Company since its incorporation.

3. Written Resolutions of all the Shareholders passed on 1 March 2019

On 1 March 2019, written resolutions of all the Shareholders were passed pursuant to which, among others:

- (a) the Memorandum be and was thereby approved and adopted with immediate effect and the Articles be and were thereby conditionally approved and adopted which will come into effect on the Listing Date, the terms of which are summarised in Appendix IV to this prospectus;
- (b) the authorised share capital of the Company be increased from HK\$380,000 divided into 38,000,000 Shares with a par value of HK\$0.01 each to HK\$15,000,000 divided into 1,500,000,000 Shares with a par value of HK\$0.01 each by the creation of an additional 1,462,000,000 Shares ranking *pari passu* with the existing Shares with immediate effect;
- (c) conditional on (A) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and the Shares to be issued as mentioned herein (including any Shares which may be issued pursuant to the Global Offering, the Capitalisation Issue, the Over-allotment Option and the Share Option Scheme); and (B) the entering into of the agreement on the Offer Price between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and the Company; and (C) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) by the Joint Global Coordinators, (for themselves and on behalf of the Underwriters)) and not being terminated in accordance with the terms of such agreement or otherwise, in each case on or before the date determined in accordance with the terms of the Underwriting Agreements:
 - (i) the Global Offering was approved and the Directors were authorised to effect the same and to allot and issue the Offer Shares pursuant to the Global Offering;
 - (ii) the Over-allotment Option was approved and the Directors were authorised to allot and issue any Shares which may be required to be issued if the Over-allotment Option is exercised;

- (iii) the rules of the Share Option Scheme, the principal terms of which are set out in “– E. Share Option Scheme” below, were approved and adopted and the Directors were authorised, at their absolute discretion, to grant options to subscribe for Shares under the Share Option Scheme and to allot, issue and deal with Shares issued pursuant thereunder and to take all such steps as they consider necessary or desirable to implement the Share Option Scheme and to vote on any matter connected therewith notwithstanding that they or any of them may be interested in the same; and
 - (iv) conditional upon the share premium amount of the Company being credited as a result of the Global Offering, the Directors were authorised to capitalise the amount of HK\$7,499,900 from the amount standing to the credit of the share premium account of the Company to pay up in full at par 749,990,000 Shares for allotment and issue to the person(s) whose name(s) appears on the register of members of the Company as of the date of the passing of the resolution, on a pro rata basis;
- (d) a general unconditional mandate was given to the Directors authorising them to exercise all the powers of the Company to allot, issue and deal in (otherwise than by way of rights issue or an issue of shares upon the exercise of the Over-allotment Option or any subscription or conversion rights attaching to any warrants or any securities which are convertible into Shares or pursuant to the exercise of any options which may be granted under the Share Option Scheme, or any other option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries or any other person of share or rights to acquire Shares or any scrip dividend schemes or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles or a specific authority granted by the Shareholders in general meeting) any unissued Shares with a total nominal value not exceeding 20% of the aggregate of the total nominal value of the share capital of the Company in issue immediately following completion of the Global Offering and the Capitalisation Issue (excluding any Shares that may be issued upon exercise of the Over-allotment Option or pursuant to the exercise of any options which may be granted under the Share Option Scheme) and to make or grant offers, agreements and options (including but not limited to warrants, bonds and debentures convertible into Shares) which might require the exercise of such power to issue Shares either during or after the end of the Relevant Period (as defined below), such mandate to remain in effect until whichever is the earliest of:
- (i) the conclusion of the next annual general meeting of the Company;

- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles or any applicable laws of the Cayman Islands to be held; or
 - (iii) the passing of an ordinary resolution of the Shareholders in general meeting revoking, varying or renewing such mandate;
- (e) a general unconditional mandate was given to our Directors authorising them to exercise all powers of the Company to repurchase on the Stock Exchange or on any other stock exchange on which the Shares may be listed, and which is recognised by the SFC and the Stock Exchange for this purpose, such number of Shares with a total nominal value not exceeding 10% of the aggregate of the total nominal value of the share capital of the Company in issue immediately following completion of the Global Offering and the Capitalisation Issue (excluding any Shares that may be issued upon exercise of the Over-allotment Option or pursuant to the exercise of any options which may be granted under the Share Option Scheme), such mandate to remain in effect until whichever is the earliest of:
- (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles or applicable laws of the Cayman Islands to be held; or
 - (iii) the passing of an ordinary resolution of the Shareholders in general meeting revoking, varying or renewing such mandate;
- (f) the general unconditional mandate mentioned in paragraph (d) above was extended by the addition to the aggregate nominal value of the share capital of the Company which may be allotted or agreed conditionally or unconditionally to be allotted by our Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the share capital of the Company repurchased by the Company pursuant to the mandate to repurchase Shares referred to in paragraph (e) above provided that such extended amount shall not exceed 10% of the aggregate of the total nominal value of the share capital of the Company in issue immediately following completion of the Global Offering and the Capitalisation Issue (excluding any Shares that may be issued upon exercise of the Over-allotment Option or pursuant to the exercise of any options which may be granted under the Share Option Scheme).

4. Corporate Reorganisation

In preparation for the Listing, the companies comprising our Group underwent the Reorganisation to rationalise the corporate structure of our Group. For further details, please see “History, Reorganisation and Corporate Structure – Reorganisation”.

5. Changes in Share Capital of Subsidiaries

Save as disclosed in “History, Reorganisation and Corporate Structure”, there has been no alteration in the share capital of any of our subsidiaries within the two years preceding the date of this prospectus.

6. Particulars of Our Subsidiaries

Particulars of our subsidiaries are set forth in the Accountants’ Report, the text of which is set forth in Appendix I to this prospectus.

7. Repurchase of our own securities

This paragraph includes the information required by the Stock Exchange to be included in this prospectus concerning the repurchase by the Company of its own securities.

(a) Provisions of the Listing Rules

The Listing Rules permit companies whose primary listing is on the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important of which are summarised below:

(i) Shareholders’ Approval

All proposed repurchases of securities on the Stock Exchange by a company with its primary listing on the Stock Exchange must be approved in advance by an ordinary resolution, either by way of general mandate or by specific approval in relation to specific transactions.

Note: Pursuant to the written resolution of all the Shareholders passed on 1 March 2019, a general unconditional mandate (the “**Repurchase Mandate**”) was given to the Directors authorising any repurchase by the Company of Shares as described above in “A. Further information about the Company and its Subsidiaries – 3. Written resolutions of all the Shareholders passed on 1 March 2019”.

(ii) Source of Funds

Any repurchases must be financed out of funds legally available for the purpose in accordance with the Memorandum and the Articles and the applicable laws and regulations of the Cayman Islands.

(b) Funding of Purchases

In repurchasing securities, the Company may only apply funds legally available for such purpose in accordance with the Memorandum, the Articles and the applicable laws and regulations of the Cayman Islands. Pursuant to the Repurchase Mandate, repurchases will be made out of funds of the Company legally permitted to be utilised in this connection, including profits of the

Company or out of a fresh issue of Shares made for the purpose of the repurchase or, if authorised by the Articles and subject to the Cayman Companies Law, out of capital and, in the case of any premium payable on the repurchase, out of the profits of the Company or from sums standing to the credit of the share premium account of the Company or, if authorised by the Articles and subject to the Cayman Companies Law, out of capital of the Company. The Company may not repurchase securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

(c) Reasons for Repurchases

Repurchases of Shares will only be made when Directors believe that such a repurchase will benefit the Company and the Shareholders as a whole. Such repurchases may, depending on market conditions and funding arrangements at that time, lead to an enhancement of the net asset value of the Company and/or its earnings per Share.

(d) Exercise of the Repurchase Mandate

Exercise in full of the Repurchase Mandate, on the basis of 1,000,000,000 Shares in issue immediately after completion of the Global Offering and the Capitalisation Issue (but taking no account of any Shares which may be issued upon the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme), could accordingly result in up to 100,000,000 Shares being repurchased by the Company during the course of the period (the “**Relevant Period**”) prior to the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles and the applicable laws and regulations of the Cayman Islands to be held; or
- (iii) the revocation, variation or renewal of the Repurchase Mandate by ordinary resolution of the Shareholders in general meeting.

(e) General

None of the Directors or, to the best of their knowledge having made all reasonable enquiries, any of their respective associates (as defined in the Listing Rules), has any present intention, if the Repurchase Mandate is approved by the Shareholders, to sell any Shares to the Company or its subsidiaries.

There might be a material adverse impact on the working capital or gearing position of the Company (as compared with the position disclosed in this prospectus) in the event that the Repurchase Mandate is exercised in full. However, the Directors do not propose to exercise the Repurchase Mandate to

such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or on its gearing levels which in the opinion of the Directors are from time to time appropriate for the Company.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules, the Memorandum, the Articles and all the applicable laws and regulations of the Cayman Islands.

If as a result of a repurchase of Shares, a Shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purposes of the Takeovers Code. As a result, a Shareholder, or a group of Shareholders acting in concert (within the meaning under the Takeovers Code), depending on the level of increase in the interest of the Shareholder(s), could obtain or consolidate control of the Company and become(s) obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code as a result of a repurchase of Shares made after the Listing. Save as aforesaid, our Directors are not aware of any other consequence under the Takeovers Code as a result of a repurchase of Shares made immediately after the Listing.

No connected person (as defined in the Listing Rules) of the Company has notified the Company that he has a present intention to sell any Shares to the Company or has undertaken not to do so, if the Repurchase Mandate is exercised.

B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of Material Contracts

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

- (a) the equity transfer agreement dated 12 March 2018 between Tuyi Group and Tuyi Investment pursuant to which Tuyi Group transferred 90% equity interest in Kaida Ticketing to Tuyi Investment at the consideration of RMB4,500,000;
- (b) the capital injection agreement dated 23 March 2018 among Tuyi Group, Mr. Chao Chi Keong and Tuyi Investment pursuant to which Mr. Chao Chi Keong agreed to make capital contribution of RMB20,408 to Tuyi Investment for 2% of the enlarged registered capital of Tuyi Investment;
- (c) the equity transfer agreement dated 26 March 2018 between Tuyi Group and Ms. Zhu Weijun (祝微君) pursuant to which Tuyi Group transferred the entire equity interest in Chuangyi Advertising to Ms. Zhu Weijun (祝微君) at nil consideration;

- (d) the share transfer agreement dated 10 April 2018 among Tuyi Group, Citizen Holiday and Tuyi Group Japan pursuant to which Tuyi Group transferred the entire equity interest in Tuyi Group Japan to Citizen Holiday at the consideration of JPY5,000,000;
- (e) the equity transfer agreement dated 18 April 2018 among Tuyi Group and WFOE pursuant to which Tuyi Group transferred 98% equity interest in Tuyi Investment to WFOE at the consideration of RMB1,000,000;
- (f) the exclusive business cooperation and service agreement dated 21 May 2018 among WFOE, Tuyi Group, Tuyi Management LLP, Mr. Yu, Mr. Pan and Mr. Xu whereby, among others, Tuyi Group agreed to engage WFOE as its exclusive provider of technical and management consulting and other related services requested by the Operating Entities from time to time to the extent permitted under PRC laws in exchange for service fees;
- (g) the exclusive option agreement dated 21 May 2018 among Tuyi Group, Mr. Yu, Mr. Pan, Mr. Xu, Tuyi Management LLP and WFOE pursuant to which Tuyi Group, Mr. Yu, Mr. Pan, Mr. Xu and Tuyi Management LLP irrevocably granted exclusive options to WFOE which entitles WFOE to elect to purchase, when permitted by the then applicable PRC laws, all or any part of the equity interests or assets (as the case may be) of Tuyi Group from Mr. Yu, Mr. Pan, Mr. Xu and Tuyi Management LLP or Tuyi Group (as the case may be) by itself or through its appointee(s) for a nominal consideration of RMB1 or the lowest value permitted by the then applicable PRC law;
- (h) the equity interest pledge agreement dated 21 May 2018 among Tuyi Group, Mr. Yu, Mr. Pan, Mr. Xu, Tuyi Management LLP and WFOE pursuant to which Mr. Yu, Mr. Pan, Mr. Xu and Tuyi Management LLP agreed to pledge all their respective equity interests in Tuyi Group to WFOE, as a security interest, to guarantee the performance of contractual obligations of Mr. Yu, Mr. Pan, Mr. Xu, Tuyi Management LLP and Tuyi Group under the Structured Contracts;
- (i) the shareholders' rights entrustment agreement dated 21 May 2018 among Tuyi Group, Mr. Yu, Mr. Pan, Mr. Xu, Tuyi Management LLP and WFOE pursuant to which Mr. Yu, Mr. Pan, Mr. Xu and Tuyi Management LLP irrevocably authorised WFOE to exercise their shareholders' rights in Tuyi Group;
- (j) the deed of non-competition dated 1 March 2019 executed by our Controlling Shareholders in favour of the Company as detailed in "Relationship with our Controlling Shareholders – Deed of Non-competition";
- (k) the deed of indemnity dated 1 March 2019 executed by our Controlling Shareholders in favour of the Company (for itself and as trustee for its subsidiaries) containing the indemnities referred to in "– F. Other Information – 1. Estate Duty, Tax and Other Indemnity" in this appendix;
- (l) a cornerstone investment agreement dated 13 June 2019 entered into among our Company, Navibell Venture Corp. and the Joint Global Coordinators, pursuant to which agreed to subscribe for our Shares in the amount of HK\$25,000,000;

- (m) a cornerstone investment agreement dated 13 June 2019 entered into among our Company, Mr. Sheng Sen and the Joint Global Coordinators, pursuant to which Mr. Sheng Sen agreed to subscribe for our Shares in the amount of HK\$2,000,000; and
- (n) the Hong Kong Underwriting Agreement.


2. Intellectual Property of our Group

(a) Trademarks

As of the Latest Practicable Date, our Group was the registered owner of, or has been licensed to use, the following trademarks registered in the PRC and Hong Kong which are material to our business:

Trademark	Registration No.	Place of Registration	Trademark Owner	Class	Effective Date	Expiry Date
1. TUYI	9601908	PRC	Tuyi Group	39	21 July 2012	20 July 2022
2. 思瑞	10839597	PRC	Tuyi Group	39	23 July 2013	22 July 2023
3. 	9393669	PRC	Tuyi Group	39	14 May 2012	13 May 2022
4. Tour Easy	9601927	PRC	Tuyi Group	39	14 November 2012	13 November 2022
5. 樱之旅	6887450	PRC	Tuyi Group	39	21 February 2011	20 February 2021
6. 37渡	17930804	PRC	Tuyi Group	35	14 January 2017	13 January 2027
7. 私想家	15490115	PRC	Tuyi Group	39	28 November 2015	27 November 2025
8. 途屹	18095665	PRC	Tuyi Group	39	21 November 2016	20 November 2026
9. 途诣	18095803	PRC	Tuyi Group	39	28 November 2016	27 November 2026
10. 途益	18296112	PRC	Tuyi Group	39	21 December 2016	20 December 2026
11. 途谊	18095807	PRC	Tuyi Group	39	28 November 2016	27 November 2026
12. 	24353192	PRC	Tuyi Group	39	14 October 2018	13 October 2028
13. 	26704886	PRC	Tuyi Group	39	14 December 2018	13 December 2028
14. 	304506363	Hong Kong	TYHK	39	26 April 2018	25 April 2028

As of the Latest Practicable Date, our Group had made an application to register the following trademark:

No.	Trademark	Place of Application	Applicant	Class	Date of Application	Application No.
1		PRC	Tuyi Group	39	20 April 2018	201801106

(b) Domain Names

As of the Latest Practicable Date, our Group was the registered proprietor of the following domain names:

	Registrant	Domain Name	Date of Registration	Expiry Date
1.	Tuyi Group	tuyigroup.net	21 April 2016	21 April 2026
2.	Tuyi Group	tuyigroup.cn	21 April 2016	21 April 2026
3.	Tuyi Group	tuyigroup.com	21 April 2016	21 April 2026
4.	Kaida Ticketing	tuyigroup.com.cn	21 April 2016	21 April 2026

C. FURTHER INFORMATION ABOUT OUR DIRECTORS, MANAGEMENT, STAFF, SUBSTANTIAL SHAREHOLDERS AND EXPERTS

1. Interests and Short Positions of Directors in the Share Capital of the Company

Interests in the Company

Immediately following completion of the Global Offering and the Capitalisation Issue (taking no account of Shares which may be issued pursuant to the exercise of the Over-Allotment Option and options which may be granted under the Share Option Scheme), the interests or short positions of each of the Directors and the chief executives in the share capital, underlying shares and debentures of the Company which, once the Shares are listed, will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have taken under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register required to be kept therein or which, once the Shares are listed, will be required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules to be notified to the Company and the Stock Exchange are set out as follows:

Name	Nature of interest	Number of Shares	Approximate percentage of shareholding
Mr. Yu ⁽¹⁾	Interest in controlled corporation	750,000,000 (long position)	75%
Mr. Pan ⁽²⁾	Interest in controlled corporation	750,000,000 (long position)	75%
Mr. Xu ⁽³⁾	Interest in controlled corporation	750,000,000 (long position)	75%

Notes:

- (1) York Yu BVI and David Xu BVI hold 418,725,000 Shares and 50,025,000 Shares respectively. Each of York Yu BVI and David Xu BVI is directly and wholly owned by Mr. Yu, who is therefore deemed to be interested in all the Shares held by each of York Yu BVI and David Xu BVI. Mr. Yu, Mr. Pan and Mr. Xu entered into a concert party agreement dated 13 April 2018, and are therefore deemed to be interested in the interests of each other.
- (2) King Pan BVI holds 168,750,000 Shares. King Pan BVI is directly and wholly owned by Mr. Pan, who is therefore deemed to be interested in all the Shares held by King Pan BVI. Mr. Yu, Mr. Pan and Mr. Xu entered into a concert party agreement dated 13 April 2018, and are therefore deemed to be interested in the interests of each other.

- (3) Jeffery Xu BVI holds 112,500,000 Shares. Jeffery Xu BVI is directly and wholly owned by Mr. Xu, who is therefore deemed to be interested in all the Shares held by Jeffery Xu BVI. Mr. Yu, Mr. Pan and Mr. Xu entered into a concert party agreement dated 13 April 2018, and are therefore deemed to be interested in the interests of each other.

2. Interests and Short Positions of Substantial Shareholders in the Share Capital of the Company

Interests in the Company

So far as the Directors are aware, immediately following completion of the Global Offering and the Capitalisation Issue (but taking no account of Shares which may be issued pursuant to the exercise of the Over-allotment Option and options which may be granted under the Share Option Scheme), in addition to the interests disclosed under “– 1. Interests and Short Positions of Directors in the Share Capital of the Company” above, the persons (not being a director or chief executive of the Company) who will have interests or short positions in the Shares and underlying Shares which are required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO are as follows:

Name	Nature of interest	Number of Shares	Approximate percentage of shareholding
York Yu BVI ⁽¹⁾	Beneficial owner	418,725,000	41.8725%
David Xu BVI ⁽¹⁾	Beneficial owner	50,025,000	5.0025%
King Pan BVI ⁽²⁾	Beneficial owner	168,750,000	16.875%
Jeffery Xu BVI ⁽³⁾	Beneficial owner	112,500,000	11.25%
Mr. Yu ⁽¹⁾	Interest in controlled corporation	750,000,000	75%
Mr. Pan ⁽²⁾	Interest in controlled corporation	750,000,000	75%
Mr. Xu ⁽³⁾	Interest in controlled corporation	750,000,000	75%

Notes:

- (1) York Yu BVI and David Xu BVI hold 418,725,000 Shares and 50,025,000 Shares respectively. Each of York Yu BVI and David Xu BVI is directly and wholly owned by Mr. Yu, who is therefore deemed to be interested in all the Shares held by each of York Yu BVI and David Xu BVI. Mr. Yu, Mr. Pan and Mr. Xu entered into a concert party agreement dated 13 April 2018, and are therefore deemed to be interested in the interests of each other.

- (2) King Pan BVI holds 168,750,000 Shares. King Pan BVI is directly and wholly owned by Mr. Pan, who is therefore deemed to be interested in all the Shares held by King Pan BVI. Mr. Yu, Mr. Pan and Mr. Xu entered into a concert party agreement dated 13 April 2018, and are therefore deemed to be interested in the interests of each other.
- (3) Jeffery Xu BVI holds 112,500,000 Shares. Jeffery Xu BVI is directly and wholly owned by Mr. Xu, who is therefore deemed to be interested in all the Shares held by Jeffery Xu BVI. Mr. Yu, Mr. Pan and Mr. Xu entered into a concert party agreement dated 13 April 2018, and are therefore deemed to be interested in the interests of each other.

Save as disclosed herein but taking no account of any Shares which may be issued pursuant to the exercise of the Over-allotment Option and the options which may be granted under the Share Option Scheme, the Directors are not aware of any person (not being a director or chief executive of the Company) who will immediately following completion of the Global Offering and the Capitalisation Issue have interests or short positions in the Shares and underlying Shares 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 will immediately following completion of the Global Offering and the Capitalisation Issue be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital in any associated corporations of the Company carrying rights to vote in all circumstances at general meetings of associated corporation of the Company.

3. Directors' Service Contracts and Remuneration

(a) Directors' Service Contracts

Each of our executive Directors has entered into a service contract with our Company for a term of three years commencing from the date thereof, which may be terminated by not less than three months' notice in writing served by either party on the other.

Each of our independent non-executive Directors has entered into a letter of appointment with our Company for a term of three years commencing from the Listing Date, which may be terminated by not less than three months' notice in writing served by either party on the other.

(b) Directors' remuneration

For FY2016, FY2017 and FY2018, the aggregate amount paid to our Directors as remuneration (including fees, salaries, contribution to retirement benefit scheme and discretionary performance related bonus) were RMB1,818,000, RMB1,210,000 and RMB1,149,000 respectively.

For the year ending 31 December 2019, the estimated total compensation payable to the Directors amounts to RMB1.2 million (excluding any discretionary bonus).

There was no arrangement under which a Director has waived or agreed to waive any emoluments for each of the three financial years immediately preceding the issue of this prospectus.

4. Disclaimers

Save as disclosed in this prospectus:

- (a) none of the Directors nor any of the persons whose names are listed in “– 7. Consents of Experts” in this Appendix has any direct or indirect interest in the promotion of, or in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;
- (b) none of the Directors nor any of the persons whose names are listed in “– 7. Consents of Experts” in this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group;
- (c) none of the Directors is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group taken as a whole;
- (d) none of the Directors or their associates (as defined in the Listing Rules) or existing shareholders or the Company (who, to the knowledge of the Directors, owns more than 5% of our issued share capital) has any interest in any of the five largest customers of the Company; and
- (e) none of the Directors or their associates (as defined in the Listing Rules) or our existing shareholders of the Company (who, to the knowledge of the Directors, owns more than 5% of our issued share capital) has any interest in any or the five largest suppliers of the Company.

D. PROPOSED SHARE AWARD PLAN**Summary of Terms**

We intend to adopt a share award plan (the “**Plan**”) after the Listing. The Plan will not be subject to the provisions of Chapter 17 of the Listing Rules as the Plan will not involve the grant of options by our Company to subscribe for new Shares. The Company will establish a trust in connection with the Plan (the “**Trust**”) and appoint a professional trustee (the “**Trustee**”), which will be an independent third party, for the operation and management of the Trust prior to the grant of any award by the Board (the “**Award**”) which may vest in the form of Shares (the “**Award Shares**”) or the actual selling price of the Award Shares in cash in accordance with the Plan. As at the Latest Practicable Date, the Company has not established the Trust and has not appointed the Trustee to administer the Trust. The principal terms of the Plan subject to determination of the Board as currently contemplated are as follows:

1. Purpose, Administration and Duration

- 1.1 The purpose of the Plan is intended to recognise and reward the contribution of any employee (including without limitation any directors) of the Company and its subsidiary(ies) and/or invested entity(ies) from time to time to the growth and development of our Group through an award of Shares.
- 1.2 The Plan shall be subject to the administration of the Board whose decisions on all matters arising in relation to the Plan or its interpretation or effect shall be final, conclusive and binding on all persons who may be affected thereby. Under the Plan, the Board may delegate the administration of the Plan to such person(s) or committee(s) as the Board may see fit. Upon the adoption of the Plan, the Board intends to delegate the administration of the Plan to a special committee comprising of one executive Director and one independent non-executive Director, and we intend to engage a professional trustee for operation and management of the Plan.
- 1.3 A selected employee shall ensure that the acceptance, vesting and the holding of any awarded Shares under the Plan and the exercise of all rights attaching thereto are valid and comply with all laws, legislation and regulations including all applicable exchange control, fiscal and other laws to which he is subject. The Board may, as a condition precedent of making an award, require a selected employee to produce such evidence as it may reasonably require for such purpose.
- 1.4 Subject to paragraph 9, the Plan shall be valid and effective for a term of 10 years commencing from the adoption date, after which no further awards may be made but the provisions of the Plan shall remain in full force and effect to the extent necessary to give effect to any awards made prior thereto and the administration of the trust property held by the trustee for the purpose of the Plan.

2. Award of Shares

- 2.1 The Board shall, subject to and in accordance with the provisions of the Plan, be entitled (but shall not be bound) to, at any time during the continuation of the Plan, make an award to any of the eligible employees of such number of issued Shares, as the Directors shall determine pursuant to the Plan.
- 2.2 The making of an award to any core connected person must be approved by the independent non-executive Directors (excluding the independent non-executive Director who is the proposed grantee).
- 2.3 The eligibility of any of the eligible employees to an award shall be determined by the Board from time to time on the basis of the Board's opinion as to his contribution to the development and growth of our Group.
- 2.4 The Board shall notify the trustee in writing upon the making of an award under the Plan (the "**Award Notice**") and the Board shall specify therein the following:
- (a) the name, address and position of the relevant selected employee;
 - (b) the number of awarded Shares provisionally awarded to the relevant selected employee pursuant to such award;
 - (c) the earliest date (the "**Earliest Vesting Date**"), if applicable, on which the trustee may vest the legal and beneficial ownership of the awarded Shares in the relevant selected employee under paragraph 4.1;
 - (d) the condition(s) or performance target(s), if any, that must be attained by the relevant selected employee before any of the awarded Shares may be transferred to and vested in such selected employee under such award; and
 - (e) such other terms and conditions of such award as may be imposed by the Board as are not inconsistent with the terms of the Plan and the trust deed on either the trustee (with the prior written consent of the trustee unless the same has already been provided for in the trust deed) and the relevant selected employee, or any of them before the awarded Shares may be transferred to and vested in such selected employee.
- 2.5 The Board shall notify the selected employee in writing after an award has been made to such selected employee and the notice shall contain substantially the same information as that set out in the Award Notice provided that nothing contained in such notice shall be construed as conferring any rights, interests, benefits and title to and in the awarded Shares on such selected employee before the vesting of the legal and beneficial ownership of such awarded Shares in the selected employee in

accordance with the provisions of the Plan. An award shall be deemed to be irrevocably accepted by a selected employee unless the selected employee shall within three business days after receipt of such notice from the Board notify the Company in writing that he would decline to accept such award.

2.6 For so long as the Shares are listed on the Stock Exchange:

- (a) an award may not be made after inside information has come to the Company's knowledge until the Company has announced the information in accordance with the requirements under the Listing Rules. In particular:
 - (i) during the period of 60 days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to the publication date of the results; and
 - (ii) during the period of 30 days immediately preceding the publication date of the half-year results or, if shorter, the period from the end of the relevant half-year period up to the publication date of the results.
- (b) the Directors may not make an award to an eligible employee who is a core connected person during the periods or times in which the Directors are prohibited from dealing in Shares pursuant to the required standard of dealings as prescribed by the Model Code for Securities Transaction by Directors of Listed Issuers or any corresponding code or securities dealing restrictions adopted by the Company.

2.7 Any Shares awarded under the Plan will rank pari passu in all respects with the Shares in issue as of the date of grant.

3. Pool of Awarded Shares

The total number of Shares under the Plan will initially be 50,025,000 Shares, which represents approximately 5.0025% of the issued share capital of the Company immediately upon completion of the Global Offering and the Capitalisation Issue (assuming that the Over-allotment Option is not exercised and without taking into account any Shares which may be issued upon the exercise of the options granted or to be granted under the Share Option Scheme). Prior to the adoption of the Plan, Mr. Yu, as settlor, will enter into a deed of settlement pursuant to which he will declare the entire issued share capital of David Xu BVI, which in turn holds the 50,025,000 Shares, as trust property for the purpose of the Plan.

4. Vesting of the Awarded Shares

4.1 Subject to paragraph 5, the trustee shall transfer to and vest in any selected employee the legal and beneficial ownership of the awarded Shares to which such selected employee is entitled under the relevant award and all the Other Distributions (as set out in paragraph 4.2(a)) attributable to such awarded Shares within ten (10) business days after the latest of:

- (a) the Earliest Vesting Date, if applicable, as specified in the Award Notice to which such award relates; and
- (b) where applicable, the date on which the condition(s) or performance target(s) (if any) to be attained by such selected employee as specified in the related Award Notice have been attained and notified to the trustee by the Board in writing.

If the vesting date shall fall on any day on which the Board is restricted from making any award as referred to in paragraph 2.6, the vesting date shall be postponed.

4.2 During the vesting period (if any):

- (a) any dividends and other distributions (the “**Other Distributions**”) declared and made in respect of any awarded Shares shall be held by the trustee for the benefit of, and shall only be payable or transferable (as the case may be) to, the relevant selected employee when such awarded Shares are vested in such selected employee in accordance with paragraph 4.1;
- (b) if the Company shall offer to the Shareholders new Shares or other securities for subscription by way of rights, options or warrants and no amount is required to be payable by the Shareholders for such rights, options or warrants, the trustee shall sell any nil-paid rights, options or warrants allotted to it in respect of the awarded Shares held by it if there is an open market for such rights, options or warrants. The net proceeds of such sale shall, upon termination of the Plan, be treated and dealt with as income of the trust fund under the trust deed generally. For the avoidance of doubt, no selected employees shall have any right to, or interest in, any nil-paid rights, options or warrants (or the underlying Shares, or the proceeds of sale of any such nil-paid rights, options or warrants) allotted under such offer;
- (c) if the Company shall offer to the Shareholders new shares or other securities for subscription by way of rights, options, warrants or other open or preferential offer and consideration is required to be paid for the taking up and/or the exercise of such rights, options, warrants or open or preferential offer, the trustee shall decline to take up, purchase

and/or subscribe for such rights, options, warrants or open or preferential offer. For the avoidance of doubt, no selected employees shall have any right to, or interest in, any such offer;

- (d) without prejudice to sub-paragraph (a) above, with respect to any dividends declared by the Company and in connection with which the Company shall allow its Shareholders to elect to receive Shares in lieu of cash (as provided for in the relevant announcement and/or circular of the Company), then in respect of the awarded Shares provisionally set aside for any selected employee which have not vested, the trustee shall have the right (in its absolute discretion) to determine whether it shall elect to receive Shares in lieu of cash or cash in respect of such dividends, and any such scrip dividend or cash dividend so elected and received by the trustee shall be treated as and constitute Other Distributions referred to in paragraph 4.2(a). For the avoidance of doubt, no selected employees shall have any right to give any direction to, or make any claim against, the trustee in relation to the making of the said election; and
- (e) if a general or partial offer, whether by way of takeover offer, share repurchase offer or scheme of arrangement or otherwise in like manner is made to all the Shareholders, or all Shareholders other than the offeror, any persons controlled by the offeror and any persons acting in association or concert with the offeror, and such offer becomes or is declared unconditional prior to the vesting of the Awarded Shares in the relevant selected employees pursuant to paragraph 4.1, the Board shall have the right in their absolute discretion to determine whether the trustee shall elect to accept such offer (or any revised offer) and, if applicable, shall direct the trustee in writing to accept such offer accordingly. In the event that the offer (or revised offer) is so elected to be accepted, all proceeds in respect of the awarded Shares paid or payable to the trustee by reason of such acceptance shall be held by the Trustee for the benefit of the relevant selected employee, and the same shall only be payable to the relevant selected employee on the vesting date of the award relating to such selected employee has not lapsed or been cancelled under paragraph 5.

- 4.3 In the event that a selected employee passes away prior to the vesting date of the award relating to such selected employee, and such award has not lapsed or been cancelled by reason of paragraph 5, the awarded Shares under such award shall be held by the trustee on behalf of the personal representative(s) of such selected employee and the trustee shall transfer to such personal representative(s), as notified by the Board in writing, such awarded Shares and all Other Distributions attributable thereto on such vesting date, whereupon the trustee shall be discharged from all duties and liabilities in respect of such selected employee.

5. Lapse of Awards

- 5.1 In the event that any selected employee ceases to be an eligible employee by virtue of a corporate reorganisation of our Group or any invested entity of the Company, then any award with respect to any unvested Shares made to such selected employee shall forthwith lapse and be cancelled.
- 5.2 An award with respect to any unvested Shares made to any selected employee shall forthwith lapse and be cancelled if the selected employee ceases to be an eligible employee by reason of a termination of his employment with our Group or any invested entity of the Company for whatever reason other than his death or retirement in accordance with his contract of employment. If any selected employee ceases to be an eligible employee by reason only of his death or retirement in accordance with his contract of employment, the awarded Shares which are set aside for him pursuant to an award shall be transferred to and vested in him or, as the case may be, his personal representative(s) in accordance with paragraph 4.3.

6. Unvested Shares

Where the awarded Shares which are set aside for a selected employee pursuant to an award do not vest by reason of a lapse of such award under paragraph 5, the trustee shall hold such awarded Shares and all Other Distributions attributable thereto exclusively for the benefit of all or one or more of the eligible employees as the Board shall in its absolute discretion at any time determine and select in writing as the selected employee(s).

7. Disputes

Any dispute arising in connection with the Plan shall be referred to the decision of the Board whose decisions shall be final, conclusive and binding on all persons who may be affected thereby.

8. Alteration of the Plan

The Plan may be altered by a resolution of the Board, provided that no such alteration shall operate to affect adversely any rights of any selected employee in respect of his awarded Shares which remain unvested except with the consent in writing of the majority of the selected employees whose awarded Shares remained unvested on that date (but, for the avoidance of doubt, excluding for this purpose any such Shares in respect of which that date is a vesting date) as would be required of the holders of Shares under the Articles for a variation of the rights attached to such Shares.

9. Termination

9.1 The Board may by resolution at any time terminate the operation of the Plan in which event no further Award may be made provided that such termination shall not affect any subsisting rights of any selected employee in respect of any award made to him prior to such termination.

9.2 If, at the date of the termination of the Plan, the trustee holds any Shares which has not been set aside in favour of any selected employee or the Other Distributions attributable thereto, then the Trustee shall, within twenty-one (21) business days after receiving notice of such termination, sell such Shares and remit the proceeds of sale (after making appropriate deductions in respect of stamp duty and other costs, liabilities and expenses in accordance with the trust deed) together with such Other Distributions to the Company.

10. General

As of the Latest Practicable Date, the Plan has not been adopted by the Company, and no awards have been granted or agreed to be granted by the Company pursuant to the Plan. The Company will make appropriate announcement in accordance with the requirements of the Listing Rules upon adoption of the Plan. Details of the Plan, including particulars of the awards granted during each financial year of the Company will be disclosed in its annual/interim report.

E. SHARE OPTION SCHEME**Summary of terms**

The following is a summary of the principal terms of the Share Option Scheme conditionally approved and adopted by the written resolutions of all Shareholders of our Company passed on 1 March 2019. Our Directors confirm that the terms of the Share Option Scheme comply with the requirements under Chapter 17 of the Listing Rules.

(a) Purpose

The purpose of the Share Option Scheme is to provide incentive or reward to Eligible Persons (as defined in paragraph (b) below) for their contribution to, and continuing efforts to promote the interests of, our Group and for such other purposes as the Board may approve from time to time.

(b) Who may join

The Board may, at its absolute discretion, offer eligible persons (being any director or employee (whether full time or part time), consultant or advisor of our Group who in the sole discretion of the Board has contributed to and/or will contribute to our Group) (the “**Eligible Persons**”) to subscribe for such number of Shares in accordance with the terms of the Share Option Scheme.

(c) Maximum number of Shares

- (i) The maximum aggregate number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of our Company, must not, in aggregate, exceed 30% of the total number of Shares in issue from time to time. No options may be granted under the Share Option Scheme and any other share option schemes of the Company if this will result in such limit being exceeded.
- (ii) Subject to paragraphs (c)(i), (iv) and (v), at the time of adoption by our Company of the Share Option Scheme or any new share option scheme (the “**New Scheme**”), the aggregate number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme, the New Scheme and all schemes existing at such time (the “**Existing Schemes**”) of our Company must not in aggregate exceed 10% of the total number of the Shares in issue as at the Listing Date (the “**Scheme Mandate Limit**”).
- (iii) For the purposes of calculating the Scheme Mandate Limit under paragraph (c)(ii), Shares which are the subject matter of any options that have already lapsed in accordance with the terms of the relevant Existing Scheme(s) shall not be counted.
- (iv) The Scheme Mandate Limit may be refreshed by ordinary resolution of the Shareholders in general meeting, provided that:
 - the Scheme Mandate Limit so refreshed shall not exceed 10% of the total number of issued Shares as at the date of Shareholders’ approval of the refreshment of the Scheme Mandate Limit;
 - options previously granted under any Existing Schemes (including options outstanding, cancelled, or lapsed in accordance with the relevant scheme rules or exercised options) shall not be counted for the purpose of calculating the limit as refreshed; and
 - a circular regarding the proposed refreshment of the Scheme Mandate Limit has been dispatched to the Shareholders in a manner complying with, and containing the matters specified in, the relevant provisions of Chapter 17 of the Listing Rules.

(v) Our Company may seek separate approval from the Shareholders in the general meeting for granting options which will result in the Scheme Mandate Limit being exceeded, provided that:

- the grant is to Eligible Persons specifically identified by our Company before the approval is sought; and
- a circular regarding the grant has been dispatched to the Shareholders in a manner complying with, and containing the matters specified in, the relevant provisions of Chapter 17 of the Listing Rules and other applicable laws and rules,

in accordance with the terms of the Share Option Scheme.

(d) Maximum number of options to any one individual

No option shall be granted to any Eligible Person (the “**Relevant Eligible Person**”) if, at the relevant time of grant, the number of Shares issued and to be issued upon exercise of all Options (granted and proposed to be granted, whether exercised, cancelled or outstanding) to the Relevant Eligible Person in the 12-month period expiring on the date on which an offer of the grant of an option under the Share Option Scheme is made to the Relevant Eligible Person would exceed 1% of the total number of Shares in issue at such time, unless:

- such grant has been duly approved, in the manner prescribed by the relevant provisions of Chapter 17 of the Listing Rules, by ordinary resolution of the Shareholders in general meeting, at which the Relevant Eligible Person and his associates abstained from voting;
- a circular regarding the grant has been dispatched to the Shareholders in a manner complying with, and containing the information specified in, the relevant provisions of Chapter 17 of the Listing Rules; and
- the number and terms (including the Subscription Price) of such options are fixed before the general meeting of our Company at which the same are approved.

(e) Price of Shares

The subscription price for a Share in respect of any particular option granted under the Share Option Scheme (which shall be payable upon exercise of the option) shall be a price solely determined by the Board and notified to all Eligible Person and shall be at least the highest of (i) the closing price of the Shares as stated in the Stock Exchange’s daily quotations sheet on the date of offer to grant option, which must be a business day; (ii) the average of the closing prices of the Shares as stated in the Stock Exchange’s daily quotations sheet for the five business days immediately preceding the date of offer to grant option (the “**Offer Date**”) (provided that the new issue price shall be used as the closing price for any business day falling within the period before the

listing Shares where our Company has been listed for less than five business days as of the Offer Date); and (iii) the nominal value of the Share. A consideration of RMB1 is payable on acceptance of the offer of an option or options.

(f) Granting options to connected persons

Any grant of options to a Director, chief executive or Substantial Shareholder of our Company or any of their respective associates is required to be approved by the independent non-executive Directors (excluding any independent non-executive Director who is a proposed grantee of the options). If our Company proposes to grant options to a Substantial Shareholder or an independent non-executive Director of our Company or their respective associates which will result in the number and value of Shares issued and to be issued upon exercise of all options granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of the offer of such grant in aggregate exceeding: (i) 0.1% of the Shares in issue at the relevant time of grant; and (ii) HK\$5 million, based on the closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange at the date of each grant, such grant shall not be valid unless: (A) a circular containing the details of the grant has been dispatched to the Shareholders in a manner complying with, and containing the matters specified in, the relevant provisions of Chapter 17 of the Listing Rules (including in particular, a recommendation from the independent non-executive Directors (excluding the independent non-executive Director who is the prospective grantee) to the independent Shareholders as to voting); and (B) the grant has been approved by the Shareholders in general meeting (taken on a poll), at which all Connected Persons abstained from voting in favour at such meeting.

(g) Restrictions on the time of grant of options

No offer to grant option shall be made after a price-sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price-sensitive information has been announced pursuant to the requirements of the Listing Rules. In particular, no options may be offered to be granted during the period commencing one month immediately preceding the earlier of (i) the date of the Board meeting (as such date is first notified by our Company to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and (ii) the deadline for our Company to publish an announcement of its results for any year or half year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules) and ending on the date of actual publication of the results announcement. The period which no option may be granted will cover any period of delay in the publication of results announcement.

(h) Rights are personal to grantee

An option is personal to the grantee and shall not be assignable nor transferable, and no grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favor of any third party over or in relation to any option.

(i) Time of exercise of option

Subject to the provisions of the Listing Rules and other applicable laws and regulations, the Board may in its absolute discretion when offering the grant of an option impose any conditions, restrictions or limitations in relation thereto in addition to those set forth in the Share Option Scheme as the Board may think fit (to be stated in the offer Letter) including (without prejudice to the generality of the foregoing) qualifying and/or continuing eligibility criteria, conditions, restrictions or limitations relating to the achievement of performance, operating or financial targets by our Company and/or the grantee, the satisfactory performance or maintenance by the grantee of certain conditions or obligations or the time or period before the right to exercise the option in respect of all or any of the Shares shall vest provided that such terms or conditions shall not be inconsistent with any other terms or conditions of the Share Option Scheme. For the avoidance of doubt, subject to such terms and conditions as the Board may determine as aforesaid (including such terms and conditions in relation to their vesting, exercise or otherwise) there is no minimum period for which an option must be held before it can be exercised and no performance target which need to be achieved by the grantee before the option can be exercised.

The date of grant of any particular option is the date on which the offer relating to such option is duly accepted by the grantee in accordance with the Share Option Scheme. An option may be exercised according to the terms of the Share Option Scheme and the offer in whole or in part by the grantee (or his personal representatives) before its expiry by giving notice in writing to our Company stating that the option is to be exercised and the number of Shares in respect of which it is exercised provided that the number of Shares shall be equal to the size of a board lot for dealing in Shares on the Stock Exchange or an integral multiple thereof. Such notice must be accompanied by a remittance for the full amount of the subscription price for the Shares in respect of which the notice is given. The period during which an option may be exercised will be determined by the Board at its absolute discretion, save that no option may be exercised more than 10 years from the date of grant. No option may be granted more than 10 years after the date of approval of the Share Option Scheme. Subject to earlier termination by our Company in general meeting, the Share Option Scheme shall be valid and effective for a period of 10 years from the date of adoption of the Share Option Scheme by Shareholders by resolution at a general meeting.

(j) Performance target

The Board may from time to time require a particular grantee to achieve certain performance targets specified at the time of grant before any option granted under the Share Option Scheme can be exercised. There are no specific performance targets stipulated under the terms of the Share Option Scheme and the Board is currently unable to determine such restriction on the exercise of the options granted under the Share Option Scheme.

(k) Rights on ceasing to be an Eligible Person

In the event of the grantee ceasing to be an Eligible Person for any reason other than ceasing (1) by reason of summary dismissal for misconduct or other breach of the terms of his employment or other contract constituting him an Eligible Person, or appears either to be unable to pay or to have no reasonable prospect of being able to pay his debts or has become insolvent or has made any arrangements or composition with his creditors generally or on which he has been convicted of any criminal offence involving his integrity or honesty or (2) by death or permanent disability the option may be exercised within one month after the date of such cessation, which date shall be (i) if he is an employee or director of our Company or any subsidiary, his last actual working day with our Company or any subsidiary whether salary is paid in lieu of notice or not; or (ii) if he is not an employee of our Company or any subsidiary, the date on which the relationship constituting him an Eligible Person ceases.

(l) Rights on death or permanent disability

In the event that the grantee of an outstanding option dies or becomes permanently disabled before exercising the option in full or at all, the option may be exercised up to the entitlement of such grantee or, if appropriate, in the circumstances described in paragraphs (n), (o) and (q), an election made by his personal representatives within twelve months after the date of his death or permanent disability.

(m) Lapse of option on misconduct, bankruptcy or dismissal etc.

If a grantee ceases to be an Eligible Person by reason of summary dismissal for misconduct or other breach of the terms of his employment or other contract constituting him an Eligible Person, or appears either to be unable to pay or to have no reasonable prospect of being able to pay his debts or has become insolvent or has made any arrangements or composition with his creditors generally or on which he has been convicted of any criminal offence involving his integrity or honesty, the right to exercise the option (to the extent not already exercised) shall terminate immediately.

(n) Rights on a general offer by way of a take-over

If a general offer by way of a take-over is made to all the Shareholders (or all such Shareholders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror) and such offer becomes or is declared unconditional, our Company shall forthwith notify all the grantees and any grantee (or his personal representatives) may by notice in writing to our Company within 21 days after such offer becoming or being declared unconditional exercise the option to its full extent or to the extent specified in such notice.

(o) Rights on a general offer by way of a scheme of arrangement

If a general offer by way of a scheme of arrangement is made to all the Shareholders and the scheme has been approved by the necessary number of Shareholders at the requisite meetings, our Company shall forthwith notify the grantees

and any grantee (or his personal representatives) may thereafter (but before such time as shall be notified by our Company) by notice in writing to our Company exercise the option to its full extent or to the extent specified in such notice.

(p) Rights on a compromise or arrangement

If a compromise or arrangement between our Company and its Shareholders or creditors is proposed for the purposes of or in connection with a scheme for the reconstruction of our Company or its amalgamation with any other company or companies, our Company shall give notice thereof to the grantee (together with a notice of the existence of the provisions of this paragraph) on the same date or soon after it dispatches the notice to each member or creditor of our Company summoning the meeting to consider such a compromise or arrangement, and thereupon the grantee (or his personal representatives) may forthwith and until the expiry of the period commencing with such date and ending with the earlier of 2 months thereafter and the date on which such compromise or arrangement is sanctioned by the court of competent jurisdiction, exercise any of his options whether in full or in part, but the exercise of an option as aforesaid shall be conditional upon such compromise or arrangement being sanctioned by the court of competent jurisdiction and becoming effective. Upon such compromise or arrangement become effective, all options shall lapse except insofar as previously exercised under the Share Option Scheme. Our Company may require the grantee (or his personal representatives) to transfer or otherwise deal with the Shares issued as a result of the exercise of options in these circumstances so as to place the grantee in the same position as nearly as would have been the case had such Shares been subject to such compromise or arrangement.

(q) Rights on winding-up

In the event a notice is given by our Company to its Shareholders to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company other than for the purpose of a reconstruction, amalgamation or scheme of arrangement, our Company shall on the same date as or soon after it dispatches such notice to each member of our Company give notice thereof to all grantees (together with a notice of the existence of the provisions of this paragraph) and thereupon, each grantee (or his personal representatives) shall be entitled to exercise all or any of his options at any time not later than four business days prior to the proposed general meeting of our Company by giving notice in writing to our Company, accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given whereupon our Company shall as soon as possible and, in any event, no later than one business day immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the grantee credited as fully paid.

(r) Lapse of the options

The right to exercise an option (to the extent not already exercised) shall terminate immediately upon the earliest of:

- (i) the expiry of the option period;
- (ii) the expiry of any of the periods referred to in paragraph (k), (l) or (n);
- (iii) subject to the scheme of arrangement becoming effective, the expiry of the period referred to in paragraph (o);
- (iv) subject to the compromise or arrangement referred to in paragraph (p);
- (v) the date on which the grantee ceases to be an Eligible Person by reason of summary dismissal for misconduct or other breach of the terms of his employment or other contract constituting him an Eligible Person, or appears either to be unable to pay or to have no reasonable prospect of being able to pay his debts or has become insolvent or has made any arrangements or composition with his creditors generally or on which he has been convicted of any criminal offence involving his integrity or honesty;
- (vi) subject to paragraph (q), the date of the commencement of the voluntary winding-up of our Company;
- (vii) the date on which the grantee commits a breach of paragraph (h);
- (viii) the date on which the option is cancelled by the Board as provided in paragraph (v); or
- (ix) the non-fulfillment of any condition referred to in paragraph (x) on or before the date specified therein.

Our Company shall owe no liability to any grantee for the lapse of any option under this paragraph (r).

(s) Ranking of Shares

The Shares to be allotted and issued upon the exercise of an option shall be subject to our Company's Memorandum and Articles of Association and the laws of the Cayman Island for the time being in force and shall rank *pari passu* in all respects with the fully-paid Shares in issue of our Company as of the date of allotment and will entitle the holders to participate in all dividends or other distributions paid or made on or after the date of allotment other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefore shall be on or before the date of allotment and issue.

(t) Effect of alterations to share capital

In the event of any alteration to the capital structure of our Company arising from capitalisation of profits or reserves, rights issue, consolidation, redenomination, subdivision or reduction of the share capital of our Company in accordance with the legal requirements or requirements of the Stock Exchange other than any alteration in the capital structure of our Company as a result of an issue of Shares as consideration in a transaction to which our Company is a party. Adjustment (if any) shall be made to (a) the number or nominal amount of Shares subject to the option so far as unexercised; and/or (b) the subscription price for the Shares subject to the option so far as unexercised; and/or (c) the Shares to which the option relates; or any combination thereof as the Auditors or the independent financial advisors to our Company (acting as expert not arbitrator) shall at the request of our Company certify in writing to the Board either generally or as regards any particular grantee that the adjustments are in compliance with Rule 17.03(13) of the Listing Rules and the notes thereto. Any such adjustments must give a grantee the same proportion of the equity capital of our Company as to which that grantee was previously entitled, and any adjustments so made shall be in compliance with the Listing Rules and such applicable guidance and/or interpretation of the Listing Rules from time to time issued by the Stock Exchange (including, without limitation, the “Supplemental Guidance on Main Board Listing Rule 17.03(13) and the Notice immediately after the Rule” attached to the letter of the Stock Exchange dated 5 September 2005 to all issuers relating to share option scheme) and any future guidance/interpretation of the Listing Rules issued by the Stock Exchange from time to time (but no such alterations shall be made the effect of which would be to enable a Share to be issued at less than its nominal value. The capacity of the Auditors or the independent financial advisors to our Company in this paragraph is that of experts and not of arbitrators and their certification shall, in the absence of manifest error, be final and binding on our Company and the grantees. The costs of the Auditors or the independent financial advisors to our Company shall be borne by our Company. Notice of such adjustment shall be given to the Grantees by our Company.

(u) Alteration of Share Option Scheme

The Share Option Scheme may be altered in any respect by resolution of the Board except that the provisions of the Share Option Scheme as to:

- (i) the definitions of “Eligible Person” and “grantee” in the Share Option Scheme; and
- (ii) the provisions relating to the matters set out in Rule 17.03 of the Listing Rules

which shall not be altered to the advantage of grantees or prospective grantees except with the prior approval of the Shareholders in general meeting (with participants and their respective associates abstained from voting). No such alterations shall operate to affect adversely the terms of issue of any option granted or agreed to be granted prior to such alterations except with the consent or sanction in writing of such majority of the grantees as would be required of the Shareholders under the bye-laws for the time

being of our Company for a variation of the rights attached to the Shares. Any change to the authority of the Board in relation to any alterations to the terms of the Share Option Scheme must be approved by the Shareholders in general meeting. Any alterations to the provisions of the Share Option Scheme which are of a material nature or any change to the terms of options granted must be approved by the Shareholders in general meeting except where the alterations take effect automatically under the existing provisions of the Share Option Scheme. Any amended terms of the Scheme or the options must comply with Chapter 17 of the Listing Rules.

(v) Cancellation of options

The Board may cancel an option granted but not exercised with the approval of the grantee of such option. No options may be granted to an Eligible Person in place of his cancelled options unless there are available unissued options (excluding the cancelled options) within the limit set out in paragraph (c) above from time to time.

(w) Termination of the Share Option Scheme

Our Company, by resolution in general meeting, or the Board may at any time terminate the operation of the Share Option Scheme and in such event no further option will be offered but in all other respects the provisions of the Share Option Scheme shall remain in full force and effect and options granted prior to such termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

(x) Conditions of the Share Option Scheme

The Share Option Scheme is conditional upon:

- (i) the Listing Committee granting approval of the listing of, and permission to deal in, any Shares which may fall to be allotted and issued pursuant to the exercise of any such options;
- (ii) the passing of the resolutions by the Shareholders to approve and adopt the Share Option Scheme and to authorise the Board to grant Options under the Share Option Scheme and to allot and issue Shares pursuant to the exercise of any options; and
- (iii) the commencement of dealings in the Shares on the Stock Exchange.

(y) Disclosure in annual and interim reports

Our Company will disclose details of the Share Option Scheme in its annual and interim reports including the number of options, date of grant, exercise price, exercise period, vesting period and (if appropriate) a valuation of options granted during the financial year/period in the annual/interim reports in accordance with the Listing Rules in force from time to time.

F. OTHER INFORMATION**1. Estate Duty, Tax and Other Indemnity***Indemnity on estate duty and taxation*

The Controlling Shareholders (the “**Indemnifiers**”) have pursuant to the Deed of Indemnity, given indemnities on a joint and several basis in favour of the Company (for itself and as trustee as its subsidiaries and jointly-controlled company) in connection with, among others, any taxation which might be payable by any member of our Group in respect of any income, profits or gains earned, accrued or received or alleged to have been earned, accrued or received on or before (“**Taxation**”) the date on which the Global Offering becomes unconditional and dealings in Shares first commence on the Stock Exchange (the “**Effective Date**”).

The Indemnifiers will however, not be liable under the Deed of Indemnity for taxation where:

- (a) to the extent that provision or reserve has been made for such Taxation in the audited accounts of any member of our Group for the Track Record Period as set out in Appendix I to this prospectus (the “**Accounts**”);
- (b) to the extent that such Taxation or liability falling on any of the members of our Group in respect of any accounting period commencing on or after 1 January 2019 and ending on the Listing Date would not have arisen but for some act or omission of, or transaction voluntarily entered into by, any of the members of our Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) without the prior written consent or agreement of the Indemnifiers, other than any such act, omission or transaction:
 - (i) carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets after 1 January 2019, or
 - (ii) carried out, made or entered into pursuant to a legally binding commitment created on or before 31 December 2018 or pursuant to any statement of intention made in this prospectus; or
- (c) to the extent of any provision or reserve made for Taxation in the Accounts which is finally established to be an over-provision or an excessive reserve, in which case the Indemnifiers’ liability (if any) in respect of Taxation shall be reduced by an amount not exceeding such provision or reserve, provided that the amount of any such provision or

reserve applied pursuant to this paragraph to reduce the Indemnifiers' liability in respect of Taxation shall not be available in respect of any such liability arising thereafter; or

- (d) to the extent that any taxation liabilities and claims arises or is incurred as a result of the imposition of taxation as a consequence of any retrospective change in the law, rules and regulations or the interpretation or practice thereof by the Hong Kong Inland Revenue Department or the taxation authority of the PRC, Japan or any other relevant authority (whether in Hong Kong, the BVI, Japan, the PRC or any other part of the world) coming into force after the date of the Deed of Indemnity or to the extent such claim arises or is increased by an increase in rates of taxation or claim after the date of the Deed of Indemnity with retrospective effect.

Our Directors have been advised that no material liability for estate duty is likely to fall on the Company or any of its subsidiaries under the laws of the Cayman Islands, the BVI, Hong Kong, Japan or the PRC, being jurisdictions in which one or more of the companies comprising our Group are incorporated.

Other indemnity

Under the Deed of Indemnity, the Indemnifiers have also given indemnities on a joint and several basis in favour of the Company (for itself and as trustee as its subsidiaries) for any monetary fines, settlements payments and any associated costs, expenses and damages which would be incurred or suffered by our Group in connection with any non-compliance with the applicable laws, rules or regulations, by the Company and/or any members of our Group in their respective place of incorporation or operation which has occurred at any time on or before the Effective Date as set forth in "Business – Legal Compliance and Proceedings – Compliance", in particular, including but not limited to, the payment of unpaid social insurance and housing provident fund contributions or any penalty imposed payment of the outstanding amount or shortfall of the contribution to the social insurance and/or housing provident fund.

2. Litigation

Save as disclosed in "Business – Legal Compliance and Proceedings – Legal Proceedings", as at the Latest Practicable Date, no member of the Group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against any member of the Group.

3. Sponsor

The Sole Sponsor has made an application on behalf of the Company to the Listing Committee for listing of, and permission to deal in, the Shares in issue and Shares to be issued as mentioned herein (including any Shares falling to be issued pursuant to the exercise of the Over-allotment Option and pursuant to the exercise of any options which may be granted under the Share Option Scheme).

The Sole Sponsor is independent from our Company pursuant to Rule 3A.07 of the Listing Rules. The total amount of fees payable to the Sole Sponsor by our Company for sponsoring the listing of the Shares on the Stock Exchange is HK\$4,000,000.

4. Preliminary Expenses

Our preliminary expenses are estimated to be approximately US\$21,000 and were paid by our Company.

5. Promoter

Our Company has no promoter for the purpose of the Listing Rules. Save as disclosed above, within the two years immediately preceding the date of this prospectus, no cash, securities or other benefits have been paid, allotted or given to any promoters in connection with the Global Offering or the related transactions described in this prospectus.

6. Qualifications of Experts

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

Name	Qualification
Innovax Capital Limited	Licensed for Type 1 regulated activity (dealing in securities) and Type 6 regulated activity (advising on corporate finance) under the SFO
Ernst & Young	Certified public accountants
Jones Lang LaSalle Corporate Appraisal and Advisory Limited	Property valuer
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
Zhejiang T&C Law Firm	PRC legal advisers to the Company
Soga Law Office	Legal advisers to the Company as to Japanese laws

Frost & Sullivan (Beijing) Industry consultant
Inc., Shanghai Branch
Co.

Mr. Tse Siu Chung Dixon Hong Kong Barrister-at-law

7. Consents of Experts

Each of the experts named in paragraph 6 above has given and has not withdrawn its consent to the issue of this prospectus with the inclusion of its report and/or letter and/or summary of valuations and/or opinion and/or data (as the case may be) and references to its name included in the form and context in which it respectively appears.

None of the experts named in paragraph 6 above has any shareholding interests in our Group or any right or option (whether legally enforceable or not) to subscribe for, or to nominate persons to subscribe for, securities in any member of our Group.

8. Binding Effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance insofar as applicable.

9. Agency fees or commission received

The Underwriters will receive an underwriting commission, and the Sole Sponsor will receive a sponsorship fee, as referred to under “Underwriting – Underwriting Arrangements and Expenses – Total Commission and Expenses”.

10. Miscellaneous

- (a) Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus:
 - (i) no share or loan capital of the Company or any of its subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
 - (ii) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
 - (iii) no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of the Company or any of its subsidiaries;

- (iv) no founders, management or deferred shares of the Company or any of its subsidiaries have been issued or agreed to be issued; and
 - (v) no commission has been paid or is payable for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any share in the Company or any of its subsidiaries.
- (b) Since 31 December 2018, being the date of our latest audited consolidated financial results as set out in “Accountants’ Report” in Appendix I to this prospectus, there has been no material adverse change in the financial or trading position or prospects of our Group.
- (c) There has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months preceding the date of this prospectus.
- (d) Subject to the provisions of the Cayman Companies Law, the register of members of the Company will be maintained in the Cayman Islands by Conyers Trust Company (Cayman) Limited and a branch register of members of the Company will be maintained in Hong Kong by Tricor Investor Services Limited. Unless the Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by our Hong Kong Branch Share Registrar in Hong Kong and may not be lodged in the Cayman Islands. All necessary arrangements have been made to enable the Shares to be admitted into CCASS for clearing and settlement.
- (e) No Company within our Group is presently listed on any stock exchange or traded on any trading system.
- (f) There are no arrangements in existence under which future dividends are to be or agreed to be waived.
- (g) Our Directors have been advised that, under the Cayman Companies Law, the use of a Chinese name by the Company does not contravene the Cayman Companies Law.

11. Bilingual Prospectus

The English language and Chinese language versions of this prospectus are being published separately in reliance upon the exemption provided by Section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

**APPENDIX VI DOCUMENTS DELIVERED TO THE REGISTRAR
OF COMPANIES IN HONG KONG
AND AVAILABLE FOR INSPECTION**

**DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG
KONG**

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the **WHITE**, **YELLOW** and **GREEN** Application Forms, the written consents referred to in “Statutory and General Information – F. Other Information – 7. Consents of Experts” in Appendix V to this prospectus, and copies of the material contracts referred to in “Statutory and General Information – B. Further Information About Our Business – 1. Summary of Material Contracts” in Appendix V to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Jingtian & Gongcheng LLP at Suites 3205-3207, 32/F, Edinburgh Tower, The Landmark, 15 Queen’s Road Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus.

1. the Memorandum of Association and Articles of Association of the Company;
2. the Accountants’ Report prepared by Ernst & Young, the text of which is set out in Appendix I to this prospectus;
3. the report prepared by Ernst & Young in respect of the unaudited pro forma financial information, the text of which is set out in Appendix II to this prospectus;
4. the audited consolidated financial statements of our Group for the three years ended 31 December 2016, 2017 and 2018;
5. the letter with a summary of valuations and valuation certificates relating to our PRC and Japanese properties prepared by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, the text of which is set out in Appendix III to this prospectus;
6. the PRC legal opinions issued by Zhejiang T&C Law Firm, our PRC legal advisers, in respect of certain aspects of the PRC law;
7. the Japanese legal opinions issued by Soga Law Office, our Japanese legal advisers, in respect of certain aspects of the Japanese law;
8. the letter of advice prepared by Conyers Dill & Pearman, our Cayman Islands legal advisers, summarising certain aspects of the Cayman Islands company law as referred to in Appendix IV to this prospectus;
9. the industry report prepared by Frost & Sullivan;

**APPENDIX VI DOCUMENTS DELIVERED TO THE REGISTRAR
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AND AVAILABLE FOR INSPECTION**

10. the legal opinion prepared by Mr. Tse Siu Chung Dixon, Hong Kong Barrister-at-law;
11. the material contracts referred to in “Statutory and General Information – B. Further Information About Our Business – 1. Summary of Material Contracts” in Appendix V to this prospectus;
12. the written consents referred to in “Statutory and General Information – F. Other Information – 7. Consents of Experts” in Appendix V to this prospectus;
13. the rules of the Share Option Scheme;
14. the service contracts referred to in “Statutory and General Information – C. Further Information About Our Directors, Management, Staff, Substantial Shareholders and Experts – 3. Directors’ Service Contracts and Remuneration” in Appendix V to this prospectus; and
15. the Companies Law.



途屹控股

Tu Yi Holding Company Limited
途屹控股有限公司