THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in the Company, you should at once hand this circular to the purchaser(s) or the transferee(s), or to the licensed securities dealer or other registered institution in securities, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

香港中旅國際投資有限公司

CHINA TRAVEL INTERNATIONAL INVESTMENT HONG KONG LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 308)

(1) MAJOR TRANSACTION IN RELATION TO THE ACQUISITION OF FURTHER INTEREST IN TARGET I AND THE ACQUISITION OF TARGET III; AND (2) DISCLOSEABLE TRANSACTION IN RELATION TO THE DISPOSAL OF TARGET II

Financial Advisor to the Company

CMS 招商證券國際

Capitalised terms used on this cover page have the same meaning as defined in the section headed "Definitions" in this circular, unless the context requires otherwise.

A letter from the Board is set out on pages 6 to 24 of this circular.

The Proposed Reorganisation has been approved by written shareholders' approval obtained from China CTS, pursuant to Rule 14.44 of the Listing Rules in lieu of a general meeting of the Company. This circular is being despatched to the Shareholders for information only.

27 March 2020

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

"associate(s)"	has the meaning as ascribed thereto under the Listing Rules
"Board"	the board of Directors
"Business Day"	a day (other than a Saturday or Sunday or days on which a tropical cyclone warning Number 8 or above or a "black" rain warning signal or equivalent is hoisted in Hong Kong at any time between 9 a.m. and 5 p.m.) on which clearing banks in Hong Kong are open for the transaction of normal banking business
"China CTS"	China National Travel Service Group Corporation Limited, a central state-owned enterprise under the direct supervision of the State-owned Assets Supervision and Administration Commission of the State Council of the PRC, which owns the entire issued share capital of CTS (Holdings)
"China CTS Group"	China CTS and its subsidiaries and associates, but excluding the Group for the purpose of this circular
"Company"	China Travel International Investment Hong Kong Limited (Stock Code: 308), a company incorporated in Hong Kong with limited liability, whose Shares are listed on the Stock Exchange
"Companies Ordinace"	the Companies Ordinance, Chapter 622 of the Laws of Hong Kong
"Completion"	completion of the sale and purchase of the Target I Sale Shares, Target II Sale Share and Target III Sale Share
"Completion Date"	the fifth Business Day after the date on which all Target I Conditions, Target II Conditions and Target III Conditions are satisfied or waived in accordance with the Target I SPA, Target II SPA and Target III SPA respectively
"connected person"	has the meaning ascribed to it under the Listing Rules
"Consent"	any approval, consent, licence, permit, permission, exemption, ratification, waiver, filing, registration, notice, notification and/or other authorisation in writing
"CTS (Holdings)"	China Travel Service (Holdings) Hong Kong Limited, a company interested in 61.15% of the issued share capital of the Company and a substantial shareholder of the Company

“Dalmore”	Dalmore Investments Limited, a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of the Company
“Dalmore’s Warranties”	warranties given by Dalmore under the Target I SPA
“Directors”	the directors of the Company
“EGM”	an extraordinary general meeting of the Company
“End Date”	the earlier of 31 December 2020 and the expiry of nine months from (and including) the date of Target I SPA, Target II SPA and Target III SPA, or such other date as the Parties may agree in writing
“Enlarged Group”	the Group as enlarged by Target I Group and Target III Group upon completion
“Greater Bay Area”	the Guangdong—Hong Kong—Macao Greater Bay Area
“Group”	the Company and its subsidiaries
“HK$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Valuer”	Jones Lang LaSalle Corporate Appraisal and Advisory Limited
“Interdragon”	Interdragon Limited, a company incorporated in the British Virgin Islands with limited liability and is a 60%-owned subsidiary of STHL and the remaining 40% interest is held by STDM
“Interdragon’s Warranties”	warranties given by Interdragon under the Target I SPA
“Latest Practicable Date”	24 March 2020, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Laws”	any applicable law, rules or regulation (including but not limited to the Listing Rules and the Companies Ordinance); any order, judgement, decree, notice requirement or directive of any stock exchange or any governmental, regulatory or supervisory body or court of competent jurisdiction; and any other rule or principle having legal force
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

"Macau"	the Macau Special Administrative Region of the PRC
"Melco Resorts"	Melco Resorts & Entertainment Limited (formerly known as Melco Crown Entertainment Limited), a company incorporated in the Cayman Islands with limited liability and a subsidiary of MID, whose American depositary shares are listed on the NASDAQ Global Select Market in The United States of America
"MID"	Melco International Development Limited, a company incorporated in Hong Kong with limited liability and the shares of which are listed on the Stock Exchange (Stock Code: 200)
"MID Group"	MID and its subsidiaries
"MRSL"	Melco Resorts Services Limited (formerly known as MPEL Services Limited), a company incorporated in Hong Kong with limited liability, is a wholly-owned subsidiary of Melco Resorts and in turn is an indirect non-wholly-owned subsidiary of MID
"percentage ratios"	has the meaning ascribed to it under the Listing Rules
"PRC"	the People's Republic of China (for the purpose of this circular, excluding Hong Kong, Macau and Taiwan)
"Proposed Reorganisation"	The transactions contemplated under Target I SPA, Target II SPA and Target III SPA collectively
"Relevant Period"	the 4-month period from 1 October 2019 to 31 January 2020
"Renewed Ticketing Agreement"	the agreement entered into between STCTSML and MRSL for the sale and purchase of tickets for the ferry services from and/or Macau as operated by Target I Group
"SFO"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
"Share(s)"	ordinary share(s) in the share capital of the Company
"Shareholder(s)"	holder(s) of the Shares
"Shareholder's Loan"	the shareholder's loan due and owing to the Company by Target II in the sum of HK$159,988,500
"Shun Tak Tourism"	Shun Tak Tourism Investment Holdings Limited, a company incorporated in Hong Kong with limited liability and is a wholly-owned subsidiary of STHL

"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"STCTSML"	Shun Tak-China Travel Ship Management Limited, a company incorporated in Hong Kong with limited liability, is a wholly-owned subsidiary of Target I
"STDM"	Sociedade De Turismo E Diversoes De Macau, S.A, a company incorporated in Macau Special Administrative Region
"STTS"	Shun Tak Travel Services Limited, a company incorporated in Hong Kong with limited liability, is a wholly owned subsidiary of STHL
"subsidiary"	has the meaning ascribed to it under the Listing Rules
"STHL"	Shun Tak Holdings Limited (Stock Code: 242), a company incorporated in Hong Kong with limited liability, whose shares are listed on the Stock Exchange
"Target I"	Shun Tak — China Travel Shipping Investments Limited, a company incorporated in the British Virgin Islands
"Target I Conditions"	the conditions stated under Target I Conditions Precedent
"Target I Group"	Target I and its subsidiaries
"Target I Sale Shares"	2,100 ordinary shares of Target I, representing 21% of the issued share capital of Target I
"Target I SPA"	the sale and purchase agreement entered into between Interdragon and Dalmore relating to the sale and purchase of the Target I Sale Shares
"Target II"	China Travel Tours Transportation Development (HK) Limited, a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of the Company
"Target II Buyer's Warranties"	the warranties provided by Target I under Target II SPA
"Target II Conditions"	the conditions stated under Target II Conditions Precedent
"Target II Group"	Target II and its subsidiaries
"Target II Sale Share"	1 ordinary share of Target II, representing the entire issued share capital of Target II
"Target II SPA"	the sale and purchase agreement entered into between Target I and the Company relating to the sale and purchase of the Target II Sale Share

"Target II Seller's Warranties"	the warranties provided by the Company under Target II SPA
"Target III"	Jointmight Investments Limited, a company incorporated in the British Virgin Islands
"Target III Buyer's Warranties"	the warranties provided by Target I under Target III SPA
"Target III Conditions"	the conditions stated under Target III Conditions Precedent
"Target III Group"	Target III and its subsidiaries
"Target III Sale Share"	1 ordinary share of Target III, representing the entire issued share capital of Target III
"Target III Seller's Warranties"	the warranties provided by Shun Tak Tourism under Target III SPA
"Target III SPA"	the sale and purchase agreement entered into between Target I and Shun Tak Tourism relating to the sale and purchase of the Target III Sale Share
"Ticket Sales Memo"	The memorandum entered into between STCTSML and STTS relating to the sale and purchase of tickets for ferry services from and/or to Macau as operated by Target I Group
"Transaction Documents"	Target I SPA, Target II SPA and Target III SPA and all other documents to be entered into pursuant to Target I SPA, Target II SPA and Target III SPA
"Valuation Benchmark Date"	30 September 2019
"%"	per cent.

香港中旅國際投資有限公司
CHINA TRAVEL INTERNATIONAL INVESTMENT HONG KONG LIMITED
(Incorporated in Hong Kong with limited liability)
(Stock Code: 308)

Executive Directors:
Mr. Fu Zhouyang (*Chairman*)
Mr. Lo Sui On (*Vice Chairman*)
Mr. Jiang Hong (*General Manager*)
Mr. You Cheng
Mr. Yang Hao
Mr. Wu Qiang (*Executive Deputy General Manager*)
Mr. Fan Dongsheng

Independent Non-executive Directors:
Mr. Tse Cho Che Edward
Mr. Zhang Xiaoke
Mr. Huang Hui
Mr. Chen Johnny
Mr. Song Dawei

Registered Office:
12th Floor, CTS House
78-83 Connaught Road Central
Hong Kong

27 March 2020

To the Shareholders

Dear Sir or Madam,

(1) MAJOR TRANSACTION IN RELATION TO THE ACQUISITION OF FURTHER INTEREST IN TARGET I AND THE ACQUISITION OF TARGET III; AND (2) DISCLOSEABLE TRANSACTION IN RELATION TO THE DISPOSAL OF TARGET II

1. INTRODUCTION

Reference is made to the announcement of the Company dated 6 March 2020 in relation to the Proposed Reorganisation.

The acquisition of further interest in Target I and the acquisition of Target III are aggregated as a single transaction and constitute a major transaction since one or more of the applicable percentage ratios (as defined under the Listing Rules) are more than 25% but all of such ratios are less than 100%.

The Company has received a written approval of the acquisition of further interest in Target I and the acquisition of Target III from China CTS, which holds 3,385,492,610 Shares, representing approximately 61.15% of the issued share capital of the Company as at the date of the written Shareholder's approval. Accordingly, no EGM is required to be convened for the purpose of approving the acquisition of further interest in Target I and the acquisition of Target III in accordance with Rule 14.44 of the Listing Rules.

The purpose of this circular is to provide you with, amongst other things, further information in relation to the Proposed Reorganisation and other information in compliance with the requirements of the Listing Rules.

2. THE PROPOSED REORGANISATION

ACQUISITION OF FURTHER INTEREST IN TARGET I

On 6 March 2020, Interdragon as the seller and Dalmore, a wholly-owned subsidiary of the Company, as the purchaser entered into Target I SPA pursuant to which Interdragon has conditionally agreed to dispose of and Dalmore has conditionally agreed to purchase, Target I Sale Shares, representing 21% of the issued share capital of Target I at an aggregate consideration of HK$437 million (subject to adjustment).

Target I SPA

The principal terms of Target I SPA are set out below:

Date

6 March 2020

Parties:

(1) Interdragon (as seller); and

(2) Dalmore (as purchaser).

The ultimate beneficial owners of Interdragon are STHL and STDM. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as at the date of this circular, Interdragon and its ultimate beneficial owners are independent third parties of the Company and its connected persons.

Assets to be acquired

Pursuant to Target I SPA, Interdragon has agreed to sell, and Dalmore has agreed to purchase Target I Sale Shares subject to the terms contained therein.

Target I is a company incorporated under the laws of the British Virgin Islands and it is principally engaged in the operation of cross-border ferry services and other ancillary businesses. Target I is a major operator of high-speed passenger ferry services between Hong Kong, Macau and other destinations in the Greater Pearl River Delta Region.

Before completion of the acquisition of further interest in Target I, Dalmore held 29% of the issued share capital of Target I and Interdragon held 71% of the issued share capital of Target I. Upon completion of the acquisition of further interest in Target I, Dalmore and Interdragon will each hold 50% of the issued share capital of Target I. Upon completion of the acquisition of further interest in Target I, Dalmore and Interdragon will each have the right to nominate and/or remove three directors of Target I. A director nominated by Dalmore will act as the chairman of any board meeting of Target I, and have a casting vote at the board meeting if there is an equality of votes. Through the control of the board of directors of Target I by Dalmore, Target I will become a non-wholly-owned subsidiary of the Company and its financial results will be consolidated into the Group's financial results.

Consideration of Target I Sale Shares

The aggregate consideration of Target I Sale Shares is HK$437 million subject to a dollar-for-dollar adjustment based on 21% of the total consolidated net profit or net loss incurred by the Target I for the Relevant Period. If Target I records a consolidated net profit for the Relevant Period, Dalmore shall pay to Interdragon on the Completion Date 21% of the total amount of the said net profit, and such amount payable by Dalmore shall be capped at HK$1,000,000, and if Target I records a consolidated net loss for the Relevant Period, Interdragon shall pay to Dalmore on the Completion Date 21% of the total amount of the said net loss. The consideration of Target I Sale Shares shall be settled by Dalmore in cash by telegraphic transfer on Completion Date. Interdragon shall designate an account no later than 3 Business Days before the Completion Date. The consideration will be funded by internal resources of the Group.

The consideration of Target I Sale Shares was determined after arm's length negotiations between Interdragon and Dalmore and on normal commercial terms after taking into consideration of (i) the historical business operation and financial performance of Target I; (ii) the future business prospects of Target I; (iii) the market value of 100% equity interest in Target I in the amount of HK$2,171,000,000 as appraised by the Independent Valuer using asset based approach as at the Valuation Benchmark Date; and (iv) the reasons for the Proposed Reorganisation as described under the section headed "Reasons for and Benefits of the Proposed Reorganisation" below.

The Directors are of the view that while the net profits have been decreasing since 2017, Target I Group still recorded a net profit in 2018, and the recorded loss in 2019 was viewed as temporary, due to special circumstances of the social unrest in Hong Kong in the second half of 2019. Given that

Target I is a major operator of high-speed passenger ferry services in the Greater Pearl River Delta Region, and having taken into account of the synergy effects created by the Proposed Reorganisation, the Directors are of the view that the Proposed Reorganisation will enhance the long term interests of the Group and its Shareholders as a whole.

In relation to the future business prospects of Target I, the recent outbreak of COVID-19 currently presents Target I with a major and evolving challenge. Since the outbreak of COVID-19, the governments of PRC, Hong Kong and Macau have taken a series of emergency public measures to combat the spread of this epidemic, including but not limited to travel restrictions, mandatory quarantine and prolonged work suspension, which reduce workforce mobility and tourist arrivals. The cut of travel supply and demand therefore has an adverse impact on the passenger transportation services provided by Target I. However, the Directors are of the view that such impact is temporary and travel supply and demand could resume immediately upon the cessation of the COVID-19 outbreak. Furthermore, having taken into account of the strategic cooperation between the Group and STHL reinforced, the synergy created as well as the scale and diversity of the Group's passenger transportation business increased by the Proposed Reorganisation, the Directors are cautiously optimistic of Target I's future business prospects in the long run, and believe that the consideration of Target I is fair and reasonable.

As for the market value of 100% equity interest in Target I, please refer to the "Valuation report of Target I" as set out in Appendix V to this circular for the reasons why asset approach was adopted, relevant major assumptions and other details of the valuation.

Target I Conditions Precedent

Completion of Target I SPA is conditional upon the satisfaction of the following Target I Conditions unless otherwise waived (save and except for (a), (b), (c) and (d) below):

(a) approval for the Proposed Reorganisation and the relevant Transaction Documents having been obtained from (i) the board of directors of STHL; and (ii) where applicable the shareholders of STHL in accordance with the Listing Rules and all applicable Laws (for the avoidance of doubt, the approval from the shareholders of STHL shall be deemed to have been obtained if written approval approving Target I SPA, Target II SPA and Target III SPA, and the transactions contemplated under Target I SPA, Target II SPA and Target III SPA have been obtained from a shareholder or a closely allied group of shareholders of STHL who together hold more than 50% of the voting rights and entitled to vote at the general meeting of STHL if convened to seek such approval);

(b) approval for Target I SPA, Target II SPA, Target III SPA, and the transactions contemplated under Target I SPA, Target II SPA and Target III SPA having been obtained from (i) the Board; and (ii) where applicable, the Shareholders in accordance with the Listing Rules and all applicable Laws (for the avoidance of doubt, the approval from the Shareholders shall be deemed to have been obtained if written approval approving Target I SPA, Target II SPA and Target III SPA, and the transactions contemplated under Target I SPA, Target II SPA and Target III SPA have been obtained from a Shareholder or a closely allied group of Shareholders who together hold more than 50% of the voting rights and and entitled to vote at the general meeting of the Company if convened to seek such approval);

(c) all of the Target II conditions having been satisfied or waived in accordance with the terms of Target II SPA (except for the condition requiring Target I SPA to become unconditional);

(d) all of the Target III conditions having been satisfied or waived in accordance with the terms of Target III SPA (except for the condition requiring Target I SPA to become unconditional);

(e) Target I and each of the members of the Target I Group having obtained all necessary Consents, which are required for the execution and performance of Target I SPA and the transactions contemplated thereunder and such Consents not being revoked withdrawn or modified prior to Completion;

(f) Interdragon having obtained all necessary Consents, which are required for the execution and performance of Target I SPA and the transactions contemplated thereunder and such Consents not being revoked, withdrawn or modified prior to Completion;

(g) Dalmore having obtained all necessary Consents, which are required for the execution and performance of Target I SPA and the transactions contemplated thereunder and such Consents not being revoked, withdrawn or modified prior to Completion;

(h) the Interdragon's Warranties remaining true and accurate and not misleading in all material respects as at Completion by reference to the facts and circumstances then existing; and

(i) the Dalmore's Warranties remaining true and accurate and not misleading in all material respects as at Completion by reference to the facts and circumstances then existing.

The completion of the acquisition of Target I Sale Shares, disposal of Target II Sale Share and Shareholder's Loan and acquisition of Target III Sale Share are inter-conditional upon each other.

Dalmore may at its discretion waive any of the Target I Conditions (e), (f) and (h). Interdragon may at its discretion waive any of the Target I Conditions (g) and (i).

If any of the Target I Conditions has not been satisfied or waived on or before the End Date, then Target I SPA will be terminated.

As at the Latest Practicable Date, the Target I Conditions (a), (b) and (f) have been satisfied.

Completion

The Completion shall take place on the Completion Date.

Financial Information of Target I Group

Set out below is a summary of the audited financial information of the Target I Group.

	For the year ended 31 December		For the nine months ended 30 September
	2017	**2018**	**2019**
	HK$	*HK$*	*HK$*
Revenue	2,553,956,568	2,358,365,754	1,168,486,671
Profit/(loss) before taxation	327,917,278	268,271,655	(45,854,420)
Profit/(loss) after taxation	291,155,754	241,559,039	(34,283,395)

	As at 31 December		As at 30 September
	2017	**2018**	**2019**
	HK$	*HK$*	*HK$*
Total assets	2,283,751,980	2,203,199,740	2,083,066,023
Net assets	1,783,308,596	1,788,561,198	1,771,143,335

TARGET II DISPOSAL

On 6 March 2020, the Company as the seller and Target I as the purchaser entered into Target II SPA pursuant to which the Company has conditionally agreed to dispose of and Target I has conditionally agreed to purchase, Target II Sale Share, representing the entire issued share capital of Target II, and Shareholder's Loan, at an aggregate consideration of HK$508 million (subject to adjustment).

Target II SPA

The principal terms of Target II SPA are set out below:

Date

6 March 2020

Parties:

(1) the Company (as seller); and

(2) Target I (as purchaser).

Assets to be disposed of

Pursuant to Target II SPA, the Company has agreed to sell, and Target I has agreed to purchase Target II Sale Share and Shareholder's Loan subject to the terms contained therein.

Target II is a company incorporated under the laws of the British Virgin Islands and it is an investment holding company. Target II, together with its subsidiaries, is principally engaged in the operation of cross-border land transportation services and other ancillary businesses. Target II is one of the leading companies providing cross-border bus and chartered bus services covering all major cities in the Greater Bay Area.

Before completion of the disposal of Target II, Target II was a wholly-owned subsidiary of the Company. Upon completion of the disposal of Target II, the Company will hold the shares of Target II through its 50% interest in Target I, and hence Target II will be a non-wholly-owned subsidiary of the Company.

Consideration of Target II Sale Share and Shareholder's Loan

The aggregate consideration of Target II Sale Share and Shareholder's Loan is HK$508 million, subject to a dollar-for-dollar adjustment based on the total consolidated net profit or net loss incurred by Target II for the Relevant Period. If Target II records a consolidated net profit for the Relevant Period, Target I shall pay to the Company on the Completion Date the total amount of the said net profit, and such amount payable by Target I shall be capped at HK$1,000,000, and if Target II records a consolidated net loss for the Relevant Period, the Company shall pay to Target I on the Completion Date the total amount of the said net loss. The consideration of Target II Sale Share and Shareholder's Loan shall be settled by Target I in cash by telegraphic transfer on Completion Date. The Company shall designate an account no later than 3 Business Days before the Completion Date. The proceeds from Target II Sale Share and Shareholder's Loan will be used to finance the Group's operation and new suitable investment opportunities.

The consideration of Target II Sale Share and Shareholder's Loan was determined after arm's length negotiations between the Company and Target I and on normal commercial terms after taking into consideration of (i) the historical business operation and financial performance of Target II; (ii) the future business prospects of Target II; (iii) the market value of 100% equity interest in Target II in the amount of HK$496,000,000, in which the Shareholder's Loan has been incorporated, as appraised by the Independent Valuer using market based approach as at the Valuation Benchmark Date; and (iv) the reasons for the Proposed Reorganisation as described under the section headed "Reasons for and Benefits of the Proposed Reorganisation" below.

In relation to the future business prospects of Target II, the recent outbreak of COVID-19 currently presents Target II with a major and evolving challenge. Since the outbreak of COVID-19, the governments of PRC, Hong Kong and Macau have taken a series of emergency public measures to combat the spread of this epidemic, including but not limited to travel restrictions, mandatory quarantine and prolonged work suspension, which reduce workforce mobility and tourist arrivals. The cut of travel supply and demand therefore has an adverse impact on the passenger transportation services provided by Target II. However, the Directors are of the view that such impact is temporary and travel supply and demand could resume immediately upon the cessation of the COVID-19 outbreak. Furthermore, having taken into account of the strategic cooperation between the Group and STHL reinforced, the synergy created as well as the scale and diversity of the Group's passenger transportation business increased by the Proposed Reorganisation, the Directors are cautiously optimistic of Target II's future business prospects in the long run, and believe that the consideration of Target II is fair and reasonable.

As for the market value of 100% equity interest in Target II, please refer to the "Valuation report of Target II" as set out in Appendix VI to this circular for the reasons why market approach was adopted, relevant major assumptions and other details of the valuation.

Target II Conditions Precedent

Completion of Target II SPA is conditional upon the satisfaction of the following Target II Conditions unless otherwise waived (save and except for (a) to (d) below):

(a) approval for the Proposed Reorganisation and the relevant Transaction Documents having been obtained from (i) the board of directors of STHL; and (ii) where applicable the shareholders of STHL in accordance with the Listing Rules and all applicable Laws (for the avoidance of doubt, the approval from the shareholders of STHL shall be deemed to have been obtained if written approval approving Target I SPA, Target II and Target III SPA, and the transactions contemplated under Target I SPA, Target II and Target III SPA has been obtained from a shareholder or closely allied group of shareholders of STHL who together hold more than 50% of the voting rights and entitled to vote at the general meeting of STHL if convened to seek such approval);

(b) approval for Target II SPA and the transactions contemplated under Target II SPA having been obtained from (i) the Board and (ii) the Shareholders (if necessary or required by the Listing Rules);

(c) all of the Target I Conditions having been satisfied or waived in accordance with the terms of the Target I SPA (except for the condition requiring Target II SPA to become unconditional);

(d) all of the Target III Conditions having been satisfied or waived in accordance with the terms of the Target III SPA (except for the condition requiring Target II SPA to become unconditional);

(e) the Company having obtained all necessary Consents which are required for its execution and performance of Target II SPA, other documents to be entered into pursuant of Target II SPA and the transactions contemplated thereunder and such Consents not being revoked, withdrawn or modified prior to Completion;

(f) Target I having obtained all necessary Consents which are required for its execution and performance of Target II SPA, other documents to be entered into pursuant to Target II SPA and the transactions contemplated thereunder and such Consents not being revoked, withdrawn or modified prior to Completion;

(g) there being no breach of Target II Seller's Warranties on and prior to Completion; and

(h) there being no breach of Target II Buyer's Warranties on and prior to Completion.

The completion of the acquisition of Target I Sale Shares, disposal of Target II Sale Share and Shareholder's Loan and acquisition of Target III Sale Share are inter-conditional upon each other.

Target I may at its discretion waive the Target II Condition (g). The Company may at its discretion waive the Target II Condition (h). Target I and the Company may, to such extent as they collectively think fit and are legally entitled to do so, waive any of the Target II Conditions (e) and (f).

If any of the Target II Conditions has not been satisfied or waived on or before the End Date, then Target II SPA will be terminated.

As at the Latest Practicable Date, the Target II Conditions (a), (b), (e) and (f) have been satisfied.

Completion

The Completion shall take place on the Completion Date.

Financial Information of Target II Group

Set out below is a summary of the audited financial information of the Target II Group.

	For the year ended 31 December		**For the nine months ended 30 September**
	2017	**2018**	**2019**
	HK$	*HK$*	*HK$*
Revenue	432,054,357	449,877,890	373,611,268
Profit before taxation	59,394,839	58,331,898	26,720,870
Profit after taxation	55,390,308	52,414,185	22,670,891

	As at 31 December		**As at 30 September**
	2017	**2018**	**2019**
	HK$	*HK$*	*HK$*
Total assets	398,024,553	397,178,851	414,925,957
Net assets	73,321,420	110,811,068	129,312,311

The profit of Target II Group for the 9 months ended 30 September 2019 decreased significantly when compared with 12 months ended 31 December 2017 and 2018, after considering the annualisation impact. The profit was affected by the social unrest in Hong Kong in the second half of the year, middle- and long-distance cross-border passenger transport routes operated by the Target II Group recorded a decrease in profit, resulting from significantly lower visitor arrivals and suspension of operation under tense situation.

TARGET III ACQUISITION

On 6 March 2020, Shun Tak Tourism as the seller and Target I as the purchaser entered into Target III SPA pursuant to which Shun Tak Tourism has conditionally agreed to dispose of and Target I has conditionally agreed to purchase, Target III Sale Share, representing the entire issued share capital of Target III at an aggregate consideration of HK$55 million (subject to adjustment).

Target III SPA

The principal terms of Target III SPA are set out below:

Date

6 March 2020

Parties:

(1) Shun Tak Tourism (as seller); and

(2) Target I (as purchaser).

The ultimate beneficial owner of Shun Tak Tourism is STHL. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as at the date of this circular, Shun Tak Tourism and its ultimate beneficial owner are independent third parties of the Company and its connected persons.

Assets to be acquired

Pursuant to Target III SPA, Shun Tak Tourism has agreed to sell, and Target I has agreed to purchase Target III Sale Share subject to the terms contained therein.

Target III is a company incorporated under the laws of the British Virgin Islands and it is an investment holding company. Through its invested companies, Target III is principally engaged in the provision of cross border coach bus services and travel agency service in Macau.

Upon completion of the acquisition of Target III, Target I will hold the entire issued share capital of Target III. Target III will become a non-wholly-owned subsidiary of the Company and its financial results will be consolidated into the Group's financial results.

Consideration of Target III Sale Share

The aggregate consideration of Target III Sale Share is HK$55 million subject to a dollar-for-dollar adjustment based on the total net profit or net loss incurred by Target III for the Relevant Period. If Target III records a consolidated net profit for the Relevant Period, Target I shall pay to Shun Tak Tourism on the Completion Date the total amount of the said net profit, and such amount payable by Target I shall be capped at HK$1,000,000, and if Target III records a consolidated net loss for the Relevant Period, Shun Tak Tourism shall pay to Target I on the Completion Date the total amount of the said net loss. The consideration of Target III Sale Share shall be settled by Target I in cash by telegraphic transfer on Completion Date. Shun Tak Tourism shall designate an account no later than 3 Business Days before the Completion Date. The consideration will be funded by internal resources of Target I.

The consideration of Target III Sale Share was determined after arm's length negotiations between Shun Tak Tourism and Target I and on normal commercial terms after taking into consideration of (i) the historical business operation and financial performance of Target III; (ii) the future business prospects of Target III; (iii) the market value of 100% equity interest in Target III in the amount of HK$111,000,000 as appraised by the Independent Valuer using asset based approach as at the Valuation Benchmark Date; and (iv) the reasons for the Proposed Reorganisation as described under the section headed "Reasons for and Benefits of the Proposed Reorganisation" below.

In relation to the future business prospects of Target III, the recent outbreak of COVID-19 currently presents Target III with a major and evolving challenge. Since the outbreak of COVID-19, the governments of PRC, Hong Kong and Macau have taken a series of emergency public measures to combat the spread of this epidemic, including but not limited to travel restrictions, mandatory quarantine and prolonged work suspension, which reduce workforce mobility and tourist arrivals. The cut of travel supply and demand therefore has an adverse impact on the passenger transportation services provided by Target III. However, the Directors are of the view that such impact is temporary and travel supply and demand could resume immediately upon the cessation of the COVID-19 outbreak. Furthermore, having taken into account of the strategic cooperation between the Group and STHL reinforced, the synergy created as well as the scale and diversity of the Group's passenger transportation business increased by the Proposed Reorganisation, the Directors are cautiously optimistic of Target III's future business prospects in the long run, and believe that the consideration of Target III is fair and reasonable.

As for the market value of 100% equity interest in Target III, please refer to the "Valuation report of Target III" as set out in Appendix VII to this circular for the reasons why asset approach was adopted, relevant major assumptions and other details of the valuation.

Target III Conditions Precedent

Completion of Target III SPA is conditional upon the satisfaction of the following Target III Conditions unless otherwise waived (save and except for (a), (b) and (c) below):

(a) approval for the Proposed Reorganisation and the relevant Transaction Documents having been obtained from (i) the board of directors of STHL and (ii) where applicable the shareholders of STHL in accordance with the Listing Rules and all applicable Laws (for the avoidance of doubt, such approval from the shareholders of STHL shall be deemed to have been obtained if written approval approving Target I SPA, Target II SPA and Target III SPA, and the transactions contemplated under Target I SPA, Target II SPA and Target III SPA has been obtained from a shareholder or a closely allied group of shareholders of STHL who together hold more than 50% of the voting rights and entitled to vote at the general meeting of STHL if convened to seek such approval);

(b) all of Target I Conditions having been satisfied or waived in accordance with the terms of Target I SPA (except for the condition requiring Target III SPA to become unconditional);

(c) all of Target II Conditions having been satisfied or waived in accordance with the terms of Target II SPA (except for the condition requiring Target III SPA to become unconditional);

(d) Shun Tak Tourism having obtained all necessary Consents which are required for its execution and performance of Target III SPA, other documents to be entered into pursuant to Target III SPA and the transactions contemplated thereunder and such Consents not being revoked, withdrawn or modified prior to Completion;

(e) Target I having obtained all necessary Consents which are required for its execution and performance of Target III SPA, entered into pursuant to Target III SPA and the transactions contemplated thereunder and such Consents not being revoked, withdrawn or modified prior to Completion;

(f) there being no breach of Target III Seller's Warranties on and prior to Completion; and

(g) there being no breach of Target III Buyer's Warranties on and prior to Completion.

The completion of the acquisition of Target I Sale Shares, disposal of Target II Sale Share and Shareholder's Loan and acquisition of Target III Sale Share are inter-conditional upon each other.

Target I may at its discretion waive the Target II Condition (f). Shun Tak Tourism may at its discretion waive the Target II Condition (g). Target I and Shun Tak Tourism may, to such extent as they collectively think fit and are legally entitled to do so, waive any of the Target II Conditions (d) and (e).

If any of the Target III Conditions has not been satisfied or waived on or before the End Date, then Target III SPA will be terminated.

As at the Latest Practicable Date, the Target III Conditions (a), (d) and (e) have been satisfied.

Completion

The Completion shall take place on the Completion Date.

Financial Information of Target III Group

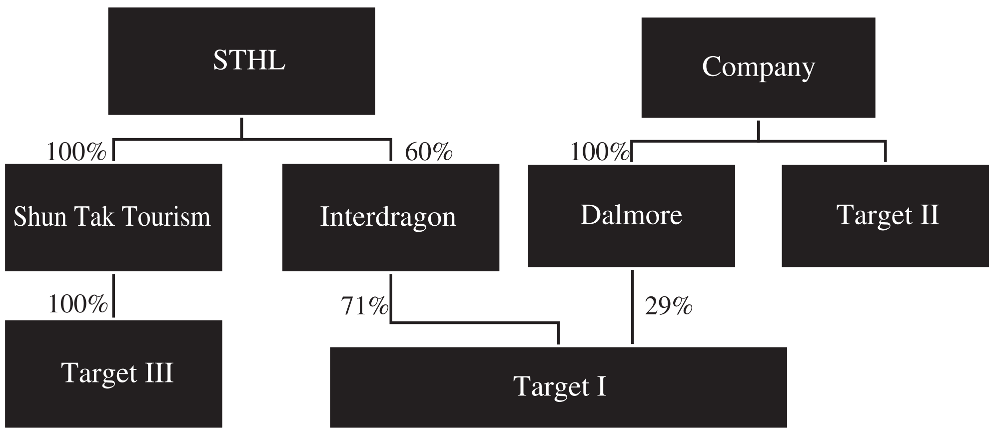
Set out below is a summary of the audited financial information of the Target III Group.

	For the year ended 31 December		For the nine months ended 30 September
	2017	**2018**	**2019**
	HK$	*HK$*	*HK$*
Revenue	—	—	—
Profit/(loss) before taxation	7,835,814	5,236,412	(231,293)
Profit/(loss) after taxation	7,835,814	5,236,412	(231,293)

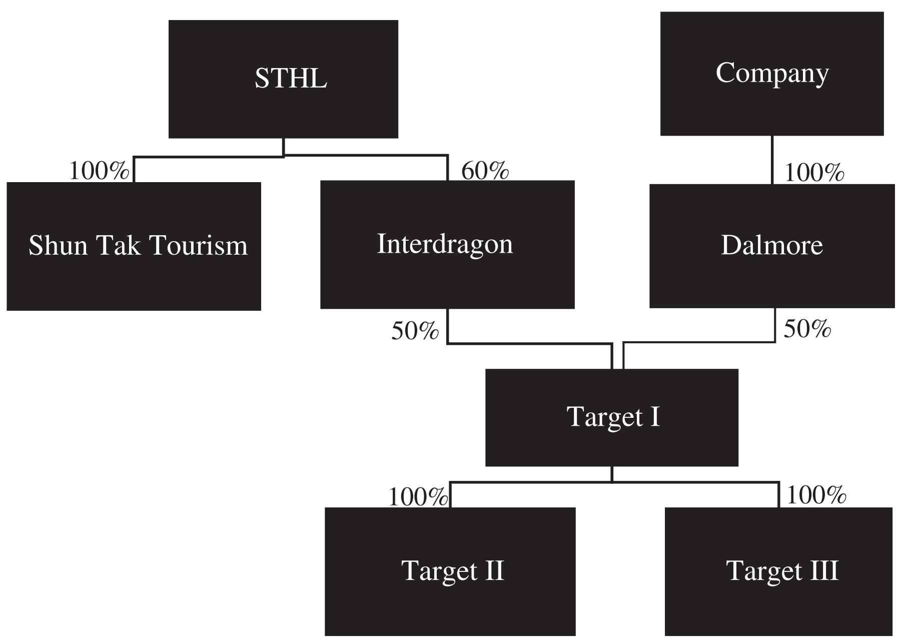
	As at 31 December		As at 30 September
	2017	**2018**	**2019**
	HK$	*HK$*	*HK$*
Total assets	72,885,453	78,121,865	77,894,372
Net assets	72,885,453	78,121,865	77,890,572

ORGANISATIONAL CHARTS

The organisational chart of Target I, II and III before Completion is as follows:



The organisational chart of Target I, II and III after Completion is as follows:



3. REASONS FOR AND BENEFITS OF THE PROPOSED REORGANISATION

The Proposed Reorganisation is expected to further strengthen the Group's business in cross-border passenger transportation services in the Greater Bay Area. Target I is a major operator of high-speed passenger ferry services between Hong Kong, Macau and other destinations in the Greater Pearl River Delta Region. Target II is one of the leading companies providing cross-border bus and chartered bus services covering all major cities in the Greater Bay Area. Target III is principally engaged in the provision of cross-border coach bus services and travel agency service in Macau. Taking advantage of the market position of Target I, Target II and Target III, the Group will become a leading platform of cross-border passenger transportation services in the Greater Bay Area.

The Greater Bay Area is one of the most internationalized and economically advanced regions in the PRC and the development of the Greater Bay Area is one of the key strategic plans for the development of the PRC's economy. The total gross domestic product of the eleven cities in the Greater Bay Area is over US$1,641 billion in the year ended 31 December 2018. The demands of the integrated transportation services including land and water passenger transportation links connecting the PRC, Hong Kong and Macau are expected to increase rapidly as the interaction and cooperation among the cities in the Greater Bay Area grow. The Proposed Reorganisation will allow the Group to play a major role in the development of the transportation industry in the Greater Bay Area.

The Company considers the disposal of Target II to be a good opportunity for the Company to realise part of its investment, while at the same time as Target II will remain as subsidiary of the Group upon Completion, the Group will continue to gain from the returns of Target II. In accordance with the accounting polices adopted by the Group, as Target II will remain as subsidiary of the Group upon Completion, the Group does not expect to record any gain or loss in relation to the disposal of Target II.

Prior to the Proposed Reorganisation, the Group has a solid presence in the tourism industry in the Greater Bay Area, its businesses include operations in relation to travel destinations, travel agency, travel documents and related operations, and passenger transportation. The Proposed Reorganisation is expected to bring even stronger synergies with the Group's existing businesses, optimising the Group's financial performance and bringing the Group closer to its strategic development plan of becoming a first-class tourist destination investment and operation service provider.

Having taken into account the above reasons and benefits, the Directors (including the independent non-executive Directors) consider that the acquisition of further interest in Target I, the acquisition of Target III, the disposal of Target II and the terms of Target I SPA, Target II SPA and Target III SPA are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. Given the potential synergies and efficiencies which will be created by the Proposed Reorganisation, the Board believes that the Proposed Reorganisation will enhance the long term interests of the Group and its Shareholders as a whole.

As Mr. Jiang Hong is an executive director and general manager of the Company and is also a director of Target I, Mr. Jiang Hong has abstained from voting on the relevant board resolution approving Target I SPA, Target II SPA, Target III SPA and the Proposed Reorganisation. Save as mentioned above, none of the Directors has any material interest in the transaction thereunder and therefore no other Director has abstained from voting on such board resolution.

4. FINANCIAL EFFECT OF THE PROPOSED REORGANISATION

Upon Completion, the Target I and Target III will become indirect non-wholly-owned subsidiaries of the Company. The financial results, assets and liabilities of the Target I and Target III will be consolidated with those of the Group.

Assets and Liabilities

As set out in the unaudited pro forma financial information of the Enlarged Group in Appendix IV to this circular, if the Proposed Reorganisation had been taken place on 30 June 2019, the Group's total assets would increase from approximately HK$21,754.4 million to approximately HK$23,353.4 million and total liabilities would increase from approximately HK$4,170.0 million to approximately HK$4,551.9 million, resulting in an overall increase in total consolidated net assets from approximately HK$17,584.4 million as at 30 June 2019 to approximately HK$18,801.6 million upon Closing.

Earnings

In light of the potential synergies and efficiencies which will be created by the Proposed Reorganisation as stated in the section headed "Reasons for and benefits of the Proposed Reorganisation", the Board is of the view that the Proposed Reorganisation will enhance the revenue stream of the Group. The financial results of the Target I and Target III are set out in Appendix II and III to the circular.

In accordance with the accounting polices adopted by the Group, as Target II will remain as subsidiary of the Group upon Completion, the Group does not expect to record any gain or loss in relation to the disposal of Target II.

Having considered (a) the Proposed Reorganisation is expected to further strengthen the Group's business in cross-border passenger transportation services and allow the Group to play a major role in the development of the transportation industry in the Greater Bay Area; (b) the disposal of Target II is considered to be a good opportunity for the Company to realise part of its investment, while the Group will continue to gain from the returns of Target II; (c) the Group will adopt targeted measures such as management enhancement, innovation and upgrade of product and business to enhance profitability; and (d) the Proposed Reorganisation is expected to bring synergies with the Group's existing businesses, optimising the Group's financial performance and bringing the Group closer to its strategic development plan of becoming a first-class tourist destination investment and operation service provider, the Board believes that the Proposed Reorganisation will enhance the long term financial results and long term interests of the Group.

5. USE OF PROCEEDS

After deducting the expenses relating to the disposal, the net proceeds from the disposal of Target II will provide capital for the Group to finance its operations and new suitable investment opportunities.

6. INFORMATION OF THE GROUP AND THE PARTIES

The Group's principal business activities include operations in relation to travel destinations (including hotels, theme parks, natural and cultural spots, and leisure resorts), travel agency, travel documents and related operations, and passenger transportation.

Dalmore was incorporated in the British Virgin Islands and is a wholly-owned subsidiary of the Company. Dalmore is principally engaged in investment holding.

Interdragon was incorporated in the British Virgin Islands and is a 60%-owned subsidiary of STHL and the remaining 40% interest is held by STDM. Interdragon is principally engaged in investment holding.

Shun Tak Tourism was incorporated in Hong Kong and is a wholly-owned subsidiary of STHL. Shun Tak Tourism is principally engaged in investment holding and provision of management services.

7. FUTURE CONTINUING CONNECTED TRANSACTION

On 9 December 2019, STCTSML (a wholly-owned subsidiary of Target I) and STTS (a wholly-owned subsidiary of STHL) entered into the Ticketing Sales Memo to set out the principle terms and conditions upon which STCTSML may, from time to time, sell to STTS and STTS may, from time to time, purchase from STCTSML, the tickets for the ferry services from and/or to Macau as operated by the Target I's group until March 2020 and it is intended that the Ticketing Sales Memo will be extended for another two months until May 2020.

On 14 December 2018, STCTSML and MRSL (an indirect non-wholly-owned subsidiary of MID) entered into the Renewed Ticketing Agreement to set out the principal terms and conditions upon which STCTSML may, from time to time, sell to the MID Group and the MID Group may, from time to time, purchase from STCTSML, the tickets for the ferry services from and/or to Macau as operated by the Target I's group for a further period of three years from 1 January 2019 to 31 December 2021.

Upon completion of the acquisition of further interest in Target I, the Company will hold 50% of the issued share capital of Target I through Dalmore. Through the control of the board of directors of Target I by Dalmore, Target I will become a non-wholly-owned subsidiary of the Company and its financial results will be consolidated into the Group's financial results. Interdragon and its associates would become connected persons of the Company, at a subsidiary level, through its interest in the remaining 50% of the issued share capital of Target I.

STHL, being a substantial shareholder of Interdragon, is a connected person of the Company at subsidiary level under the Listing Rules.

MID is a majority-controlled company (as defined in the Listing Rules) of Mr. Ho, Lawrence Yau Lung, a family member of Ms. Pansy Ho, a director of Target I. Each of Mr. Ho, Lawrence Yau Lung, MID and its subsidiaries (including MRSL) is an associate of a connected person of the Company.

Accordingly each of the Ticketing Sales Memo and Business Development Agreement and Renewed Ticketing Agreement will constitute a continuing connected transaction of the Company under Chapter 14A of the Listing Rules upon Completion.

According to Rule 14A.60(1) of the Listing Rules, the Company is required to as soon as practicable comply with the requirements of annual review and disclosure (including publishing announcement and annual reporting) upon Completion if Target I continues the transactions under the Ticketing Sales Memo and Renewed Ticketing Agreement after Completion. If the Ticketing Sales Memo and Renewed Ticketing Agreement are renewed or the terms thereunder are amended, the Company will further comply with all the applicable requirements under Chapter 14A of the Listing Rules.

8. LISTING RULES IMPLICATION

Target I SPA, on a standalone basis, constitutes a major transaction since one or more of the applicable percentage ratios (as defined under the Listing Rules) are more than 25% but all of such ratios are less than 100%.

Target III SPA, on a standalone basis, constitutes a discloseable transaction since one or more of the applicable percentage ratios (as defined under the Listing Rules) are more than 5% but all of such ratios are less than 25%.

However, Target I SPA and Target III SPA are aggregated as a single transaction pursuant to Rule 14.23 of the Listing Rules as these agreements were entered into by the Group with subsidiaries of STHL, i.e. parties connected or otherwise associated with one another. Since one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of Target I SPA and Target III SPA on an aggregated basis are more than 25% but all of such ratios are less than 100%, the acquisition of further interest in Target I and the acquisition of Target III constitute a major transaction for the Company and are subject to the reporting, announcement, circular and shareholder's approval requirements under Chapter 14 of the Listing Rules.

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in relation to the disposal of Target II are more than 5% but all of such ratios are less than 25%, the disposal of Target II constitutes a discloseable transaction for the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

To the best of the Directors' knowledge, information and belief having made all reasonable enquires, no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the acquisition of further interest in Target I and the acquisition of Target III. The Company has received a written approval of the acquisition of further interest in Target I and the acquisition of Target III from China CTS which holds 3,385,492,610 Shares, representing approximately 61.15% of the issued share capital of the Company as at the date of the written Shareholder's approval. Accordingly, no EGM is required to be convened for the purpose of approving the acquisition of further interest in Target I and the acquisition of Target III in accordance with Rule 14.44 of the Listing Rules.

9. RECOMMENDATION

For the reasons set out above, the Directors consider that the terms of the acquisition of further interest in Target I and the acquisition of Target III are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors would recommend the Shareholders to vote in favour of the resolution if the Company were to convene an extraordinary general meeting for the approval of the Proposed Reorganisation.

10. ADDITIONAL INFORMATION

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

Yours faithfully,
For and on behalf of the Board of
China Travel International Investment Hong Kong Limited
Fu Zhuoyang
Chairman

1. FINANCIAL INFORMATION OF THE GROUP

The audited consolidated financial statements of the Group for the year ended 31 December 2016 are set out from pages 57 to 154 in the annual report of the Company for the year ended 31 December 2016 (the "**2016 Annual Report**") published on 19 April 2017. The 2016 Annual Report is also posted on the Company's website (http://www.irasia.com/listco/hk/ctii/annual/index.htm) and the website of the Stock Exchange (https://www1.hkexnews.hk/listedco/listconews/sehk/2017/0419/ltn20170419880.pdf).

The audited consolidated financial statements of the Group for the year ended 31 December 2017 are set out from pages 69 to 170 in the annual report of the Company for the year ended 31 December 2017 (the "**2017 Annual Report**") published on 25 April 2018. The 2017 Annual Report is also posted on the Company's website (http://www.irasia.com/listco/hk/ctii/annual/index.htm) and the website of the Stock Exchange (https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0425/ltn201804251376.pdf).

The audited consolidated financial statements of the Group for the year ended 31 December 2018 are set out from pages 71 to 186 in the annual report of the Company for the year ended 31 December 2018 (the "**2018 Annual Report**") published on 25 April 2019. The 2018 Annual Report is also posted on the Company's website (http://www.irasia.com/listco/hk/ctii/annual/index.htm) and the website of the Stock Exchange (https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0425/ltn201904251945.pdf).

There was no qualified audit opinion expressed on the audited consolidated financial statements for the three years ended 31 December 2016, 2017 and 2018.

The unaudited consolidated interim financial statements of the Group for the six months ended 30 June 2019 are set out from pages 5 to 42 in the interim report of the Company for the six months ended 30 June 2019 (the "**2019 Interim Report**") published on 19 September 2019. The 2019 Interim Report is also posted on the Company's website (http://www.irasia.com/listco/hk/ctii/interim/index.htm) and the website of the Stock Exchange (https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0919/2019091900463.pdf).

2. INDEBTEDNESS

Borrowings

As at the close of business on 31 January 2020, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Enlarged Group has outstanding unsecured bank and other borrowings of approximately HK$87.8 million.

Lease liabilities

As at the close of business on 31 January 2020, the Enlarged Group has lease liabilities of approximately HK$312.2 million.

Security

As at the close of business on 31 January 2020, the Enlarged Group's bank deposits of approximately HK$23.0 million were pledged to banks to secure certain credit facilities granted by suppliers to the Enlarged Group's subsidiaries, and certain bank guarantees given in lieu of utility and rental deposit.

Contingent liabilities and guarantees

As at the close of business on 31 January 2020, the Enlarged Group had the following contingent liabilities: performance bond given to a customer for due performance of a sales contract amounting to HK$0.3 million.

Save as aforesaid, and apart from intra-group liabilities, at the close of business on 31 January 2020, the Enlarged Group did not have any loan capital issued and outstanding or agreed to be issued, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, mortgages, charges, debentures, obligations under hire purchase contracts or finance leases or guarantees or other material contingent liabilities.

3. WORKING CAPITAL STATEMENT

Taking into account the financial resources available to the Enlarged Group, including internally generated funds and available banking facilities of the Enlarged Group, the Directors, after due and careful enquiry, are of the opinion that the Enlarged Group has sufficient working capital for its present requirements, that is for at least 12 months from the date of publication of this circular, in the absence of unforeseeable circumstances, such as any event of force majeure occurs including, without limiting the generality thereof, any act of God, war, riot, public disorder, civil commontion, fire, flood, explosion, epidemic, terrorism, strike or lock-out.

4. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2018, being the date on which the latest published audited consolidated financial statements of the Group were made up.

5. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Group is positioned as a tourism and transportation business platform with a strategic development direction of becoming a first-class tourist destination investment and operation service provider. The Group will continue to expand its cross-border passenger transportation services network, consolidate its position in city travel destinations and strategically acquire high-quality targets to strengthen the position of the Group in cross-border passenger transportation service industry.

In respect of existing businesses, the Group will adopt targeted measures such as management enhancement, innovation and upgrade of services and business to raise profitability. In addition, the Group will implement industry-leading plans and benchmarking management to increase competitiveness. Also, the Group will strengthen cost control and adopt centralized procurement and quality control to drive down costs and improve efficiency.

The Group will continue to focus on value creation and gradually exit from businesses which are incompatible with its strategy, lacking synergy, and have been loss making for a long time with no prospects of turning around, so as to maintain the Group's high asset quality to ensure favourable operation.

Taking advantage of the leading market position of Target I, Target II and Target III and the Group's existing passenger transportation business, the Group is aimed at becoming one of the leading platforms of cross-border passenger transportation services in the Greater Bay Area after the Proposed Reorganisation. It is also expected to create considerable value through generating synergies with the Group's existing business in the Greater Bay Area, including operations in hotels, tourist attractions and theme parks.

Although the complicated economic situation at home and abroad persists and there is keen competition across the industry, the business fundamentals of the Group's overall business remain steady and healthy. In addition, the Group has a healthy financial position and possesses the capabilities to invest and develop. The Group is fully confident in the prospects of future development guided under its proven strategy. In accordance with the above-mentioned strategy and the requirements of management enhancement and key priorities, the Group will strengthen strategy execution, push forward strategic projects, innovate on business models and enhance profitability, striving its best to execute the initiatives and create shareholder value.

The recent outbreak of the novel coronavirus COVID-19 and the introduction of various emergency public health measures by the public authorities globally brought uncertainty to the Group's business environment. Although the Directors expect that the outbreak of COVID-19 will only have a temporary impact on the Group's operations, nevertheless it is likely to have an adverse effect on the financial results of the Group for the current financial year. The subsequent travel restrictions, quarantine measures and suspension of work have posted particular notable impacts on the Group's operation of travel agency, hotel and passenger transport. Accordingly, the Group has taken effective measures in response and has mitigated these impacts. The Group's overall business fundamentals remain steady and healthy. It possesses adequate funds and the capability to invest and develop. The Directors of the Group will continue to monitor the development of the COVID-19 outbreak and assess the potential risks and impact that it may have on the Group's financial and trading prospects.

The following is the text of a report set out on pages 28 to 30, received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

pwc 羅兵咸永道

ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF CHINA TRAVEL INTERNATIONAL INVESTMENT HONG KONG LIMITED

Introduction

We report on the historical financial information of Shun Tak-China Travel Shipping Investments Limited (the "Target I") and its subsidiaries (together, the "Target I Group") set out on pages 31 to 122, which comprises the consolidated and company balance sheets as at 31 December 2016, 2017 and 2018 and 30 September 2019, and the consolidated income statements, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements for each of the periods then ended (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages 31 to 122 forms an integral part of this report, which has been prepared for inclusion in the circular of China Travel International Investment Hong Kong Limited (the "Company") dated 27 March 2020 (the "Circular") in connection with the proposed acquisition of an additional 21% equity interest in the Target I by the Company.

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2(b) to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

The financial statements of the Target I Group for the Track Record Period ("Underlying Financial Statements"), on which the Historical Financial Information is based, were prepared by the directors of the Company based on the previously issued financial statements and management accounts of the Target I Group for the Track Record Period. The directors of the Target I are responsible for the preparation of the previously issued financial statements and management accounts of the Target I Group that gives a true and fair view in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

Reporting accountant's 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 accountant's 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 accountant considers internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2(b) to the Historical Financial Information 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 accountant's report, a true and fair view of the financial position of the Target I as at 31 December 2016, 2017 and 2018 and 30 September 2019 and the consolidated financial position of the Target I Group as at 31 December 2016, 2017 and 2018 and 30 September 2019 and of its consolidated financial performance and its consolidated cash flows for the Track Record Period in accordance with the basis of preparation set out in Note 2(b) to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Target I Group which comprises the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the nine months ended 30 September 2018 and other explanatory information (the "Stub Period Comparative Financial Information"). The directors of the Company are responsible for the preparation of the Stub Period Comparative Financial Information in accordance with the basis of preparation set out in Note 2(b) to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountant's report, is not prepared, in all material respects, in accordance with the basis of preparation set out in Note 2(b) to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements have been made.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong
27 March 2020

I HISTORICAL FINANCIAL INFORMATION OF THE TARGET I GROUP

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountant's report.

The Underlying Financial Statements, on which the Historical Financial Information is based, were audited by PricewaterhouseCoopers in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Historical Financial Information is presented in Hong Kong dollar except when otherwise indicated.

CONSOLIDATED INCOME STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2016, 2017 AND 2018 AND
THE NINE MONTHS ENDED 30 SEPTEMBER 2018 AND 2019

		Year ended 31 December			Nine months ended 30 September	
	Note	**2016**	**2017**	**2018**	**2018**	**2019**
		HK$	*HK$*	*HK$*	*HK$*	*HK$*
					(unaudited)	
Revenue	*4*	2,548,137,898	2,553,956,568	2,358,365,754	1,832,725,552	1,168,486,671
Other income	*4*	44,258,247	57,487,728	59,584,615	44,288,487	44,552,490
		2,592,396,145	2,611,444,296	2,417,950,369	1,877,014,039	1,213,039,161
Other (losses)/gains, net	*5*	(161,036)	(995,989)	(111,342)	(68,654)	666,111
Cost of inventories sold and services provided		(1,057,169,079)	(1,129,375,635)	(1,031,883,723)	(806,175,054)	(539,790,942)
Staff costs		(834,665,081)	(862,955,044)	(833,437,996)	(629,083,356)	(533,074,218)
Depreciation	*6*	(87,663,958)	(81,626,422)	(78,488,097)	(58,749,947)	(68,235,042)
Other costs		(208,035,662)	(213,479,159)	(210,924,488)	(159,164,125)	(122,067,252)
Operating profit/(loss)	*6*	404,701,329	323,012,047	263,104,723	223,772,903	(49,462,182)
Finance costs	*7*	(1,387,128)	(1,301,761)	(1,231,109)	(922,134)	(1,189,829)
Share of results of associates	*12*	489,825	377,601	485,120	482,797	3,174,188
Share of results of joint ventures	*13*	5,222,485	5,829,391	5,912,921	5,050,761	1,623,403
Profit/(loss) before taxation		409,026,511	327,917,278	268,271,655	228,384,327	(45,854,420)
Taxation	*9(a)*	(48,902,042)	(36,761,524)	(26,712,616)	(23,904,768)	11,571,025
Profit/(loss) for the year/period		360,124,469	291,155,754	241,559,039	204,479,559	(34,283,395)

The notes on pages 42 to 122 are an integral part of this Historical Financial Information.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED 31 DECEMBER 2016, 2017 AND 2018 AND THE NINE MONTHS ENDED 30 SEPTEMBER 2018 AND 2019

	Year ended 31 December			Nine months ended 30 September	
	2016	**2017**	**2018**	**2018**	**2019**
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
				(unaudited)	
Profit/(loss) for the year/period	360,124,469	291,155,754	241,559,039	204,479,559	(34,283,395)
Other comprehensive income/(loss)					
Items that may be reclassified to profit or loss:					
Cash flow hedges:					
Changes in fair value, net of tax	20,750,097	17,367,141	(10,214,521)	13,028,997	12,778,584
Transfer to profit or loss	51,429,076	(12,765,307)	(22,091,916)	(16,822,351)	4,086,948
Other comprehensive income/(loss) for the year/period, net of tax	72,179,173	4,601,834	(32,306,437)	(3,793,354)	16,865,532
Total comprehensive income/(loss) for the year/period	432,303,642	295,757,588	209,252,602	200,686,205	(17,417,863)

The notes on pages 42 to 122 are an integral part of this Historical Financial Information.

CONSOLIDATED BALANCE SHEETS
AS AT 31 DECEMBER 2016, 2017 AND 2018 AND 30 SEPTEMBER 2019

	Note	As at 31 December 2016	2017	2018	As at 30 September 2019
		HK$	HK$	HK$	HK$
Non-current assets					
Property, plant and equipment	*10*	747,177,458	705,725,419	674,481,004	548,385,753
Right-of-use assets	*11*	—	—	—	113,314,649
Associates	*12*	3,902,538	28,600,139	28,755,739	29,394,339
Joint ventures	*13*	26,609,300	32,438,691	24,351,612	25,975,015
Deferred tax assets	*9(c)*	1,297,959	1,078,182	5,535,108	14,123,526
Other non-current assets	*14*	9,214,843	14,463,569	5,184,369	8,980,537
		788,202,098	782,306,000	738,307,832	740,173,819
Current assets					
Inventories	*15*	174,714,663	170,700,235	172,216,862	177,110,794
Trade and other receivables, deposits paid and prepayments	*16*	153,791,301	169,471,297	144,444,853	159,528,660
Derivative financial instruments	*17*	11,416,253	16,927,431	—	—
Taxation recoverable		4,424,427	8,111,029	6,223,756	5,245,011
Cash and bank balances	*19*	1,135,172,144	1,136,235,988	1,142,006,437	1,001,007,739
		1,479,518,788	1,501,445,980	1,464,891,908	1,342,892,204
Current liabilities					
Trade and other payables and accruals	*20*	427,516,965	452,711,555	320,626,195	239,026,223
Contract liabilities	*21*	—	—	32,587,764	19,216,608
Lease liabilities		—	—	—	12,574,816
Amount due to an intermediate holding company	*18*	5,455,159	5,896,822	6,383,354	5,361,329
Taxation payable		18,006,126	12,267,031	7,754,509	10,900,009
Derivative financial instruments	*17*	—	—	21,762,912	1,564,671
Bank borrowings	*22*	—	—	2,000,000	—
		450,978,250	470,875,408	391,114,734	288,643,656
Net current assets		1,028,540,538	1,030,570,572	1,073,777,174	1,054,248,548
Total assets less current liabilities		1,816,742,636	1,812,876,572	1,812,085,006	1,794,422,367

The notes on pages 42 to 122 are an integral part of this Historical Financial Information.

	Note	As at 31 December 2016 HK$	2017 HK$	2018 HK$	As at 30 September 2019 HK$
Non-current liabilities					
Lease liabilities		—	—	—	7,051,930
Bank borrowings	*22*	2,000,000	2,000,000	—	—
Deferred tax liabilities	*9(c)*	27,191,628	27,567,976	23,523,808	16,227,102
		29,191,628	29,567,976	23,523,808	23,279,032
Net assets		1,787,551,008	1,783,308,596	1,788,561,198	1,771,143,335
Equity					
Share capital	*23*	78,000	78,000	78,000	78,000
Reserves	*24*	1,787,473,008	1,783,230,596	1,788,483,198	1,771,065,335
Total equity		1,787,551,008	1,783,308,596	1,788,561,198	1,771,143,335

The notes on pages 42 to 122 are an integral part of this Historical Financial Information.

BALANCE SHEETS
AS AT 31 DECEMBER 2016, 2017 AND 2018 AND 30 SEPTEMBER 2019

	Note	As at 31 December			As at 30 September
		2016	2017	2018	2019
		HK$	*HK$*	*HK$*	*HK$*
Non-current asset					
Subsidiaries		96,026,976	96,026,976	96,026,976	96,026,976
Current assets					
Amount due from subsidiaries		1,771,452,940	1,722,961,476	1,679,095,094	1,679,592,841
Cash and bank balances		659,332	658,025	656,980	656,020
		1,772,112,272	1,723,619,501	1,679,752,074	1,680,248,861
Current liabilities					
Amount due to an intermediate holding company		5,455,159	5,896,822	6,383,354	7,348,253
Other payables and accruals		146,944	152,822	214,057	173,365
		5,602,103	6,049,644	6,597,411	7,521,618
Net current assets		1,766,510,169	1,717,569,857	1,673,154,663	1,672,727,243
Net assets		1,862,537,145	1,813,596,833	1,769,181,639	1,768,754,219
Equity					
Share capital		78,000	78,000	78,000	78,000
Reserves	*34*	1,862,459,145	1,813,518,833	1,769,103,639	1,768,676,219
Total equity		1,862,537,145	1,813,596,833	1,769,181,639	1,768,754,219

The notes on pages 42 to 122 are an integral part of this Historical Financial Information.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2016, 2017 AND 2018 AND THE NINE MONTHS ENDED 30 SEPTEMBER 2018 AND 2019

	Share capital	Legal reserve	Hedging reserve	Retained profits	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
As at 1 January 2016	78,000	1,864,083	(62,646,602)	1,715,951,885	1,655,247,366
Profit for the year	—	—	—	360,124,469	360,124,469
Items that may be reclassified to profit or loss:					
Cash flow hedges —					
Changes in fair value, net of tax	—	—	20,750,097	—	20,750,097
Transfer to profit or loss	—	—	51,429,076	—	51,429,076
Other comprehensive income for the year	—	—	72,179,173	—	72,179,173
Total comprehensive income for the year	—	—	72,179,173	360,124,469	432,303,642
Dividend (note 8)	—	—	—	(300,000,000)	(300,000,000)
Transfer of reserve	—	427,196	—	(427,196)	—
As at 31 December 2016 and 1 January 2017	78,000	2,291,279	9,532,571	1,775,649,158	1,787,551,008
Profit for the year	—	—	—	291,155,754	291,155,754
Items that may be reclassified to profit or loss:					
Cash flow hedges —					
Changes in fair value, net of tax	—	—	17,367,141	—	17,367,141
Transfer to profit or loss	—	—	(12,765,307)	—	(12,765,307)
Other comprehensive income for the year	—	—	4,601,834	—	4,601,834
Total comprehensive income for the year	—	—	4,601,834	291,155,754	295,757,588
Dividend (note 8)	—	—	—	(300,000,000)	(300,000,000)
Transfer of reserve	—	310,688	—	(310,688)	—
As at 31 December 2017	78,000	2,601,967	14,134,405	1,766,494,224	1,783,308,596

The notes on pages 42 to 122 are an integral part of this Historical Financial Information.

	Share capital	Legal reserve	Hedging reserve	Retained profits	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
As at 1 January 2018	78,000	2,601,967	14,134,405	1,766,494,224	1,783,308,596
Profit for the year	—	—	—	241,559,039	241,559,039
Items that may be reclassified to profit or loss:					
Cash flow hedges —					
Changes in fair value, net of tax	—	—	(10,214,521)	—	(10,214,521)
Transfer to profit or loss	—	—	(22,091,916)	—	(22,091,916)
Other comprehensive loss for the year	—	—	(32,306,437)	—	(32,306,437)
Total comprehensive (loss)/income for the year	—	—	(32,306,437)	241,559,039	209,252,602
Dividend (note 8)	—	—	—	(204,000,000)	(204,000,000)
Transfer of reserve	—	359,233	—	(359,233)	—
As at 31 December 2018 and 1 January 2019	78,000	2,961,200	(18,172,032)	1,803,694,030	1,788,561,198
Loss for the period	—	—	—	(34,283,395)	(34,283,395)
Items that may be reclassified to profit or loss:					
Cash flow hedges —					
Changes in fair value, net of tax	—	—	12,778,584	—	12,778,584
Transfer to profit or loss	—	—	4,086,948	—	4,086,948
Other comprehensive income for the period	—	—	16,865,532	—	16,865,532
Total comprehensive income/(loss) for the period	—	—	16,865,532	(34,283,395)	(17,417,863)
As at 30 September 2019	78,000	2,961,200	(1,306,500)	1,769,410,635	1,771,143,335

The notes on pages 42 to 122 are an integral part of this Historical Financial Information.

	Share capital	Legal reserve	Hedging reserve	Retained profits	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
As at 1 January 2018	78,000	2,601,967	14,134,405	1,766,494,224	1,783,308,596
Profit for the period (unaudited)	—	—	—	204,479,559	204,479,559
Items that may be reclassified to profit or loss:					
Cash flow hedges —					
Changes in fair value, net of tax	—	—	13,028,997	—	13,028,997
Transfer to profit or loss	—	—	(16,822,351)	—	(16,822,351)
Other comprehensive loss for the period (unaudited)	—	—	(3,793,354)	—	(3,793,354)
Total comprehensive (loss)/income for the period (unaudited)	—	—	(3,793,354)	204,479,559	200,686,205
Dividend (note 8) (unaudited)	—	—	—	(204,000,000)	(204,000,000)
As at 30 September 2018 (unaudited)	78,000	2,601,967	10,341,051	1,766,973,783	1,779,994,801

The notes on pages 42 to 122 are an integral part of this Historical Financial Information.

CONSOLIDATED CASH FLOW STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2016, 2017 AND 2018 AND
THE NINE MONTHS ENDED 30 SEPTEMBER 2018 AND 2019

	Year ended 31 December			Nine months ended 30 September	
	2016	**2017**	**2018**	**2018**	**2019**
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
				(unaudited)	
Operating activities					
Profit/(loss) before taxation	409,026,511	327,917,278	268,271,655	228,384,327	(45,854,420)
Adjustments for:					
Interest income	(12,637,754)	(13,621,537)	(20,058,492)	(14,120,855)	(18,424,808)
Net loss/(gain) on disposal of property, plant and equipment	161,036	995,989	111,342	68,654	(666,111)
Write down/(back) of inventories	1,778,800	(2,951,927)	10,316,746	10,316,746	2,968,502
Depreciation	87,663,958	81,626,422	78,488,097	58,749,947	68,235,042
Finance costs	1,387,128	1,301,761	1,231,109	922,134	1,189,829
Share of results of associates	(489,825)	(377,601)	(485,120)	(482,797)	(3,174,188)
Share of results of joint ventures	(5,222,485)	(5,829,391)	(5,912,921)	(5,050,761)	(1,623,403)
Operating profit before working capital changes	481,667,369	389,060,994	331,962,416	278,787,395	2,650,443
(Increase)/decrease in inventories	(658,575)	6,966,355	(11,833,373)	(9,584,200)	(7,862,434)
(Increase)/decrease in trade and other receivables, deposits paid and prepayments	(7,230,458)	(17,571,644)	25,390,839	22,061,113	(16,900,938)
Increase/(decrease) in trade and other payables and accruals	22,696,082	25,194,355	(92,359,517)	(31,111,264)	(81,599,728)
(Decrease)/increase in contract liabilities	—	—	(7,137,765)	2,988,396	(13,371,156)
Increase/(decrease) in amount due to an intermediate holding company	687,204	441,663	486,532	(794,154)	(1,022,025)
Cash generated from/(used in) operations	497,161,622	404,091,723	246,509,132	262,347,286	(118,105,838)
Total income taxes paid	(62,600,498)	(46,500,440)	(31,455,053)	(5,282,300)	(3,522,563)
Net cash generated from/(used in) operating activities	434,561,124	357,591,283	215,054,079	257,064,986	(121,628,401)

The notes on pages 42 to 122 are an integral part of this Historical Financial Information.

	Year ended 31 December			Nine months ended 30 September	
	2016	2017	2018	2018	2019
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
				(unaudited)	
Investing activities					
Purchase of property, plant and equipment	(81,169,244)	(49,767,244)	(38,456,328)	(25,890,728)	(28,336,413)
Proceeds from disposal of property, plant and equipment	25,150	3,348,146	380,504	358,801	1,261,001
Interest received	14,004,494	14,353,185	18,534,097	10,835,693	17,357,418
Capital contribution to associates	—	(24,320,000)	—	—	(1,131,813)
Dividend received from an associate	659,040	—	329,520	—	3,667,401
Dividend received from a joint venture	14,000,000	—	14,000,000	—	—
(Increase)/decrease in bank deposits with maturities over 3 months	(39,888,707)	96,945,839	17,642,144	(93,986,153)	(16,857,758)
Net cash (used in)/generated from investing activities	(92,369,267)	40,559,926	12,429,937	(108,682,387)	(24,040,164)
Financing activities					
Drawdown of new loans	24,000,000	70,000,000	24,000,000	18,000,000	8,000,000
Repayments of loans	(61,000,000)	(70,000,000)	(24,000,000)	(18,000,000)	(10,000,000)
Finance costs paid	(228,834)	(141,526)	(71,423)	(51,964)	(24,363)
Dividend payment	(300,000,000)	(300,000,000)	(204,000,000)	(204,000,000)	—
Capital element of lease rentals paid	—	—	—	—	(9,556,151)
Interest element of lease rentals paid	—	—	—	—	(607,377)
Net cash used in financing activities	(337,228,834)	(300,141,526)	(204,071,423)	(204,051,964)	(12,187,891)
Net increase/(decrease) in cash and cash equivalents	4,963,023	98,009,683	23,412,593	(55,669,365)	(157,856,456)
Cash and cash equivalents at the beginning of year/period	298,601,491	303,564,514	401,574,197	401,574,197	424,986,790
Cash and cash equivalents at the end of year/period	303,564,514	401,574,197	424,986,790	345,904,832	267,130,334
Analysis of cash and cash equivalents					
Cash and bank balances	1,135,172,144	1,136,235,988	1,142,006,437	1,174,552,776	1,001,007,739
Bank deposits with maturities over three months	(831,607,630)	(734,661,791)	(717,019,647)	(828,647,944)	(733,877,405)
Cash and cash equivalents at the end of year/period	303,564,514	401,574,197	424,986,790	345,904,832	267,130,334

The notes on pages 42 to 122 are an integral part of this Historical Financial Information.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1 General information

Shun Tak - China Travel Shipping Investments Limited (the "Target I") is a private company incorporated and domiciled in the British Virgin Islands with limited liability and has its registered office at Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands. The principal place of business of the Target I is at 95 Hing Wah Street West, Lai Chi Kok, Kowloon, Hong Kong.

The principal activity of the Target I is investment holding while the activities of its subsidiaries are set out in note 2(b) to the Historical Financial Information.

Before the completion of the Acquisition defined below, the immediate holding company of the Target I was Interdragon Limited ("Interdragon"), a private company incorporated in the British Virgin Islands; and the ultimate holding company of the Target I was Shun Tak Holdings Limited, a public company incorporated in Hong Kong with limited liability and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

On 6 March 2020, China Travel International Investment Hong Kong Limited announced to acquire an additional 21% of the issued share capital of the Target I at an aggregate consideration of HK$437 million (subject to adjustment), pursuant to the acquisition agreement entered into between Dalmore Investments Limited ("Dalmore"), a wholly-owned subsidiary of China Travel International Investment Hong Kong Limited as the purchaser and Interdragon as the seller (the "Acquisition").

On 6 March 2020, the Target I Group entered into a conditional sale and purchase agreement with China Travel International Investment Hong Kong Limited to acquire the entire issued share capital of China Travel Tours Transportation Development (HK) Limited ("Target II") at the cash consideration of HK$508 million (subject to adjustment). On the same date, the Target I Group entered into a conditional sale and purchase agreement with Shun Tak Tourism Investment Holdings Limited to acquire the entire issued share capital of Jointmight Investments Limited ("Target III") at the cash consideration of HK$55 million (subject to adjustment).

Upon completion of the Acquisition, Dalmore and Interdragon will each hold 50% of the issued share capital of the Target I. Through the control of the board of directors of the Target I by Dalmore, the immediate holding company of the Target I becomes Dalmore, a private company incorporated in the British Virgin Islands; the intermediate holding company of the Target I becomes China Travel International Investment Hong Kong Limited, a public company incorporated in Hong Kong with limited liability and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited; and the ultimate holding company of the Target I becomes China National Travel Service Group Corporation Limited, a PRC state-owned enterprise.

2 Summary of significant accounting policies

(a) Accounting policies

A summary of the significant accounting policies adopted by the Target I and its subsidiaries (collectively referred to as the "Target I Group") is set out below. These policies have been consistently applied to all the years/periods presented, unless otherwise stated.

(b) Basis of preparation

The Historical Financial Information have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS"), which collective term includes all applicable individual HKFRS, Hong Kong Accounting Standards ("HKAS") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accounting principles generally accepted in Hong Kong.

The Historical Financial Information have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and financial liabilities (including derivative financial instruments) which have been measured at fair value.

The preparation of Historical Financial Information in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Target I Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in note 3.

During the nine months ended 30 September 2019, the Target I Group incurred a net loss of HK$34,283,395 and net operating cash outflows of approximately HK$121,628,000.

In addition, as set out in note 1 above, Target I Group, subject to conditions precedent in the sale and purchase agreements in respect of the acquisition of Target II and III by Target I, the cash outflow to meet the consideration of these two acquisitions would be met by utilising existing cash reserves, which stood at HK$1,001 million as at 30 September 2019.

The recent outbreak of the novel coronavirus COVID-19 and the introduction of various emergency public health measures by the public authorities globally has brought uncertainties to the Target I Group's business environment. Notably, the consequential travel restrictions, quarantine measures and suspension of the passenger transportation services between Hong Kong and Macau have given rise to adverse impact to the Target I Group's operation of passenger transportation services. While the directors expect the impact of COVID-19 to be temporary, the directors have given careful consideration to the liquidity requirements and the expected performance of the Target I Group in assessing whether the Target I Group has sufficient financial resources to continue as a going concern. The cash flow projections of Target I Group have been prepared and reviewed by the Directors, covering a period of not less than twelve months from 30 September 2019.

The directors have considered the following plans and measures to ensure the Group will have sufficient working capital in the foreseeable future:

(1) Formulating and executing an organisational and business restructuring, which includes cost saving initiatives, strategic review of its business portfolio, and minimising discretionary capital expenditures to reflect the current level of operations; and

(2) Obtaining financial support from both shareholders as and when necessary for the period ending 31 March 2021, in proportion to their shareholding.

Based on the cash flow forecasts for the period and taking into account reasonable downside sensitivities such as further delays in resuming the ferry operations between Hong Kong and Macau, the directors anticipate the existing cash balances, operating cash flows from the Target I Group's operations, and the available funding from the shareholders as and when is necessary, would enable the Target I Group to meet its liabilities as and when they fall due in the next 12 months from 30 September 2019. Accordingly, the directors consider it appropriate to prepare the Historical Financial Information of the Target I Group on a going concern basis.

During the Track Record Period and as of date of this report, the Target I Group comprises the following principal subsidiaries:

(i) Companies incorporated in the British Virgin Islands

	Issued and paid up share capital/ registered capital	**Percentage held by the Target I Group**	**Principal activities**	**Auditors**
	US$	*%*		
Shun Tak - China Travel Ferries Limited	2	100	Investment holding	Note
Progress Power Co. Limited	1	100	Investment holding	Note
Glowfield Group Limited	27	100	Investment holding	Note
Shine Spring International Limited	1	100	Dormant	Note

Note: Those companies are not subject to statutory audit.

	Issued and paid up share capital/ registered capital *US$*	Percentage held by the Target I Group *%*	Principal activities	Auditors
Tri-Cat (No.1) Limited	1	100	Shipping	PricewaterhouseCoopers
Tri-Cat (No.2) Limited	1	100	Shipping	PricewaterhouseCoopers
Tri-Cat (No.3) Limited	1	100	Shipping	PricewaterhouseCoopers
Tri-Cat (No.4) Limited	1	100	Shipping	PricewaterhouseCoopers
Tri-Cat (No.5) Limited	1	100	Shipping	PricewaterhouseCoopers
Tri-Cat (No.6) Limited	1	100	Shipping	PricewaterhouseCoopers
Tri-Cat (No.7) Limited	1	100	Shipping	PricewaterhouseCoopers
Tri-Cat (No.8) Limited	1	100	Shipping	PricewaterhouseCoopers
Tri-Cat (No.9) Limited	1	100	Dormant	PricewaterhouseCoopers
Tri-Cat (No.10) Limited	1	100	Dormant	PricewaterhouseCoopers
Universal MK IV Limited	2	100	Dormant	PricewaterhouseCoopers
Universal MK V Limited	2	100	Shipping	PricewaterhouseCoopers
Universal MK VI Limited	2	100	Shipping	PricewaterhouseCoopers
Woolaston Holdings Limited	2	100	Shipping	PricewaterhouseCoopers
Shun Tak - China Travel Macau Ferries Limited	1	100	Shipping	PricewaterhouseCoopers
Headstart Associates Limited	10	100	Shipping	PricewaterhouseCoopers
Omni Choice Group Limited	10	100	Dormant	PricewaterhouseCoopers
Onfirst Holdings Limited	10	100	Shipping	PricewaterhouseCoopers
Princely Services Limited	10	100	Shipping	PricewaterhouseCoopers
Eagle Decade Limited	10	100	Shipping	PricewaterhouseCoopers
Wonder United Limited	10	100	Shipping	PricewaterhouseCoopers
Best Fiscal Holdings Limited	10	100	Shipping	PricewaterhouseCoopers

(ii) Companies incorporated in Macau

	Issued and paid up share capital/ registered capital	Percentage held by the Target I Group	Principal activities	Statutory auditors
	MOP	*%*		
FEH Company Limited	100,000	100	Shipping	PricewaterhouseCoopers
Shun Tak China Travel Ship Management (Macau) Limited	10,000,000	100	Ship management	PricewaterhouseCoopers
Sea Express (Macau) Limited	100,000	100	Dormant	PricewaterhouseCoopers
STCT Ferry Services (Macau) Limited	10,000,000	100	Shipping	PricewaterhouseCoopers
Wealth Delight Macau Transport Services Limited	200,000	100	Dormant	PricewaterhouseCoopers

(iii) Private companies incorporated in Hong Kong

	Issued non-voting deferred share capital	Issued and paid up ordinary share capital	Percentage held by the Target I Group	Principal activities	Statutory auditors
	HK$	*HK$*	*%*		
Far East Hydrofoil Company, Limited	5,000,000	2,000	100	Shipping	PricewaterhouseCoopers
Shun Tak - China Travel Ship Management Limited	1,000,000	200	100	Ship management	PricewaterhouseCoopers
Celeworld Limited	10,000	10	100	Fuel supply	PricewaterhouseCoopers
Ocean Shipbuilding & Engineering Limited	100,000	200	100	Ship repairing	PricewaterhouseCoopers
Ocean Win Investments Limited	—	2	100	Dormant	PricewaterhouseCoopers
Shun Tak - China Travel Turbojet Limited	20	20	100	Provision of food and beverage services	PricewaterhouseCoopers
Shun Tak - China Travel International Marine Consultant Limited	2	2	100	Investment holding	PricewaterhouseCoopers

	Issued non-voting deferred share capital	Issued and paid up ordinary share capital	Percentage held by the Target I Group	Principal activities	Statutory auditors
	HK$	*HK$*	*%*		
Ravenser Enterprises Limited	1,000,000	20	100	Shipping	PricewaterhouseCoopers
Tai Tak Hing Shipping Company Limited	5,200,000	200	100	Shipping	PricewaterhouseCoopers
Bigrand International Limited	2	2	100	Shipping	PricewaterhouseCoopers
Conwick Investment Limited	2	2	100	Shipping	PricewaterhouseCoopers
Diskman International Limited	2	2	100	Dormant	PricewaterhouseCoopers
Enlighten Global Limited	—	2	100	Dormant	PricewaterhouseCoopers
Frankwell International Limited	2	2	100	Dormant	PricewaterhouseCoopers
Firmwin World Limited	—	2	100	Vessel berthing service	PricewaterhouseCoopers
Janny International Limited	2	2	100	Shipping	PricewaterhouseCoopers
Jenford International Limited	2	2	100	Shipping	PricewaterhouseCoopers
Lightwell International Limited	2	2	100	Shipping	PricewaterhouseCoopers
Polycross International Limited	2	2	100	Shipping	PricewaterhouseCoopers
Praia International Limited	20	20	100	Dormant	PricewaterhouseCoopers
Sinocross International Limited	2	2	100	Shipping	PricewaterhouseCoopers
Sky Spring International Limited	2	2	100	Shipping	PricewaterhouseCoopers
Sunspark International Limited	2	2	100	Dormant	PricewaterhouseCoopers
Tak Sun International Limited	2	2	100	Shipping	PricewaterhouseCoopers
Trueford International Limited	2	2	100	Shipping	PricewaterhouseCoopers
Vastson International Limited	2	2	100	Shipping	PricewaterhouseCoopers

	Issued non-voting deferred share capital	Issued and paid up ordinary share capital	Percentage held by the Target I Group	Principal activities	Statutory auditors
	HK$	*HK$*	*%*		
Wideway International Limited	2	2	100	Shipping	PricewaterhouseCoopers
Winhood International Limited	2	2	100	Shipping	PricewaterhouseCoopers
Wintree International Limited	2	2	100	Shipping	PricewaterhouseCoopers
Turbojet Ferry Services (Guangzhou) Limited	—	2	100	Investment holding	PricewaterhouseCoopers
Turbojet Shipyard Limited	—	2	100	Ship repairing	PricewaterhouseCoopers
Hongkong Macao Hydrofoil Company, Limited	—	10,000,000	100	Shipping	PricewaterhouseCoopers
Turbojet Ferry Services (Shenzhen) Limited	—	2	100	Shipping	PricewaterhouseCoopers
Turbojet Ferry Services (Macau) Limited	—	2	100	Dormant	PricewaterhouseCoopers
Sino Advantage Limited	—	2	100	Logistics and courier services	PricewaterhouseCoopers
Shun Tak - China Travel International Logistics Investment Limited	—	2	100	Investment holding	PricewaterhouseCoopers
Sunrise Field Limited	—	1	100	Shipping	PricewaterhouseCoopers
Wealth Trump Limited	—	1	100	Shipping	PricewaterhouseCoopers
Shun Tak - China Travel Transport Services Limited	—	1	100	Dormant	PricewaterhouseCoopers

During the Track Record Period and as of date of this report, the Target I Group comprises the following principal associates:

(i) Private companies incorporated in Hong Kong

	Issued and paid up ordinary share capital *HK$*	Percentage held by the Target I Group *%*	Principal activities	Statutory auditors
Celelight Company Limited	10,000	33.34	Trading of fuel oil	Qual-Mark CPA Limited
China Ferry Terminal Services Limited	741,163	24.87	Provision of baggage handling services at the China Ferry Terminal	Wong C. Ming & Company
Hong Kong-Zhuhai-Macao Bridge Shuttle Bus Company Limited	1,000,000	20 (Note)	Investment holding	Alan Cheng & Company

Note: The company was incorporated on 24 March 2017.

	Issued and paid up ordinary share capital *HK$*	Percentage held by the Target I Group *%*	Principal activities	Statutory auditors
Hong Kong & Macao International Airport Transportation Service (Hong Kong) Company Limited	5,000,000	12.50 (Note)	Provision of cross boundary bus service between Macau Boundary Crossing Facilities and Hong Kong International Airport via Hong Kong-Zhuhai- Macau Bridge	Note

Note: The company was incorporated on 21 March 2019 and have not yet appointed its statutory auditor nor prepared statutory financial statements since its date of incorporation. The directors of the Target I considered the Target I Group has significant influence over the company through its representatives on the board of directors of the company.

(ii) Companies incorporated in Macau

	Issued and paid up share capital/ registered capital	Percentage held by the Target I Group	Principal activities	Statutory auditors
	MOP	%		
Hong Kong International Airport Passenger Service (Macao) Co. Ltd.	5,000,000	12.50% (Note)	Provision of cross-border passenger transport service between Hong Kong International Airport and Macau Port of Hong Kong-Zhuhai- Macau Bridge	Note

Note: The company was incorporated on 21 March 2019 and have not yet appointed its statutory auditor nor prepared statutory financial statements since its date of incorporation. The directors of the Target I considered the Target I Group has significant influence over the company through its representatives on the board of directors of the company.

During the Track Record Period and as of date of this report, the Target I Group comprises the following principal joint venture:

Private company incorporated in Hong Kong

	Issued and paid up ordinary share capital	Percentage held by the Target I Group	Principal activities	Statutory auditors
	HK$	%		
Hong Kong International Airport Ferry Terminal Services Limited	10,000	40	Provision of ferry passenger handling services at the ferry terminal at the Hong Kong International Airport	PricewaterhouseCoopers

Impact of new Hong Kong Financial Reporting Standards

HKFRS 9 "Financial instruments" and HKFRS 15 "Revenue from Contracts with Customers" are effective for the annual period beginning on or after 1 January 2018. HKFRS 16 "Leases" is effective for the annual period beginning on or after 1 January 2019. The changes in accounting policies and the impacts of changes in accounting policies are summarised below.

HKFRS 9, "Financial instruments"

Effects of changes in accounting policies — Financial assets

Following the adoption of HKFRS 9, the Target I Group has made changes to its accounting policies in the classification, measurement and impairment of its financial assets. For details of the new accounting policies of financial assets, please refer to notes 2(j) and 2(k).

While the new policies are generally required to be applied retrospectively, the Target I Group has taken transitional provisions in HKFRS 9 not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Therefore, comparative balances have not been restated. Differences in the carrying amounts resulting from the adoption of HKFRS 9 are recognised as adjustments to the opening consolidated balance sheet on 1 January 2018.

The Target I Group's financial assets at amortised costs (such as trade receivables) are subject to the new expected credit loss ("ECL") model.

For trade receivables, the Target I Group applies the simplified approach to provide for ECL prescribed by HKFRS 9, which requires the use of the lifetime expected losses for all trade receivables. The adoption of the simplified expected loss approach under HKFRS 9 has not resulted in any material impact to the carrying value of trade receivables as at 1 January 2018.

The adoption of HKFRS 9 has no material effect on the results and financial position of the Target I Group.

HKFRS 15, "Revenue from Contracts with Customers"

Effects of changes in accounting policies — Revenue

Following the adoption of the new standard, the Target I Group has made changes in its accounting policies in revenue recognition and assets/liabilities arising from contracts with customers. Please refer to note 2(u) and note 2(p) respectively.

The Target I Group has elected the modified retrospective approach for transition to the new revenue standard. However, there is no significant impact on the Target I Group's accounting with respect to the timing of revenue recognition and allocation of the transaction price to performance obligations identified, except for changes in terminology under HKFRS 15. Accordingly, opening balance of retained profits at 1 January 2018 are not adjusted and the impact to the reclassification changes in the terminology used under HKFRS 15 at prior period and current period are set out below:

- Contract liabilities for various advance receipt from customers in relation to the transportation business were previously presented as "other payables and accruals" within "trade and other payables and accruals".

The table below shows the adjustments recognised in the opening balances of each individual financial statement line item. Line items that were not affected by the changes have not been included.

Consolidated balance sheet (extract)

	At 31 December 2017, under HKAS 18	Effects of adoption of HKFRS 15	At 1 January 2018, under HKFRS 15
	HK$	*HK$*	*HK$*
Current liabilities			
Trade and other payables and accruals	452,711,555	(39,725,529)	412,986,026
Contract liabilities	—	39,725,529	39,725,529

The amount by which each financial statement line item is affected by the application of HKFRS 15 as compared to HKAS 18 (previously in effect) is as follows:

Consolidated balance sheet (extract)

	At 31 December 2018		
	Before adoption of HKFRS 15	Effects of adoption of HKFRS 15	As reported
	HK$	*HK$*	*HK$*
Current liabilities			
Trade and other payables and accruals	353,213,959	(32,587,764)	320,626,195
Contract liabilities	—	32,587,764	32,587,764

Consolidated cash flow statement (extract)

	For the year ended 31 December 2018		
	Before adoption of HKFRS 15	Effects of adoption of HKFRS 15	As reported
	HK$	*HK$*	*HK$*
Net cash from operating activities			
Changes in working capital:			
- Decrease in trade and other payables and accruals	(99,497,282)	7,137,765	(92,359,517)
- Decrease in contract liabilities	—	(7,137,765)	(7,137,765)

The adoption of HKFRS 15 has no impact to the investing and financing activities on the consolidated cash flow statement.

HKFRS 16, Leases

HKFRS 16 replaces HKAS 17, Leases, and the related interpretations, HK(IFRIC) 4, Determining whether an arrangement contains a lease, HK(SIC) 15, Operating leases — incentives, and HK(SIC) 27, Evaluating the substance of transactions involving the legal form of a lease. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

In accordance with the transition provisions of HKFRS 16, the Target I Group has adopted the modified retrospective application for existing leases at 1 January 2019 with certain transition reliefs, and under which comparative figures are not restated.

For leases previously classified as operating leases, the Target I Group has elected to measure the right-of-use assets at the amounts equal to the lease liabilities adjusted by any prepaid or accrued lease payments. Accordingly, no adjustments were recognised to the opening balance of retained profits at the date of initial application.

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

(a) Changes in the accounting policies

(i) New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Target I Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Target I Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases.

Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

(ii) Lessee accounting

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Target I Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets. As far as the Target I Group is concerned, these newly capitalised leases are primarily in relation to land, buildings, equipment and motor vehicles.

Where the contract contains lease component(s) and non-lease component(s), the Target I Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

When the Target I Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. For the Target I Group, low-value assets are typically laptops or office furniture. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received.

The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Target I Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Target I Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

(b) Transitional impact

At the date of transition to HKFRS 16 (i.e. 1 January 2019), the Target I Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The incremental borrowing rate used for determination of the present value of the remaining lease payments was 3.4%.

To ease the transition to HKFRS 16, the Target I Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

(i) the Target I Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019;

(ii) when measuring the lease liabilities at the date of initial application of HKFRS 16, the Target I Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and

(iii) when measuring the right-of-use assets at the date of initial application of HKFRS 16, the Target I Group relied on the previous assessment for onerous contract provisions as at 31 December 2018 as an alternative to performing an impairment review.

The following table reconciles the operating lease commitments as disclosed in Historical Financial Information as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	At 1 January 2019
	HK$
Operating lease commitments disclosed as at 31 December 2018	20,993,793
Less: commitments relating to leases exempt from capitalisation:	
- short-term leases and other leases with remaining lease term ending on or before 31 December 2019	(6,476,205)
- leases of low-value assets	(121,817)
Add: adjustments as a result of different treatment for extension options	561,000
	14,956,771
Less: total future interest expenses	(499,303)
Total lease liabilities recognised at 1 January 2019	14,457,468

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated balance sheet at 31 December 2018. So far as the impact of the adoption of HKFRS 16 on leases previously classified as finance leases is concerned, the Target I Group is not required to make any adjustments at the date of initial application of HKFRS 16, other than changing the captions for the balances. Accordingly, the depreciated carrying amount of the corresponding leased asset is identified as a right-of-use asset. There is no impact on the opening balance of equity.

The table below shows the adjustments recognised in the opening balances of each individual financial statement line item. Line items that were not affected by the changes have not been included.

Consolidated balance sheet (extract)

	Carrying amount at 31 December 2018	**Reclassification**	**Capitalisation of operating lease contracts**	**Carrying amount at 1 January 2019**
	HK$	*HK$*	*HK$*	*HK$*
Non-current assets				
Property, plant and equipment	674,481,004	(93,772,054)	—	580,708,950
Right-of-use assets	—	95,719,659	14,457,468	110,177,127
Current assets				
Trade and other receivables, deposits paid and prepayments	144,444,853	(1,947,605)	—	142,497,248
Current liabilities				
Lease liabilities	—	—	7,413,532	7,413,532
Non-current liabilities				
Lease liabilities	—	—	7,043,936	7,043,936

(c) Lease liabilities

The remaining contractual maturities of the Target I Group's lease liabilities at the end of the reporting period and at the date of transition to HKFRS 16 are as follows:

	As at 30 September 2019		As at 1 January 2019	
	Present value of the minimum lease payments	**Total minimum lease payments**	**Present value of the minimum lease payments**	**Total minimum lease payments**
	HK$	*HK$*	*HK$*	*HK$*
Within 1 year	12,574,816	13,055,162	7,413,532	7,781,280
After 1 year but within 2 years	5,922,435	6,058,656	6,302,881	6,424,621
After 2 years but within 5 years	1,129,495	1,135,750	741,055	750,870
	7,051,930	7,194,406	7,043,936	7,175,491
	19,626,746	20,249,568	14,457,468	14,956,771
Less: total future interest expenses		(622,822)		(499,303)
Present value of lease liabilities		19,626,746		14,457,468
Representing:				
Current portion		12,574,816		7,413,532
Non-current portion		7,051,930		7,043,936
		19,626,746		14,457,468

(d) Impact on the financial result, segment results and cash flows of the Target I Group

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Target I Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a negative impact on the reported profit from operations in the Target I Group's consolidated income statement, as compared to the results if HKAS 17 had been applied during the year.

In the consolidated cash flow statement, the Target I Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a significant change in presentation of cash flows within the consolidated cash flow statement.

The following tables may give an indication of the estimated impact of adoption of HKFRS 16 on the Target I Group's financial result and cash flows for the nine months ended 30 September 2019, by adjusting the amounts reported under HKFRS 16 in these financial statements to compute estimates of the hypothetical amounts that would have been recognised under HKAS 17 if this superseded standard had continued to apply to the period instead of HKFRS 16. Line items that were not affected by the changes have not been included.

Consolidated income statement (extract)

	For the nine months ended 30 September 2019		
	Without adoption of HKFRS 16	**Effects of adoption of HKFRS 16**	**As reported**
	HK$	*HK$*	*HK$*
Depreciation	(58,466,336)	(9,768,706)	(68,235,042)
Other costs	(132,230,780)	10,163,528	(122,067,252)
Operating loss	(49,857,004)	394,822	(49,462,182)
Finance costs	(582,452)	(607,377)	(1,189,829)
Loss before taxation	(45,641,865)	(212,555)	(45,854,420)
Loss for the period	(34,070,840)	(212,555)	(34,283,395)

Consolidated cash flow statement (extract)

	For the nine months ended 30 September 2019		
	Before adoption of HKFRS 16	Effects of adoption of HKFRS 16	As reported
	HK$	*HK$*	*HK$*
Operating activities			
Loss before taxation	(45,641,865)	(212,555)	(45,854,420)
Adjustments for:			
- Depreciation	58,466,336	9,768,706	68,235,042
- Finance costs	582,452	607,377	1,189,829
Financing activities			
Capital element of lease rentals paid	—	(9,556,151)	(9,556,151)
Interest element of lease rentals paid	—	(607,377)	(607,377)

Amendments to standards not yet adopted

The HKICPA has issued amendments to standards which are relevant to the Target I Group's operations but are not yet effective for the Target I Group's financial year beginning on 1 January 2019 and have not been early adopted:

Amendments to HKFRS 3[(1)]	Definition of a Business
Amendments to HKAS 1 and HKAS 8[(1)]	Definition of Material
Conceptual Framework for Financial Reporting 2018[(1)]	Revised Conceptual Framework for Financial Reporting
Amendments to HKFRS 10 and HKAS 28[(2)]	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

(1) Effective for annual periods beginning 1 January 2020

(2) Effective date to be determined

The Target I Group has already commenced an assessment of the impact of these, amendments to standards. These are not expected to result in substantial impact to the Target I Group.

(c) Subsidiaries

(i) Consolidation

A subsidiary is an entity (including a structured entity) over which the Target I Group has control. The Target I Group controls an entity when the Target I Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Target I Group. They are deconsolidated from the date that control ceases.

(1) Business combinations

The Target I Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Target I Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Target I Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRSs.

Acquisition-related costs are expenses as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in consolidated income statement.

Any contingent consideration to be transferred by the Target I Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or a liability is recognised either in consolidated income statement or as a credit or debit to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated income statement.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Target I Group's accounting policies.

(2) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions-that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(3) Disposal of subsidiaries

When the Target I Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in consolidated income statement. The fair value is the initial carrying amount for the purposes of subsequent accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Target I Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to consolidated income statement.

(ii) Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes directly attributable costs of investment. The results of subsidiaries are accounted for by the company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the Historical Financial Information of the investee's net assets including goodwill.

(d) Joint arrangements

The Target I Group has applied HKFRS 11 to all joint arrangements. Under HKFRS 11, investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Target I Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Target I Group's share of the post-acquisition profits or losses and movements in other comprehensive income. The Target I Group's investments in joint ventures include goodwill identified on acquisition. When the Target I Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Target I Group's net investment in the joint ventures), the Target I Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Target I Group and its joint ventures are eliminated to the extent of the Target I Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the accounting policies adopted by the Target I Group.

(e) Associates

An associate is an entity over which the Target I Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Target I Group's investments in associates include goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Target I Group's share of post-acquisition profit or loss is recognised in the consolidated income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Target I Group's share of losses in an associate equals or exceeds its interest in the associate, the Target I Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Target I Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Target I Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to "share of profit of investments accounted for using equity method" in the consolidated income statement. Profits and losses resulting from upstream and downstream transactions between the Target I Group and its associate are recognised in the Target I Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the accounting policies adopted by the Target I Group.

Gains or losses on dilution of equity interest in associates are recognised in the consolidated income statement.

(f) Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(g) Related parties

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

(1) has control or joint control over the Target I Group;

(2) has significant influence over the Target I Group; or

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

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

(1) The entity and the Target I Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(2) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a Target I Group of which the other entity is a member).

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

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

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

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

(7) A person identified in (i)(1) 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).

(8) The entity, or any member of a Target I Group of which it is a part, provides key management personnel services to the Target I Group or to the Target I Group's parent.

(h) Property, plant and equipment

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. 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 the consolidated income statement 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 Target I Group recognises such parts as individual assets with specific useful lives and depreciates accordingly.

Leasehold land classified as finance lease (policy applicable until 31 December 2018) commences amortisation from the time when the land interest becomes available for its intended use. Amortisation on leasehold land classified as finance lease and 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 useful lives or principal annual rates used for this purpose are as follows:

Leasehold land held under finance leases	Over the remaining lease terms (Policy applicable until 31 December 2018)
Leasehold buildings	1.7% — 2% or over the remaining lease terms, if shorter
Vessels	5% — 6.7%
Syncrolift system	6.7%
Repairable parts	6.7% — 10%
Furniture and equipment	10% — 25%
Others	10% — 25%

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 asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see note 2(f)).

An item of property, plant and equipment and any significant part initially recognised is written off 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 the consolidated income statement in the year/period the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings, hotel properties and scenic spots establishments under construction. It is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment or other assets when appropriate.

(i) Leases

(i) Policy applicable from 1 January 2019

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Target I Group.

Contracts may contain both lease and non-lease components. The Target I Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Target I Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the group under residual value guarantees
- the exercise price of a purchase option if the group is reasonably certain to exercise that option, and

- payments of penalties for terminating the lease, if the lease term reflects the group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Target I Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Target I Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received

- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by Target I Group, which does not have recent third party financing, and

- makes adjustments specific to the lease, e.g. term, country, currency and security.

The Target I Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability

- any lease payments made at or before the commencement date less any lease incentives received

- any initial direct costs, and

- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

Lease income from operating leases where the Target I Group is a lessor is recognised in other income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature. The Target I Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

(ii) Policy applicable prior to 1 January 2019

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on a straight-line basis over the period of the lease.

The Target I Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Target I Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the consolidated income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

(j) Other investments in debt and equity securities

The Target I Group's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and joint ventures, are set out below. Investments in debt and equity securities are recognised/derecognised on the date the Target I Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs.

(i) Policy applicable from 1 January 2018

Non-equity investments held by the Target I Group are classified as financial assets at amortised cost if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see note 2(u)(i)).

(ii) Policy applicable prior to 1 January 2018

Dated debt securities that the Target I Group had the positive ability and intention to hold to maturity were classified as held-to-maturity securities. Held-to-maturity securities were stated at amortised cost (for impairment see note 2(k)(i)(2) — policy applicable prior to 1 January 2018).

(k) Credit losses and impairment of assets

(i) Credit losses from financial instruments

(1) Policy applicable from 1 January 2018

The Target I Group recognises a loss allowance for ECL on financial assets at amortised cost.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Target I Group in accordance with the contract and the cash flows that the Target I Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

- trade and other receivables: effective interest rate determined at initial recognition or an approximation thereof.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Target I Group is exposed to credit risk.

In measuring ECLs, the Target I Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions. ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Target I Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Target I Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument (including a loan commitment) has increased significantly since initial recognition, the Target I Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Target I Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Target I Group in full, without recourse by the Target I Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Target I Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Target I Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Target I Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Basis of calculation of interest income

Interest income recognised in accordance with note 2(u)(i) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Target I Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or
- the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Target I Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(2) Policy applicable prior to 1 January 2018

Prior to 1 January 2018, an "incurred loss" model was used to measure impairment losses on financial assets. Under the "incurred loss" model, an impairment loss was recognised only when there was objective evidence of impairment. Objective evidence of impairment included:

- significant financial difficulties of the debtor;

- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence existed, an impairment loss was determined and recognised. For trade and other receivables and other financial assets carried at amortised cost, impairment loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, where the effect of discounting was material. This assessment was made collectively where these financial assets shared similar risk characteristics, such as similar past due status, and had not been individually assessed as impaired. Future cash flows for financial assets which were assessed for impairment collectively were based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreased and the decrease could be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss was reversed through profit or loss. A reversal of an impairment loss was only recognised to the extent that it did not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years. When the recovery of a trade debtor or other financial assets carried at amortised cost was considered doubtful but not remote, associated impairment losses were recorded using an allowance account. When the Target I Group was satisfied that recovery was remote, the amount considered irrecoverable was written off against the gross carrying amount of those assets directly. Subsequent recoveries of amounts previously charged to the allowance account were reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly were recognised in profit or loss.

(ii) Impairment of other non-current assets

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

- property, plant and equipment (other than properties carried at revalued amounts);

- pre-paid interests in leasehold land classified as being held under an operating lease;

- intangible assets;

- goodwill; and

- investments in subsidiaries, associates and joint ventures in the company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- Calculation of recoverable amount

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

- Recognition of impairment losses

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

- Reversals of impairment losses

  In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

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

(l) Trade and other receivables

A receivable is recognised when the Target I Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Target I Group has an unconditional right to receive consideration, the amount is presented as a contract asset (see note 2(p)).

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 2(k)(i)).

(m) Trade and other payables

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

(n) Derivative financial instruments and hedge accounting

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Target I Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Target I Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated income statement within "Other (losses)/gains, net".

Amounts accumulated in equity are reclassified to profit or loss in the period when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place). When the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory), the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in cost of goods sold in the case of inventory.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the consolidated income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the consolidated income statement within "Other (losses)/gains, net".

(o) Inventories

Inventories are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories are stated at the lower of cost and net realisable value. Cost comprises all costs of purchase and is determined using the first-in first-out basis or weighted average basis as appropriate. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

(p) Contract assets and contract liabilities

(i) Policy applicable from 1 January 2018

A contract asset is recognised when the Target I Group recognises revenue (see note 2(u)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for ECL in accordance with the policy set out in note 2(k)(i) and are reclassified to receivables when the right to the consideration has become unconditional (see note 2(l)).

A contract liability is recognised when the customer pays consideration before the Target I Group recognises the related revenue (see note 2(u)). A contract liability would also be recognised if the Target I Group has an unconditional right to receive consideration before the Target I Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 2(l)).

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

(ii) Policy applicable prior to 1 January 2018

Progress billings not yet paid by the customer were included in "trade receivables" under "trade and other receivables, deposits paid and prepayments". Amounts received before the related work was performed were presented as "other payables and accruals" under "trade and other payables and accruals".

(q) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Target I Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement. Cash and cash equivalents are assessed for ECL in accordance with the policy set out in note 2(k)(i).

(r) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in profit or loss unless eligible for capitalisation.

(s) Provisions and contingent liabilities

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

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

(t) Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(i) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Historical Financial Information. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Target I Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Target I Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Target I Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(u) Revenue and other income

(i) Policy applicable from 1 January 2018

Income is classified by the Target I Group as revenue when it arises from the sale of goods, the provision of services or the use by others of the Target I Group's assets under leases in the ordinary course of the Target I Group's business.

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Target I Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Revenue from passenger transportation services is recognised upon the transportation services are rendered and recognised over time.

Revenue from sales of fuel is recognised upon delivery to customers and recognised at point in time.

Revenue from sales of goods is recognised at a point in time when the goods are delivered to customers and title has passed.

Revenue from travel services is recognised upon provision of services and recognised over time.

Rental income is recognised on a straight-line basis over the period of the lease.

Dividend income is recognised when the right to receive payment is established.

Interest income is accrued on a time proportion basis on the principal outstanding and at the effective interest rate applicable.

(ii) Policy applicable prior to 1 January 2018

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

Revenue from passenger transportation services is recognised upon the departure of ferries at terminals.

Revenue from sale of fuel is recognised upon delivery to customers.

Revenue from sales of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Revenue from travel services is recognised upon provision of services.

Rental income is recognised on a straight-line basis over the period of the lease.

Dividend income is recognised when the right to receive payment is established. Interest income is accrued on a time proportion basis on the principal outstanding and at the effective interest rate applicable.

(v) Other employee benefits

The Target I Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. An accrual is made at the end of the reporting period for the expected future cost of such paid leave earned during the current and prior years/periods by the employees and carried forward.

The Target I Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the consolidated income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Target I Group in an independently administered fund. The Target I Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Target I Group's employer voluntary contributions, which are refunded to the Target I Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

(w) Foreign currencies

The Historical Financial Information is presented in Hong Kong dollar, which is Target I's functional and presentation currency. Each entity in the Target I Group determines its own functional currency and items included in the Historical Financial Information of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Target I Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period.

All differences arising on settlement or translation of monetary items are taken to the consolidated income statement with the exception of monetary items that are designated as part of the hedge of the Target I Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time the cumulative amount is reclassified to the consolidated income statement. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in equity. 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 determined. The gain or loss arising on re-translation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e. translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

(x) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the steering committee that makes strategic decisions.

(y) Dividend distribution

Dividend distribution to the Target I's shareholders is recognised as a liability in the Target I Group's and the Target I's financial statements in the period in which the dividends are approved by the Target I's directors, where appropriate.

3 Critical accounting estimates and judgements

The Target I Group makes estimates, assumptions and judgements as appropriate in the preparation of the Historical Financial Information. These estimates are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances and will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant effect on the carrying amounts of assets and liabilities are discussed below:

(a) Impairment assessment of property, plant and equipment

Property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Management judgement is required in the area of asset impairment particularly in assessing (i) whether any events has occurred that may indicate that the related asset value may not be recoverable; and (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs of sale or net present value of future cash flows which are estimated based upon the continued use of the asset in the business.

When there is any event indicating that the property, plant and equipment may not be recoverable, management determines the recoverable amount of the property, plant and equipment based on market approach.

(b) Useful lives of property, plant and equipment

The Target I Group's management determines the estimated useful lives and related depreciation for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of the property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovation. Management will change the depreciation charge where useful lives are different from the previously estimated lives. It will also write-off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

(c) Estimated net realisable value of inventories

The Target I Group's management reviews the inventories listing and identifies obsolete and slow moving inventory items which are no longer suitable for use or diminution in net realisable value. Allowance was made by reference to the latest market value for those inventories identified. In addition, management carries out an inventory review and makes the necessary write-down for obsolete items.

(d) Income taxes

The Target I Group is subject to income taxes in certain jurisdictions. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcomes of these matters are different from the amounts that were initially recorded, such differences will impact the current tax and deferred tax provision in the period in which such determination is made.

Recognition of deferred tax assets, which principally relate to tax losses, depends on the expectation of future taxable profit that will be available against which tax losses can be utilised. The outcome of their actual utilisation may be different.

4 Revenue and other income

The Target I Group is principally engaged in the business of transportation.

	Year ended 31 December			Nine months ended 30 September	
	2016	2017	2018	2018	2019
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
				(unaudited)	
Revenue					
Revenue from passenger transportation services	2,460,568,369	2,453,792,197	2,243,340,849	1,741,924,039	1,102,627,644
Revenue from sales of fuel	16,984,867	27,814,593	42,246,569	34,485,892	19,943,453
Revenue from sales of goods	9,088,925	7,896,930	7,151,346	5,312,504	4,085,996
Revenue from travel services and others	61,495,737	64,452,848	65,626,990	51,003,117	41,829,578
	2,548,137,898	2,553,956,568	2,358,365,754	1,832,725,552	1,168,486,671
Other income					
Interest income	12,637,754	13,621,537	20,058,492	14,120,855	18,424,808
Rental and charter hire income	515,248	517,875	3,977,027	3,843,895	6,224,400
Others	31,105,245	43,348,316	35,549,096	26,323,737	19,903,282
	44,258,247	57,487,728	59,584,615	44,288,487	44,552,490
Revenue and other income	2,592,396,145	2,611,444,296	2,417,950,369	1,877,014,039	1,213,039,161
Recap:					
Revenues from contracts with customers					
- Recognised at a point in time	26,073,792	35,711,523	49,397,915	39,798,396	24,029,449
- Recognised over time	2,522,064,106	2,518,245,045	2,308,967,839	1,792,927,156	1,144,457,222
	2,548,137,898	2,553,956,568	2,358,365,754	1,832,725,552	1,168,486,671

5 Other (losses)/gains, net

	Year ended 31 December			Nine months ended 30 September	
	2016	2017	2018	2018	2019
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
				(unaudited)	
Net (loss)/gain on disposal of property, plant and equipment	(161,036)	(995,989)	(111,342)	(68,654)	666,111

6 Operating profit/(loss)

	Year ended 31 December			Nine months ended 30 September	
	2016	2017	2018	2018	2019
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
				(unaudited)	
After charging/(crediting):					
Fuel cost	508,303,007	537,336,344	647,565,481	492,476,520	391,801,791
Depreciation of property, plant and equipment (note 10)	87,663,958	81,626,422	78,488,097	58,749,947	56,268,552
Depreciation of right-of-use assets	—	—	—	—	11,966,490
Auditor's remuneration					
- audit services	2,057,517	2,136,438	2,227,992	1,665,000	1,703,700
- non-audit services	640,870	657,300	671,175	441,500	449,500
Write down/(back) of inventories (note 15)	1,778,800	(2,951,927)	10,316,746	10,316,746	2,968,502
Minimum lease payments of properties under operating leases	73,172,365	75,134,275	74,623,287	61,270,711	—
Expenses under short-term lease and low-value assets lease	—	—	—	—	50,886,944
Net exchange losses	3,258,561	4,983,138	6,385,556	2,823,096	1,294,085
Staff costs					
- salaries and wages	791,435,226	818,502,482	794,111,780	599,260,750	508,106,595
- provident fund contributions	36,299,110	36,057,562	35,317,570	26,805,356	24,722,300
- directors' emoluments	6,930,745	8,395,000	4,008,646	3,017,250	245,323

7 Finance costs

	Year ended 31 December			Nine months ended 30 September	
	2016	**2017**	**2018**	**2018**	**2019**
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
				(unaudited)	
Interest on bank loans	227,128	141,761	71,109	52,134	24,119
Interest on lease liabilities	—	—	—	—	607,377
Other finance costs	1,160,000	1,160,000	1,160,000	870,000	558,333
	1,387,128	1,301,761	1,231,109	922,134	1,189,829

8 Dividend

	Year ended 31 December			Nine months ended 30 September	
	2016	**2017**	**2018**	**2018**	**2019**
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
				(unaudited)	
Interim dividend	300,000,000	300,000,000	204,000,000	204,000,000	—

During the year ended 31 December 2016, 2017 and 2018 and the nine months ended 30 September 2018, the Target I's board of directors paid an interim dividend of HK$30,000, HK$30,000, HK$20,400 and HK$20,400 per share respectively on 10,000 shares, totalling HK$300,000,000, HK$300,000,000, HK$204,000,000 and HK$204,000,000 respectively.

During the nine months ended 30 September 2019, the Target I's board of directors did not declare any dividend or made any distribution.

9 Taxation

(a) Taxation in the consolidated income statement represents:

	Year ended 31 December			Nine months ended 30 September	
	2016	**2017**	**2018**	**2018**	**2019**
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
				(unaudited)	
Current taxation					
Hong Kong profits tax					
- tax for the year/period	33,465,968	27,171,402	22,632,828	20,107,741	6,398,139
- (over)/under-provision in respect of prior years/periods	(687,683)	(708,855)	(1,011,694)	(1,011,694)	277,706
	32,778,285	26,462,547	21,621,134	19,096,047	6,675,845
Macau complementary tax					
- tax for the year/period	16,042,601	10,252,677	7,399,687	6,732,902	788,927
- (over)/under-provision in respect of prior years/periods	(632)	359,519	(191,019)	(191,019)	182,036
	16,041,969	10,612,196	7,208,668	6,541,883	970,963
Deferred taxation					
Origination and reversal of temporary differences	81,788	(313,219)	(2,117,186)	(1,733,162)	(19,217,833)
Total tax expenses/(credit)	48,902,042	36,761,524	26,712,616	23,904,768	(11,571,025)

Hong Kong profits tax and Macau complementary tax are calculated at 16.5% and 12% respectively on the estimated assessable profits for the Track Record Period.

(b) Reconciliation between tax expense/(credit) and accounting profit/(loss) at applicable tax rates:

	Year ended 31 December			Nine months ended 30 September	
	2016	**2017**	**2018**	**2018**	**2019**
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
				(unaudited)	
Profit/(loss) before taxation	409,026,511	327,917,278	268,271,655	228,384,327	(45,854,420)
Less: Share of results of associates and joint ventures	(5,712,310)	(6,206,992)	(6,398,041)	(5,533,558)	(4,797,591)
	403,314,201	321,710,286	261,873,614	222,850,769	(50,652,011)
Tax at the applicable tax rate of 16.5%	66,546,843	53,082,197	43,209,146	36,770,377	(8,357,582)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(16,179,742)	(15,345,042)	(12,415,767)	(9,844,427)	(1,486,610)
Expenses not deductible for tax purposes	1,295,678	1,340,763	1,291,157	968,368	968,368
Income not subject to tax	(2,054,721)	(1,962,725)	(3,727,901)	(2,329,941)	(3,040,093)
Utilisation of previously unrecognised tax losses and deductible temporary differences	(76,948)	(69,875)	(212,147)	(207,004)	(122,900)
Tax losses and deductible temporary differences not recognised	59,247	65,542	(229,159)	(249,892)	8,050
(Over)/under-provision in respect of prior years/periods	(688,315)	(349,336)	(1,202,713)	(1,202,713)	459,742
Total tax expenses/(credit)	48,902,042	36,761,524	26,712,616	23,904,768	(11,571,025)

(c) Deferred tax assets and liabilities recognised

The movements in deferred tax assets and liabilities (prior to offsetting balances with the same taxation jurisdiction) during the Track Record Period are as follows:

Deferred tax assets

	Accelerated accounting depreciation	Tax losses	Cash flow hedge	Provision	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
As at 1 January 2016	96,910	17,019,920	12,379,267	—	29,496,097
Charge to income statement	(60,727)	(1,922,023)	—	—	(1,982,750)
Charge to other comprehensive income	—	—	(12,379,267)	—	(12,379,267)
As at 31 December 2016	36,183	15,097,897	—	—	15,134,080
Charge to income statement	(11,419)	(2,083,914)	—	—	(2,095,333)
As at 31 December 2017	24,764	13,013,983	—	—	13,038,747
Credit/(charge) to income statement	35,442	(1,275,665)	—	846,999	(393,224)
Credit to other comprehensive income	—	—	3,590,880	—	3,590,880
As at 31 December 2018	60,206	11,738,318	3,590,880	846,999	16,236,403
As at 1 January 2018	24,764	13,013,983	—	—	13,038,747
Credit/(charge) to income statement (unaudited)	34,488	(1,147,021)	—	312,091	(800,442)
As at 30 September 2018 (unaudited)	59,252	11,866,962	—	312,091	12,238,305
As at 1 January 2019	60,206	11,738,318	3,590,880	846,999	16,236,403
Credit to income statement	18,110	18,772,826	—	—	18,790,936
Charge to other comprehensive income	—	—	(3,332,709)	—	(3,332,709)
As at 30 September 2019	78,316	30,511,144	258,171	846,999	31,694,630

Deferred tax liabilities

	Accelerated tax depreciation	Fair value adjustments on business combination	Cash flow hedge	Total
	HK$	*HK$*	*HK$*	*HK$*
As at 1 January 2016	36,621,428	4,423,599	—	41,045,027
Credit to income statement	(1,118,141)	(782,821)	—	(1,900,962)
Charge to other comprehensive income	—	—	1,883,684	1,883,684
As at 31 December 2016	35,503,287	3,640,778	1,883,684	41,027,749
Credit to income statement	(1,083,964)	(1,324,588)	—	(2,408,552)
Charge to other comprehensive income	—	—	909,344	909,344
As at 31 December 2017	34,419,323	2,316,190	2,793,028	39,528,541
Credit to income statement	(1,740,995)	(769,415)	—	(2,510,410)
Credit to other comprehensive income	—	—	(2,793,028)	(2,793,028)
As at 31 December 2018	32,678,328	1,546,775	—	34,225,103
As at 1 January 2018	34,419,323	2,316,190	2,793,028	39,528,541
Credit to income statement (unaudited)	(1,963,205)	(570,399)	—	(2,533,604)
Credit to other comprehensive income (unaudited)	—	—	(749,587)	(749,587)
As at 30 September 2018 (unaudited)	32,456,118	1,745,791	2,043,441	36,245,350
As at 1 January 2019	32,678,328	1,546,775	—	34,225,103
Charge/(credit) to income statement	189,878	(616,775)	—	(426,897)
As at 30 September 2019	32,868,206	930,000	—	33,798,206

Deferred tax assets and liabilities are netted off when the taxes related to the same taxation authority and where the offsetting is legally enforceable. The following amounts, determined after appropriate offsetting, are shown separately on the consolidated balance sheet.

	As at 31 December			As at 30 September
	2016	**2017**	**2018**	**2019**
	HK$	*HK$*	*HK$*	*HK$*
Deferred tax assets	1,297,959	1,078,182	5,535,108	14,123,526
Deferred tax liabilities	(27,191,628)	(27,567,976)	(23,523,808)	(16,227,102)
	(25,893,669)	(26,489,794)	(17,988,700)	(2,103,576)

(d) Deferred tax assets unrecognised

Temporary differences have not been recognised as deferred tax assets in respect of the following items:

	As at 31 December			As at 30 September
	2016	**2017**	**2018**	**2019**
	HK$	*HK$*	*HK$*	*HK$*
Tax losses	51,878,469	51,959,409	50,734,507	50,626,874
Deductible temporary differences	553,783	446,579	358,059	287,580
	52,432,252	52,405,988	51,092,566	50,914,454

The tax losses and deductible temporary differences of the Target I Group may be carried forward indefinitely. Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable.

10 Property, plant and equipment

	Leasehold land and buildings	Vessels	Syncrolift system	Repairable parts	Furniture and equipment	Others assets	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
Cost							
As at 1 January 2016	451,212,918	2,637,899,375	33,513,594	188,423,164	377,602,133	111,558,046	3,800,209,230
Additions	—	—	—	47,783,198	26,523,825	4,670,384	78,977,407
Disposals	—	—	—	(123,645)	(21,401,985)	(779,402)	(22,305,032)
As at 31 December 2016	451,212,918	2,637,899,375	33,513,594	236,082,717	382,723,973	115,449,028	3,856,881,605
Accumulated depreciation							
As at 1 January 2016	282,602,736	2,145,997,177	32,637,514	161,944,921	325,830,546	95,146,141	3,044,159,035
Charge for the year	5,376,561	56,017,606	155,430	9,056,998	12,870,458	4,186,905	87,663,958
Disposals	—	—	—	(123,645)	(21,265,499)	(729,702)	(22,118,846)
As at 31 December 2016	287,979,297	2,202,014,783	32,792,944	170,878,274	317,435,505	98,603,344	3,109,704,147
Net book value							
As at 31 December 2016	163,233,621	435,884,592	720,650	65,204,443	65,288,468	16,845,684	747,177,458

	Leasehold land and buildings	Vessels	Syncrolift system	Repairable parts	Furniture and equipment	Others assets	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
Cost							
As at 1 January 2017	451,212,918	2,637,899,375	33,513,594	236,082,717	382,723,973	115,449,028	3,856,881,605
Additions	—	—	—	6,710,243	31,058,248	6,750,027	44,518,518
Disposals	—	—	—	(20,720,887)	(5,415,705)	(490,510)	(26,627,102)
As at 31 December 2017	451,212,918	2,637,899,375	33,513,594	222,072,073	408,366,516	121,708,545	3,874,773,021
Accumulated depreciation							
As at 1 January 2017	287,979,297	2,202,014,783	32,792,944	170,878,274	317,435,505	98,603,344	3,109,704,147
Charge for the year	5,376,561	45,857,796	155,430	9,400,397	15,993,842	4,842,396	81,626,422
Disposals	—	—	—	(17,255,577)	(4,648,366)	(379,024)	(22,282,967)
As at 31 December 2017	293,355,858	2,247,872,579	32,948,374	163,023,094	328,780,981	103,066,716	3,169,047,602
Net book value							
As at 31 December 2017	157,857,060	390,026,796	565,220	59,048,979	79,585,535	18,641,829	705,725,419

	Leasehold land and buildings	Vessels	Syncrolift system	Repairable parts	Furniture and equipment	Others assets	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
Cost							
As at 1 January 2018	451,212,918	2,637,899,375	33,513,594	222,072,073	408,366,516	121,708,545	3,874,773,021
Additions	—	—	11,248,975	2,085,242	10,816,396	23,584,915	47,735,528
Disposals	—	—	—	—	(5,966,143)	(7,140,177)	(13,106,320)
As at 31 December 2018	451,212,918	2,637,899,375	44,762,569	224,157,315	413,216,769	138,153,283	3,909,402,229
Accumulated depreciation							
As at 1 January 2018	293,355,858	2,247,872,579	32,948,374	163,023,094	328,780,981	103,066,716	3,169,047,602
Charge for the year	5,376,560	41,459,034	217,923	10,166,639	15,429,061	5,838,880	78,488,097
Disposals	—	—	—	—	(5,813,062)	(6,801,412)	(12,614,474)
As at 31 December 2018	298,732,418	2,289,331,613	33,166,297	173,189,733	338,396,980	102,104,184	3,234,921,225
Net book value							
As at 31 December 2018	152,480,500	348,567,762	11,596,272	50,967,582	74,819,789	36,049,099	674,481,004

	Leasehold land and buildings HK$	Vessels HK$	Syncrolift system HK$	Repairable parts HK$	Furniture and equipment HK$	Others assets HK$	Total HK$
Cost							
As at 1 January 2018	451,212,918	2,637,899,375	33,513,594	222,072,073	408,366,516	121,708,545	3,874,773,021
Additions	—	—	—	2,085,242	8,710,542	2,689,041	13,484,825
Disposals	—	—	—	—	(5,070,552)	(5,175,430)	(10,245,982)
As at 30 September 2018 (unaudited)	451,212,918	2,637,899,375	33,513,594	224,157,315	412,006,506	119,222,156	3,878,011,864
Accumulated depreciation							
As at 1 January 2018	293,355,858	2,247,872,579	32,948,374	163,023,094	328,780,981	103,066,716	3,169,047,602
Charge for the period	4,032,421	31,094,275	116,573	7,628,867	12,022,104	3,855,707	58,749,947
Disposals	—	—	—	—	(4,942,171)	(4,876,356)	(9,818,527)
As at 30 September 2018 (unaudited)	297,388,279	2,278,966,854	33,064,947	170,651,961	335,860,914	102,046,067	3,217,979,022
Net book value							
As at 30 September 2018 (unaudited)	153,824,639	358,932,521	448,647	53,505,354	76,145,592	17,176,089	660,032,842

	Leasehold land and buildings	Vessels	Syncrolift system	Repairable parts	Furniture and equipment	Others assets	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
Cost							
As at 1 January 2019	451,212,918	2,637,899,375	44,762,569	224,157,315	413,216,769	138,153,283	3,909,402,229
Adoption of HKFRS 16	(253,024,203)	—	—	—	—	—	(253,024,203)
As at 1 January 2019, restated	198,188,715	2,637,899,375	44,762,569	224,157,315	413,216,769	138,153,283	3,656,378,026
Additions	—	—	—	19,301,248	4,621,640	617,357	24,540,245
Disposals	—	—	(66,502)	—	(2,128,558)	(1,933,048)	(4,128,108)
As at 30 September 2019	198,188,715	2,637,899,375	44,696,067	243,458,563	415,709,851	136,837,592	3,676,790,163
Accumulated depreciation							
As at 1 January 2019	298,732,418	2,289,331,613	33,166,297	173,189,733	338,396,980	102,104,184	3,234,921,225
Adoption of HKFRS 16	(159,252,149)	—	—	—	—	—	(159,252,149)
As at 1 January 2019, restated	139,480,269	2,289,331,613	33,166,297	173,189,733	338,396,980	102,104,184	3,075,669,076
Charge for the period	1,834,638	31,094,275	664,187	7,078,410	10,331,775	5,265,267	56,268,552
Disposals	—	—	(66,502)	—	(1,571,823)	(1,894,893)	(3,533,218)
As at 30 September 2019	141,314,907	2,320,425,888	33,763,982	180,268,143	347,156,932	105,474,558	3,128,404,410
Net book value							
As at 30 September 2019	56,873,808	317,473,487	10,932,085	63,190,420	68,552,919	31,363,034	548,385,753

Certain vessels with net book value of HK$177,679,768, HK$167,149,929 and HK$151,708,086 as at 31 December 2016, 2017 and 2018 respectively were pledged to a bank as securities for bank borrowings granted to certain subsidiaries of the Target I Group (note 22(b)).

11 Right-of-use assets

	As at 1 January 2019	As at 30 September 2019
	HK$	*HK$*
Leasehold land in Hong Kong	93,772,054	91,574,271
Buildings	16,405,073	21,740,378
	110,177,127	113,314,649

The Target I Group obtains right to control the use of various land and buildings for a period of time through lease arrangements. Lease arrangements are negotiated on an individual basis and contain a wide range of different terms and conditions including lease payments and lease terms ranging from 1 to 6 years for buildings, and 50 years for leasehold land. Except for lease covenants mainly related to the maintenance and use of the leased assets that are commonly found in lease arrangements, there are no other covenants or restrictions imposed by the lease agreements. The leased assets may not be used as security for borrowing purposes.

Additions to the right-of-use assets during the nine months ended 30 September 2019 were HK$14,725,429.

During the nine months ended 30 September 2019, total cash outflow for leases of HK$10,163,528 was included in net cash used in financing activities.

12 Associates

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	HK$	*HK$*	*HK$*	*HK$*
Share of net assets	3,902,538	4,480,139	4,635,739	5,274,339
Contribution to an associate	—	24,120,000	24,120,000	24,120,000
	3,902,538	28,600,139	28,755,739	29,394,339

There is no associate that is individually material to the Target I Group. The contribution to an associate is unsecured, non-interest bearing and with no fixed term of repayment. The carrying amount of the contribution to an associate approximates its fair value.

Aggregate information of associates that are not individually material:

	As at 31 December			As at 30 September
	2016	**2017**	**2018**	**2019**
	HK$	*HK$*	*HK$*	*HK$*
Aggregate carrying amounts of individually immaterial associates in the Historical Financial Information	3,902,538	28,600,139	28,755,739	29,394,339

	Year ended 31 December			Nine months ended 30 September	
	2016	**2017**	**2018**	**2018**	**2019**
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
				(unaudited)	
Aggregate amounts of the Target I Group's share of these associates' profit for the year/period	489,825	377,601	485,120	482,797	3,174,188

There are no material contingent liabilities relating to the Target I Group's interests in the associates.

Particulars regarding the associates are set out on note 2(b).

13 Joint ventures

	As at 31 December			As at 30 September
	2016	**2017**	**2018**	**2019**
	HK$	*HK$*	*HK$*	*HK$*
Share of net assets	26,609,300	32,438,691	24,351,612	25,975,015

There is no joint venture that is individually material to the Target I Group.

Aggregate information of joint ventures that are not individually material:

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	HK$	*HK$*	*HK$*	*HK$*
Aggregate carrying amounts of individually immaterial joint ventures in the Historical Financial Information	26,609,300	32,438,691	24,351,612	25,975,015

	Year ended 31 December			Nine months ended 30 September	
	2016	2017	2018	2018	2019
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
				(unaudited)	
Aggregate amounts of the Target I Group's share of these joint ventures' profit for the year/period	5,222,485	5,829,391	5,912,921	5,050,761	1,623,403

As at 31 December 2016, 2017 and 2018 and 30 September 2019, the Target I Group had provided guarantee to a third party in respect of the sum owing by a joint venture to the third party under a license agreement of HK$2,446,536, HK$2,375,744, HK$2,067,954 and HK$2,921,657 respectively (note 27).

Particulars regarding the principal joint ventures are set out on note 2(b).

14 Other non-current assets

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	HK$	*HK$*	*HK$*	*HK$*
Prepayments	9,214,843	14,463,569	5,184,369	8,980,537

15 Inventories

	As at 31 December			As at 30 September
	2016	**2017**	**2018**	**2019**
	HK$	*HK$*	*HK$*	*HK$*
Spare parts	170,418,166	166,376,756	167,520,287	172,925,141
Fuel	1,824,605	1,804,006	1,981,227	2,142,588
Passenger consumables	1,939,257	1,891,502	2,004,126	1,301,099
Tickets	532,635	627,971	711,222	741,966
	174,714,663	170,700,235	172,216,862	177,110,794

The cost of inventories recognised as expense and included in "Cost of inventories sold or services provided" amounted to HK$554,303,323, HK$658,534,227, HK$721,189,399, HK$555,298,182 and HK$424,774,768, which included inventory write-down of HK$1,778,800, write-back of HK$2,951,927, write-down of HK$10,316,746, write-down of HK$10,316,746 and write-down of HK$2,968,502 (note 6) of spare parts for the years ended 31 December 2016, 2017 and 2018 and nine months ended 30 September 2018 and 2019 respectively.

16 Trade and other receivables, deposits paid and prepayments

	As at 31 December			As at 30 September
	2016	**2017**	**2018**	**2019**
	HK$	*HK$*	*HK$*	*HK$*
Trade receivables (note a)	41,898,018	64,364,988	54,934,713	40,615,557
Amounts due from joint ventures (note b)	14,200,473	4,967,991	952,647	226,107
Amounts due from associates (note a, c)	—	20,958	10,760	—
Amounts due from fellow subsidiaries (note a, c)	38,857,963	47,074,497	36,213,871	28,702,107
Other receivables, deposits paid and prepayments	58,834,847	53,042,863	52,332,862	89,984,889
	153,791,301	169,471,297	144,444,853	159,528,660

The carrying amounts of trade and other receivables, deposits paid and prepayments approximate their fair values because of their immediate or short term maturity. They are denominated in the following currencies:

	As at 31 December			As at 30 September
	2016	**2017**	**2018**	**2019**
	HK$	*HK$*	*HK$*	*HK$*
Hong Kong dollar	125,497,428	150,504,226	131,464,533	149,727,989
Others	28,293,873	18,967,071	12,980,320	9,800,671
	153,791,301	169,471,297	144,444,853	159,528,660

Notes:

(a) Trade receivables are managed in accordance with defined credit policies, dependent on market requirements and businesses which they operate. Subject to negotiation, credit is only available for major customers with well-established trading records. The Target I Group offers general credit terms ranging from 0 day to 60 days to its customers.

From 1 January 2018, the Target I Group applies the HKFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for trade receivables.

There is no allowance for doubtful debts of trade receivables during the Track Record Period.

The ageing analysis of trade receivables and trade nature related party balances by invoice date is as follows:

	As at 31 December			As at 30 September
	2016	**2017**	**2018**	**2019**
	HK$	*HK$*	*HK$*	*HK$*
0 - 30 days	53,041,002	67,443,592	54,494,417	36,104,939
31 - 60 days	24,315,124	41,079,007	33,568,679	17,980,643
61 - 90 days	2,633,685	1,994,022	3,051,830	3,662,761
over 90 days	766,170	943,822	44,418	11,569,321
	80,755,981	111,460,443	91,159,344	69,317,664

An analysis of the age of trade receivables and trade nature related party balances that are past due as at the balance sheet date but not impaired is as follows as at 31 December 2016 and 2017. The disclosure is not required upon adoption of HKFRS 9 on 1 January 2018.

	As at 31 December	
	2016	**2017**
	HK$	*HK$*
Past due up to:		
0 - 30 days	24,315,124	41,079,007
31 - 60 days	2,633,685	1,994,022
61 - 90 days	766,170	943,822
	27,714,979	44,016,851

(b) Amounts due from joint ventures are unsecured, non-interest bearing, non-trade nature and with no fixed term of repayment. The carrying amounts approximate their fair values.

(c) Amounts due from associates and fellow subsidiaries are unsecured, non-interest bearing, trade nature and with repayment terms of 0 to 60 days. The carrying amounts approximate their fair values.

17 Derivative financial instruments

	As at 31 December			As at 30 September
	2016	**2017**	**2018**	**2019**
	HK$	*HK$*	*HK$*	*HK$*
Current assets				
Fuel swap contracts	11,416,253	16,927,431	—	—
Current liabilities				
Fuel swap contracts	—	—	21,762,912	1,564,671

The Target I Group uses fuel swap contracts to hedge its fuel price risk arising from highly probable forecast of fuel purchases. The Target I Group used the mark-to-market values quoted by independent financial institutions to estimate the fair values of these derivatives.

The changes in fair value of the fuel swap contracts, that are designated and qualified as cash flow hedges, amounting to gain (net of tax) of HK$20,750,097, gain (net of tax) of HK$17,367,141, loss (net of tax) of HK$10,214,521, gain (net of tax) of HK$13,028,997 and gain (net of tax) of HK$12,778,584 were recognised in hedging reserve in equity for the year ended 31 December 2016, 2017 and 2018 and nine months ended 30 September 2018 and 2019. Under cash flow hedges, the loss (net of tax) of HK$51,429,076, gain (net of tax) of HK$12,765,307, gain (net of tax) of HK$22,091,916, gain (net of tax) of HK$16,822,351 and loss (net of tax) of HK$4,086,948 respectively for the year ended 31 December 2016, 2017 and 2018 and nine months ended 30 September 2018 and 2019 were transferred from hedging reserve to the consolidated income statement.

Hedging reserve arose from changes in fair value of the fuel swap contracts, which qualified as cash flow hedge, was gain of HK$9,532,571, gain of HK$14,134,405, loss of HK$18,172,032 and loss of HK$1,306,500 as at 31 December 2016, 2017 and 2018 and 30 September 2019 respectively.

As at 31 December 2016, 2017 and 2018 and 30 September 2019, the Target I Group had outstanding fuel swap contracts to buy approximately 144,000, 144,000, 192,000 and 102,000 barrels of fuel respectively, which will expire in December 2017, December 2018, June — December 2019 and December 2019 — December 2020 respectively.

The derivative financial instruments are denominated in United States dollar.

The effects of the fuel swap contracts on the Target I Group's financial position and performance are as follows:

	As at 31 December			**As at 30 September**
	2016	**2017**	**2018**	**2019**
	HK$	*HK$*	*HK$*	*HK$*
Fuel swap contracts				
Fuel type	Gasoil	Gasoil	Gasoil	Gasoil
Hedged quantity (barrel)	144,000	144,000	192,000	102,000
Maturity date	December 2017	December 2018	June — December 2019	December 2019 — December 2020
Hedge ratio*	15%	15%	23%	6%
Weighted average fixed price for the year (US$)	57.3500	61.4750	81.1384	75.5529

* Hedge ratio is estimated based on hedged quantity to estimated consumption for the coming year/period.

18 Amount due to an intermediate holding company

Amount due to an intermediate holding company was unsecured, non-interest bearing, non-trade nature and repayable on demand. The carrying amount approximates its fair value and the balance is denominated in Hong Kong dollar.

19 Cash and bank balances

	As at 31 December			As at 30 September
	2016	**2017**	**2018**	**2019**
	HK$	*HK$*	*HK$*	*HK$*
Bank deposits	831,607,630	734,661,791	717,019,647	733,877,405
Cash and cash equivalents	303,564,514	401,574,197	424,986,790	267,130,334
Cash and bank balances	1,135,172,144	1,136,235,988	1,142,006,437	1,001,007,739

The carrying amounts of cash and bank balances approximate their fair values because of their immediate or short term maturities.

The carrying amounts of cash and bank balances are denominated in the following currencies:

	As at 31 December			As at 30 September
	2016	**2017**	**2018**	**2019**
	HK$	*HK$*	*HK$*	*HK$*
Hong Kong dollar	1,061,356,060	884,989,742	965,922,042	820,009,187
Macau pataca	42,978,999	44,512,190	30,527,523	26,860,936
Renminbi	16,953,359	26,284,929	20,563,925	17,881,373
United States dollar	13,883,726	180,449,127	124,992,947	136,256,243
	1,135,172,144	1,136,235,988	1,142,006,437	1,001,007,739

20 Trade and other payables and accruals

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	HK$	*HK$*	*HK$*	*HK$*
Amounts due to fellow subsidiaries (note a, b)	4,590,105	4,370,153	3,250,204	881,944
Amounts due to associates (note a, b)	5,221,189	5,784,188	5,135,145	2,750,053
Amounts due to joint ventures (note a, b)	3,725,650	3,102,075	2,957,445	826,750
Provision for employee benefits	4,705,601	4,445,494	3,568,423	2,997,580
Trade payables (note b)	136,569,302	150,003,525	96,934,173	64,967,428
Other payables and accruals	272,705,118	285,006,120	208,780,805	166,602,468
	427,516,965	452,711,555	320,626,195	239,026,223

The carrying amounts of trade and other payables and accruals approximate their fair values because of their short term maturities. They are denominated in the following currencies:

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	HK$	*HK$*	*HK$*	*HK$*
Hong Kong dollar	363,941,431	367,723,645	274,787,100	221,278,600
United States dollar	45,349,758	74,870,931	35,887,844	15,394,537
Renminbi	1,672,300	2,000,833	455,420	—
Macau pataca	3,585,844	4,943,656	6,211,113	2,208,498
Euro	12,910,739	3,155,958	3,213,383	40,491
Others	56,893	16,532	71,335	104,097
	427,516,965	452,711,555	320,626,195	239,026,223

Notes:

(a) Amounts due to fellow subsidiaries, associates and joint ventures are unsecured, non-interest bearing, trade nature and mainly with credit terms of 0 to 30 days. The carrying amounts approximate their fair values.

(b) The ageing analysis of trade payables and trade nature related party balances by invoice date is as follows:

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	HK$	*HK$*	*HK$*	*HK$*
0 - 30 days	148,628,516	159,639,924	107,261,466	57,114,001
31 - 60 days	1,265,612	2,653,800	859,390	5,491,868
61 - 90 days	35,193	812,817	30,921	6,033,764
over 90 days	176,925	153,400	125,190	786,542
	150,106,246	163,259,941	108,276,967	69,426,175

21 Contract liabilities

The Target I Group has recognised the following liabilities related to contracts with customers:

	As at 1 January 2018	As at 31 December 2018	As at 30 September 2019
	HK$	*HK$*	*HK$*
Contract liabilities related to ticket sales	39,725,529	32,587,764	19,216,608

The following table shows the amount of the revenue recognised in the current reporting period relates to carried-forward contract liabilities balance at the beginning of the year/period and the amount relates to performance obligations that were satisfied in a prior year.

	Year ended 31 December	Nine months ended 30 September	
	2018	2018	2019
	HK$	*HK$*	*HK$*
		(Unaudited)	
Revenue recognised that was included in the contract liability balance at the beginning of the year/period			
- Contract liabilities related to ticket sales	39,725,529	39,725,529	32,587,764

The expected duration of contract liabilities related to ticket sales is one year or less, as permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

22 Bank borrowings

	As at 31 December			As at 30 September
	2016	**2017**	**2018**	**2019**
	HK$	*HK$*	*HK$*	*HK$*
Total bank borrowings	2,000,000	2,000,000	2,000,000	—
Less: current portion	—	—	(2,000,000)	—
Non-current portion	2,000,000	2,000,000	—	—

	As at 31 December			As at 30 September
	2016	**2017**	**2018**	**2019**
	HK$	*HK$*	*HK$*	*HK$*
Bank borrowings repayable as follows:				
Less than 1 year	—	—	2,000,000	—
More than 1 year but not exceeding 5 years	2,000,000	2,000,000	—	—
	2,000,000	2,000,000	2,000,000	—

Notes:

(a) Bank borrowings are interest bearing at floating rates with the contractual interest repricing date within 1 month. As at 31 December 2016, 2017 and 2018, the weighted average effective interest rate of the Target I Group's bank borrowing is 3.0%, 3.4% and 3.6% per annum respectively.

(b) As at 31 December 2016, 2017 and 2018, the bank borrowings are secured by pledges on certain vessels of the Target I Group of HK$177,679,768, HK$167,149,929 and HK$151,708,086 respectively (note 10).

(c) The carrying amounts of bank borrowings approximate their fair values and are denominated in Hong Kong dollar.

23 Share capital

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	HK$	*HK$*	*HK$*	*HK$*
Authorised:				
50,000 registered shares of US$1 par value	390,000	390,000	390,000	390,000
Issued and fully paid:				
10,000 registered shares of US$1 par value	78,000	78,000	78,000	78,000

24 Reserves

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	HK$	*HK$*	*HK$*	*HK$*
Legal reserve (note)	2,291,279	2,601,967	2,961,200	2,961,200
Hedging reserve	9,532,571	14,134,405	(18,172,032)	(1,306,500)
Retained profits	1,775,649,158	1,766,494,224	1,803,694,030	1,769,410,635
	1,787,473,008	1,783,230,596	1,788,483,198	1,771,065,335

Note:

Legal reserve is a non-distributable reserve of certain subsidiaries which is set aside from the profits of these companies in accordance with the Commercial Code of Macau Special Administrative Region.

25 Significant related party transactions

(a) Details of significant related party transactions during the years/periods were as follows:

	Year ended 31 December			Nine months ended 30 September	
	2016	2017	2018	2018	2019
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
				(unaudited)	
Sociedade de Turismo e Diversões de Macau, S.A. ("STDM") and its group companies (together the "STDM Group") (note (i))					
Ferry tickets sold and related services provided to STDM Group	122,540,799	121,760,788	116,203,444	87,147,027	74,045,286
Discount granted to STDM Group on ferry tickets purchased by STDM Group for its own use	6,124,649	6,092,693	5,793,659	4,345,895	3,687,136
Fuel purchased from STDM for Macau shipping operations	208,980,370	227,662,292	287,345,576	214,447,501	—
Fuel arrangement fee paid to STDM Group for Macau shipping operations	—	—	—	—	5,001,659
Receipt of duty free goods sold on board collected for STDM Group	12,606,115	12,840,540	13,420,304	9,053,946	9,323,566
Provision of concierge services to STDM	—	—	—	—	1,371,882
China Travel International Investment Hong Kong Limited ("CTII") and its group companies (together the "CTII Group") (note (ii))					
Management fee paid to CTII	2,141,304	2,250,612	2,349,196	1,773,397	1,809,763
Commission paid to China Travel Services (Hong Kong) Limited ("CTSHK") for sales of ferry tickets	45,655,456	45,355,886	42,526,153	33,107,775	17,944,311
Intermediate holding company					
Management fee paid to intermediate holding company	6,710,952	6,922,128	7,127,016	5,345,262	5,457,132
Fellow subsidiaries					
Ferry tickets sold and related services provided to fellow subsidiaries	309,432,413	272,163,395	267,272,977	204,457,137	150,081,710

	Year ended 31 December			Nine months ended 30 September	
	2016	2017	2018	2018	2019
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
				(unaudited)	
Commission paid to a fellow subsidiary for sales of ferry tickets	47,813,487	46,174,265	42,927,418	33,410,428	18,129,936
Commission paid and discount granted to a fellow subsidiary on ferry tickets	62,114,469	60,589,125	65,808,720	49,896,518	41,303,499
Shun Tak Centre Limited ("STC") (note (iii))					
Rental and related expenses paid to STC	6,582,668	6,861,603	7,355,965	5,561,555	5,365,195
Associates					
Fuel costs paid to an associate	38,573,896	51,379,188	66,357,169	49,661,471	28,397,387
Passenger levy and baggage handling fee paid to an associate	6,775,225	5,738,107	5,201,264	4,343,427	2,433,767
Joint ventures					
Ferry passengers handling fees received on behalf of a joint venture	21,116,250	18,187,725	15,012,425	11,485,225	7,469,900
Management fee and other income received from a joint venture	2,857,368	2,857,925	2,857,925	1,890,959	1,890,959
Berthing fee and reimbursement paid to a joint venture	1,275,250	1,052,000	915,750	681,500	663,750
Reimbursement of extra fuel cost received from a joint venture	1,712,922	2,114,679	1,370,774	1,370,774	—
Agency fee paid to a joint venture	8,203,259	9,600,471	1,731,877	754,786	1,071,600
Associate of ultimate holding company					
Insurance premium paid to an associate of ultimate holding company	36,946,179	38,243,573	38,795,811	29,141,503	26,805,589
Key management personnel					
Directors' remuneration and other short-term employee benefits	6,930,745	5,395,000	4,008,646	3,017,250	245,323

(b) At the balance sheet date, the Target I Group had the following balances with related parties:

	Note	As at 31 December 2016 *HK$*	As at 31 December 2017 *HK$*	As at 31 December 2018 *HK$*	As at 30 September 2019 *HK$*
STDM Group	*(i)*				
Net receivable from STDM Group	*(iv)*	16,030,613	20,810,397	18,669,345	15,349,537
CTII Group	*(ii)*				
Net (payable to)/receivable from CTII Group	*(iv)*	(874,449)	3,288,309	2,005,391	1,705,439
Intermediate holding company					
Amount due to an intermediate holding company	*(v)*	5,455,159	5,896,822	6,383,354	5,361,329
Fellow subsidiaries					
Amounts due from fellow subsidiaries	*(iv)*	38,857,963	47,074,497	36,213,871	28,702,107
Amounts due to fellow subsidiaries	*(iv)*	4,590,105	4,370,153	3,250,204	881,944
Associates					
Amounts due from associates	*(iv)*	—	20,958	10,760	—
Amounts due to associates	*(iv)*	5,221,189	5,784,188	5,135,145	2,750,053
Joint ventures					
Amounts due from joint ventures	*(iv)*	14,200,473	4,967,991	952,647	226,107
Amount due to joint ventures	*(iv)*	3,725,650	3,102,075	2,957,445	826,750

Notes:

(i) Ms. Pansy Ho, Ms. Daisy Ho, Ms. Maisy Ho and Mr. David Shum, Directors of the Target I and the ultimate holding company, and Dr. Stanley Ho, the former Director of the ultimate holding company who retired on 23 June 2017, have beneficial interests in STDM. Dr. Stanley Ho and Ms. Pansy Ho are directors of STDM. Ms. Daisy Ho is an appointed representative of Lanceford Company Limited, which is a corporate director of STDM. From 1 January 2016 to 29 March 2019, Mr. David Shum was an appointed representative of the ultimate holding company, which is a corporate director of STDM. From 29 March 2019, Ms. Maisy Ho is an appointed representative of the ultimate holding company, which is a corporate director of STDM.

(ii) CTSHK is a subsidiary of CTII which is a substantial shareholder of the Target I with significant influence over the Target I.

(iii) Dr. Stanley Ho is a director of and has beneficial interests in STC. Ms. Pansy Ho, Ms. Daisy Ho, Ms. Maisy Ho and Mr. David Shum are also directors of STC. STC became an associate of the ultimate holding company upon the acquisition by the ultimate holding company completed on 18 September 2018.

(iv) Trade and other receivable from and/or trade and other payable to STDM Group, CTII Group, fellow subsidiaries, associates and joint ventures are unsecured, non-interests bearing and with no fixed term of repayment. The carrying amounts approximate their fair values. Balances with STDM Group and CTII Group are of trade nature.

(v) Amount due to an intermediate holding company is disclosed in note 18 to the Historical Financial Information.

(vi) Save as disclosed elsewhere in the Historical Financial Information, the terms of the related party transactions are agreed between the transacted parties.

(vii) The Target I Group regards the Target I's Board of Directors as the key management.

26 Commitments

(a) Capital commitments

The Target I Group's capital commitments for property, plant and equipment are as follows:

	As at 31 December			As at 30 September
	2016	**2017**	**2018**	**2019**
	HK$	*HK$*	*HK$*	*HK$*
Contracted but not provided for	22,931,000	57,536,000	30,449,000	7,787,000

(b) Lease commitments

The future aggregate minimum lease payments payable under non-cancellable operating leases are as follows:

	As at 31 December		
	2016	**2017**	**2018**
	HK$	*HK$*	*HK$*
Within one year	12,959,381	14,704,404	14,131,485
In the second to fifth year inclusive	3,283,330	12,492,190	6,862,308
	16,242,711	27,196,594	20,993,793

Apart from these leases, the Target I Group's cancellable operating leases are for terms of one year to seven years.

The above is not disclosed upon adoption of HKFRS 16 on 1 January 2019.

27 Contingency and financial guarantees

The Target I Group had provided a guarantee to a third party in respect of the sum owing by a joint venture to the third party under a license agreement. As at 31 December 2016, 2017 and 2018 and 30 September 2019, the Target I Group's share of such contingent liabilities amounted to HK$2,446,536, HK$2,375,744, HK$2,067,954 and HK$2,921,657 respectively.

28 Reconciliation of liabilities arising from financing activities

	Bank borrowings HK$	Interests payable HK$	Dividend payable HK$	Total HK$
As at 1 January 2017	2,000,000	323	—	2,000,323
Financing cash flows				
Drawdown of new loans	70,000,000	—	—	70,000,000
Repayment of loans	(70,000,000)	—	—	(70,000,000)
Finance costs paid	—	(141,526)	—	(141,526)
Dividend payment	—	—	(300,000,000)	(300,000,000)
Finance costs (note 7)	—	141,761	—	141,761
Dividend (note 8)	—	—	300,000,000	300,000,000
As at 31 December 2017	2,000,000	558	—	2,000,558
Financing cash flows				
Drawdown of new loans	24,000,000	—	—	24,000,000
Repayment of loans	(24,000,000)	—	—	(24,000,000)
Finance costs paid	—	(71,423)	—	(71,423)
Dividend payment	—	—	(204,000,000)	(204,000,000)
Finance costs (note 7)	—	71,109	—	71,109
Dividend (note 8)	—	—	204,000,000	204,000,000
As at 31 December 2018	2,000,000	244	—	2,000,244
As at 1 January 2018	2,000,000	558	—	2,000,558
Financing cash flows				
Drawdown of new loans	18,000,000	—	—	18,000,000
Repayment of loans	(18,000,000)	—	—	(18,000,000)
Finance costs paid	—	(51,964)	—	(51,964)
Dividend payment	—	—	(204,000,000)	(204,000,000)
Finance costs (note 7)	—	52,134	—	52,134
Dividend (note 8)	—	—	204,000,000	204,000,000
As at 30 September 2018 (unaudited)	2,000,000	728	—	2,000,728

	Bank borrowings *HK$*	Interests payable *HK$*	Lease liabilities *HK$*	Total *HK$*
As at 1 January 2019	2,000,000	244	—	2,000,244
Adoption of HKFRS 16	—	—	14,457,468	14,457,468
Financing cash flows				
Drawdown of new loans	8,000,000	—	—	8,000,000
Repayment of loans	(10,000,000)	—	—	(10,000,000)
Finance costs paid	—	(24,363)	—	(24,363)
Capital element of lease rentals paid	—	—	(9,556,151)	(9,556,151)
Interest element of lease rentals paid	—	—	(607,377)	(607,377)
Additions to lease liabilities	—	—	14,725,429	14,725,429
Finance costs (note 7)	—	24,119	607,377	631,496
As at 30 September 2019	—	—	19,626,746	19,626,746

29 Financial instruments

Financial risk management

The Target I Group's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including interest rate risk, currency risk and price risk). The Target I Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Target I Group's financial performance.

Risk management is carried out by the senior management. The management manages and monitors these risk exposures to ensure appropriate measures are implemented on timely and effective manners.

(a) Credit risk

The Target I Group is exposed to credit risk on financial assets, that a loss may incur if the counterparties fail to discharge their obligation, mainly including amounts due from associates, joint ventures and fellow subsidiaries, trade and other receivables, derivative financial assets, bank deposits and cash at banks.

Credit risk arises from cash and bank balances, derivative financial assets and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions. For banks and financial institutions, only independently rated parties with a sound credit rating are accepted. The Target I Group manages credit risk arising from trade debtors in accordance with defined credit policies, dependent on market requirements and business which they operate. Subject to negotiation, credit is only available for major customers with well-established trading records. The Target I Group offers general credit terms ranging from 0 day to 60 days to its customers. In addition, the Target I Group has monitoring procedures to ensure that follow-up action is taken to recover overdue debts. Management of the Target I Group reviews regularly the recoverable amount of each individual trade receivables to ensure that adequate impairment provisions.

Amounts due from associates, joint ventures and fellow subsidiaries are granted taking into account of their financial position, past experience, and other factors. The Target I Group monitors the credibility of joint ventures and fellow subsidiaries continuously.

As at 31 December 2016, 2017 and 2018 and 30 September 2019, the maximum exposure to credit risk is represented by the carrying amount of each financial asset. Except for the financial guarantees given by the Target I Group as set out in note 27, the Target I Group does not provide any other guarantees which would expose the Target I Group or the Target I to material credit risk.

For the trade receivables, the counterparties primarily are large corporation and have strong financial position and management considers the credit risk is not high. The Target I Group maintains frequent communications with these counterparties. Management has closely monitored the credit qualities and the collectability of these receivables and consider that the expected credit risks of them are minimal in view of the history of cooperation with them and forward looking information.

The Directors of the Target I Group consider the probability of default upon initial recognition of asset and whether there has been significant increase in credit risk on an ongoing basis during the years/periods. To assess whether there is a significant increase in credit risk the Target I Group compares risk of a default occurring on the assets as at the balance sheet date with the risk of default as at the date of initial recognition. Especially the following indicators are incorporated:

- actual or expected significant adverse changes in business, financial economic conditions that are expected to cause a significant change to the company's ability to meet its obligations;

- actual or expected significant changes in the operating results of the company;

- significant changes in the expected performance and behavior of the company, including changes in the payment status of the third party.

As at 1 January 2018, 31 December 2018 and 30 September 2019, management consider amounts due from associates, joint ventures and fellow subsidiaries, other receivables, derivative financial assets, bank deposits and cash at banks as low credit risk as counterparties have a strong capacity to meet its contractual cash flow obligations in the near term. The Target I Group has assessed that the ECL for these receivables are immaterial under 12 months expected losses method. Thus, the loss allowance provision recognised during the years/periods for these balances is close to zero.

(b) Liquidity risk

The Target I Group is exposed to liquidity risk on financial liabilities. It is the Target I Group's policy to regularly monitor its liquidity requirements and its compliance with any lending covenants, and to secure adequate funding and sufficient cash reserves to match with the cash flows required for working capital and investing activities. In addition, banking facilities have been put in place for contingency purposes. The table below analyses the Target I Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

	Less than 1 year	Later than 1 year and not later than 5 years	Repayable on demand	Total undiscounted cash flow	Carrying amount
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
As at 31 December 2016					
Bank borrowings	58,768	2,087,505	—	2,146,273	2,000,000
Trade and other payables and accruals	395,841,823	—	—	395,841,823	395,841,823
Amount due to an intermediate holding company	—	—	5,455,159	5,455,159	5,455,159
	395,900,591	2,087,505	5,455,159	403,443,255	403,296,982
As at 31 December 2017					
Bank borrowings	67,821	2,032,889	—	2,100,710	2,000,000
Trade and other payables and accruals	412,986,026	—	—	412,986,026	412,986,026
Amount due to an intermediate holding company	—	—	5,896,822	5,896,822	5,896,822
	413,053,847	2,032,889	5,896,822	420,983,558	420,882,848
As at 31 December 2018					
Bank borrowings	2,043,100	—	—	2,043,100	2,000,000
Trade and other payables and accruals	320,626,195	—	—	320,626,195	320,626,195
Amount due to an intermediate holding company	—	—	6,383,354	6,383,354	6,383,354
Derivative financial instruments	21,762,912	—	—	—	21,762,912
	344,432,207	—	6,383,354	329,052,649	350,772,461
As at 30 September 2019					
Lease liabilities	13,055,162	7,194,406	—	20,249,568	19,626,746
Trade and other payables and accruals	239,026,223	—	—	239,026,223	239,026,223
Amount due to an intermediate holding company	—	—	5,361,329	5,361,329	5,361,329
Derivative financial instruments	1,564,671	—	—	—	1,564,671
	253,646,056	7,194,406	5,361,329	264,637,120	265,578,969

(c) Market risk

(i) Interest rate risk

The Target I Group is exposed to interest rate risk through the impact of rate changes on interest bearing financial assets and liabilities. It is the Target I Group's policy to regularly monitor and manage its interest rate risk exposure, by maintaining an appropriate and comfortable level of mix between fixed and variable-rate financial assets and liabilities and by repaying and/or selling the relevant fixed and variable-rate financial assets and liabilities in case of significant unfavourable market interest rate movement.

Sensitivity analysis

	Increase/ (decrease) in profit after taxation *HK$'m*	**Increase/ (decrease) in equity** *HK$'m*
31 December 2016		
+50 basis points	4.3	4.3
- 50 basis points	(4.3)	(4.3)
31 December 2017		
+50 basis points	4.4	4.4
- 50 basis points	(4.4)	(4.4)
31 December 2018		
+50 basis points	5.0	5.0
- 50 basis points	(5.0)	(5.0)
30 September 2019		
+50 basis points	4.4	4.4
- 50 basis points	(4.4)	(4.4)

The sensitivity analysis has been prepared with the assumption that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for the relevant financial instruments in existence at that date. The changes in interest rates represent management's assessment of a reasonably possible change at that date over the period until the next annual balance sheet date.

(ii) Currency risk

The Target I Group is exposed to currency risk on financial assets and liabilities that are mainly denominated in United States dollar ("USD"), Macau pataca ("MOP") and Renminbi ("RMB").

The Target I Group closely monitors and manages its exposure to currency risk, in particular the currency risk arising from those currencies that are not pegged to Hong Kong dollar ("HKD"), the functional currency of the Target I.

While the Target I Group has financial assets and liabilities mainly denominated in USD and MOP, they are continuously pegged to HKD and these exposure to currency risk for such currencies is minimal to the Target I Group. The Target I Group's exposure to currency risk on financial assets and liabilities that are denominated in RMB is historically and usually insignificant. Since the currencies of financial assets and financial liabilities are primarily the functional currency of the respective company. Overall currency risk of the Target I Group would be minimal and no sensitivity analysis is presented.

(iii) Fuel price risk

Fuel cost is a significant part of the Target I Group's cost of inventories sold and service provided. Exposure to fluctuations in the fuel price is managed by hedging a percentage of its anticipated fuel consumption using fuel derivatives. As at 31 December 2016, 2017 and 2018 and 30 September 2019, around 15%, 15%, 23% and 6% of the anticipated fuel consumption for the year ended 2017, 2018 and 2019 and the period from 1 October 2019 to 31 December 2020 respectively were hedged at the balance sheet date.

Summary quantitative data

	As at 31 December			As at 30 September
	2016	**2017**	**2018**	**2019**
	HK$	*HK$*	*HK$*	*HK$*
Financial assets, at fair value				
Fuel swap contracts	11,416,253	16,927,431	—	—
Financial liabilities, at fair value				
Fuel swap contracts	—	—	21,762,912	1,564,671

Sensitivity analysis

If the fuel price increased by 10% with all other variables held constant, the Target I Group's profit after taxation for the year ended 31 December 2016, 2017 and 2018 and for the nine months ended 30 September 2018 would decrease by HK$43.6 million, HK$46.1 million, HK$55.5 million and HK$42.2 million respectively and loss after taxation for the nine months ended 30 September 2019 would increase by HK$33.6 million, representing the after-tax effect of change in fuel price for the years/periods and total equity as at 31 December 2016, 2017 and 2018 and 30 September 2019 would increase by HK$6.3 million, HK$7.2 million, HK$8.4 million and HK$4.9 million respectively, representing the after-tax effect of change in fair value of fuel derivatives at the balance sheet date. Conversely, if the fuel price decreased by 10% with all other variables held constant, the profit after taxation for the year ended 31 December 2016, 2017 and 2018 and for the nine months ended 30 September 2018 would increase by HK$43.6 million, HK$46.1 million, HK$55.5 million and HK$42.2 million respectively and loss after taxation for the nine months ended 30 September 2019 would decrease by HK$33.6 million and Target I Group's equity as at 31 December 2016, 2017 and 2018 and 30 September 2019 would decrease by HK$6.3 million, HK$7.2 million, HK$8.4 million and HK$4.9 million respectively.

The sensitivity analysis has been prepared with the assumption that the change in fuel prices had occurred during the years/periods and at the balance sheet date and had been applied to the exposure to fuel prices risk for the relevant financial instruments in existence at that date. The changes in fuel prices represent management's assessment of a reasonably possible range at that date over the period until the next annual balance sheet date.

(d) Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

— Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

— Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

— Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The Target I Group's financial instruments measured at fair value (level 2) are as follows:

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	HK$	*HK$*	*HK$*	*HK$*
Assets/(liabilities)				
Fuel swap contracts	11,416,253	16,927,431	(21,762,912)	(1,564,671)

Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Financial instruments in level 3

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. Specific valuation techniques used to value financial instruments include:

— Quoted market prices or dealer quotes for similar instruments.

— The fair values of derivative financial instruments are determined either by reference to mark-to-market values quoted by the independent financial institutions or the estimated future cash flows at the balance sheet date.

— Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

During the years/periods, there were no transfers between financial instruments in level 1, level 2 and level 3.

30 Capital management

The Target I Group's objectives when managing capital are to safeguard the Target I Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

The Target I Group actively and regularly reviews and manages its capital structure. The Target I Group manages its capital structure and makes adjustments to it taking into account current and expected debt and equity capital market conditions, the Target I Group's investment strategy and opportunities, projected operating cash flows and capital expenditures, and general market conditions. To maintain or adjust the capital structure, the Target I Group may adjust the level of borrowings, the dividend payment to shareholders or issue new shares.

The Target I Group monitors its capital structure on the basis of a net debt-to-adjusted capital ratio. Net debt/cash is calculated as total debt, which includes current and non-current borrowings, less cash and bank balances. Adjusted capital comprises all components of equity attributable to owners of the Target I less hedging reserve. During the Track Record Period, the Target I Group's strategy was to maintain a healthy net debt-to-adjusted capital ratio.

The net debt-to-adjusted capital ratio as at 31 December 2016, 2017 and 2018 and 30 September 2019 was as follows:

	As at 31 December			As at 30 September
	2016	**2017**	**2018**	**2019**
	HK$	*HK$*	*HK$*	*HK$*
Bank borrowings (note 22)	2,000,000	2,000,000	2,000,000	—
Less: Cash and bank balances (note 19)	(1,135,172,144)	(1,136,235,988)	(1,142,006,437)	(1,001,007,739)
Net debt	(1,133,172,144)	(1,134,235,988)	(1,140,006,437)	(1,001,007,739)
Total equity	1,787,551,008	1,783,308,596	1,788,561,198	1,771,143,335
Hedging reserve (note 24)	(9,532,571)	(14,134,405)	18,172,032	1,306,500
Adjusted capital	1,778,018,437	1,769,174,191	1,806,733,230	1,772,449,835
Net debt-to-adjusted capital ratio	N/A	N/A	N/A	N/A

31 Segment reporting

No segmental information for the years ended 31 December 2016, 2017 and 2018 and for the nine months ended 30 September 2018 and 2019 is presented as the Target I Group's revenue and operating results for the years/periods were generated solely from its transportation related operation.

The following tables set out information about the geographical location of (i) the Target I Group's revenue from external customers and (ii) the Target I Group's non-current assets (other than joint ventures, associates, financial instruments, deferred tax assets and other non-current assets). The geographical location of customers is based on the location at which the services were provided or the goods delivered. The geographical location of non-current tangible assets is based on the location of the assets.

	Year ended 31 December			Nine months ended 30 September	
	2016	**2017**	**2018**	**2018**	**2019**
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
				(unaudited)	
Revenue and other income from external customers					
Hong Kong	1,279,563,988	1,355,370,491	1,273,328,685	1,004,581,664	581,775,061
Macau	1,242,209,293	1,190,910,753	1,121,063,050	854,811,378	612,839,292
Other	57,985,110	51,541,515	3,500,142	3,500,142	—
	2,579,758,391	2,597,822,759	2,397,891,877	1,862,893,184	1,194,614,353

For the years ended 31 December 2016 and 2017, there was one customer contributing over 10% of the Target I Group's revenue.

	As at 31 December			As at 30 September
	2016	**2017**	**2018**	**2019**
	HK$	*HK$*	*HK$*	*HK$*
Non-current assets				
Hong Kong	743,696,284	700,947,004	649,284,609	627,595,979
Macau	3,481,174	4,778,415	25,196,395	34,104,423
	747,177,458	705,725,419	674,481,004	661,700,402

32 Benefits and interests of directors

For the years ended 31 December 2016, 2017 and 2018, the nine months ended 30 September 2018 and 2019, aggregate emoluments paid to or receivable by directors in respect of their services to the Target I Group amounted to HK$6,930,745, HK$8,395,000, HK$4,008,646, HK$3,017,250 and HK$245,323 respectively.

(i) Directors' retirement benefits

During the years/periods, no retirement benefits were paid to or receivable by the directors in respect of their services as directors of the Target I Group or other services in connection with the management of the affairs of the Target I Group undertaking.

(ii) Directors' termination benefits

During the years/periods, no payments or benefits in respect of termination of directors' services were paid or made, directly or indirectly, to the directors; nor are any payable.

(iii) Consideration provided to third parties for making available directors' services

During the years/periods, no consideration was provided to or receivable by third parties for making available directors' services.

(iv) Information about loans, quasi-loans and other dealings in favour of directors, controlled body corporates by and connected entities with such directors

During the years/periods, there were no loans, quasi-loans or other dealings in favour of the directors, their controlled body corporates and connected entities.

(v) Directors' material interests in transactions, arrangements or contracts

On 16 May 2017, the Target I Group entered into an agreement for sale of ferry tickets (the "Agreement") with MGM Grand Paradise Limited ("MGM"), a company in which Ms. Pansy Ho holds an indirect beneficial interest. The Agreement sets out a framework for products which may be provided by the Target I Group to MGM and/or its subsidiaries from time to time on a non-exclusive basis.

Save for the aforesaid transactions, there were no other transactions, arrangements and contracts of significance in relation to the Target I Group's business to which the Target I's subsidiaries or its holding companies was a party and in which a Director or its connected entities had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the Track Record Period.

33 Event after the reporting period

Due to the outbreak of COVID-19 and the relevant precautionary and control measures taken place by the Government and the Target I Group, the passenger transportation services between Hong Kong and Macau, provided by the Target I Group, have been suspended since February 2020. The Target I Group will pay close attention to the development of the COVID-19 outbreak and evaluate the impact on its future financial position and operating results.

34 Reserves of the company

	Capital reserve	**Retained profits**	**Total**
	HK$	*HK$*	*HK$*
As at 1 January 2016	1,354,729,012	434,729,415	1,789,458,427
Profit for the year	—	373,000,718	373,000,718
Dividend	—	(300,000,000)	(300,000,000)
As at 31 December 2016	1,354,729,012	507,730,133	1,862,459,145
Profit for the year	—	251,059,688	251,059,688
Dividend	—	(300,000,000)	(300,000,000)
As at 31 December 2017	1,354,729,012	458,789,821	1,813,518,833
Profit for the year	—	159,584,806	159,584,806
Dividend	—	(204,000,000)	(204,000,000)
As at 31 December 2018	1,354,729,012	414,374,627	1,769,103,639
As at 1 January 2018	1,354,729,012	458,789,821	1,813,518,833
Loss for the period	—	(449,114)	(449,114)
Dividend	—	(204,000,000)	(204,000,000)
As at 30 September 2018 (unaudited)	1,354,729,012	254,340,707	1,609,069,719
As at 1 January 2019	1,354,729,012	414,374,627	1,769,103,639
Loss for the period	—	(427,420)	(427,420)
As at 30 September 2019	1,354,729,012	413,947,207	1,768,676,219

III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target I or any of its subsidiaries in respect of any period subsequent to 30 September 2019 and up to the date of this report. No dividend or distribution has been declared or made by the Target I or any of its subsidiaries in respect of any period subsequent to 30 September 2019.

Set out below is the management discussion and analysis of the performance of Target I for the three years ended 31 December 2016, 2017 and 2018 and the nine months ended 30 September 2019 ("Reporting Period")

BUSINESS REVIEW

Target I is a private company incorporated under the laws of the British Virgin Islands with limited liability and it is principally engaged in the operation of cross-border ferry services and other ancillary businesses. Target I is a major operator of high-speed passenger ferry services between Hong Kong, Macau and other destinations in the Greater Pearl River Delta Region.

FINANCIAL REVIEW

Revenue and gross profit margin

Target I's revenue was derived mainly from passenger transportation services. Revenue from passenger transportation services for the financial years ended 31 December 2016, 2017 and 2018 and for the period of nine months ended 30 September 2019 amounted to HK$2,460,568,369, HK$2,453,792,197, HK$2,243,340,849 and HK$1,102,627,644 respectively, which represented approximately 97%, 96%, 95% and 94% of Target I's revenue, respectively.

The results of Target I weakened in 2018 by comparison with the previous years, mainly due to drop in passenger numbers. 2019 has been another challenging year for Target I, taking a double hit from traffic diversion since the opening of the Hong Kong-Zhuhai-Macau Bridge as well as the political turmoil that gripped Hong Kong in the second half of year, leaving the tourism industry in the doldrums.

Target I's gross profit margin amounted to 59%, 56%, 56% and 54% for the financial years ended 31 December 2016, 2017 and 2018 and for the period of nine months ended 30 September 2019, respectively.

Cost of sales

Cost of sales mainly included fuel cost, commission, government charges and repair and maintenance expenses. Due to the decrease in revenue since 2018, certain cost control measures have been taken place without affecting passenger experience.

Property, plant and equipment

Property, plant and equipment comprised leasehold lands and buildings, vessels, syncrolift system, repairable parts, furniture and equipment and other assets. As at 1 January 2019, leasehold lands were reclassified to right-of-use assets upon adoption of HKFRS 16.

Trade receivables

Trade receivables as at 31 December 2016, 2017 and 2018 and 30 September 2019 amounted to HK$41,898,018, HK$64,364,988, HK$54,934,713 and HK$40,615,557 respectively. Trade receivables are managed in accordance with defined credit policies, dependent on market requirements and businesses which they operate. Target I offers general credit terms ranging from 0 day to 60 days to its customers.

Trade payables

Trade payables mainly related to the outstanding amounts payable on the purchases of fuel and inventories at each of 31 December 2016, 2017 and 2018 and 30 September 2019.

Liquidity and financial resources

Target I's principal source of funding has been cash generated from its passenger transportation services. The primary liquidity requirements have been for financing working capital and Target I's operations.

	For the year ended 31 December			For the nine months ended 30 September
	2016	**2017**	**2018**	**2019**
	HK$	*HK$*	*HK$*	*HK$*
Net cash generated from/(used in) operating activities	434,561,124	357,591,283	215,054,079	(121,628,401)
Net cash (used in)/generated from investing activities	(92,369,267)	40,559,926	12,429,937	(24,040,164)
Net cash used in financing activities	(337,228,834)	(300,141,526)	(204,071,423)	(12,187,891)
Net increase/(decrease) in cash and cash equivalents	4,963,023	98,009,683	23,412,593	(157,856,456)

Net cash generated from/(used in) operating activities mainly comprised (i) operating cashflows before movements in working capital; (ii) net cash inflow/outflow arising from changes in working capital; and (iii) cash outflow arising from total income tax paid. The significant decrease in operating cash flow for the nine months ended 30 September 2019 is mainly due to net cash outflow arising from changes in working capital; and the opening of the Hong Kong-Zhuhai-Macau Bridge as well as the political turmoil that gripped Hong Kong from June 2019, leaving the tourism industry in the doldrums.

Net cash (used in)/from investing activities mainly comprised (i) purchase of property, plant and equipment; (ii) interest received and (iii) dividend received from associates and joint ventures; and (iv) cash inflow/outflow arising from the withdrawal/placement of time deposits with original maturity of over three months.

Net cash used in financing activities mainly comprised (i) drawdown/repayment of bank loans; (ii) cash outflow arising from dividends payments; (iii) finance cost paid; and (iv) cash outflow arising from capital and interest element of lease rentals paid. The significant decrease in the cash outflow in financing activities for the nine months ended 30 September 2019 is mainly attributable to the no dividend payment made by Target I during the period.

As at 31 December 2016, 2017 and 2018, Target I has bank loan balance of HK$2,000,000. As at 30 September 2019, Target I had not maintained any committed borrowing facilities or made any bank loan drawdown. As at 31 December 2016, 2017 and 2018 and 30 September 2019, Target I has capital commitment of HK$22,931,000, HK$57,536,000, HK$30,449,000 and HK$7,787,000 respectively.

Capital structure and cash management

Share capital comprised 10,000 issued ordinary shares with US$1 par value and were fully paid at each of 31 December 2016, 2017 and 2018 and 30 September 2019.

Target I had cash and bank balances as at 31 December 2016, 2017 and 2018 and 30 September 2019 in the amounts of HK$1,135,172,144, HK$1,136,235,988, HK$1,142,006,437 and HK$1,001,007,739, respectively. The majority of the cash and bank balances were held in the form of bank deposits, with the remaining balances in the form of cash at bank and in hand.

Target I actively and regularly reviews and manages its capital structure. Target I manages its capital structure and makes adjustments to it taking into account current and expected debt and equity capital market conditions, Target I's investment strategy and opportunities, projected operating cash flows and capital expenditures, and general market conditions. To maintain or adjust the capital structure, Target I may adjust the level of borrowings, the dividend payment to shareholders or issue new shares.

Target I monitors its capital structure on the basis of a net debt-to-adjusted capital ratio. Net debt/cash is calculated as total debt, which includes current and non-current borrowings, less cash and bank balances. Adjusted capital comprises all components of equity attributable to owners of Target I less hedging reserve. During the Reporting Period, Target I's strategy was to maintain a healthy net debt-to-adjusted capital ratio.

The net debt-to-adjusted capital ratio as at 31 December 2016, 2017 and 2018 and 30 September 2019 was as follows:

	As at 31 December			As at 30 September
	2016	**2017**	**2018**	**2019**
	HK$	*HK$*	*HK$*	*HK$*
Bank borrowings	2,000,000	2,000,000	2,000,000	—
Less: Cash and bank balances	(1,135,172,144)	(1,136,235,988)	(1,142,006,437)	(1,001,007,739)
Net debt	(1,133,172,144)	(1,134,235,988)	(1,140,006,437)	(1,001,007,739)
Total equity	1,787,551,008	1,783,308,596	1,788,561,198	1,771,143,335
Hedging reserve	(9,532,571)	(14,134,405)	18,172,032	1,306,500
Adjusted capital	1,778,018,437	1,769,174,191	1,806,733,230	1,772,449,835
Net debt-to-adjusted capital ratio	N/A	N/A	N/A	N/A

Business prospects

Target I had introduced new product or service during the Reporting Period including; (i) commencement of Tuen Mun routes in January 2016; (ii) relocation of Taipa service to the new Taipa Ferry Terminal in June 2017; (iii) participation in a consortium in August 2017 which has succeeded in obtaining the concession right to operate cross-border shuttle buses on the Hong Kong-Zhuhai-Macau Bridge; and (iv) launch of Macau Cruise service in December 2018.

Segmental information

During the Reporting Period, Target I operated with one reportable and operating segment, being the transportation related operation in Hong Kong, Macau and Mainland China. As such, there was no segmental information available for the Reporting Period.

Significant investment, material acquisitions and disposals

Target I did not have any material acquisition or other material disposal during the Reporting Period.

Future plans for material investments or capital assets

Target I currently did not have any future plans for material investments or capital assets other than Target II and III.

Employees and remuneration policy

As at 31 December 2016, 2017 and 2018 and 30 September 2019, Target I had 2,114, 2,071, 2,024 and 1,702 employees, respectively.

The remuneration packages for the full-time employees of Target I were in line with the market level of pay in the industry. The remuneration packages for full-time employees typically comprise salaries, allowances and discretionary year-end bonuses, while remuneration packages for part-time employees typically comprise basic salaries and certain allowances. A defined contribution retirement scheme is provided by Target I towards Mandatory Provident Fund, and the long-time employees of Target I are also entitled to retirement benefits under long service payment liabilities on cessation of employment in accordance with the employee's years of service under the Employment Ordinance (Chapter 57 of the Laws of Hong Kong) and which amounts are reduced by the employee's accrued entitlements under Target I's defined contribution retirement scheme. On-going training programme is also offered to all the employees of Target I.

Accordingly, staff costs comprise (i) salaries, allowances and bonuses; (ii) pension costs under defined contribution retirement scheme; (iii) retirement benefits under long service payment liabilities; (iv) provision for unutilised annual leave; and (v) other staff costs including medical and life insurance. For the financial years ended 31 December 2016, 2017 and 2018 and for the period of nine months ended 30 September 2019, staff costs (excluding directors' emoluments) amounted to HK$827,734,336, HK$854,560,044, HK$829,429,350 and HK$532,828,895, respectively. Directors' remuneration for the financial years ended 31 December 2016, 2017 and 2018 and for the period of nine months ended 30 September 2019 amounted to HK$6,930,745, HK$8,395,000, HK$4,008,646 and HK$245,323, respectively.

Charge on assets

Certain property, plant and equipment with net book value of HK$177,679,768, HK$167,149,929 and HK$151,708,086 as at 31 December 2016, 2017 and 2018 respectively were pledged to a bank as securities for bank borrowings granted to certain subsidiaries of Target I.

Save for the property, plant and equipment above, assets of Target I were not charged to any parties as at 31 December 2016, 2017 and 2018 and 30 September 2019.

Foreign currency exposure

Target I is exposed to currency risk on financial assets and liabilities that are mainly denominated in United States dollar ("**USD**"), Macau pataca ("**MOP**") and Renminbi ("**RMB**").

While Target I has financial assets and liabilities mainly denominated in USD and MOP, they are continuously pegged to HKD and these exposure to currency risk for such currencies is minimal to Target I. Target I's exposure to currency risk on financial assets and liabilities that are denominated in RMB is historically and usually insignificant. Since the currencies of financial assets and financial liabilities are primarily the functional currency of the respective company. Overall currency risk of Target I would be minimal.

Contingent liabilities and financial guarantees

Target I Group had provided a guarantee to a third party in respect of the sum owing by a joint venture to the third party under a license agreement. As at 31 December 2016, 2017 and 2018 and 30 September 2019, Target I's share of such contingent liabilities amounted to HK$2,446,536, HK$2,375,744, HK$2,067,954 and HK$2,921,657 respectively.

The following is the text of the accountants' report received from HLB Hodgson Impey Cheng Limited, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, for the purpose of inclusion in this Circular.

國衛會計師事務所有限公司
HODGSON IMPEY CHENG LIMITED

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

27 March 2020

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF JOINTMIGHT INVESTMENTS LIMITED

TO THE DIRECTORS OF CHINA TRAVEL INTERNATIONAL INVESTMENT HONG KONG LIMITED

Introduction

We report on the historical financial information of Jointmight Investments Limited (the "Target III") set out on pages 132 to 159, which comprises the statements of financial position of the Target III as at 31 December 2016, 2017 and 2018 and 30 September 2019, and the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows of the Target III for each of the years ended 31 December 2016, 2017 and 2018 and the nine months ended 30 September 2019 (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages 132 to 159 forms an integral part of this report, which has been prepared for inclusion in the circular of China Travel International Investment Hong Kong Limited (the "Company") dated 27 March 2020 (the "Circular") in connection with the proposed acquisition of the entire issued share capital of the Target III.

Directors' responsibility for the Historical Financial Information

The directors of the Target III are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in note 2 to the Historical Financial Information, and for such internal control as the directors of the Target III determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error. The directors of the Company are responsible for the contents of this Circular in which the Historical Financial Information of the Target III is included, and such information is prepared based on accounting policies materially consistent with those of the Company.

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 Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in note 2 to the Historical Financial Information 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 of the Target III, 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 Target III's financial position as at 31 December 2016, 2017 and 2018 and 30 September 2019, and of the Target III's financial performance and cash flows for the Track Record Period in accordance with the basis of preparation set out in note 2 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Target III which comprises the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the nine months ended 30 September 2018 and other explanatory information (the "Stub Period Comparative Financial Information"). The directors of the Target III are responsible for the preparation of the Stub Period Comparative Financial Information in accordance with the basis of preparation set out in note 2 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation set out in note 2 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Historical Financial Statements as defined on page 132 have been made.

Dividends

We refer to note 13 to the Historical Financial Information which states that no dividends have been paid or declared by the Target III in respect of the Track Record Period.

Yours faithfully,
HLB Hodgson Impey Cheng Limited
Certified Public Accountants
Kwok Kin Leung
Practising Certificate Number: P05769
Hong Kong, 27 March 2020

HISTORICAL FINANCIAL INFORMATION OF THE TARGET III

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 Target III for the Track Record Period, on which the Historical Financial Information is based have been prepared in accordance with accounting policies which conform with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA and were audited by HLB Hodgson Impey Cheng Limited in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA (the "Underlying Financial Statements").

The Historical Financial Information is presented in Hong Kong dollars ("HK$"), which is also the functional currency of the Target III, and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 December			Nine months ended 30 September	
		2016	**2017**	**2018**	**2018**	**2019**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Unaudited)	
Revenue	8	—	—	—	—	—
Administrative expenses		(58)	(50)	(47)	(30)	(30)
Share of profits/(loss) of						
-an associate	15	4,071	3,560	2,046	2,489	(284)
-a joint venture	16	6,340	4,325	3,238	4,169	82
Profit/(loss) before taxation	10	10,353	7,835	5,237	6,628	(232)
Taxation	11	—	—	—	—	—
Profit/(loss) and total comprehensive income/(expense) for the year/period		10,353	7,835	5,237	6,628	(232)

Details of dividends are disclosed in note 13 to the Historical Financial Information.

STATEMENTS OF FINANCIAL POSITION

	Notes	As at 31 December 2016 HK$'000	2017 HK$'000	2018 HK$'000	As at 30 September 2019 HK$'000
ASSETS					
Non-current assets					
Investment in an associate	15	26,441	29,311	30,093	29,809
Investment in a joint venture	16	33,711	36,956	39,114	38,116
Total non-current assets		60,152	66,267	69,207	67,925
Current assets					
Amount due from immediate holding company	17	—	3,673	4,706	8,015
Dividends receivable from an associate	15	4,955	2,945	4,209	1,954
Total current assets		4,955	6,618	8,915	9,969
Total assets		65,107	72,885	78,122	77,894
EQUITY AND LIABILITIES					
EQUITY					
Equity attributable to owner of the Target III					
Share capital	18	—*	—*	—*	—*
Reserves		65,050	72,885	78,122	77,890
Total equity		65,050	72,885	78,122	77,890
LIABILITIES					
Current liabilities					
Amount due to immediate holding company	17	57	—	—	—
Accruals		—	—	—	4
Total current liabilities		57	—	—	4
Total liabilities		57	—	—	4
Total equity and liabilities		65,107	72,885	78,122	77,894
Net current assets		4,898	6,618	8,915	9,965
Total assets less current liabilities		65,050	72,885	78,122	77,890

** Amount less than HK$1,000*

STATEMENTS OF CHANGES IN EQUITY

	Share capital *HK$'000* (Note 18)	Other reserve *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*
Balance at 1 January 2016	—*	1,480	53,217	54,697
Profit and total comprehensive income for the year	—	—	10,353	10,353
Balance at 31 December 2016	—*	1,480	63,570	65,050
Profit and total comprehensive income for the year	—	—	7,835	7,835
Balance at 31 December 2017	—*	1,480	71,405	72,885
Profit and total comprehensive income for the year	—	—	5,237	5,237
Balance at 31 December 2018	—*	1,480	76,642	78,122
Loss and total comprehensive expense for the period	—	—	(232)	(232)
Balance at 30 September 2019	—*	1,480	76,410	77,890
Balance at 1 January 2018	—*	1,480	71,405	72,885
Profit and total comprehensive income for the period (Unaudited)	—	—	6,628	6,628
Balance at 30 September 2018 (Unaudited)	—*	1,480	78,033	79,513

* *Amount less than HK$1,000*

STATEMENTS OF CASH FLOWS

	Year ended 31 December			Nine months ended 30 September	
	2016	2017	2018	2018	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Cash flows from operating activities					
Profit/(loss) before taxation	10,353	7,835	5,237	6,628	(232)
Adjustments for:					
Share of (profits)/loss of an associate	(4,071)	(3,560)	(2,046)	(2,489)	284
Share of profits of a joint venture	(6,340)	(4,325)	(3,238)	(4,169)	(82)
	(58)	(50)	(47)	(30)	(30)
Increase in amount due from immediate holding company	—	(3,673)	(1,033)	(1,050)	(3,309)
Decrease in amount due to immediate holding company	(1,302)	(57)	—	—	—
Increase in accruals	—	—	—	—	4
Net cash used in operating activities	(1,360)	(3,780)	(1,080)	(1,080)	(3,335)
Cash flows from investing activities					
Dividends received from an associate	1,000	2,700	—	—	2,255
Dividends received from a joint venture	360	1,080	1,080	1,080	1,080
Net cash generated from investing activities	1,360	3,780	1,080	1,080	3,335
Net increase in cash and cash equivalents	—	—	—	—	—
Cash and cash equivalents at the beginning and end of year/period	—	—	—	—	—

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. GENERAL INFORMATION

The Target III was incorporated in the British Virgin Islands ("BVI") with limited liability on 3 December 2004. The address of the registered office and principal place of business of the Target III is Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, BVI.

The Target III is a wholly-owned subsidiary of Shun Tak Tourism Investment Holdings Limited, a company incorporated in the British Virgin Islands. In the opinion of the directors of the Target III, the ultimate holding company of the Target III is Shun Tak Holdings Limited, a public company incorporated in Hong Kong with limited liability and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Target III is an investment holding company.

The Historical Financial Information is presented in Hong Kong dollars ("HK$"), which is the same as the functional currency of the Target III.

2. BASIS OF PREPARATION OF HISTORICAL FINANCIAL INFORMATION

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. In addition, the Historical Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

For the purpose of preparing and presenting the Historical Financial Information for the Track Record Period, the Target III has consistently applied the accounting policies which conform with HKFRSs, which are effective for the accounting period beginning 1 January 2019 throughout the Track Record Period except that the Target III has adopted (i) HKFRS 9 "Financial Instruments" and HKFRS 15 "Revenue from Contracts with Customers" starting from 1 January 2018 and applied HKAS 39 "Financial Instruments: Recognition and Measurement" and HKAS 18 "Revenue" for each of the two years ended 31 December 2017; and (ii) HKFRS 16 "Leases" starting from 1 January 2019 and applied HKAS 17 "Leases" for each of the three years ended 31 December 2018 and the nine months ended 30 September 2018. Comparative information resulting from the adoption of HKFRS 9, HKFRS 15 and HKFRS 16 is not restated. Accordingly, certain comparative information is not comparable. The directors of the Target III consider that there is no material impact upon the application of HKFRS 15 on 1 January 2018 and HKFRS 16 on 1 January 2019. The impact of adoption of HKFRS 9 are described below.

HKFRS 9 "Financial Instruments"

The Target III has applied HKFRS 9 starting from 1 January 2018. HKFRS 9 superseded HKAS 39 and the related consequential amendments to other HKFRSs.

The Target III has applied HKFRS 9 "Financial Instruments" and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for (i) the classification and measurement of financial assets and financial liabilities, (ii) expected credit losses ("ECL") for financial assets and lease receivables; and (iii) general hedge accounting.

The Target III has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits, without restating comparative information.

Classification and measurement of financial instruments

All financial assets and financial liabilities continue to be measured on the same basis as were previously measured under HKAS 39.

Impairment of financial assets

At 1 January 2018, the management of the Target III reviewed and assessed the Target III's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9.

ECL for financial assets at amortised cost, mainly comprise of amount due from immediate holding company and dividends receivable from an associate, are measured on 12-month ECL basis and there had been no significant increase in credit risk since initial recognition. In the opinion of the directors of the Target III, the ECL on financial assets is insignificant as at 1 January 2018.

3. NEW STANDARDS, AMENDEMENTS AND INTERPRETATIONS TO EXISTING STANDARDS THAT ARE NOT EFFECTIVE FOR THE FINANCIAL YEAR BEGINNING 1 JANUARY 2019 AND HAVE NOT BEEN EARLY ADOPTED BY THE TARGET III

Up to the date of issue of the Historical Financial Information, the HKICPA has issued a few interpretations, amendments and new standards which are not yet effective for the accounting period beginning 1 January 2019 and which have not been adopted in the Historical Financial Information. These include the following which may be relevant to the Target III.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 3, *Definition of a Business*	1 January 2020
Amendments to HKAS 1 and HKAS 8, *Definition of Material*	1 January 2020
Amendments to HKFRS 9, HKAS 39 and HKFRS *7 Interest Rate Benchmark Reform*	1 January 2020
HKFRS 17, *Insurance Contracts*	1 January 2021
Amendments to HKFRS 10 and HKAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	To be determined

The directors of the Target III anticipate that the application of the new and amendments to standards issued but not yet effective has had no material impact on the Target III's financial performance and positions and/or the disclosures when they became effective.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of measurement

The Historical Financial Information has been prepared under the historical cost convention. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Use of estimated judgement

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Judgements made by management in the application of HKFRSs that have significant effect on the Historical Financial Information and major sources of estimation uncertainty are discussed in note 5.

Associates and joint ventures

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

A joint venture is an arrangement whereby the Target III and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the Historical Financial Information under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Target III's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate or joint venture that form part of the Target III's equity investment. Thereafter, the investment is adjusted for the post acquisition change in the Target III's share of the investee's net assets and any impairment loss relating to the investment. Any acquisition-date excess over cost, the Target III's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the statement of profit or loss, whereas the Target III's share of the post-acquisition post-tax times of the investees' other comprehensive income is recognised in the statement of profit or loss and other comprehensive income.

When the Target III's share of losses exceeds its interest in the associate or the joint venture, the Target III's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Target III has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Target III's interest is the carrying amount of the investment under the equity method, together with any other long-term interests that in substance form part of the Target III's net investment in the associate or the joint venture (after applying the ECL model to such other long-term interests where applicable).

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

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

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

Impairment of non-financial assets

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

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- Calculation of recoverable amount

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

- Recognition of impairment losses

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

- Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

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

Credit losses from financial instruments

Policy applicable from 1 January 2018

The Target III recognises a loss allowance for ECLs on financial assets measured at amortised cost.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Target III in accordance with the contract and the cash flows that the Target III expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

— fixed-rate financial assets: effective interest rate is determined at initial recognition or an approximation thereof.

— variable-rate financial assets and receivables: current effective interest rate.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Target III is exposed to credit risk.

In measuring ECLs, the Target III takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

— 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

— lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

For financial assets at amortised cost, the Target III recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument (including a loan commitment) has increased significantly since initial recognition, the Target III compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Target III considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Target III in full, without recourse by the Target III to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Target III considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

— failure to make payments of principal or interest on their contractually due dates;

— an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

— an actual or expected significant deterioration in the operating results of the debtor; and

— existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Target III.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss.

Basis of calculation of interest income

Interest income recognised in accordance is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Target III assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

— significant financial difficulties of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

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

— the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Target III determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

Policy applicable prior to 1 January 2018

Prior to 1 January 2018, an "incurred loss" model was used to measure impairment losses on financial assets not classified as at fair value through profit or loss ("FVPL"). Under the "incurred loss" model, an impairment loss was recognised only when there was objective evidence of impairment. Objective evidence of impairment included:

— significant financial difficulties of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

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

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

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

If any such evidence existed, an impairment loss was determined and recognised as follows:

— For financial assets carried at amortised cost, impairment loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, where the effect of discounting was material. This assessment was made collectively where these financial assets shared similar risk characteristics, such as similar past due status, and had not been individually assessed as impaired. Future cash flows for financial assets which were assessed for impairment collectively were based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreased and the decrease could be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss was reversed through profit or loss. A reversal of an impairment loss was only recognised to the extent that it did not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

When the recovery of a trade debtor or other financial assets carried at amortised cost was considered doubtful but not remote, associated impairment losses were recorded using an allowance account. When the Target III was satisfied that recovery was remote, the amount considered irrecoverable was written off against the gross carrying amount of those assets directly. Subsequent recoveries of amounts previously charged to the allowance account were reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly were recognised in profit or loss.

Income tax

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

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

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

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

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

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

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

— in the case of current tax assets and liabilities, the Target III intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

— the same taxable entity; or

— different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

Provisions and contingent liabilities

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

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

Translation of foreign currencies

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

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the company initially recognises such non-monetary assets or liabilities.

The results of operations which have a functional currency other than HK$ are translated into HK$ at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into HK$ at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

Related parties

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

(i) has control or joint control of the Target III;

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

(iii) is a member of the key management personnel of the Target III or of a parent of the Target III;

or

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

(i) the entity and the Target III are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

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

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

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

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

(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).

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Target III or to the parent of the Target III.

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

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

The Target III makes estimates and assumptions concerning the future. As the future is inherently uncertain, actually results may differ from these estimates. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Impairment of other non-financial assets

The Target III assesses at the end of each reporting period whether there is an indication that an asset may be impaired. If such an indication exists, the Target III makes an estimate of the asset's recoverable amount.

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

An impairment loss is recognised in the statement of profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of the impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. The reversal of the impairment loss is credited to the statement of profit or loss in the year in which it arises.

Impairment of financial assets

The Target III maintains loss allowance for financial assets for estimated losses resulting from the inability of the debtors to make the required payments. The management bases the estimates on the historical credit loss experience, adjusted for factors that are specific to the debtors and assessments of both existing market conditions as well as forward looking estimates at the end of each reporting period. If the financial condition of the debtors were to deteriorate, and/or the existing/forecast changes have a negative impact on the general economic conditions, credit losses would be higher than estimated.

6. CAPITAL RISK MANAGEMENT

The directors of the Target III manage its capital to ensure that the Target III will be able to continue as a going concern while maximising the return to the shareholder through the optimisation of the debt and equity balance. The Target III's overall strategy remains during the Track Record Period.

The capital structure of the Target III consists of debt balance and equity balance. Equity balance consists of equity attributable to owner of the Target III, comprising registered capital and reserves.

The directors of the Target III review the capital structure on an on-going annual basis. As part of this review, the directors of the Target III consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors of the Target III, the Target III will balance its overall capital structure through the payment of dividends, new capital injection as well as the issue of new debt.

7. FINANCIAL RISK MANAGEMENT

Categories of financial instruments

	As at 31 December			As at 30 September
	2016	**2017**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets				
Financial assets at amortised cost	N/A	N/A	8,915	9,969
Loans and receivables	4,955	6,618	N/A	N/A
Financial liabilities				
Amortised cost	57	—	—	4

Financial risk management objectives and policies

The Target III's financial assets and liabilities mainly comprise amount due from immediate holding company, dividends receivable from an associate, amount due to immediate holding company and accruals. Details of these financial instruments are disclosed in the respective notes to the Historical Financial Information. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below.

Liquidity risk

Liquidity risk is the risk of non-availability of funds to meet all contractual financial commitments as they fall due.

The Target III's objective is to maintain a prudent financial policy, to monitor liquidity ratios against risk limits and to maintain a contingency plan for funding to ensure that the Target III maintains sufficient cash to meet its liquidity requirements.

The maturity profile of the Target III's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	On demand or within one year	Over one year	Total undiscounted cash flows	Total carrying amount
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2016				
Non-derivative financial liabilities				
Amount due to immediate holding company	57	—	57	57
At 30 September 2019				
Non-derivative financial liabilities				
Accruals	4	—	4	4

The Target III has no significant financial liabilities as at 31 December 2017 and 2018.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Target III. The Target III's credit risk is primarily attributable to amount due from immediate holding company and dividends receivable from an associate.

The directors of the Target III make periodic individual assessment on the recoverability of amount due from immediate holding company and dividends receivable from an associate based on historical settlement records, past experience, and also available reasonable and supportive forward-looking information starting from 1 January 2018. The directors of the Target III believe that there is no material credit risk inherent in the Target III's outstanding balances of amount due from immediate holding company and dividends receivable from an associate. The impairment was assessed using incurred loss model under HKAS 39 prior to 1 January 2018. The Target III performs impairment assessment under 12-month ECL model upon application of HKFRS 9 on 1 January 2018. As at 31 December 2018 and 30 September 2019, the Target III assessed the ECL for amount due from immediate holding company and dividends receivable from an associate was insignificant as the exposure of amount due from immediate holding company and dividends receivable from an associate is insignificant.

Foreign currency risk

The functional currency of the Target III is HK$ in which most of the transactions are denominated. The Target III currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise. As at 31 December 2016, 2017 and 2018 and 30 September 2019, the Target III does not hold significant foreign currencies financial assets and liabilities, in the opinion of the directors of the Target III, foreign currency risks are not significant to the Historical Financial Information.

Interest rate risk

The Target III is not exposed to significant interest rate risk. The Target III currently does not have interest rate hedging policy. However, the management of the Target III closely monitors its exposure to future cash flow interest rate risk as a result of change on market interest rate and will consider hedging changes in market interest rates should the need arise.

Fair value estimation of financial instruments

The following hierarchy is used for determining and disclosing the fair values:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

During the Track Record Period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

The directors of the Target III consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Historical Financial Information approximate to their fair values.

8. REVENUE

The Target III did not derive any revenue during the Track Record Period.

9. SEGMENT INFORMATION

HKFRS 8, Operating Segments, requires identification and disclosure of operating segment information based on internal financial reports that are regularly reviewed by the directors of the Target III, being the chief operating decision maker, for the purpose of resources allocation and performance assessment. On this basis, the Target III has determined that it only has one operating segment which is investment holding. Since this is the only operating segment of the Target III, no further analysis for segment information is presented.

Geographical information

The Target III did not derive any revenue during the Track Record Period and all the non-current assets of the Target III are its investments in an associate and a joint venture. Therefore, no further analysis of geographical information is presented.

10. PROFIT/(LOSS) BEFORE TAXATION

The Target III's profit/(loss) before taxation is arrived at after charging:

	Year ended 31 December			Nine months ended 30 September	
	2016	**2017**	**2018**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Auditors' remuneration	4	4	4	4	4
Employee benefits expense	—	—	—	—	—

11. TAXATION

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the Track Record Period. Hong Kong Profits Tax has not been provided as the Target III had no assessable profits arising in or derived from Hong Kong during the Track Record Period.

The income tax expense for the year/period can be reconciled to the profit/(loss) before taxation per the statements of profit or loss and other comprehensive income as follows:

	Year ended 31 December			**Nine months ended 30 September**	
	2016	**2017**	**2018**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Profit/(loss) before taxation	10,353	7,835	5,237	6,628	(232)
Less: Share of results of an associate and joint venture	(10,411)	(7,885)	(5,284)	(6,658)	202
	(58)	(50)	(47)	(30)	(30)
Tax at the applicable tax rate	(10)	(8)	(8)	(5)	(5)
Expenses not deductible for tax purpose	10	8	8	5	5
Income tax expense	—	—	—	—	—

12. DIRECTORS' EMOLUMENTS

Details of the emoluments paid or payable to the directors of the Target III during the Track Record Period are as follows:

	Directors' fees	Salaries and other benefits in kind	Contributions to retirement benefit scheme	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
For the year ended 31 December 2016				
Ms. Ho Chiu King Pansy Catilina	—	—	—	—
Ms. Ho Chiu Fung Daisy	—	—	—	—
Ms. Hong Yu Han Anna	—	—	—	—
Mr. Kwan Wing Hang	—	—	—	—
	—	—	—	—
For the year ended 31 December 2017				
Ms. Ho Chiu King Pansy Catilina	—	—	—	—
Ms. Ho Chiu Fung Daisy	—	—	—	—
Ms. Hong Yu Han Anna	—	—	—	—
Mr. Kwan Wing Hang	—	—	—	—
	—	—	—	—
For the year ended 31 December 2018				
Ms. Ho Chiu King Pansy Catilina	—	—	—	—
Ms. Ho Chiu Fung Daisy	—	—	—	—
Ms. Hong Yu Han Anna	—	—	—	—
Mr. Kwan Wing Hang	—	—	—	—
	—	—	—	—
For the nine months period ended 30 September 2019				
Ms. Ho Chiu King Pansy Catilina	—	—	—	—
Ms. Ho Chiu Fung Daisy	—	—	—	—
Ms. Hong Yu Han Anna	—	—	—	—
Mr. Kwan Wing Hang	—	—	—	—
	—	—	—	—
For the nine months period ended 30 September 2018 (Unaudited)				
Ms. Ho Chiu King Pansy Catilina	—	—	—	—
Ms. Ho Chiu Fung Daisy	—	—	—	—
Ms. Hong Yu Han Anna	—	—	—	—
Mr. Kwan Wing Hang	—	—	—	—
	—	—	—	—

Notes:

(a) Ms. Ho Chiu King Pansy Catilina and Ms. Ho Chiu Fung Daisy were appointed as directors of the Target III on 21 December 2004.

(b) Ms. Hong Yu Han Anna and Mr. Kwan Wing Hang were appointed as directors of the Target III on 30 September 2007.

During the Track Record Period, no emoluments had been paid by the Target III to the directors of the Target III or the five highest paid individuals as inducement to join the Target III or as compensation for loss of office.

13. DIVIDENDS

No dividend was declared or paid by the Target III during the Track Record Period.

14. EARNINGS PER SHARE

No earnings per share information is presented as its inclusion, for the purpose of this report, is not considered meaningful.

15. INTEREST IN AN ASSOCIATE

Details of the Target III's interest in an associate are as follows:

	As at 31 December			As at 30 September
	2016	**2017**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Share of net assets	26,441	29,311	30,093	29,809
Dividends receivable from an associate	4,955	2,945	4,209	1,954
	31,396	32,256	34,302	31,763
Analyses for reporting:				
Non-current assets	26,441	29,311	30,093	29,809
Current assets	4,955	2,945	4,209	1,954
	31,396	32,256	34,302	31,763

The dividends receivable from an associate is unsecured, interest-free and repayable on demand.

As at 31 December 2016, 2017 and 2018 and 30 September 2019, the Target III has interest in the following associate:

Name	Particulars of issued share capital	Place of incorporation/ operations	Ownership interest held by the Target III	Principal activities
China International Travel Service (Macao) Ltd.	Macau Pataca ("MOP") 5,000,000	Macau	39% (direct)	Travel agency and travel relating services

Summarised financial information for associate

Set out below are the summarised financial information for material associate which are accounted for using the equity method. The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with HKFRSs.

	As at 31 December			As at 30 September
	2016	**2017**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets	61,040	62,704	66,714	72,736
Current assets	51,233	56,318	50,572	41,657
Non-current liabilities	—	—	—	—
Current liabilities	(42,145)	(41,535)	(37,795)	(35,628)
Net assets	70,128	77,487	79,491	78,765

	Year ended 31 December			Nine months ended 30 September	
	2016	**2017**	**2018**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(Unaudited)*	*HK$'000*
Revenue	31,730	39,208	50,992	40,117	26,124
Profit/(loss) after taxation	10,438	9,128	5,245	6,383	(726)
Other comprehensive income	—	—	—	—	—
Total comprehensive income/(expense)	10,438	9,128	5,245	6,383	(726)
Dividend income from an associate	390	690	1,264	1,264	—

Reconciliation of the above summarised financial information to the carrying amount of the interest in an associate recognised in the Historical Financial Information:

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Net assets	70,128	77,487	79,491	78,765
Proportion of the Target III's ownership interest in an associate	39%	39%	39%	39%
The Target III's share of net assets of an associate	27,350	30,220	31,002	30,718
Others	(909)	(909)	(909)	(909)
Carrying amount of the Target III's investment in an associate	26,441	29,311	30,093	29,809

16. INVESTMENT IN A JOINT VENTURE

Details of the Target III's investment in a joint venture are as follows:

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Share of net assets	33,711	36,956	39,114	38,116

As at 31 December 2016, 2017 and 2018 and 30 September 2019, the Target III has interest in the following joint venture:

Name	Particulars of issued share capital	Place of incorporation/ operations	Ownership interest held by the Target III	Principal activities
Shun Tak & CITS Coach (Macao) Ltd.	MOP 10,000,000	Macau	36% (direct)	Coach rental services in Macau and cross-boundary coach services between Macau and Guangzhou

Summarised financial information for joint venture

Set out below are the summarised financial information for material joint venture which are accounted for using the equity method. The summarised financial information below represents amounts shown in the joint venture's financial statements prepared in accordance with HKFRSs.

	As at 31 December			As at 30 September
	2016	**2017**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets	19,742	16,174	12,531	21,525
Current assets	113,896	116,995	127,591	110,454
Non-current liabilities	—	—	—	(2,693)
Current liabilities	(40,142)	(30,658)	(31,616)	(23,552)
Net assets	93,496	102,511	108,506	105,734
Cash and cash equivalents	56,685	74,916	72,650	64,806
Current financial liabilities (excluding trade and other payables and provisions)	7,003	2,172	2,109	4,468
Non-current financial liabilities (excluding trade and other payables and provisions)	—	—	—	2,693

	Year ended 31 December			Nine months ended 30 September	
	2016	**2017**	**2018**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Revenue	167,475	165,479	176,794	129,782	93,462
Profit after taxation	17,611	12,015	8,995	11,580	228
Other comprehensive income	—	—	—	—	—
Total comprehensive income	17,611	12,015	8,995	11,580	228
Dividend income from a joint venture	360	1,080	1,080	1,080	1,080
Depreciation expense	3,238	3,872	3,801	2,851	3,112
Interest income	3	4	11	2	60
Interest expense	—	—	—	—	—
Income tax expense	2,786	1,841	1,563	1,516	—

Reconciliation of the above summarised financial information to the carrying amount of the interest in a joint venture recognised in the Historical Financial Information:

	As at 31 December			As at 30 September
	2016	**2017**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Net assets	93,496	102,511	108,506	105,734
Proportion of the Target III's ownership interest in a joint venture	36%	36%	36%	36%
The Target III's share of net assets of a joint venture	33,659	36,904	39,062	38,064
Others	52	52	52	52
Carrying amount of the Target III's interest in a joint venture	33,711	36,956	39,114	38,116

17. AMOUNT DUE FROM/TO IMMEDIATE HOLDING COMPANY

The amount due is unsecured, interest-free and repayable on demand.

18. SHARE CAPITAL

The Target III was incorporated in the BVI with limited liability 3 December 2004 with an initial authorised share capital of United States dollar ("US$") 50,000 divided into 50,000 ordinary shares of US$1 each. Upon incorporation, 1 ordinary share was allotted and issued at US$1 to the subscriber for cash. As at 31 December 2016, 2017 and 2018 and 30 September 2019, the Company has issued share capital of US$1 divided into 1 ordinary share of US$1.

19. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the Historical Financial Information, details of the Target III's balances with related parties are set out in notes 15 and 17 and the statements of financial position on page 133.

Key management personnel remuneration

The directors of the Target III are the key management of the Target III, whose emoluments have been disclosed in note 12.

20. EVENTS AFTER THE REPORTING PERIOD

(a) On 4 March 2020, the Target III declared an interim dividend of HK$8,009,397 per share totalling HK$8,009,397 to the shareholder of the Target III.

(b) The COVID-19 outbreak since early 2020 has brought about additional uncertainties in the operating environment of the Target III's associate and joint venture and may impact the Target III's share of results and financial position. The Target III will pay close attention to the development of COVID-19 and evaluate its impact on the future financial position and operating results.

21. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Target III have been prepared in respect of any period subsequent to 30 September 2019.

Set out below is the management discussion and analysis of the performance of the Target III for the three years ended 31 December 2016, 2017 and 2018 and the nine months ended 30 September 2019 ("Track Record Period").

BUSINESS REVIEW

The Target III was incorporated in the British Virgin Islands ("BVI") with limited liability. The Target III is a wholly-owned subsidiary of Shun Tak Tourism Investment Holdings Limited, a company incorporated in the BVI and the ultimate holding company of the Target III is Shun Tak Holdings Limited, a public company incorporated in Hong Kong with limited liability and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

The Target III is an investment holding company. The principal investment of the Target III during the Track Record Period represents its equity interest in an associate, China International Travel Service (Macao) Ltd. ("CITS Macao") and its equity interest in a joint venture, Shun Tak & CITS Coach (Macao) Ltd. ("ST CITS Coach").

FINANCIAL REVIEW

Revenue

The principal activity of the Target III is investment holding and the Target III did not derive any revenue during the Track Record Period. The principal investment of the Target III represents its equity interest in CITS Macao and ST CITS Coach. Since the Target III holds 39% equity interest in CITS Macao and has significant influence over the management, including participation in the financial and operating policy decisions of the in CITS Macao, and the Target III holds 36% equity interest in ST CITS Coach whereby the parties that have joint control of ST CITS Coach have rights to the net assets of ST CITS Coach, in accordance with Hong Kong Accounting Standard 28 "Investments in Associates and Joint Ventures", the results and assets and liabilities of an associate and joint ventures are incorporated in the financial statements using equity method of accounting, accordingly, the Target III accounted for its share of results of CITS Macao and ST CITS Coach in the statement of profit or loss and other comprehensive income during the Track Record Period.

Profit/loss for the year/period

Profit/loss for the year/period of the Target III during the Track Record Period amounted to profit of approximately HK$10,353,000, HK$7,835,000, HK$5,237,000 for the years ended 31 December 2016, 2017 and 2018 and loss of approximately HK$232,000 for the nine months ended 30 September 2019. The increase/decrease in profit/loss for the year/period of the Target III mainly resulted from the share of profits/loss of CITS Macao and ST CITS Coach over the Track Record Period.

Share of profits/loss of an associate and a joint venture

The principal investment of the Target III represents its equity interest in CITS Macao and ST CITS Coach.

CITS Macao's revenue was derived mainly from travel agency and travel related services in Macau and ST CITS Coach's revenue was derived mainly from provision of coach rental services in Macau and cross-boundary coach services between Macau and Guangzhou.

The demanding tourist industry in Macau over the past years and the opening of the Hong Kong-Zhuhai-Macau Bridge ("HZM Bridge") in 2018 which has impacted on the cross-boundary transportation network in the Greater Bay Area.

Revenue of CITS Macao increased rapidly by approximately 24% in year 2017 as compared with year 2016 and increased to approximately HK$50,992,000 in year 2018 and ST CITS Coach recorded revenue amounted to approximately HK$167,475,000 and HK$165,479,000 respectively for the financial years ended 31 December 2016 and 2017 and increased by approximately 7% to approximately HK$176,794,000 for the year ended 31 December 2018.

The increasing in staff and other operating costs resulted from the demanding labour and competitive market in Macau over the past years has also led to a decrease in profit of both CITS Macao and ST CITS Coach over the years 2016 to 2018.

In 2019, the political turmoil that gripped Hong Kong in the second half of year, leaving the tourism industry in the doldrums, revenue of ST CITS Coach dropped to approximately HK$93,462,000 and recorded profit of approximately HK$228,000 for the nine months ended 30 September 2019, and revenue of CITS Macao dropped to approximately HK$26,124,000 and recorded loss of approximately HK$726,000 for the nine months ended 30 September 2019.

Accordingly, during the Track Record Period, the Target III has equity accounted for its share of profit of CITS Macao of approximately HK$4,071,000, HK$3,560,000, HK$2,046,000 and HK$2,489,000 and share of loss of approximately HK$284,000 in the statements of profit or loss and other comprehensive income for the years ended 31 December 2016, 2017 and 2018 and the nine months period ended 30 September 2018 and 2019, respectively; and its share of results of ST CITS Coach of approximately HK$6,340,000, HK$4,325,000, HK$3,238,000, HK$4,169,000 and HK$82,000 in the statements of profit or loss and other comprehensive income for the years ended 31 December 2016, 2017 and 2018 and the nine months period ended 30 September 2018 and 2019, respectively.

Administrative expenses

Administrative expenses mainly included sundry and other operating expenses of the Target III and the Target III did not incur significant administrative expenses during the Track Record Period.

Taxation

The Target III is an investment holding company and the Target III had no assessable profits arising in or derived from Hong Kong during the Track Record Period.

Interest in an associate

The Target III has 39% equity interest in CITS Macao during the Track Record Period. CITS Macao is a limited liability company incorporated in Macau and is principally engaged in provision of travel agency and travel relating services.

The Target III has equity accounted for the share of net assets of CITS Macao during the Track Record Period and as at 31 December 2016, 2017 and 2018 and 30 September 2019, the carrying amounts of the Target III's investment in CITS Macao amounted to approximately HK$26,441,000, HK$29,311,000, HK$30,093,000 and HK$29,809,000 respectively.

During the Track Record Period, dividend income from CITS Macao amounted to approximately HK$390,000, HK$690,000, HK$1,264,000, HK$1,264,000 and Nil respectively for the years ended 31 December 2016, 2017 and 2018 and the nine months period ended 30 September 2018 and 2019 and outstanding dividend receivable from CITS Macao amounted to approximately HK$4,955,000, HK$2,945,000, HK$4,209,000 and HK$1,954,000 as at 31 December 2016, 2017 and 2018 and 30 September 2019 respectively, which is unsecured, interest-free and repayable on demand.

Investment in a joint venture

The Target III has 36% equity interest in ST CITS Coach during the Track Record Period. ST CITS Coach is a limited liability company incorporated in Macau and is principally engaged in provision of coach rental services in Macau and cross-boundary coach services between Macau and Guangzhou.

The Target III has equity accounted for the share of net assets of ST CITS Coach during the Track Record Period and as at 31 December 2016, 2017 and 2018 and 30 September 2019, the carrying amounts of the Target III's investment in ST CITS Coash amounted to approximately HK$33,711,000, HK$36,956,000, HK$39,114,000 and HK$38,116,000 respectively.

During the Track Record Period, dividend income from ST CITS Coach amounted to approximately HK$360,000, HK$1,080,000, HK$1,080,000, HK$1,080,000 and HK$1,080,000 respectively for the years ended 31 December 2016, 2017 and 2018 and the nine months period ended 30 September 2018 and 2019. The Target III has no outstanding dividend receivable from ST CITS Coach as at 31 December 2016, 2017 and 2018 and 30 September 2019.

Amount due from immediate holding company

The amount due from the immediate holding company, Shun Tak Tourism Investment Holdings Limited, is unsecured, interest-free and repayable on demand.

Liquidity and financial resources

The Target III's principal source of funding has been cashflows generated from its investing activities including dividend income received from CITS Macao and ST CITS Coach.

	Year ended 31 December			Nine months ended 30 September	
	2016	**2017**	**2018**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Net cash used in operating activities	(1,360)	(3,780)	(1,080)	(1,080)	(3,335)
Net cash generated from investing activities	1,360	3,780	1,080	1,080	3,335
Net increase in cash and cash equivalents	—	—	—	—	—

Net cash used in operating activities mainly comprised (i) operating cashflows before movements in working capital and (ii) net cash inflow/outflow arising from changes in working capital.

Net cash generated from investing activities mainly comprised cash inflow arising from dividend income received from CITS Macao and ST CITS Coach.

The Target III had not maintained any committed borrowing facilities or made any bank loan drawdown. The Target III did not have any funding requirements for capital expenditure contracted for and authorised but not contracted for.

Capital structure and cash management

The capital structure of the Target III consists of debt balance and equity balance. Equity balance consists of equity attributable to owner of the Target III, comprising share capital and reserves.

The Target III was incorporated in the BVI with limited liability 3 December 2004 with an initial authorised share capital of United States dollar ("US$") 50,000 divided into 50,000 ordinary shares of US$1 each. As at 31 December 2016, 2017 and 2018 and 30 September 2019, the Target III has issued share capital of US$1 divided into 1 ordinary share of US$1.

The Target III did not have any cash and cash equivalents as at 31 December 2016, 2017 and 2018 and 30 September 2019.

The Target III did not have any borrowings and accordingly the Target III did not have any gearing ratio as at 31 December 2016, 2017 and 2018 and 30 September 2019.

Business prospects

The Target III had not introduced or announced any new investments during the Track Record Period.

Segmental information

During the Track Record Period, the Target III operated with one reportable and operating segment, being the investment holding. As such, there was no segmental information available for the Track Record Period.

Significant investment, material acquisitions and disposals

The Target III holds 39% equity interest in CITS Macao and 36% equity interest in ST CITS Coach as at 31 December 2016, 2017 and 2018 and 30 September 2019 respectively and represents approximately 92%, 91%, 89% and 87% in aggregate over the total assets of the Target III as at 31 December 2016, 2017 and 2018 and 30 September 2019, respectively.

The Target III holds the investment in CITS Macao and ST CITS Coach for long-term purpose and share of its results in the statements of profit or loss and other comprehensive income over the Track Record Period.

The Target III had no investment carried at fair value as at 31 December 2016, 2017 and 2018 and 30 September 2019.

During the Track Record Period, the Target III did not have any material acquisition or other material disposal.

Future plans for material investments or capital assets

At 31 December 2016, 2017 and 2018 and 30 September 2019, the Target III does not have any plan for material investments or capital assets.

Employees and remuneration policy

At 31 December 2016, 2017 and 2018 and 30 September 2019, employees of the Target III including directors of the Target III and no fees or emoluments were paid or are payable to the directors in respect of their services rendered to the Target III during the Track Record Period.

During the Track Record Period, no emoluments had been paid by the Target III to the directors of the Target III or the five highest paid individuals as inducement to join the Target III or as compensation for loss of office.

The Target III do not have any bonus and share option schemes and training schemes during the Track Record Period.

Charge on assets

At 31 December 2016, 2017 and 2018 and 30 September 2019, the Target III had no assets charged to any parties for bank borrowings or for other purpose.

Foreign currency exposure

The functional currency of the Target III is HK$ in which most of the transactions are denominated. The Target III currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise. As at 31 December 2016, 2017 and 2018 and 30 September 2019, the Target III does not hold significant foreign currencies financial assets and liabilities and the Target III had no significant exposure to foreign currency risk.

Contingent liabilities

At 31 December 2016, 2017 and 2018 and 30 September 2019, the Target III did not have any significant contingent liabilities.

A. BASIS OF PREPARATION OF THE PRO FORMA FINANCIAL INFORMATION

The following unaudited pro forma statement of assets and liabilities of the Enlarged Group as at 30 June 2019 (the "**Unaudited Pro Forma Financial Information**") has been prepared by the Directors in accordance with Paragraphs 4.29 of the Listing Rules for the purpose of illustrating the effect on the financial position of the Group as at 30 June 2019 as if the Proposed Reorganisation had been completed on 30 June 2019.

The Unaudited Pro Forma Financial Information has been prepared based on the unaudited consolidated statement of financial position of the Group as at 30 June 2019 as set out in the interim report of the Company for the six months ended 30 June 2019 and the consolidated balance sheet of the Target I Group and the statement of financial position of the Target III Group as at 30 September 2019 as set out in the Accountants' Reports of the Target I Group and the Target III Group included in Appendices II and III to this Circular respectively, after making certain pro forma adjustments that are (i) directly attributable to the Proposed Reorganisation and not relating to other future events or decisions and (ii) factually supportable, as further described in the accompanying notes.

The Unaudited Pro Forma Financial Information is prepared based on a number of assumptions, estimations and uncertainties for illustrative purposes only. Because of its hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group had the Proposed Reorganisation been completed as of 30 June 2019 or at any future dates.

The Unaudited Pro Forma Financial Information should be read in conjunction with the historical financial information of the Group as set out in the published interim report of the Group for the six months ended 30 June 2019, the Accountants' Reports on the financial information of the Target I Group and the Target III Group as set out in Appendices II and III to this Circular respectively and other financial information included elsewhere in this Circular.

B. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

				Pro forma adjustments			
	The Group as at 30 June 2019	**The Target I Group as at 30 September 2019**	**The Target III Group as at 30 September 2019**				**The Enlarged Group**
	Note 1	*Note 2*	*Note 2*	*Note 3*	*Note 4*	*Note 5*	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets							
Property, plant and equipment	10,312,649	661,700	—	399,857	—	—	11,374,206
Investment properties	1,813,216	—	—	—	—	—	1,813,216
Goodwill	1,323,828	—	—	14,078	—	—	1,337,906
Other intangible assets	201,305	—	—	—	—	—	201,305
Interests in associates	1,248,384	29,394	29,809	(507,369)	22,299	—	822,517
Interests in joint ventures	—	25,975	38,116	—	7,244	—	71,335
Other financial assets	38,314	—	—	—	—	—	38,314
Prepayments and other receivables	85,357	8,981	—	—	—	—	94,338
Deferred tax assets	49,922	14,124	—	—	—	—	64,046
	15,072,975	740,174	67,925	(93,434)	29,543	—	15,817,183

	The Group as at 30 June 2019	The Target I Group as at 30 September 2019	The Target III Group as at 30 September 2019	Pro forma adjustments			The Enlarged Group
	Note 1	*Note 2*	*Note 2*	*Note 3*	*Note 4*	*Note 5*	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Current assets							
Inventories	17,264	177,111	—	—	—	—	194,375
Properties under development	1,950,174	—	—	—	—	—	1,950,174
Completed properties held for sale	32,018	—	—	—	—	—	32,018
Trade receivables	114,052	40,615	—	—	—	—	154,667
Deposits, prepayments and other receivables	742,066	118,913	1,954	(5,984)	—	—	856,949
Loan to a fellow subsidiary	157,000	—	—	—	—	—	157,000
Amounts due from holding companies	21,794	—	—	—	—	—	21,794
Amounts due from fellow subsidiaries	71,554	—	—	—	—	—	71,554
Amount due from Shun Tak Tourism Investment Holdings Limited	—	—	8,015	—	—	—	8,015
Tax recoverable	71,958	5,245	—	—	—	—	77,203
Financial assets at fair value through profit or loss	791,750	—	—	—	—	—	791,750
Pledged time deposits	18,284	—	—	—	—	—	18,284
Cash and bank balances	2,291,775	1,001,008	—	(437,000)	(55,000)	—	2,800,783
Assets of disposal group classified as held for sale	401,694	—	—	—	—	—	401,694
	6,681,383	1,342,892	9,969	(442,984)	(55,000)	—	7,536,260

	The Group as at 30 June 2019	The Target I Group as at 30 September 2019	The Target III Group as at 30 September 2019	Pro forma adjustments			The Enlarged Group
	Note 1	*Note 2*	*Note 2*	*Note 3*	*Note 4*	*Note 5*	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Current liabilities							
Trade payables	184,972	64,967	—	—	—	—	249,939
Other payables and accruals	1,804,526	193,276	4	(5,984)	—	9,953	2,001,775
Loans from a holding company	78,439	—	—	—	—	—	78,439
Amount due to holding companies	1,321	—	—	—	—	—	1,321
Amount due to Shun Tak Ferries Limited	—	5,361	—	—	—	—	5,361
Amounts due to fellow subsidiaries	9,746	—	—	—	—	—	9,746
Lease liabilities	24,960	12,575	—	—	—	—	37,535
Tax payable	154,918	10,900	—	—	—	—	165,818
Derivative financial instruments	—	1,565	—	—	—	—	1,565
Bank and other borrowings	3,957	—	—	—	—	—	3,957
Liabilities of disposal group classified as held for sale	352,411	—	—	—	—	—	352,411
	2,615,250	288,644	4	(5,984)	—	9,953	2,907,867

	The Group as at 30 June 2019	The Target I Group as at 30 September 2019	The Target III Group as at 30 September 2019	Pro forma adjustments			The Enlarged Group
	Note 1	*Note 2*	*Note 2*	*Note 3*	*Note 4*	*Note 5*	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Net current assets	4,066,133	1,054,248	9,965	(437,000)	(55,000)	(9,953)	4,628,393
Total assets less current liabilities	19,139,108	1,794,422	77,890	(530,434)	(25,457)	(9,953)	20,445,576
Non-current liabilities							
Deferred income	698,026	—	—	—	—	—	698,026
Lease liabilities	243,597	7,052	—	—	—	—	250,649
Deferred tax liabilities	613,125	16,227	—	65,976	—	—	695,328
	1,554,748	23,279	—	65,976	—	—	1,644,003
NET ASSETS	17,584,360	1,771,143	77,890	(596,410)	(25,457)	(9,953)	18,801,573

C. NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

1. The amounts are extracted from the unaudited consolidated statement of financial position of the Group at 30 June 2019 as set out in the published interim report of the Group for the six months ended 30 June 2019.

2. The amounts are extracted from the consolidated balance sheet of the Target I Group and the statement of financial position of the Target III Group as at 30 September 2019 as set out in Appendices II and III to this Circular respectively.

3. For the purpose of the Unaudited Pro Forma Financial Information, the fair value of identifiable assets and liabilities of the Target I Group was determined after making reference to the valuation report prepared by an independent professional valuer. The fair value and the carrying amount of the identifiable assets and liabilities of the Target I Group are analysed as below:

	Carrying amounts	**Fair value of of the identifiable assets and liabilities**
	HK$'000	*HK$'000*
Property, plant and equipment	661,700	1,061,557
Other assets	1,421,366	1,421,366
Deferred tax liabilities (note a)	(16,227)	(82,203)
Other liabilities	(295,696)	(295,696)
	1,771,143	2,105,024

Note:

a. The fair value adjustment of deferred tax liabilities of HK$65,976,000 is arisen from the recognition of fair value adjustment of property, plant and equipment of the Target I Group, calculated based on the enacted tax rate of 16.5% of the tax jurisdiction that the Target I Group operates.

Pursuant to the Target I SPA, the Group has agreed to acquire 21% of the issued share capital of Target I at a consideration of HK$437,000,000 in cash.

An analysis of the deemed cost of investment in the subsidiary upon completion of the Target I acquisition is as follows:

	HK$'000
Total consideration for acquisition of 21% of the issued share capital of Target I	437,000
Fair value of 29% of the issued share capital of the Target I held by the Group (note a)	629,590
Deemed cost of investment in Target I	1,066,590

Note:

a. The Group held 29% of the issued share capital of Target I with the carrying amount of HK$507,369,000 at 30 June 2019 included in interests in associates at 30 June 2019. This investment will be derecognised to form part of the investment in the Target I at the date of completion. Fair value of 29% of the issued share capital of Target I was determined after making reference to the valuation report prepared by an independent professional valuer.

b. The fair value of 29% of the issued share capital of Target I is subject to change because the fair value will be reassessed and updated on the Completion Date.

The acquisition of Target I will be accounted for as an acquisition of a subsidiary at Completion. For illustrative purpose, the goodwill, which represents the excess of (i) the aggregate of the fair value of the consideration for the Target I acquisition, the amount of any non-controlling interest in the Target I Group and the fair value of the Group's previously held interest in Target I; over (ii) the net fair value of identifiable assets and liabilities of the Target I Group, is calculated as follows:

	HK$'000
Deemed cost of investment in Target I	1,066,590
Non-controlling interests of the Target I Group	1,052,512
Less: Fair value of identifiable assets and liabilities of the Target I Group	(2,105,024)
Goodwill on Target I acquisition (note a)	14,078

Note:

a. It is expected that the completion of the Target I acquisition may generate a goodwill of approximately HK$14,078,000 to the Group. As the fair value of the assets and liabilities of the Target I Group at the Completion Date are yet to be identified and measured. The actual amount of goodwill can only be determined at the Completion.

The Group has consistently applied its accounting policies and assumptions for the purpose of assessing impairment of goodwill in accordance with the Hong Kong Accounting Standard 36 "Impairment of Assets". The Directors have engaged an independent valuer to perform a valuation of the Target I Group for the purpose of goodwill impairment assessment. Based on the valuation report, it is of the view that the recoverable amount of goodwill is higher than the carrying amount. As a result, the Directors are not aware of any indication that an impairment of goodwill arising from the Target I acquisition is required. The Group will consistently adopt its accounting policies and assumptions for the purpose of assessing impairment of goodwill in future.

4. For the purpose of the Unaudited Pro Forma Financial Information, the fair value of identifiable assets and liabilities of Target IIII Group was determined after making reference to the valuation report prepared by an independent professional valuer. The fair value and the carrying amount of the identifiable assets and liabilities of the Target IIII Group are analysed as below:

	Carrying amounts	**Fair value of of the identifiable assets and liabilities**
	HK$'000	*HK$'000*
Interests in associates	29,809	52,108
Interests in joint ventures	38,116	45,360
Other assets	9,969	9,968
Total liabilities	(4)	(4)
	77,890	107,432

Pursuant to the Target III SPA, the Group has agreed to acquire the entire issued share capital of Target III at a consideration of HK$55,000,000 in cash.

The acquisition of Target III will be accounted for as an acquisition of a subsidiary at Completion. For illustrative purpose, the gain on bargain purchase, which represents the excess of (i) the net fair value of identifiable assets and liabilities of the Target III Group; over (ii) the fair value of the consideration for the Target III acquisition, is calculated as follows:

	HK$'000
Fair value of identifiable assets and liabilities of the Target III Group	107,432
Less: Total consideration for acquisition of the entire issued share capital of the Target III	(55,000)
Gain on bargain purchase on Target III acquisition (note a)	52,432
Less: Non-controlling interests of Target I	(26,216)
	26,216

Note:

a. It is expected that the completion of the Target III acquisition may generate a gain on bargain purpose of approximately HK$26,216,000 to the Group. As the fair value of the assets and liabilities of the Target III Group at the Completion Date are yet to be identified and measured. The actual amount of net gain can only be determined at the Completion.

5. Adjustment has been made to the Unaudited Pro Forma Financial Information for professional costs directly attributable to the Proposed Reorganisation (including fees to legal advisers, independent financial advisers, reporting accountants, valuer, printer and other expenses).

6. No other adjustments have been made to the Unaudited Pro Forma Financial Information to reflect any trading results or other transactions of the Group entered into subsequent to 30 June 2019.

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

KPMG

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

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

TO THE DIRECTORS OF CHINA TRAVEL INTERNATIONAL INVESTMENT HONG KONG LIMITED

We have completed our assurance engagement to report on the compilation of pro forma financial information of China Travel International Investment Hong Kong Limited (the "Company") and its subsidiaries (collectively the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The pro forma financial information consists of the unaudited pro forma consolidated statement of assets and liabilities as at 30 June 2019 and related notes as set out in Part C of Appendix IV to the circular dated 27 March 2020 (the "Circular") issued by the Company. The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described in Part A of Appendix IV to the Circular.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed (i) acquisition of further interest in Shun Tak — China Travel Shipping Investments Limited; (ii) acquisition of Jointmight Investments Limited; and (iii) disposal of China Travel Tours Transportation Development (HK) Limited (the "Proposed Reorganisation") on the Group's financial position as at 30 June 2019 as if the Proposed Reorganisation had taken place at 30 June 2019. As part of this process, information about the Group's financial position as at 30 June 2019 has been extracted by the Directors from the interim report of the Group for the six months ended 30 June 2019, on which a review report has been published.

Directors' Responsibilities for the Pro Forma Financial Information

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

Our Independence and Quality Control

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

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

Reporting Accountants' Responsibilities

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

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

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

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on the unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the events or transactions at 30 June 2019 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

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

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

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

Opinion

In our opinion:

a) the pro forma financial information has been properly compiled on the basis stated;

b) such basis is consistent with the accounting policies of the Group, and

c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

KPMG
Certified Public Accountants
Hong Kong
27 March 2020

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
Company Licence No.: C-030171

27 March 2020

The Board of Directors
China Travel International Investment Hong Kong Limited
12th Floor, CTS House
78-83 Connaught Road Central
Hong Kong

Dear Sirs,

In accordance with the instructions from China Travel International Investment Hong Kong Limited (the "Company"), Jones Lang LaSalle Corporate Appraisal and Advisory Limited ("JLL") has undertaken a valuation exercise which requires us to express an independent opinion on the market value of 100% equity interest in Shun Tak - China Travel Shipping Investments Limited ("Target I") as at 30 September 2019 (the "Valuation Date").

The purpose of this valuation is for internal reference by the Company and inclusion in its public disclosure.

Our valuation was 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".

BACKGROUND OF TARGET I

Target I is a company incorporated under the laws of the British Virgin Islands and it is principally engaged in the operation of cross-border ferry services and other ancillary businesses. Target I is a major operator of the high-speed passenger ferry services between Hong Kong, Macau and other destinations in the Greater Pearl Delta region.

As at the Valuation Date, the audited total assets and net assets of Target I amounted to approximately HKD 2,083.07 million and HKD 1,771.14 million, respectively. Details is as below:

	As at 30 September 2019 *(HKD million)*
ASSETS	
Non-current assets	
Property, plant and equipment	548.39
Right-of-use assets	113.31
Associates	29.39
Joint ventures	25.98
Deferred tax assets	14.12
Others non-current assets	8.98
	740.17
Current assets	
Inventories	177.11
Trade, and other receivables, deposits paid and prepayments	159.53
Taxation recoverable	5.25
Cash and bank balances	1,001.01
	1,342.89
LIABILITIES	
Non-current liabilities	
Lease liabilities	7.05
Deferred tax liabilities	16.23
	23.28
Current liabilities	
Trade and other payables and accruals	239.03
Contract liabilities	19.22
Lease liabilities	12.57
Amount due to an intermediate holding company	5.36
Taxation payable	10.90
Derivate financial instruments	1.56
	288.64
Net assets	**1,771.14**

Note: Throughout the report, the total may not correspond with the sum of the separate figures due to rounding.

SOURCES OF INFORMATION

In conducting our valuation of the 100% equity interest in Target I, we have reviewed information from several sources, including, but not limited to:

- Background of Target I and relevant corporate information;
- Historical financial information of Target I;
- Business licenses of Target I; and
- Other operation and market information in relation to Target I's business.

We have held discussions with management of the Company and Target I, conducted market research from public sources to assess the reasonableness and fairness of information provided. We assumed such information to be reliable and legitimate; and we have relied to a considerable extent on the information provided in arriving at our conclusion of value.

BASIS OF OPINION

We have conducted our valuation in accordance with International Valuation Standards issued by International Valuation Standards Council ("IVSC"). The valuation procedures employed include a review of legal status and economic condition of Target I and an assessment of key assumptions, estimates and representations made by the proprietor or the operator of Target I. All matters we consider essential to the proper understanding of the valuation are disclosed in this valuation report.

The following factors form an integral part of our basis of opinion:

- The economic outlook in general;
- The nature of business and history of the operation concerned;
- The financial condition of Target I;
- Market-driven investment returns of companies engaged in similar lines of business;
- Financial and business risk of the business;
- Consideration and analysis on the micro and macro economy affecting the subject assets; and
- Assessment of the liquidity of the subject assets.

We planned and performed our valuation so as to obtain all the information and explanations that we considered necessary in order to provide us with sufficient evidence to express our opinion on Target I.

VALUATION METHODOLOGY

In arriving at our assessed value, we have considered three generally accepted approaches, namely market approach, cost approach and income approach.

Market Approach considers prices recently paid for similar assets, with adjustments made to market prices to reflect condition and utility of the appraised assets relative to the market comparative. Assets for which there is an established secondary market may be valued by this approach. Benefits of using this approach include its simplicity, clarity, speed and the need for few or no assumptions. It also introduces objectivity in application as publicly available inputs are used. However, one has to be wary of the hidden assumptions in those inputs as there are inherent assumptions on the value of those comparable assets. It is also difficult to find comparable assets. Furthermore, this approach relies exclusively on the efficient market hypothesis.

Cost Approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation or obsolescence present, whether arising from physical, functional or economic causes. The cost approach generally furnishes the most reliable indication of value for assets without a known secondary market. Despite the simplicity and transparency of this approach, it does not directly incorporate information about the economic benefits contributed by the subject assets.

Income Approach is the conversion of expected periodic benefits of ownership into an indication of value. It is based on the principle that an informed buyer would pay no more for the project than an amount equal to the present worth of anticipated future benefits (income) from the same or a substantially similar project with a similar risk profile. This approach allows for the prospective valuation of future profits and there are numerous empirical and theoretical justifications for the present value of expected future cash flows. However, this approach relies on numerous assumptions over a long time horizon and the result may be very sensitive to certain inputs. It also presents a single scenario only.

Given the unique characteristics of Target I, there are substantial limitations for the income approach and the market approach for valuing the underlying asset. Firstly, the income approach requires subjective assumptions to which the valuation is highly sensitive and detailed operational information and long-term financial projections are also needed to arrive at an indication of value. Secondly, the market approach relies generally on deriving value through a measure of the values of market comparables or transactions. Considering the unique characteristics of Target I and its loss-making position, there was a lack of market comparables or transactions available as at the Valuation Date to derive an indicative value with a sufficient level of accuracy.

Under the cost approach, the summation method is typically adopted for a valuation subject when its value is primarily a factor of the value of the valuation subject's holding assets and liabilities. The table below lists out the adopted valuation approach for each identifiable asset and liability of Target I.

Item	**Valuation Approach**
Properties	Developed through the cost approach.
Vessels	Developed through either the cost approach or the market approach.
Other assets and liabilities	Developed through the cost approach.

SUMMARY OF THE SUMMATION METHOD

In arriving at our opinion of the market value of 100% equity interest in Target I, we have adopted the following approaches in the valuation of various categories of assets and liabilities:

Properties

The properties held by Target I are located in Hong Kong and are occupied for shipyard purpose. Due to the nature of the subject property and the particular location in which they are situated, there are unlikely to have relevant market comparables sales readily available. The property was therefore valued by the depreciated replacement cost approach.

Depreciated replacement cost is defined as "the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimization." It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacement (reproduction) of the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimization. In arriving at the value of the land portion, reference has been made to the sales evidence/rental evidence with appropriate capitalization rate as available in the locality. The depreciated replacement cost of the property interests are subject to adequate potential profitability of the concerned business.

Vessels

In valuing the market value of the vessels owned by Target I, we considered both the market approach and cost approach.

Where assets being appraised have active secondary markets, with comparables readily available in the marketplace, we utilized the market approach for our value conclusion. To arrive at the market value from the market approach, we considered prices recently paid for similar assets, with adjustments made to the indicated market prices to reflect condition and utility of the appraised assets relative to the market comparative.

Where an active secondary market did not exist, we valued the assets by using the cost approach. We began by developing current replacement cost new for similar or equivalent units. Then, we deducted the physical depreciation, functional and economic obsolescence from the replacement cost new for our value conclusion.

Other assets and liabilities

Other assets and liabilities represent items other than the properties and vessels, which include, among others, cash and bank balances, prepayment, receivables, payables, accruals, etc. We adopted the cost approach in assessing the value of these items by their respective replacement cost. Since these items were commonly found in an ordinary business, the value of these items in the financial statements of Target I have already reflected the replacement cost in the market.

MAJOR ASSUMPTIONS

Assumptions considered to have significant sensitivity effects in this valuation have been evaluated in order to provide a more accurate and reasonable basis for arriving at our assessed value.

The following key assumptions in determining the market value of the equity interest have been made:

- We have assumed that there will be no material change in the existing political, legal, technological, fiscal or economic conditions, which might adversely affect the business of Target I;

- We have assumed that the operational and contractual terms stipulated in the relevant contracts and agreements will be honoured;

- We have assumed that the facilities and systems proposed are sufficient for future expansion in order to realize the growth potential of the business and maintain a competitive edge;

- We have been provided with copies of the operating licenses and incorporation documents of Target I. We have assumed such information to be reliable and legitimate. We have relied to a considerable extent on such information provided in arriving at our conclusion of value;

- We have assumed the accuracy of the financial and operational information provided to us by Target I and relied to a considerable extent on such information in arriving at our conclusion of value; and

- We have assumed that there are no hidden or unexpected conditions associated with the asset valued that might adversely affect the reported value. Further, we assume no responsibility for changes in market conditions after the Valuation Date.

CALCULATION OF VALUATION RESULT

The calculation of the market value of 100% equity interest in Target I as at the Valuation Date is as follows:

	As at 30 September 2019 *(HKD million)*
ASSETS	
Non-current assets	
Property, plant and equipment, and right-of-use assets	1,061.55
Associates	29.39
Joint ventures	25.98
Deferred tax assets	14.12
Others non-current assets	8.98
	1,140.03
Current assets	
Inventories	177.11
Trade, and other receivables, deposits paid and prepayments	159.53
Taxation recoverable	5.25
Cash and bank balances	1,001.01
	1,342.89
LIABILITIES	
Non-current liabilities	
Lease liabilities	7.05
Deferred tax liabilities	16.23
	23.28
Current liabilities	
Trade and other payables and accruals	239.03
Contract liabilities	19.22
Lease liabilities	12.57
Amount due to an intermediate holding company	5.36
Taxation payable	10.90
Derivate financial instruments	1.56
	288.64
Market Value of 100% Equity Interest in Target I (Rounded)	**2,171.00**

VALUATION COMMENT

The conclusion of value is based on accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. Further, while the assumptions and other relevant factors are considered by us to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of Target I, the Company and JLL.

We do not intend to express any opinion on matters which require legal or other specialized expertise or knowledge, beyond what is customarily employed by valuers. Our conclusions assume continuation of prudent management of Target I over whatever period of time that is reasonable and necessary to maintain the character and integrity of the assets valued.

The outbreak of the Novel Coronavirus disease (COVID-19), declared by the World Health Organisation as a "Global Pandemic" on the 11 March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries. Market activity is being affected in many sectors and we have subsequently introduced material uncertainty provisions into our valuation. We are unable to provide an estimate of the financial effect that this event would have on the value of the subject. Given the unknown future impact that COVID-19 might have on the global economy, we recommend that you keep the valuation of the subject under frequent review and understand that the value could have changed since the Valuation Date.

Further, we are instructed to provide our opinion of value as per the Valuation Date only. It is based on economic, market and other conditions as they exist on, and information made available to us as of, the Valuation Date and we assume no obligation to update or otherwise revise these materials for events in the time since then. In particular, the disruption caused by the outbreak has poised a downward risk towards the future financial performance. It may also have a negative impact towards investment sentiment, and hence any form of required rate of return as well as liquidity of any asset. As of the report date, it is uncertain how long the disruption will last and to what extent it will affect the global economy. There are volatility and uncertainty that values may change significantly and unexpectedly even over short periods. Readers are reminded that we do not intend to provide an opinion of value as of any date after the Valuation Date in this Report.

This report is issued subject to our Limiting Conditions as attached.

INDEPENDENCE DECLARATION

We confirm that to the best of our knowledge and belief, we are independent of the Company and Target I, and have not contravened any independence requirements stipulated as per our professional memberships. Our fee is not contingent upon our conclusion of value.

CONCLUSION OF VALUE

Based on the results of our investigations and analyses, we are of the opinion that the market value of 100% equity interest in Target I as at the Valuation Date is reasonably stated at the amount of **HKD 2,171 million**.

Yours faithfully,
For and on behalf of
Jones Lang LaSalle Corporate Appraisal and Advisory Limited
Simon M.K. Chan
Executive Director

Notes: Mr. Simon M.K. Chan is a fellow (FCPA) of the Hong Kong Institute of Certified Public Accountants (HKICPA) and CPA Australia. He is also fellow of the Royal Institution of Chartered Surveyors (FRICS) where he now serves on their North Asia Valuation Practice Group. He is an International Certified Valuation Specialist (ICVS) and a Chartered Valuer and Appraiser (Singapore). He oversees the business valuation services of JLL and has over 20 years of accounting, auditing, corporate advisory and valuation experiences. He has provided a wide range of valuation services to numerous listed and listing companies of different industries in the PRC, Hong Kong, Singapore and the United States.

LIMITING CONDITIONS

1. In the preparation of this report, we relied on the accuracy, completeness and reasonableness of the financial information, forecast, assumptions and other data provided to us by the Company / Target I and/or its representatives. We did not carry out any work in the nature of an audit and neither are we required to express an audit or viability opinion. We take no responsibility for the accuracy of such information. Our report was used as part of the analysis of the Company / Target I in reaching their conclusion of value and due to the above reasons, the ultimate responsibility of the derived value of the valuation subject rests solely with the Company.

2. We have explained as part of our service engagement procedure that it is the director's responsibility to ensure proper books of accounts are maintained, and the financial information and forecast give a true and fair view and have been prepared in accordance with the relevant standards and companies ordinance.

3. Public information and industry and statistical information have been obtained from sources we deem to be reputable; however, we make no representation as to the accuracy or completeness of such information, and have accepted the information without any verification.

4. The board of directors and the management of Company / Target I have reviewed this report and agreed and confirmed that the basis, assumptions, calculations and results are appropriate and reasonable.

5. JLL shall not be required to give testimony or attendance in court or to any government agency by reason of this exercise, with reference to the project described herein. Should there be any kind of subsequent services required, the corresponding expenses and time costs will be reimbursed from you. Such kind of additional work may incur without prior notification to you.

6. No opinion is intended to be expressed for matters which require legal or other specialised expertise, which is out of valuers' capacity.

7. The use of and/or the validity of the report is subject to the terms of the agreement and the full settlement of the fees and all the expenses.

8. Our conclusions assume continuation of prudent and effective management policies over whatever period of time that is considered to be necessary in order to maintain the character and integrity of the valuation subject.

9. We assume that there are no hidden or unexpected conditions associated with the subject matter under review that might adversely affect the reported review result. Further, we assume no responsibility for changes in market conditions, government policy or other conditions after the Valuation Date. We cannot provide assurance on the achievability of the results forecasted by the Company / Target I because events and circumstances frequently do not occur as expected; difference between actual and expected results may be material; and achievement of the forecasted results is dependent on actions, plans and assumptions of management.

10. This report has been prepared solely for internal use purpose. The report should not be otherwise referred to, in whole or in part, or quoted in any document, circular or statement in any manner, or distributed in whole or in part or copied to any third party without our prior written consent. Even with our prior written consent for such, we are not be liable to any third party except for our client for this report. Our client should remind of any third party who will receive this report and the client will need to undertake any consequences resulted from the use of this report by the third party. We shall not under any circumstances whatsoever be liable to any third party.

11. This report is confidential to the Company and the calculation of values expressed herein is valid only for the purpose stated in the agreement as at the Valuation Date. In accordance with our standard practice, we must state that this report and exercise is for the use only by the party to whom it is addressed to and no responsibility is accepted with respect to any third party for the whole or any part of its contents.

12. Where a distinct and definite representation has been made to us by parties interested in the valuation subject, we are entitled to rely on that representation without further investigation into the veracity of the representation.

13. The Company / Target I agrees to indemnify and hold us and our personnel harmless against and from any and all losses, claims, actions, damages, expenses or liabilities, including reasonable attorney's fees, to which we may become subjects in connection with this engagement. Our maximum liability relating to services rendered under this engagement (regardless of form of action, whether in contract, negligence or otherwise) shall be limited to the fee paid to us for the portion of its services or work products giving rise to liability. In no event shall we be liable for consequential, special, incidental or punitive loss, damage or expense (including without limitation, lost profits, opportunity costs, etc.), even if it has been advised of their possible existence.

14. This exercise is premised in part on the historical financial information and future forecast provided by the management of the Company / Target I and/or its representatives. We have assumed the accuracy and reasonableness of the information provided and relied to a considerable extent on such information in our calculation of value. Since projections relate to the future, there will usually be differences between projections and actual results and in some cases, those variances may be material. Accordingly, to the extent any of the above mentioned information requires adjustments, the resulting value may differ significantly.

15. This report and the conclusion of values arrived at herein are for the exclusive use of our client for the sole and specific purposes as noted herein. Furthermore, the report and conclusion of values are not intended by the author, and should not be construed by any reader, to be investment advice or as financing or transaction reference in any manner whatsoever. The conclusion of values represents the consideration based on the information furnished by the Company / Target I and other sources. Actual transactions involving the valuation subject might be concluded at a higher or lower value, depending upon the circumstances of the transaction and the knowledge and motivation of the buyers and sellers at that time.

16. The board of directors, management, staff, and representatives of the Company / Target I have confirmed to us that they are independent to JLL in this Valuation or calculation exercise. Should there be any conflict of interest or potential independence issue that may affect our independence in our work, the Company / Target I and/or its representatives should inform us immediately and we may need to discontinue our work and we may charge our fee to the extent of our work performed or our manpower withheld or engaged.

JLL®
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
Company Licence No.: C-030171

27 March 2020

The Board of Directors
China Travel International Investment Hong Kong Limited
12th Floor, CTS House
78-83 Connaught Road Central
Hong Kong

Dear Sirs,

In accordance with the instructions from China Travel International Investment Hong Kong Limited (the "Company"), Jones Lang LaSalle Corporate Appraisal and Advisory Limited ("JLL") has undertaken a valuation exercise which requires us to express an independent opinion on the market value of 100% equity interest in China Travel Tours Transportation Development (HK) Limited ("Target II") as at 30 September 2019 (the "Valuation Date").

The purpose of this valuation is for internal reference by the Company and inclusion in its public disclosure.

Our valuation was 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".

BACKGROUND OF TARGET II

Target II is a company incorporated in the British Virgin Islands and it is an investment holding company. Target II, together with its subsidiaries, is principally engaged in the operation of cross-border land transportation services and other ancillary businesses. Target II provides cross-border bus and chartered bus services covering all major cities in the Greater Bay Area. As at the Valuation Date, Target II is a wholly-owned subsidiary of the Company.

SOURCE OF INFORMATION

In conducting our valuation of the market value of 100% equity interest in Target II, we have reviewed information from several sources, including, but not limited to:

- Background of Target II and relevant corporate information;

- Historical financial information of Target II;

- Business licenses of Target II; and
- Other operation and market information in relation to Target II's business.

We have held discussions with management of the Company and Target II, conducted market research from public sources to assess the reasonableness and fairness of information provided. We assumed such information to be reliable and legitimate; and we have relied to a considerable extent on the information provided in arriving at our conclusion of value.

BASIS OF OPINION

We have conducted our valuation in accordance with International Valuation Standards issued by International Valuation Standards Council ("IVSC"). The valuation procedures employed include a review of legal status and economic conditions of Target II and an assessment of key assumptions, estimates, and representations made by the proprietor or the operator of Target II. All matters we consider essential to the proper understanding of the valuation are disclosed in this valuation report.

The following factors form an integral part of our basis of opinion:

- The economic outlook in general;
- The nature of business and history of the operation concerned;
- The financial condition of Target II;
- Market-driven investment returns of companies engaged in similar lines of business;
- Financial and business risk of the business including continuity of income;
- Consideration and analysis on the micro and macro economy affecting the subject business; and
- Assessment of the liquidity of the subject business.

We planned and performed our valuation so as to obtain all the information and explanations that we considered necessary in order to provide us with sufficient evidence to express our opinion on Target II.

VALUATION METHODOLOGY

In arriving at our assessed value, we have considered three generally accepted approaches, namely market approach, cost approach and income approach.

Market Approach considers prices recently paid for similar assets, with adjustments made to market prices to reflect condition and utility of the appraised assets relative to the market comparative. Assets for which there is an established secondary market may be valued by this approach. Benefits of using this approach include its simplicity, clarity, speed and the need for few or no assumptions. It also introduces objectivity in application as publicly available inputs are used. However, one has to be wary of the hidden assumptions in those inputs as there are inherent assumptions on the value of those comparable assets. It is also difficult to find comparable assets. Furthermore, this approach relies exclusively on the efficient market hypothesis.

Cost Approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation or obsolescence present, whether arising from physical, functional or economic causes. The cost approach generally furnishes the most reliable indication of value for assets without a known secondary market. Despite the simplicity and transparency of this approach, it does not directly incorporate information about the economic benefits contributed by the subject assets.

Income Approach is the conversion of expected periodic benefits of ownership into an indication of value. It is based on the principle that an informed buyer would pay no more for the project than an amount equal to the present worth of anticipated future benefits (income) from the same or a substantially similar project with a similar risk profile. This approach allows for the prospective valuation of future profits and there are numerous empirical and theoretical justifications for the present value of expected future cash flows. However, this approach relies on numerous assumptions over a long time horizon and the result may be very sensitive to certain inputs. It also presents a single scenario only.

In our opinion, the income approach and cost approach are inappropriate for valuing Target II. Firstly, the income approach requires subjective assumptions to which the valuation is highly sensitive. Detailed operational information and long-term financial projections are also needed to arrive at an indication of value but such information is not available as at the Valuation Date. Secondly, the cost approach does not directly incorporate information about the economic benefits contributed by the subject business.

In view of the above, we have adopted the market approach for the valuation. The market approach considers prices recently paid for similar assets, with adjustments made to market prices to reflect condition and utility of the appraised assets relative to the market comparable. Assets for which there is an established secondary market may be valued by this approach. Benefits of using this approach include its simplicity, clarity, speed and the need for few or no assumptions. It also introduces objectivity in application as publicly available inputs are used.

In this valuation exercise, the market value of the 100% equity interest in Target II was developed through the application of the market approach technique known as the guideline public company method. This method requires the research of comparable companies' benchmark multiples and proper selection of a suitable multiple to derive the market value of the 100% equity interest in Target II. In order to reflect the latest financial performance and position of Target II, it is considered that the suitable multiple in this valuation is the current enterprise value to EBITDA ratio (the "EV/EBITDA Ratio"), which is defined as the current enterprise value to the normalized earnings before interest, tax, depreciation and amortization of Target II for the trailing 12 months. EV/EBITDA is a capital structure neutral ratio since it takes into account the debt and earnings before interest expenses. It allows us to compare Target II against the comparable companies without considering how each comparable company finances its operations.

MAJOR ASSUMPTIONS

Assumptions considered to have significant sensitivity effects in this valuation have been evaluated in order to provide a more accurate and reasonable basis for arriving at our assessed value.

The following key assumptions in determining the market value of the equity interest have been made:

- We have assumed that there will be no material change in the existing political, legal, technological, fiscal or economic conditions, which might adversely affect the business of Target II;

- We have assumed that the operational and contractual terms stipulated in the relevant contracts and agreements will be honoured;

- We have assumed that the facilities and systems proposed are sufficient for future expansion in order to realize the growth potential of the business and maintain a competitive edge;

- We have been provided with copies of the operating licenses and incorporation documents of Target II. We have assumed such information to be reliable and legitimate. We have relied to a considerable extent on such information provided in arriving at our conclusion of value;

- We have assumed the accuracy of the financial and operational information provided to us by Target II and relied to a considerable extent on such information in arriving at our conclusion of value;

- We have assumed that there are no hidden or unexpected conditions associated with the asset valued that might adversely affect the reported value. Further, we assume no responsibility for changes in market conditions after the Valuation Date; and

- Target II has a loan from the immediate holding company amounted to approximately HKD 160 million. As advised by the Company, this loan has been outstanding without any change in amount for over 20 years and has never been repaid, as at the Valuation Date. After the discussion with the company, this loan is considered as equity in nature.

MARKET MULTIPLE

In determining the price multiple, a list of comparable companies was identified. The selection criteria are listed below.

1. The companies derive most, if not all, of their revenues from the same industry of Target II, i.e., land transportation service and/or related business principally in Hong Kong and/or the PRC;

2. The comparable companies are searchable in Bloomberg;

3. The comparable companies are publicly listed in a major exchange; and

4. Sufficient data, including the EV/EBITDA Ratio as at the Valuation Date, on the comparable companies are available.

As sourced from Bloomberg, an exhaustive list of comparable companies satisfying the above criteria was obtained on a best effort basis. The details of the comparable companies are listed below:

Bloomberg Ticker	Company Name	Company Description
62 HK Equity	Transport International Holdings Ltd	Transport International Holdings Ltd, through its subsidiaries, operates both franchised and non-franchised public buses in Hong Kong.
306 HK Equity	Kwoon Chung Bus Holdings Ltd	Kwoon Chung Bus Holdings Limited, through its subsidiaries, provides designated bus routes services, non-franchised and franchised bus services, and other transportation services.
3399 HK Equity	Guangdong Yueyun Transportation Co Ltd-H	Guangdong Yueyun Transportation Company Limited provides transit services. The company offers automobile transportation, interurban bus transportation, rural bus transportation, and other services.

Bloomberg Ticker	**Company Name**	**Company Description**
002357 CH Equity	Sichuan Fulin Transportation Group Co Ltd	Sichuan Fulin Transportation Group Co Ltd provides vehicle maintenance, vehicle and fuel management, urban bus operations, driving training and other related supporting services, forming a large-scale transportation network.
600561 CH Equity	Jiangxi Changyun Co Ltd	Jiangxi Changyun Co., Ltd. provides bus transportation services. The company provides long distance scheduled passenger transportation, tourism transportation, and other services.
603069 CH Equity	Hainan Haiqi Transportation Group Co Ltd	Hainan Haiqi Transportation Group Company Ltd. provides transportation services.

As the businesses of the comparable companies are located in different regions, they are thus exposed to different macroeconomic and market risks. Moreover, due to the fact that the comparable companies are often of significantly different size from Target II. Larger companies generally have lower expected returns that translate into higher values. On the other hand, small companies are generally perceived as riskier in relation to business operation and financial performance, and therefore the expected returns are higher and resulting in lower multiples. Therefore, the base multiples were adjusted to reflect the difference in natures between the comparable companies and Target II.

The adjusted EV/EBITDA Ratios were calculated using the following formula:

$$\text{Adjusted EV/EBITDA Ratio} = 1 / ((1 / M) + \alpha * \varepsilon * \theta)$$

where:

M = The Base EV/EBITDA Ratio

α = The scale factor, which converts the base measure of the benefits to an alternative measure of benefits for the comparable companies

ε = The ratio of the equity value to the enterprise value of the comparable company

θ = Required adjustment in the equity discount rate for difference in size and country risk

After the aforesaid adjustment on the base EV/EBITDA Ratios, the adjusted EV/EBITDA Ratios of the comparable companies are listed as below:

Bloomberg Ticker	Company Name	Base EV/EBITDA Ratio	Adjusted EV/EBITDA Ratio
62 HK Equity	Transport International Holdings Ltd	6.17	3.63
306 HK Equity	Kwoon Chung Bus Holdings Ltd	4.72	4.69
3399 HK Equity	Guangdong Yueyun Transportation Co Ltd-H	4.23	4.26
002357 CH Equity	Sichuan Fulin Transportation Group Co Ltd	14.14	15.36
600561 CH Equity	Jiangxi Changyun Co Ltd	7.42	7.58
603069 CH Equity	Hainan Haiqi Transportation Group Co Ltd	7.89	8.45
	Median	6.79	6.13

ADDITIONAL CONSIDERATION

Discount for Lack of Marketability ("DLOM")

The concept of marketability deals with the liquidity of an ownership interest, that is how quickly and easily it can be converted to cash if the owner chooses to sell. The lack of marketability discount reflects the fact that there is no ready market for shares in privately held companies which are typically not readily marketable compared to similar interest in public companies. Therefore, a share of stock in a privately held company is usually worth less than an otherwise comparable share in a publicly held company.

With reference to the relevant database sourced from Bloomberg, we have applied the European put option to estimate the discount. DLOM at 11.80% is applied to the value calculated from the Comparable Companies, in estimating the market value of the 100% equity interest in Target II as at the Valuation Date.

Control Premium

Control premium is an amount by which the pro rata value of a controlling interest exceeds the pro rata value of a non-controlling interest a business enterprise that reflects the power of a control. Both factors recognize that controlling owners have rights that minority owners do not and that the difference in those rights and, perhaps more importantly, how those rights are exercisable and to what economic benefits, cause a differential in the per-share value of a control ownership block versus a minority ownership block.

In this valuation exercise, we adopted a control premium of 20.30% which is based on the international medium control premium of a control premium study published by FactSet Mergerstat, LLC, which examines transactions whereby 50.01% or more of a company was acquired.

CALCULATION OF VALUATION RESULT

Under the guideline public company method, the market value depends on the market multiples of the comparable companies derived from Bloomberg as at the Valuation Date. We have also taken into account the two factors, including the DLOM and control premium. The calculation of the market value of the 100% equity interest in Target II as at the Valuation Date is as follows:

	As at 30 September 2019 *(HKD Million)*
Trailing 12 months EBITDA of Target II	80.10
Adjusted EV/EBITDA Ratio	6.13x
Enterprise Value of Target II	**491.27**
Add: Other financial assets	8.44
Add: Amounts due from related parties	13.47
Add: Cash and bank balances	66.70
Less: Amounts due to related parties	(14.12)
Less: Deferred tax liabilities	(6.53)
Equity Value of Target II	**559.22**
Less: Minority Interest	(91.88)
Equity Value attributable to the Shareholder	**467.34**
Less: DLOM	(55.13)
Add: Control Premium	83.68
Market Value of 100% Equity Interest in Target II (Rounded)	**496.00**

Note: Throughout the report, the total may not correspond with the sum of the separate figures due to rounding.

VALUATION COMMENT

The conclusion of value is based on accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. Further, while the assumptions and other relevant factors are considered by us to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of Target II, the Company and JLL.

We do not intend to express any opinion on matters which require legal or other specialized expertise or knowledge, beyond what is customarily employed by valuers. Our conclusions assume continuation of prudent management of Target II over whatever period of time that is reasonable and necessary to maintain the character and integrity of the assets valued.

The outbreak of the Novel Coronavirus disease (COVID-19), declared by the World Health Organisation as a "Global Pandemic" on the 11 March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries. Market activity is being affected in many sectors and we have subsequently introduced material uncertainty provisions into our valuation. We are unable to provide an estimate of the financial effect that this event would have on the value of the subject. Given the unknown future impact that COVID-19 might have on the global economy, we recommend that you keep the valuation of the subject under frequent review and understand that the value could have changed since the Valuation Date.

Further, we are instructed to provide our opinion of value as per the Valuation Date only. It is based on economic, market and other conditions as they exist on, and information made available to us as of, the Valuation Date and we assume no obligation to update or otherwise revise these materials for events in the time since then. In particular, the disruption caused by the outbreak has poised a downward risk towards the future financial performance. It may also have a negative impact towards investment sentiment, and hence any form of required rate of return as well as liquidity of any asset. As of the report date, it is uncertain how long the disruption will last and to what extent it will affect the global economy. There are volatility and uncertainty that values may change significantly and unexpectedly even over short periods. Readers are reminded that we do not intend to provide an opinion of value as of any date after the Valuation Date in this Report.

This report is issued subject to our Limiting Conditions as attached.

INDEPENDENCE DECLARATION

We confirm that to the best of our knowledge and belief, we are independent of the Company and Target II, and have not contravened any independence requirements stipulated as per our professional memberships. Our fee is not contingent upon our conclusion of value.

CONCLUSION OF VALUE

Based on the results of our investigations and analyses, we are of the opinion that the market value of 100% equity interest in Target II as at the Valuation Date is reasonably stated at the amount of **HKD 496 million**.

Yours faithfully,
For and on behalf of
Jones Lang LaSalle Corporate Appraisal and Advisory Limited
Simon M.K. Chan
Executive Director

Notes: Mr. Simon M.K. Chan is a fellow (FCPA) of the Hong Kong Institute of Certified Public Accountants (HKICPA) and CPA Australia. He is also fellow of the Royal Institution of Chartered Surveyors (FRICS) where he now serves on their North Asia Valuation Practice Group. He is an International Certified Valuation Specialist (ICVS) and a Chartered Valuer and Appraiser (Singapore). He oversees the business valuation services of JLL and has over 20 years of accounting, auditing, corporate advisory and valuation experiences. He has provided a wide range of valuation services to numerous listed and listing companies of different industries in the PRC, Hong Kong, Singapore and the United States.

LIMITING CONDITIONS

1. In the preparation of this report, we relied on the accuracy, completeness and reasonableness of the financial information, forecast, assumptions and other data provided to us by the Company / Target II and/or its representatives. We did not carry out any work in the nature of an audit and neither are we required to express an audit or viability opinion. We take no responsibility for the accuracy of such information. Our report was used as part of the analysis of the Company / Target II in reaching their conclusion of value and due to the above reasons, the ultimate responsibility of the derived value of the valuation subject rests solely with the Company.

2. We have explained as part of our service engagement procedure that it is the director's responsibility to ensure proper books of accounts are maintained, and the financial information and forecast give a true and fair view and have been prepared in accordance with the relevant standards and companies ordinance.

3. Public information and industry and statistical information have been obtained from sources we deem to be reputable; however, we make no representation as to the accuracy or completeness of such information, and have accepted the information without any verification.

4. The board of directors and the management of Company / Target II have reviewed this report and agreed and confirmed that the basis, assumptions, calculations and results are appropriate and reasonable.

5. JLL shall not be required to give testimony or attendance in court or to any government agency by reason of this exercise, with reference to the project described herein. Should there be any kind of subsequent services required, the corresponding expenses and time costs will be reimbursed from you. Such kind of additional work may incur without prior notification to you.

6. No opinion is intended to be expressed for matters which require legal or other specialised expertise, which is out of valuers' capacity.

7. The use of and/or the validity of the report is subject to the terms of the agreement and the full settlement of the fees and all the expenses.

8. Our conclusions assume continuation of prudent and effective management policies over whatever period of time that is considered to be necessary in order to maintain the character and integrity of the valuation subject.

9. We assume that there are no hidden or unexpected conditions associated with the subject matter under review that might adversely affect the reported review result. Further, we assume no responsibility for changes in market conditions, government policy or other conditions after the Valuation Date. We cannot provide assurance on the achievability of the results forecasted by the Company / Target II because events and circumstances frequently do not occur as expected; difference between actual and expected results may be material; and achievement of the forecasted results is dependent on actions, plans and assumptions of management.

10. This report has been prepared solely for internal use purpose. The report should not be otherwise referred to, in whole or in part, or quoted in any document, circular or statement in any manner, or distributed in whole or in part or copied to any third party without our prior written consent. Even with our prior written consent for such, we are not be liable to any third party except for our client for this report. Our client should remind of any third party who will receive this report and the client will need to undertake any consequences resulted from the use of this report by the third party. We shall not under any circumstances whatsoever be liable to any third party.

11. This report is confidential to the Company and the calculation of values expressed herein is valid only for the purpose stated in the agreement as at the Valuation Date. In accordance with our standard practice, we must state that this report and exercise is for the use only by the party to whom it is addressed to and no responsibility is accepted with respect to any third party for the whole or any part of its contents.

12. Where a distinct and definite representation has been made to us by parties interested in the valuation subject, we are entitled to rely on that representation without further investigation into the veracity of the representation.

13. The Company / Target II agrees to indemnify and hold us and our personnel harmless against and from any and all losses, claims, actions, damages, expenses or liabilities, including reasonable attorney's fees, to which we may become subjects in connection with this engagement. Our maximum liability relating to services rendered under this engagement (regardless of form of action, whether in contract, negligence or otherwise) shall be limited to the fee paid to us for the portion of its services or work products giving rise to liability. In no event shall we be liable for consequential, special, incidental or punitive loss, damage or expense (including without limitation, lost profits, opportunity costs, etc.), even if it has been advised of their possible existence.

14. This exercise is premised in part on the historical financial information and future forecast provided by the management of the Company / Target II and/or its representatives. We have assumed the accuracy and reasonableness of the information provided and relied to a considerable extent on such information in our calculation of value. Since projections relate to the future, there will usually be differences between projections and actual results and in some cases, those variances may be material. Accordingly, to the extent any of the above mentioned information requires adjustments, the resulting value may differ significantly.

15. This report and the conclusion of values arrived at herein are for the exclusive use of our client for the sole and specific purposes as noted herein. Furthermore, the report and conclusion of values are not intended by the author, and should not be construed by any reader, to be investment advice or as financing or transaction reference in any manner whatsoever. The conclusion of values represents the consideration based on the information furnished by the Company / Target II and other sources. Actual transactions involving the valuation subject might be concluded at a higher or lower value, depending upon the circumstances of the transaction and the knowledge and motivation of the buyers and sellers at that time.

16. The board of directors, management, staff, and representatives of the Company / Target II have confirmed to us that they are independent to JLL in this Valuation or calculation exercise. Should there be any conflict of interest or potential independence issue that may affect our independence in our work, the Company / Target II and/or its representatives should inform us immediately and we may need to discontinue our work and we may charge our fee to the extent of our work performed or our manpower withheld or engaged.

JLL
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
Company Licence No.: C-030171

27 March 2020

The Board of Directors
China Travel International Investment Hong Kong Limited
12th Floor, CTS House
78-83 Connaught Road Central
Hong Kong

Dear Sirs,

In accordance with the instructions from China Travel International Investment Hong Kong Limited (the "Company"), Jones Lang LaSalle Corporate Appraisal and Advisory Limited ("JLL") has undertaken a valuation exercise which requires us to express an independent opinion on the market value of 100% equity interest in Jointmight Investments Limited ("Target III") as at 30 September 2019 (the "Valuation Date").

The purpose of this valuation is for internal reference by the Company and inclusion in its public disclosure.

Our valuation was 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".

BACKGROUND OF TARGET III

Target III is incorporated under the laws of the British Virgin Islands and it is an investment holding company. Through its invested companies, Target III is principally engaged in the provision of cross border coach bus services and travel agency service in Macau.

As at the Valuation Date, the audited total assets and net assets of Target III amounted to approximately HKD 77.90 million and HKD 77.89 million, respectively. Details is as below:

	As at 30 September 2019 *(HKD million)*
ASSETS	
Non-current assets	
Investment in an associate	29.81
Investment in a joint venture	38.12
	67.93
Current assets	
Account receivables	8.02
Dividend receivables	1.95
	9.97
LIABILITIES	
Current liabilities	
Accrued liabilities	0.00
	0.00
Net assets	**77.89**

Note: Throughout the report, the total may not correspond with the sum of the separate figures due to rounding.

As at the Valuation Date, Target III owns an interest in the following associate:

Name	**Place of incorporation/ operation**	**Ownership interest held by Target III**	**Principal activities**
China International Travel Service (Macao) Ltd.	Macau	39%	Travel agency and travel relating services

As at the Valuation Date, Target III owns an interest in the following joint venture:

Name	Place of incorporation/ operation	Ownership interest held by Target III	Principal activities
Shun Tak & CITS Coach (Macao) Ltd.	Macau	36%	Coach rental services in Macau and cross-boundary coach services between Macau and Guangzhou

SOURCES OF INFORMATION

In conducting our valuation of the market value of 100% equity interest in Target III, we have reviewed information from several sources, including, but not limited to:

- Background of Target III and relevant corporate information;
- Historical financial information of Target III;
- Business licenses of Target III; and
- Other operation and market information in relation to Target III's business.

We have held discussions with management of the Company and Target III, conducted market research from public sources to assess the reasonableness and fairness of information provided. We assumed such information to be reliable and legitimate; and we have relied to a considerable extent on the information provided in arriving at our conclusion of value.

BASIS OF OPINION

We have conducted our valuation in accordance with International Valuation Standards issued by International Valuation Standards Council ("IVSC"). The valuation procedures employed include a review of legal status and economic condition of Target III and an assessment of key assumptions, estimates and representations made by the proprietor or the operator of Target III. All matters we consider essential to the proper understanding of the valuation are disclosed in this valuation report.

The following factors form an integral part of our basis of opinion:

- The economic outlook in general;
- The nature of business and history of the operation concerned;
- The financial condition of Target III;

- Market-driven investment returns of companies engaged in similar lines of business;

- Financial and business risk of the business;

- Consideration and analysis on the micro and macro economy affecting the subject assets; and

- Assessment of the liquidity of the subject assets.

We planned and performed our valuation so as to obtain all the information and explanations that we considered necessary in order to provide us with sufficient evidence to express our opinion on Target III.

VALUATION METHODOLOGY

In arriving at our assessed value, we have considered three generally accepted approaches, namely market approach, cost approach and income approach.

Market Approach considers prices recently paid for similar assets, with adjustments made to market prices to reflect condition and utility of the appraised assets relative to the market comparative. Assets for which there is an established secondary market may be valued by this approach. Benefits of using this approach include its simplicity, clarity, speed and the need for few or no assumptions. It also introduces objectivity in application as publicly available inputs are used. However, one has to be wary of the hidden assumptions in those inputs as there are inherent assumptions on the value of those comparable assets. It is also difficult to find comparable assets. Furthermore, this approach relies exclusively on the efficient market hypothesis.

Cost Approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation or obsolescence present, whether arising from physical, functional or economic causes. The cost approach generally furnishes the most reliable indication of value for assets without a known secondary market. Despite the simplicity and transparency of this approach, it does not directly incorporate information about the economic benefits contributed by the subject assets.

Income Approach is the conversion of expected periodic benefits of ownership into an indication of value. It is based on the principle that an informed buyer would pay no more for the project than an amount equal to the present worth of anticipated future benefits (income) from the same or a substantially similar project with a similar risk profile. This approach allows for the prospective valuation of future profits and there are numerous empirical and theoretical justifications for the present value of expected future cash flows. However, this approach relies on numerous assumptions over a long time horizon and the result may be very sensitive to certain inputs. It also presents a single scenario only.

Given the unique characteristics of Target III, there are substantial limitations for the income approach and the market approach for valuing the underlying asset. Firstly, the income approach requires subjective assumptions to which the valuation is highly sensitive and detailed operational information and long-term financial projections are also needed to arrive at an indication of value. Secondly, the market approach relies generally on deriving value through a measure of the values of market comparables or transactions. Considering the unique characteristics of Target III, there was a lack of market comparables or transactions available as at the Valuation Date to derive an indicative value with a sufficient level of accuracy.

Under the cost approach, the summation method is typically adopted for a valuation subject when its value is primarily a factor of the value of the valuation subject's holding assets and liabilities. The table below lists out the adopted valuation approach for each identifiable asset and liability of Target III.

Item	**Valuation Approach**
Investment in an associate	Developed through the cost approach.
Investment in a joint venture	Developed through the cost approach.
Other assets and liabilities	Developed through the cost approach.

SUMMARY OF THE SUMMATION METHOD

In arriving at our opinion of the market value of 100% equity interest in Target III, we have adopted the following approaches in the valuation of various categories of assets and liabilities:

Investment in an associate

The investment in an associate refers to the 39% equity interest in China International Travel Service (Macao) Ltd. In assessing its market value, we adopted the summation method under the cost approach. We considered this method appropriate due to its financial position and recent financial performance.

The largest asset class of the associate is the property, plant and equipment, which consists of properties and other fixed assets.

The properties held by the associate are located in Macau and the PRC. They were valued based on the direct comparison method under market approach and income approach. Direct comparison method is based on comparing the property to be valued directly with other comparable properties which recently changed hands. These premises are generally located in the surrounding areas or in another market, which is comparable to the subject property. We have also adopted the income approach in our valuation by taking into account the net rental income of the property derived from the existing leases with due allowance for the reversionary income potential of the leases, which have been then capitalized to determine the market value at appropriate capitalization rates.

Other fixed assets are mainly the coaches. we have utilized either market approach or cost approach for our value conclusion. To arrive at the market value from the market approach, we considered prices recently paid for similar assets, with adjustments made to the indicated market prices to reflect condition and utility of the appraised assets relative to the market comparative.

Where an active secondary market did not exist, we valued the assets by using the cost approach. We began by developing current replacement cost new for similar or equivalent units. Then, we deducted the physical depreciation, functional and economic obsolescence from the replacement cost new for our value conclusion.

Investment in a joint venture

The investment in a joint venture refers to the 36% equity interest in Shun Tak & CITS Coach (Macao) Ltd. In assessing its market value, we adopted the summation method under the cost approach. We considered this method appropriate due to its financial position and recent financial performance.

The largest asset class of the joint venture is the property, plant and equipment, which consists of the coaches. We have utilized either market approach or cost approach for our value conclusion. To arrive at the market value from the market approach, we considered prices recently paid for similar assets, with adjustments made to the indicated market prices to reflect condition and utility of the appraised assets relative to the market comparative.

Where an active secondary market did not exist, we valued the assets by using the cost approach. We began by developing current replacement cost new for similar or equivalent units. Then, we deducted the physical depreciation, functional and economic obsolescence from the replacement cost new for our value conclusion.

Others assets and liabilities

Others assets and liabilities represent items other than investment in an associate and investment in a joint venture, which include, account receivable, dividend receivables and accrued liabilities. We adopted the cost approach in assessing the value of these items by their respective replacement cost. Since these items were commonly found in an ordinary business, the value of these items in the financial statements of Target III has already reflected the replacement cost in the market.

MAJOR ASSUMPTIONS

Assumptions considered to have significant sensitivity effects in this valuation have been evaluated in order to provide a more accurate and reasonable basis for arriving at our assessed value.

The following key assumptions in determining the market value of the equity interest have been made:

- We have assumed that there will be no material change in the existing political, legal, technological, fiscal or economic conditions, which might adversely affect the business of Target III;

- We have assumed that the operational and contractual terms stipulated in the relevant contracts and agreements will be honoured;

- We have assumed that the facilities and systems proposed are sufficient for future expansion in order to realize the growth potential of the business and maintain a competitive edge;

- We have been provided with copies of the operating licenses and incorporation documents of Target III. We have assumed such information to be reliable and legitimate. We have relied to a considerable extent on such information provided in arriving at our conclusion of value;

- We have assumed the accuracy of the financial and operational information provided to us by Target III and relied to a considerable extent on such information in arriving at our conclusion of value; and

- We have assumed that there are no hidden or unexpected conditions associated with the asset valued that might adversely affect the reported value. Further, we assume no responsibility for changes in market conditions after the Valuation Date.

CALCULATION OF VALUATION RESULT

The calculation of the market value of 100% equity interest in Target III as at the Valuation Date is as follows:

	As at 30 September 2019 *(HKD million)*
ASSETS	
Non-current assets	
Investment in an associate	55.00
Investment in a joint venture	46.00
	101.00
Current assets	
Account receivables	8.02
Dividend receivables	1.95
	9.97
LIABILITIES	
Current liabilities	
Accrued liabilities	0.00
	0.00
Market Value of 100% Equity Interest in Target III (Rounded)	111.00

VALUATION COMMENT

The conclusion of value is based on accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. Further, while the assumptions and other relevant factors are considered by us to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of Target III, the Company and and JLL.

We do not intend to express any opinion on matters which require legal or other specialized expertise or knowledge, beyond what is customarily employed by valuers. Our conclusions assume continuation of prudent management of Target III over whatever period of time that is reasonable and necessary to maintain the character and integrity of the assets valued.

The outbreak of the Novel Coronavirus disease (COVID-19), declared by the World Health Organisation as a “Global Pandemic” on the 11 March 2020, has impacted global financial markets.

Travel restrictions have been implemented by many countries. Market activity is being affected in many sectors and we have subsequently introduced material uncertainty provisions into our valuation. We are unable to provide an estimate of the financial effect that this event would have on the value of the subject. Given the unknown future impact that COVID-19 might have on the global economy, we recommend that you keep the valuation of the subject under frequent review and understand that the value could have changed since the Valuation Date.

Further, we are instructed to provide our opinion of value as per the Valuation Date only. It is based on economic, market and other conditions as they exist on, and information made available to us as of, the Valuation Date and we assume no obligation to update or otherwise revise these materials for events in the time since then. In particular, the disruption caused by the outbreak has poised a downward risk towards the future financial performance. It may also have a negative impact towards investment sentiment, and hence any form of required rate of return as well as liquidity of any asset. As of the report date, it is uncertain how long the disruption will last and to what extent it will affect the global economy. There are volatility and uncertainty that values may change significantly and unexpectedly even over short periods. Readers are reminded that we do not intend to provide an opinion of value as of any date after the Valuation Date in this Report.

This report is issued subject to our Limiting Conditions as attached.

INDEPENDENCE DECLARATION

We confirm that to the best of our knowledge and belief, we are independent of the Company and Target III, and have not contravened any independence requirements stipulated as per our professional memberships. Our fee is not contingent upon our conclusion of value.

CONCLUSION OF VALUE

Based on the results of our investigations and analyses, we are of the opinion that the market value of 100% equity interest in Target III as at the Valuation Date is reasonably stated at the amount of **HKD 111 million**.

Yours faithfully,
For and on behalf of
Jones Lang LaSalle Corporate Appraisal and Advisory Limited
Simon M.K. Chan
Executive Director

Notes: Mr. Simon M.K. Chan is a fellow (FCPA) of the Hong Kong Institute of Certified Public Accountants (HKICPA) and CPA Australia. He is also fellow of the Royal Institution of Chartered Surveyors (FRICS) where he now serves on their North Asia Valuation Practice Group. He is an International Certified Valuation Specialist (ICVS) and a Chartered Valuer and Appraiser (Singapore). He oversees the business valuation services of JLL and has over 20 years of accounting, auditing, corporate advisory and valuation experiences. He has provided a wide range of valuation services to numerous listed and listing companies of different industries in the PRC, Hong Kong, Singapore and the United States.

LIMITING CONDITIONS

1. In the preparation of this report, we relied on the accuracy, completeness and reasonableness of the financial information, forecast, assumptions and other data provided to us by the Company / Target III and/or its representatives. We did not carry out any work in the nature of an audit and neither are we required to express an audit or viability opinion. We take no responsibility for the accuracy of such information. Our report was used as part of the analysis of the Company / Target III in reaching their conclusion of value and due to the above reasons, the ultimate responsibility of the derived value of the valuation subject rests solely with the Company.

2. We have explained as part of our service engagement procedure that it is the director's responsibility to ensure proper books of accounts are maintained, and the financial information and forecast give a true and fair view and have been prepared in accordance with the relevant standards and companies ordinance.

3. Public information and industry and statistical information have been obtained from sources we deem to be reputable; however, we make no representation as to the accuracy or completeness of such information, and have accepted the information without any verification.

4. The board of directors and the management of Company / Target III have reviewed this report and agreed and confirmed that the basis, assumptions, calculations and results are appropriate and reasonable.

5. JLL shall not be required to give testimony or attendance in court or to any government agency by reason of this exercise, with reference to the project described herein. Should there be any kind of subsequent services required, the corresponding expenses and time costs will be reimbursed from you. Such kind of additional work may incur without prior notification to you.

6. No opinion is intended to be expressed for matters which require legal or other specialised expertise, which is out of valuers' capacity.

7. The use of and/or the validity of the report is subject to the terms of the agreement and the full settlement of the fees and all the expenses.

8. Our conclusions assume continuation of prudent and effective management policies over whatever period of time that is considered to be necessary in order to maintain the character and integrity of the valuation subject.

9. We assume that there are no hidden or unexpected conditions associated with the subject matter under review that might adversely affect the reported review result. Further, we assume no responsibility for changes in market conditions, government policy or other conditions after the Valuation Date. We cannot provide assurance on the achievability of the results forecasted by the Company / Target III because events and circumstances frequently do not occur as expected; difference between actual and expected results may be material; and achievement of the forecasted results is dependent on actions, plans and assumptions of management.

10. This report has been prepared solely for internal use purpose. The report should not be otherwise referred to, in whole or in part, or quoted in any document, circular or statement in any manner, or distributed in whole or in part or copied to any third party without our prior written consent. Even with our prior written consent for such, we are not be liable to any third party except for our client for this report. Our client should remind of any third party who will receive this report and the client will need to undertake any consequences resulted from the use of this report by the third party. We shall not under any circumstances whatsoever be liable to any third party.

11. This report is confidential to the Company and the calculation of values expressed herein is valid only for the purpose stated in the agreement as at the Valuation Date. In accordance with our standard practice, we must state that this report and exercise is for the use only by the party to whom it is addressed to and no responsibility is accepted with respect to any third party for the whole or any part of its contents.

12. Where a distinct and definite representation has been made to us by parties interested in the valuation subject, we are entitled to rely on that representation without further investigation into the veracity of the representation.

13. The Company / Target III agrees to indemnify and hold us and our personnel harmless against and from any and all losses, claims, actions, damages, expenses or liabilities, including reasonable attorney's fees, to which we may become subjects in connection with this engagement. Our maximum liability relating to services rendered under this engagement (regardless of form of action, whether in contract, negligence or otherwise) shall be limited to the fee paid to us for the portion of its services or work products giving rise to liability. In no event shall we be liable for consequential, special, incidental or punitive loss, damage or expense (including without limitation, lost profits, opportunity costs, etc.), even if it has been advised of their possible existence.

14. This exercise is premised in part on the historical financial information and future forecast provided by the management of the Company / Target III and/or its representatives. We have assumed the accuracy and reasonableness of the information provided and relied to a considerable extent on such information in our calculation of value. Since projections relate to the future, there will usually be differences between projections and actual results and in some cases, those variances may be material. Accordingly, to the extent any of the above mentioned information requires adjustments, the resulting value may differ significantly.

15. This report and the conclusion of values arrived at herein are for the exclusive use of our client for the sole and specific purposes as noted herein. Furthermore, the report and conclusion of values are not intended by the author, and should not be construed by any reader, to be investment advice or as financing or transaction reference in any manner whatsoever. The conclusion of values represents the consideration based on the information furnished by the Company / Target III and other sources. Actual transactions involving the valuation subject might be concluded at a higher or lower value, depending upon the circumstances of the transaction and the knowledge and motivation of the buyers and sellers at that time.

16. The board of directors, management, staff, and representatives of the Company / Target III have confirmed to us that they are independent to JLL in this Valuation or calculation exercise. Should there be any conflict of interest or potential independence issue that may affect our independence in our work, the Company / Target III and/or its representatives should inform us immediately and we may need to discontinue our work and we may charge our fee to the extent of our work performed or our manpower withheld or engaged.

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

(a) Interests of Directors and Chief Executives

As at the Latest Practicable Date, the interests and short positions of the Directors and the Company's chief executive in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules, were as follows:

Long positions in the Shares and underlying Shares

	Interests in shares			Interests in underlying shares pursuant to share options		% of the issued share capital as at the Latest Practicable Date
Name of Director	**Corporate interest**	**Personal interest**	**Family interest**		**Aggregate interests**	
Mr. Fu Zhuoyang	—	—	—	768,000	768,000	0.01%
Mr. Lo Sui On	—	600,000	—	770,000	1,370,000	0.03%
Mr. Jiang Hong	—	—	—	800,000	800,000	0.01%
Mr. You Cheng	—	450,000	—	—	450,000	0.01%
Mr. Wu Qiang	—	600,000	—	680,000	1,280,000	0.02%

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or the Company's chief executive, had any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations(within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

(b) Interests of Substantial Shareholders

As at the Latest Practicable Date, the following persons (other than the Directors or chief executive of the Company) were substantial shareholders of the Company (as defined in the Listing Rules) had interests, directly or indirectly, or short positions in the Shares and underlying Shares which were recorded in the register required to be kept by the Company under section 336 of the SFO:

Long position in the Shares

Name of shareholders	Capacity	Number of shares held	% of the issued share capital as at the Latest Practicable Date
China CTS	Interest of controlled corporation *(Note 1)*	3,385,492,610	61.15%
CTS (Holdings)	Interest of controlled corporation and beneficial owner *(Note 1 and 2)*	3,385,492,610	61.15%
Hongkong New Travel Investments Ltd. (formerly known as Alliance Power Resources Ltd.)	Beneficial owner *(Note 2)*	1,136,254,901	20.52%
CTS Asset Management (I) Limited	Interest of controlled corporation *(Note 2)*	1,136,254,901	20.52%
CNIC Corporation Limited (formerly known as GUOXIN International Investment Corporation Limited)	Interest of controlled corporation *(Note 3)*	1,115,340,456	20.14%
Ryden Holdings Company Limited	Interest of controlled corporation *(Note 3)*	1,115,340,456	20.14%
中國華馨投資有限公司	Interest of controlled corporation *(Note 3)*	1,115,340,456	20.14%
博遠投資有限公司	Interest of controlled corporation *(Note 3)*	1,115,340,456	20.14%

Notes:

1. The entire issued share capital of CTS (Holdings) is beneficially owned by China CTS. CTS (Holdings) is the immediate holding company of the Company. Accordingly, China CTS is taken to be interested in the shares in which CTS (Holdings) is interested pursuant to Part XV of the SFO and the interests of China CTS in the Company duplicate the interests of CTC (Holdings).

2. Of these 3,385,492,610 shares, 2,145,512,023 shares are held directly by CTS (Holdings). 21,190,521 shares are directly held by Foden International Limited, a wholly-owned subsidiary of CTS (Holdings). 1,136,254,901 shares are held directly by Hongkong New Travel Investments Ltd., which is owned directly as to 60% by CTS Asset Management (I) Limited and 40% by Ryden Holdings Company Limited. CTS Asset Management (I) Limited is 100% directly owned by CTS (Holdings), and CTS (Holding) and CTS Asset Management (I) Limited are deemed to be interested in the shares in which Hongkong New Travel Investments Ltd. Is interested pursuant to Part XV of the SFO.

3. 1,136,254,901 shares are held directly by Hongkong New Travel Investments Ltd., which is owned directly as to 60% by CTS Asset Management (I) Limited and 40% by Ryden Holdings Company Limited. Ryden Holdings Company Limited is 100% directly owned by CNIC Corporation Limited, which is 90% directly owned by 博遠投資有限公司, a 100%-owned subsidiary of 中國華馨投資有限公司. Ryden Holdings Company Limited, CNIC Corporation Limited, 博遠投資有限公司 and 中國華馨投資有限公司are deemed to be interested in the shares in which Hongkong New Travel Investments Ltd. is interested pursuant to Part XV of the SFO.

Save as disclosed above, the Directors are not aware of any person (other than Directors or chief executive of the Company) who, as at the Latest Practicable Date, had any interest, directly or indirectly, or short position in the Shares and underlying Shares which were recorded in the register required to be kept by the Company under Section 336 of the SFO. Save as disclosed above, as at the Latest Practicable Date, none of the Directors and the chief executive of the Company was a director or employee of a company which has an interest or short position in the Shares and underlying shares which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO.

3. LITIGATION

As at the Latest Practicable Date, none of the members of the Enlarged Group were engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

4. DIRECTORS' SERVICE CONTRACT

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

5. COMPETING INTERESTS OF DIRECTORS AND CLOSE ASSOCIATES

As at the Latest Practicable Date, to the best of the knowledge, information and belief of the Directors after having made all reasonable enquiries, none of the Directors and their respective close associates were considered to have any interest in businesses which competes or was likely to compete, whether directly or indirectly, with the business of the Group that need to be disclosed pursuant to Rule 8.10 of the Listing Rules.

6. DIRECTORS' INTERESTS IN ASSETS AND CONTRACTS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any asset which had been, since 31 December 2018 (being the date to which the latest published audited consolidated financial statements of the Company were made up), acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, any member of the Group.

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group subsisting at such date and which was significant in relation to the business of the Group.

7. QUALIFICATION AND CONSENT OF EXPERT

The following is the qualification of the experts who had given opinion contained in this circular:

Name	**Qualification**
KPMG	Certified Public Accountants
PricewaterhouseCoopers	Certified Public Accountants
HLB Hodgson Impey Cheng Limited	Certified Public Accountants
Jones Lang LaSalle Corporate Appraisal and Advisory Limited	Royal Institution of Chartered Surveyor Regulated Firm

Each of the experts above has given and has not withdrawn its written consent to the issue of this circular with the respective reports, letters and reference to their names in the form and context in which they are included.

As at the Latest Practicable Date, none of the experts were interested beneficially or otherwise in any Shares or securities in any of subsidiaries or associated corporation (within the meaning of Part XV of the SFO) of the Company and did not have any rights, whether legally enforceable or not, or option to subscribe for or to nominate persons to subscribe for any Shares or securities in any of subsidiaries or associated corporations of the Company nor did they have any interests, either direct or indirect, in any assets which have been, since 31 December 2018 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

8. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) had been entered into by the members of the Enlarged Group within two years immediately preceding the issue of this circular and are material:

(i) Target I SPA.

(ii) Target II SPA.

(iii) Target III SPA.

(iv) the master lease agreement entered into between the Company and China CTS on 31 December 2019 to (i) renew the terms of the continuing connected transactions contemplated under the master lease agreement dated 21 July 2017 for a term commencing from 1 January 2020 and ending on 31 December 2022, where the Group will continue to lease its office premises or other properties to the China CTS Group; and (ii) to govern the lease of the Group's computer system and provision of maintenance services to the China CTS Group for a term commencing from 1 January 2020 and ending on 31 December 2022. For details, please refer to the relevant announcement of the Company dated 31 December 2019.

(v) the commercial services master agreement entered into between CTS Scenery Resort Investment Company Limited, a subsidiary of the Company and Earn Success Investment Limited, a subsidiary of CTS (Holdings), pursuant to which CTS Scenery Resort Investment Company Limited agreed to provide commercial services, including land acquisition consultancy services, commercial consultancy services, design consultancy services, business invitation services, operation management services and tenancy management services, to the Earn Success Investment Limited and its subsidiaries. For details, please refer to the relevant announcement of the Company dated 31 December 2019.

(vi) the financial services supplemental agreement entered into between the Company and China National Travel Service (HK) Finance Company Limited ("CTS Finance") on 17 October 2019 in relation to the revision of the deposit caps under the 2018 Financial Services Framework Agreement. For details, please refer to the announcement of the Company dated 17 October 2019 and the Company's circular dated 7 November 2019.

(vii) the financial services framework agreement entered into between the Company and CTS Finance on 8 November 2018 (the "2018 Financial Services Framework Agreement") in relation to the deposit services, the comprehensive credit line services, the entrustment loans services and the Cross- Border RMB Cash Pooling Services provided or to be provided by CTS Finance. For details, please refer to the announcement of the Company dated 8 November 2018.

(viii) the conditional assets and equity interest transfer master agreement entered into between the Group and China Travel Service Co., Ltd., a wholly-owned subsidiary of China CTS, on 9 August 2019, pursuant to which the Group will sell its business and assets relating to travel agency to China Travel Service Co., Ltd. at a consideration of HK$5.13 million following internal reorganization. For details, please refer to the announcement of the Company dated 9 August 2019.

(ix) The cooperation agreement entered into between the Company and Daxin County People's Government of Chongzuo City on 1 March 2019, pursuant to which the Company will make an investment in Daxin County with a total planned amount of approximately RMB1.45 billion. For details, please refer to the announcement of the Company dated 1 March 2019.

(x) the management services master agreement entered into between the Company and China CTS on 28 December 2018, pursuant to which the Group will provide management services for subsidiaries of China CTS which engage in real estate projects. For details, please refer to the announcement of the Company dated 28 December 2018.

(xi) the master lease agreement entered into between the Company and China CTS on 8 November 2018, pursuant to which the Group will continue to obtain lease of office premises from the China CTS Group. For details, please refer to the announcement of the Company dated 8 November 2018.

(xii) the extension agreement entered into between the Company and China Travel Financial Investment Holdings Co., Limited on 18 May 2018 to set out the terms and conditions of the extension of the maturity date of the loan provided to China Travel Financial Investment Holdings Co., Limited. For details, please refer to the announcement of the Company dated 18 May 2018.

9. GENERAL

(a) The registered office of the Company is situated at 12/F., CTS House, 78-83 Connaught Road Central, Hong Kong.

(b) The company secretary of the Company is Mr. Lai Siu Chung, who is an associate of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators, and a fellow of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. Mr. Lai holds a bachelor of law degree from University of London and Master of Arts degree from the Chinese University of Hong Kong.

(c) The share registrar of the Company is Tricor Tengis Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(d) In case of inconsistency, the English text of this circular shall prevail over the Chinese text.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during the following business hours (i.e. from 9:30 a.m. to 12:30 p.m. and from 2:30 p.m. to 5:30 p.m.) on any weekday (Saturdays and public holidays excepted) unless (i) a tropical cyclone warning signal number 8 or above is hoisted; or (ii) a black rainstorm warning signal is issued at the Company's registered office in Hong Kong at 12/F., CTS House, 78-83 Connaught Road Central, Hong Kong for 14 days from the date of this circular:

(a) the articles of association of the Company;

(b) the material contracts referred to under the paragraph headed "Material Contracts" in this Appendix ;

(c) the annual reports of the Company for the two years ended 31 December 2017 and 31 December 2018;

(d) the interim report of the Company for the six months ended 30 June 2019;

(e) the accountants' reports on the Target I and Target III as set out in Appendix IIA and Appendix IIIA to this circular;

(f) the report on unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV to this circular;

(g) the valuation reports of the Target I and Target III as set out in Appendix V, VI and VII to this circular;

(h) the audited consolidated financial statements of Target I for the years ended 31 December 2016, 2017 and 2018 and the nine months ended 30 September 2019;

(i) the letters of consent as set out in the section headed "Qualification and Consent of Expert" in this Appendix; and

(j) this circular.