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# THIS COMPOSITE DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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If you are in any doubt as to any aspect of the Offers, this Composite Document or as to the action to be taken, you should consult a licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Legend Strategy International Holdings Group Company Limited, you should at once hand this Composite Document and the accompanying Form(s) of Acceptance to the purchaser or transferee(s) or the licensed securities dealer or registered institution in securities or other agent through whom the sale was effected for transmission to the purchaser(s).

This Composite Document should be read in conjunction with the accompanying Form(s) of Acceptance, the contents of which form part of the terms of the Offers contained herein.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this Composite Document and the accompanying Form(s) of Acceptance, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Composite Document and the accompanying Form(s) of Acceptance.

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**LEGEND STRATEGY INTERNATIONAL  
HOLDINGS GROUP COMPANY LIMITED**  
枋濬國際集團控股有限公司  
(Incorporated in the Cayman Islands with limited liability)  
(Stock Code: 1355)

**CHINA MEDICAL OVERSEAS LIMITED**  
中華醫學海外有限公司  
(Incorporated in the British Virgin Islands with limited liability)

## COMPOSITE OFFER AND RESPONSE DOCUMENT RELATING TO MANDATORY CONDITIONAL CASH OFFERS BY



**ON BEHALF OF CHINA MEDICAL OVERSEAS LIMITED  
TO ACQUIRE ALL THE ISSUED SHARES OF LEGEND STRATEGY INTERNATIONAL  
HOLDINGS GROUP COMPANY LIMITED AND  
CANCEL ALL OUTSTANDING SHARE OPTIONS OF  
LEGEND STRATEGY INTERNATIONAL HOLDINGS  
GROUP COMPANY LIMITED (OTHER THAN THOSE  
ALREADY OWNED OR AGREED TO BE ACQUIRED BY  
CHINA MEDICAL OVERSEAS LIMITED AND  
PARTIES ACTING IN CONCERT WITH IT)**

Financial Adviser to Legend Strategy International  
Holdings Group Company Limited



Financial Adviser to China Medical Overseas Limited



Independent Financial Adviser to the Independent Board Committee



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A letter from Octal Capital containing, among other things, details of the terms of the Offers is set out on pages 10 to 21 of this Composite Document.

A letter from the Board is set out on pages 22 to 26 of this Composite Document.

A letter from the Independent Board Committee containing its recommendation in respect of the Offers to the Independent Shareholders and the Optionholders is set out on pages 27 to 28 of this Composite Document.

A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee is set out on pages 29 to 51 of this Composite Document.

The procedures for acceptance and settlement of the Offers and other related information are set out in Appendix I to this Composite Document and in the accompanying Form(s) of Acceptance. Form(s) of Acceptance of the Offers should be received by the Registrar or the company secretary of the Company by no later than 4:00 p.m. on Thursday, 16 July 2015 or such later time and/or the date as the Offeror may decide and announce in accordance with the requirements under the Takeovers Code.

Persons including, without limitation, custodians, nominees and trustees, who would, or otherwise intend to, forward this Composite Document and/or the accompanying Form(s) of Acceptance to any jurisdiction outside Hong Kong should read the details in this regard which are contained in the paragraph headed "Overseas Shareholders and Overseas Optionholders" of Appendix I to this Composite Document before taking any action. It is the responsibility of each Overseas Shareholder and each Overseas Optionholders wishing to accept the Offers to satisfy himself, herself or itself as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents or any registration or filing which may be required and the compliance with other necessary formalities or legal requirements and payment of any transfer or other taxes due by such Overseas Shareholder or Overseas Optionholders in respect of such jurisdiction. Each Overseas Shareholder or Overseas Optionholder is advised to seek professional advice on deciding whether or not to accept the Offers.

The Composite Document will remain on the websites of the Stock Exchange at <http://www.hkexnews.hk> and the Company at <http://www.legendstrategy.com> as long as the Offers remain open.

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

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## EXPECTED TIMETABLE

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*The expected timetable set out below is indicative only and may be subject to changes. Further announcement(s) will be made in the event of any changes to the timetable as and when appropriate.*

**All time and date references contained in this Composite Document refer to Hong Kong time and dates.**

<b>Event</b>	<b>Time &amp; Date</b>
Despatch date of this Composite Document and the Form(s) of Acceptance ( <i>Note 1</i> ) .....	Thursday, 25 June 2015
Offers open for acceptance ( <i>Note 1</i> ).....	Thursday, 25 June 2015
Offer Closing Date ( <i>Notes 2 and 8</i> ).....	Thursday, 16 July 2015
Latest time and date for acceptance of the Offers on the Offer Closing Date ( <i>Notes 3 and 8</i> ).....	4:00 p.m. on Thursday, 16 July 2015
Announcement of the results of the Offers as at the Offer Closing Date on the website of the Stock Exchange.....	not later than 7:00 p.m. on Thursday, 16 July 2015
Latest date for posting of remittances in respect of valid acceptances received at or before the latest time for acceptance of the Offers on the Offer Closing Date (assuming the Offers become or are declared unconditional in all respects on the Offer Closing Date) ( <i>Notes 4 and 5</i> ).....	Monday, 27 July 2015
Latest time and date for the Offers to remain open for acceptance (assuming the Offers become or are declared unconditional on the Offer Closing Date) ( <i>Note 6</i> ) .....	by 4:00 p.m. on Thursday, 30 July 2015
Subsequent closing date of the Offers if the Offers become or are declared unconditional on the Offer Closing Date ( <i>Notes 3 and 8</i> ) .....	Thursday, 30 July 2015
Latest date of posting of remittances in respect of valid acceptances received under the Offers on or before 4:00 p.m. Thursday, 30 July 2015, being the latest date on which the Offers remain open for acceptances assuming the Offers become or are declared unconditional in all respects on the Offer Closing Date ( <i>Notes 4 and 5</i> ) .....	Monday, 10 August 2015
Latest time and date by which the Offers can become or be declared unconditional ( <i>Note 7</i> ) .....	7:00 p.m. on Monday, 24 August 2015

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## EXPECTED TIMETABLE

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- Note 1:* The Offers, which are conditional in all respects, are made on the date of posting of this Composite Document, and are capable of acceptance on and from that date until the Offer Closing Date.
- Note 2:* The latest time for acceptance of the Offers is 4:00 p.m. on Thursday, 16 July 2015 unless the Offeror revises or extends the Offers in accordance with the Takeovers Code. The Offeror has the right under the Takeovers Code to extend the Offers until such date as it may determine in accordance with the Takeovers Code (or as permitted by the Executive in accordance with the Takeovers Code). The Offeror will issue an announcement in relation to any extension of the Offers, which announcement will state either the next offer closing date or, if the Offers are at that time unconditional as to acceptances, a statement that the Offers will remain open until further notice. In the latter case, at least 14 days' notice in writing must be given before the Offers are closed to those Shareholders and Optionholders who have not accepted the Offers.
- Note 3:* Beneficial owners of Shares who hold their Shares in CCASS directly as an investor participant or indirectly via a broker or custodian participant should note the timing requirements (as set out in Appendix I to this Composite Document) for causing instructions to be made to CCASS in accordance with the General Rules of CCASS and CCASS Operational Procedures.
- Note 4:* Acceptances of the Offers are irrevocable and are not capable of being withdrawn, except in the circumstances as set out in the section headed 6. "Right of Withdrawal" in Appendix I to this Composite Document.
- Note 5:* Remittances in respect of the cash consideration (after deducting the seller's ad valorem stamp duty in respect of the acceptances of the Share Offer) payable for the Offer Shares under the Share Offer will be posted to the accepting Shareholders by ordinary post at their own risk as soon as possible, but in any event within seven (7) Business Days of (i) the date of receipt by the Registrar (in the case of Offer Shares) or the company secretary of the Company (in case of Option Offer) of all the relevant documents render the acceptance under the Offers complete and valid, or (ii) the date on which the Offers become or are declared unconditional in all respects, whichever is the later.
- Note 6:* In any event, in accordance with the Takeovers Code, when the Offers become or are declared unconditional in all respects, at least 14 days' notice in writing must be given before the Offers are closed to those Shareholders and Optionholders who have not accepted the Offers. The Offeror has the right, subject to the Takeovers Code, to extend the Offers until such date as it may determine or as permitted by the Executive. The Option Offer is conditional upon Share Offer becoming or being declared unconditional in all respect and will remain open for as long as the Share Offer remains open for acceptance.
- Note 7:* In accordance with the Takeovers Code, except with the consent of the Executive, the Offers may not become or be declared unconditional in all respects after 7:00 p.m. on Monday, 24 August 2015, being the 60th day after the day this Composite Document is posted. Where a period laid down by the Takeovers Code ends on a day which is not a Business Day, the period is extended until the next Business Day. Accordingly, unless the Offers have previously become or are declared unconditional as to acceptances, the Offers will lapse after 7:00 p.m. on Monday, 24 August 2015, unless extended with the consent of the Executive.

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## **EXPECTED TIMETABLE**

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*Note 8:* The latest time and date for acceptance of the Offers and the latest date for posting of remittances for the amounts due under the Offers in respect of valid acceptances will not take effect if there is a tropical cyclone warning signal number 8 or above, or a black rainstorm warning, in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on the latest date for acceptance of the Offers and the latest date for posting of remittances for the amounts due under the Offers in respect of valid acceptances. Instead the latest time for acceptance of the Offers and the posting of remittances will be rescheduled to 4:00 p.m. on the following Business Day which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m.

Save as mentioned above, if the latest time for the acceptance of the Offers and the posting of remittances do not take effect on the date and time as stated above, the other dates mentioned above may be affected. The Offeror and the Company will notify the Shareholders and the Optionholders by way of announcement(s) on any change to the expected timetable as soon as practicable.

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## **IMPORTANT NOTICES**

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### **NOTICE TO HOLDERS OUTSIDE HONG KONG**

The making of the Offers to persons with a registered address in jurisdictions outside Hong Kong may be prohibited or affected by the laws of the relevant jurisdictions. Overseas Shareholders and Overseas Optionholders who are citizens or residents or nationals of jurisdictions outside Hong Kong should inform themselves about and observe any applicable legal requirements. It is the responsibility of any such person who wishes to accept the Offers to satisfy himself/herself/itself as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required or the compliance with other necessary formalities or legal requirements and the payment of any transfer or other taxes or other required payments due in respect of such jurisdiction. The Offeror, Octal Capital and any other person involved in the Offers shall be entitled to be fully indemnified and held harmless by such person for any taxes as such person may be required to pay. Please see “Overseas Shareholders and Overseas Optionholders” in the “Letter from Octal Capital”.

### **CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This Composite Document contains forward-looking statements, which may be identified by words such as “believe”, “expect”, “anticipate”, “intend”, “plan”, “seek”, “estimate”, “will”, “would” or words of similar meaning, that involve risks and uncertainties, as well as assumptions. All statements other than statements of historical fact are statements that could be deemed forward-looking statements. The Offeror and the Company assume no obligation and do not intend to update these forward-looking statements, except as required pursuant to applicable laws.

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## DEFINITIONS

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*In this Composite Document, unless otherwise defined or the context otherwise requires, the following expressions shall have the following meanings. Also, where terms are defined and used in only one section of this Composite Document, those defined terms are not included in the table below:*

“Acquisition”	acquisition of the Sale Shares by the Offeror from the Vendor in accordance with the Share Purchase Agreement
“acting in concert”	has the meaning ascribed thereto in the Takeovers Code
“associate(s)”	has the meaning ascribed thereto in the Takeovers Code
“Board”	the board of Directors
“Business Day(s)”	a day on which the Stock Exchange is open for the transaction of business
“BVI”	the British Virgin Islands
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Challenge Capital” or “Independent Financial Adviser”	Challenge Capital Management Limited, a corporation licensed to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO, being the independent financial adviser to the Independent Board Committee in relation to the Offers
“Company”	Legend Strategy International Holdings Group Company Limited, a company incorporated in the Cayman Islands with limited liability, the Shares are listing on the Main Board of the Stock Exchange
“Completion”	completion of the Acquisition
“Composite Document”	this composite offer and response document dated 25 June 2015 issued jointly by the Offeror and the Company in respect of the Offers
“Completion Date”	4 June 2015, being the date on which the Completion took place
“connected person”	has the meaning ascribed to it under the Listing Rules

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## DEFINITIONS

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“Condition”	the condition of the Offers, as set out in the section “Condition to the Offers” in the Letter from Octal Capital in this Composite Document
“Despatch Date”	25 June 2015
“Director(s)”	the director(s) of the Company
“Excel Precise”	Excel Precise International Limited, a company incorporated in Hong Kong and a holder of a money lenders licence under the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong), as amended from time to time, which is owned as to 25% by Mr. Law and as to 73.5% by True Promise Investments Limited, a company incorporated in the BVI and wholly-owned by Mr. Law; Mr. Law is also a director of Excel Precise
“Executive”	Executive Director of the Corporate Finance Division of the SFC or any of his delegates
“Form(s) of Acceptance”	collectively, the Form of Share Offer Acceptance and the Form of Option Offer Acceptance, and the “Form of Acceptance” shall mean each and any one of them
“Form of Option Offer Acceptance”	the <b>YELLOW</b> form of acceptance and cancellation of the Share Options and in respect of the Option Offer accompanying this Composite Document
“Form of Share Offer Acceptance”	the <b>WHITE</b> form of acceptance and transfer of the Offer Shares and in respect of the Share Offer accompanying this Composite Document
“GEM”	the Growth Enterprise Market of the Stock Exchange
“Group”	the Company and its subsidiaries
“HKSCC”	The Hong Kong Securities Clearing Company
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Board, comprising all of the independent non-executive Directors, formed to advise the Independent Shareholders and the Optionholders in respect of the Offers
“Independent Shareholders”	Shareholders other than the Offeror and parties acting in concert with it

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## DEFINITIONS

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“Initial Announcement”	the announcement issued by the Company on 20 April 2015 in relation to the possible sale of all Shares beneficially owned by the Vendor to the first potential purchaser
“Joint Announcement”	the joint announcement issued by the Offeror and the Company on 4 June 2015 in relation to, among other things, the Share Purchase Agreement and the Offers
“Last Trading Day”	29 May 2015, being the last full trading day immediately prior to the suspension of trading in the Shares pending the release of the Joint Announcement
“Latest Practicable Date”	23 June 2015, being the latest practicable date prior to the printing of this Composite Document for ascertaining certain information contained in this Composite Document
“Listing Committee”	the Listing Committee of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Loan”	a loan facility granted by Excel Precise as lender to the Offeror as borrower in an amount of HK\$300 million for the financing of the Share Offer in accordance with the Loan Agreement
“Loan Agreement”	the loan agreement entered into between the Offeror and Excel Precise on 29 May 2015 in respect of the Loan
“Mr. Law”	Mr. Law Fei Shing, an executive Director and beneficially owns 98.5% of the entire issued share capital of Excel Precise
“Octal Capital”	Octal Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, who has been appointed as the financial adviser to the Offeror
“Offers”	the Share Offer and the Option Offer
“Offer Closing Date”	the first offer closing date of the Share Offer, which is 21 calendar days after the posting of the Composite Document, or any subsequent offer closing date of the Share Offer as may be extended in accordance with the Takeovers Code
“Offer Period”	the period commencing on the date of the Initial Announcement up to and including the Offer Closing Date

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## DEFINITIONS

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“Offer Share(s)”	all the Share(s) in issue, other than those Shares already owned or agreed to be acquired by the Offeror and parties acting in concert with it
“Offeror”	China Medical Overseas Limited (formerly known as “China Angel Investments Holding Limited”), a company incorporated in the BVI with limited liability
“Optionholder(s)”	holder(s) of the Share Options
“Option Offer”	the mandatory conditional cash offer made by Octal Capital, on behalf of the Offeror, for cancellation of all outstanding Share Options in accordance with the Takeovers Code
“Option Offer Price”	the price at which the Option Offer will be made, being HK\$0.0001 per outstanding Share Option
“Overseas Optionholders”	Optionholder(s) whose addresses, as shown on the register of optionholders of the Company, are outside of Hong Kong
“Overseas Shareholders”	Shareholder(s) whose addresses, as shown on the register of members of the Company, are outside of Hong Kong
“PRC”	the People’s Republic of China which, for the purpose of this Composite Document, shall exclude Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Registrar”	Union Registrars Limited, the Hong Kong branch share registrar and transfer office of the Company, at A18/F., Asia Orient Tower, Town Place, 33 Lockhart Road, Wanchai, Hong Kong
“Relevant Period”	the period from 20 October 2014, being six months prior to 20 April 2015 (the date of commencement of the Offer Period) and ending on and including the Latest Practicable Date
“Sale Shares”	102,576,466 Shares acquired by the Offeror from the Vendor pursuant to the Share Purchase Agreement, which represented approximately 32.58% of the entire issued share capital of the Company as at the Latest Practicable Date
“SFC”	Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended from time to time

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## DEFINITIONS

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“Shares”	the ordinary shares of HK\$0.01 each in the share capital of the Company
“Share Charge”	the share charge dated 29 May 2015 entered into between the Offeror and Excel Precise in relation to the charge over the Sale Shares and the Offer Shares to be and/or possibly to be acquired by the Offeror under the Share Offer in favour of Excel Precise as security for the Loan
“Shareholder(s)”	holder(s) of Share(s)
“Share Offer”	the mandatory conditional cash offer made by Octal Capital, on behalf of the Offeror, for all the issued Shares not already owned or agreed to be acquired by the Offeror and parties acting concert with it in accordance with the Takeovers Code
“Share Offer Price”	the price at which the Share Offer will be made, being HK\$1.53 per Offer Share
“Share Option(s)”	option(s) to subscribe for Shares granted by the Company in accordance with the share option scheme adopted by the Company on 22 June 2011
“Share Purchase Agreement”	the share purchase agreement dated 29 May 2015 entered into between the Vendor and the Offeror in relation to the Acquisition
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	The Hong Kong Code on Takeovers and Mergers as in force and as amended from time to time
“Trading Day”	a day when the Stock Exchange is open for trading in Hong Kong
“Vendor”	Mr. Fong Man, Kelvin, the Chairman and an executive Director
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent

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## LETTER FROM OCTAL CAPITAL

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 金融有限公司  
OCTAL Capital Limited  
801-805, 8/F, Nan Fung Tower  
88 Connaught Road Central  
Hong Kong

25 June 2015

*To the Independent Shareholders and Optionholders,*

Dear Sir/Madam,

**MANDATORY CONDITIONAL CASH OFFERS BY  
OCTAL CAPITAL LIMITED ON BEHALF OF  
CHINA MEDICAL OVERSEAS LIMITED  
TO ACQUIRE ALL THE ISSUED SHARES OF  
LEGEND STRATEGY INTERNATIONAL HOLDINGS  
GROUP COMPANY LIMITED AND  
CANCEL ALL OUTSTANDING SHARE OPTIONS OF  
LEGEND STRATEGY INTERNATIONAL HOLDINGS GROUP  
COMPANY LIMITED (OTHER THAN THOSE ALREADY OWNED OR  
AGREED TO BE ACQUIRED BY  
CHINA MEDICAL OVERSEAS LIMITED AND PARTIES  
ACTING IN CONCERT WITH IT)**

**(I) INTRODUCTION**

Reference is made to the Joint Announcement in relation to, among other things, the Share Purchase Agreement and the Offers.

Completion took place on 4 June 2015. Upon Completion, the Offeror acquired 102,576,466 Shares, representing approximately 32.66% of the entire issued share capital of the Company as at the date of the Joint Announcement.

On 4 June 2015, the Offeror and the Company jointly announced that Octal Capital would, on behalf of the Offeror, make mandatory conditional cash offer to acquire all of the issued Shares (other than those Shares already owned by the Offeror and parties acting in concert with it) and the Option Offer will be made to cancel all outstanding Share Options.

This letter forms part of the Composite Document and sets out certain background information of the Offeror, the reasons for making the Offers and the intentions of the Offeror in relation to the Company. The terms of the Offers are set out in this letter, Appendix I — “Further terms and procedures for acceptance of the Offers” to this Composite Document and in the accompanying Form(s) of Acceptance.

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## LETTER FROM OCTAL CAPITAL

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The Independent Shareholders are strongly advised to carefully consider the information contained in the “Letter from the Board”, the “Letter from the Independent Board Committee”, the “Letter from the Independent Financial Adviser” and the appendices as set out in this Composite Document and to consult their professional advisers if in doubt before reaching a decision as to whether or not to accept the Offers.

### (II) THE OFFERS

#### Principal terms of the Offers

Octal Capital, on behalf of the Offeror and in compliance with the Takeovers Code, will conditionally make the Offers on terms to be set out in the Composite Document in accordance with the Takeovers Code on the following basis:

#### The Share Offer

**For each Offer Share .....HK\$1.53 in cash**

#### The Option Offer

**For cancellation of each Share Option  
with an exercise price of HK\$1.822 .....HK\$0.0001 in cash**

The Share Offer Price of HK\$1.53 for each Offer Share is the same as the purchase price for each Sale Share paid by the Offeror under the Share Purchase Agreement. The Share Offer will be extended to all Shareholders other than the Offeror and parties acting in concert with it in accordance with the Takeovers Code.

Under the Option Offer, since the exercise price of the outstanding Share Options is above the Share Offer Price, the outstanding Share Options are out of money and, therefore, the Option Offer Price for the cancellation of each outstanding Share Option is set at a nominal value of HK\$0.0001.

#### Condition to the Offers

The Offers are conditional on valid acceptances of the Share Offer being received (and not, where permitted, withdrawn) by 4:00 p.m. on or prior to the Offer Closing Date (or such later time(s) and/or date(s) as the Offeror may decide and the Executive may approve) in respect of such number of Shares which, together with the Shares already owned or agreed to be acquired before or during the Offers, would result in the Offeror and parties acting in concert with it holding more than 50% of the voting rights in the Company.

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## LETTER FROM OCTAL CAPITAL

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The Offeror will issue an announcement in relation to the revision, extension or lapse of the Offers or the fulfilment of the conditions to the Offers in accordance with the Takeovers Code and the Listing Rules. The latest time on which the Offeror can declare the Offers unconditional as to acceptance is 7:00 p.m. on the 60th day after the posting of the Composite Document (or such later date to which the Executive may consent).

**WARNING: Shareholders, Optionholders and/or potential investors of the Company should note that the Offers are subject to the satisfaction of the Condition. The Offers may or may not become unconditional. Shareholders, Optionholders and/or potential investors of the Company should therefore exercise caution when dealing in the Shares and Share Options. Persons who are in doubt as to the action they should take should consult their licensed securities dealers or registered institutions in securities, bank managers, solicitors, professional accountants or other professional advisers.**

### Share Offer Price

The Share Offer Price of HK\$1.53 per Offer Share represents:

- (i) a premium of approximately 23.4% over the closing price of HK\$1.24 per Share as quoted on the Stock Exchange on 17 April 2015, being the trading day immediately prior to the commencement of the Offer Period;
- (ii) a discount of approximately 41.6% to the closing price of HK\$2.62 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a discount of approximately 30.8% to the average closing prices of approximately HK\$2.21 per Share as quoted on the Stock Exchange for the five consecutive trading days immediately prior to and including the Last Trading Day;
- (iv) a discount of approximately 27.8% to the average closing prices of approximately HK\$2.12 per Share as quoted on the Stock Exchange for the ten consecutive trading days immediately prior to and including the Last Trading Day;
- (v) a discount of approximately 23.5% to the average closing prices of approximately HK\$2.00 per Share as quoted on the Stock Exchange for the 30 consecutive trading days immediately prior to and including the Last Trading Day;
- (vi) a discount of approximately 25.7% to the closing price of HK\$2.06 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- (vii) a premium of approximately 255.8% over the audited net assets per Share of approximately HK\$0.43 as at 31 December 2014 and 314,820,001 Shares in issue as at the Latest Practicable Date.

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## LETTER FROM OCTAL CAPITAL

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### **Highest and lowest closing price of the Shares**

The highest and lowest closing prices of the Shares as quoted on the Stock Exchange during the Relevant Period were HK\$2.62 per Share on 29 May 2015 and HK\$0.74 per Share on 24 December 2014, respectively.

### **Effect of accepting the Offers**

The acceptance of the Share Offer by any person will constitute a warranty by such person or persons to the Offeror that the Shares acquired under the Share Offer and sold by such person or persons are free from all liens, charges, encumbrances, rights of pre-emption and any other third party rights of any nature and together with all rights attaching to them, including the right to receive all dividends and other distributions, if any, declared, made or paid on or after the date on which the Share Offer is made.

Acceptance of the Option Offer by the Optionholders will result in the cancellation of those outstanding Share Options, together with all rights attaching thereto.

### **Overseas Shareholders and Overseas Optionholders**

As the Offers to persons not resident in Hong Kong may be affected by the applicable laws of the relevant jurisdiction in which they are resident, Overseas Shareholders or Overseas Optionholders who are citizens, residents or nationals of a jurisdiction outside Hong Kong should observe any applicable legal or regulatory requirements and, where necessary, seek legal advice. It is the responsibility of Overseas Shareholders or Overseas Optionholders who wish to accept the Offers to satisfy themselves as to the full observance of the laws and regulations of the relevant jurisdictions in connection with the acceptance of the Offers (including the obtaining of any governmental or other consent which may be required or the compliance with other necessary formalities and the payment of any transfer or other taxes due by the accepting Overseas Shareholders or Overseas Optionholders in respect of such jurisdictions).

Any acceptance by any Overseas Shareholder or Overseas Optionholder will be deemed to constitute a representation and warranty from such Overseas Shareholder or Overseas Optionholder to the Offeror that all local laws and requirements in respect of such Overseas Shareholder or Overseas Optionholder have been complied with and that the Share Offer and the Option Offer can be accepted by such Overseas Shareholder or Overseas Optionholder lawfully under the laws of the relevant jurisdiction. The Overseas Shareholders or Overseas Optionholders should consult their professional advisers if in doubt.

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## LETTER FROM OCTAL CAPITAL

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### **Hong Kong stamp duty**

Seller's ad valorem stamp duty arising in connection with acceptance of the Share Offer will be payable by the relevant Shareholders at the rate of 0.1% of (i) the value of the consideration arising on acceptance of the Share Offer; or (ii) the market value of the Offer Shares, whichever is higher, and will be deducted from the amount payable to the Shareholders who accept the Share Offer. The Offeror will bear buyer's ad valorem stamp duty in respect of acceptance of the Share Offer and will be responsible to account to the Stamp Office of Hong Kong for all the stamp duty payable for the sale and purchase of the Offer Shares which are validly tendered for acceptance under the Share Offer.

No stamp duty is payable in connection with the acceptance of the Option Offer.

### **Acceptance and settlement of the consideration**

Subject to the Offers having become unconditional, settlement of the consideration in cash in respect of the acceptances of the Offers will be made as soon as, but in any event within seven (7) Business Days of (i) the date of receipt of a duly completed acceptance in respect of the Offers, or (ii) the date of the Offers becoming unconditional, whichever is the later. Relevant documents evidencing title must be received by or on behalf of the Offeror to render such acceptance of the Offers complete and valid.

Your attention is drawn to the further details regarding further terms and conditions of the Offers, the procedures for acceptance and settlement and the acceptance period as set out in Appendix I to this Composite Document and the accompanying Form(s) of Acceptance.

### **Taxation advice**

Shareholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of accepting or rejecting the Offers. None of the Offeror, parties acting in concert with the Offeror, the Company, Octal Capital, and their respective ultimate beneficial owners, directors, officers, agents or associates or any other person involved in the Offers accept responsibility for any taxation effects on, or liabilities of, any persons as a result of their acceptance or rejection of the Offers.

### **Value of the Offers**

Based on the Share Offer Price of HK\$1.53 per Offer Share and 314,820,001 Shares in issue as at the Latest Practicable Date, the entire issued share capital of the Company is valued at approximately HK\$481.7 million. Based on the Share Offer Price of HK\$1.53 per Offer Share for 212,243,535 Offer Shares, the Share Offer is valued at approximately HK\$324.7 million.

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## LETTER FROM OCTAL CAPITAL

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As at the Latest Practicable Date, there were in total 5,700,000 outstanding Share Options in respect of 5,700,000 Shares. Assuming that no Share Options are exercised before the Offer Closing Date, the total consideration required to satisfy the cancellation of all the outstanding Share Options is HK\$570.

Based on the above and assuming that no Share Options are exercised before the Offer Closing Date, the Offers are valued at approximately HK\$324.7 million in aggregate.

In the event that all outstanding Share Options are exercised before the Offer Closing Date, the Company will have to issue 5,700,000 new Shares, representing approximately 1.78% of the enlarged issued share capital of the Company. Assuming that the Share Offer is accepted in full (including all Shares issued and allotted as a result of the exercise of the Share Options), the maximum value of the Share Offer will be increased to approximately HK\$333.5 million as a result thereof. In that case, no amount will be payable by the Offeror under the Option Offer.

### **Financial resources available to the Offeror**

The Offeror financed the consideration under the Share Purchase Agreement by its internal resources. It intends to finance the consideration payable under the Offers by the Loan and its internal resources.

Octal Capital, the financial adviser to the Offeror, is satisfied that sufficient financial resources are available to the Offeror to satisfy the amount of funds required for the full acceptance of the Offers.

The Offeror entered into the Loan Agreement with Excel Precise, a holder of money lenders licence under the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong), on 29 May 2015, pursuant to which Excel Precise agreed to grant to the Offeror a loan of HK\$300 million for financing the Share Offer. Pursuant to the provisions of the Loan Agreement, among other things, (a) the Offeror will charge the Sale Shares acquired under the Share Purchase Agreement and the Offer Shares to be and/or possibly to be acquired under the Share Offer in favour of Excel Precise to secure the repayment obligations of the Offeror, and (b) the Offeror will repay the Loan in full on the date falling on the last day of the period of six months following the date on which the announcement in relation to the results of the Offers is published. The drawdown of the Loan was made on the date of the Loan Agreement.

The Offeror confirms that the repayment of the Loan will not depend on the business of the Company.

### **Offeror's interests in securities of the Company**

Save for the entering into of the Share Purchase Agreement, the Loan Agreement and the Share Charge, the Offeror and parties acting in concert with it (including Mr. Law) have not dealt in any shares, options, derivatives, warrants or other securities convertible into the Shares or other types of equity interest in the Company during the six-month period prior to 20 April 2015, being the date of the first announcement of the Company in relation to the possible disposal of all Shares owned by the Vendor, up to the Latest Practicable Date.

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## LETTER FROM OCTAL CAPITAL

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The Offeror confirms that as at the Latest Practicable Date:

- (i) neither the Offeror, its ultimate beneficial owners nor any person acting in concert with any of them (including Mr. Law) owns or has control or direction over any voting rights or rights over the Shares (except the Sale Shares) or convertible securities, warrants, options of the Company or any derivatives in respect of such securities;
- (ii) save for the charge over the Sale Shares and the Offer Shares to be and/or possibly to be acquired by the Offeror under the Share Offer in favour of Excel Precise pursuant to the Share Charge, there is no arrangement (whether by way of option, indemnity or otherwise) of any kind referred to in Note 8 to Rule 22 of the Takeovers Code in relation to the shares of the Offeror or the Shares and which might be material to the Offers;
- (iii) save for the Share Purchase Agreement, the Loan Agreement and the Share Charge, there is no agreement or arrangement to which the Offeror or its ultimate beneficial owners or any person acting in concert with any of them (including Mr. Law), is a party which relates to circumstances in which it may or may not seek to invoke a pre-condition or a condition to the Offers;
- (iv) neither the Offeror, its ultimate beneficial owners nor any person acting in concert with any of them (including Mr. Law) has borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company;
- (v) neither the Offeror, its ultimate beneficial owners nor any person acting in concert with any of them (including Mr. Law) has received any irrevocable commitment to accept the Offers; and
- (vi) there is no outstanding derivative in respect of the securities in the Company entered into by the Offeror, its ultimate beneficial owners nor any person acting in concert with any of them (including Mr. Law).

### **(III) INFORMATION ON THE OFFEROR**

The Offeror is an investment holding company incorporated in the BVI with limited liability on 4 January 2011 and is owned by Mr. Ding Yifan and Mr. Huang Yun as to 90% and 10% equity interest respectively. As at the Latest Practicable Date, both Mr. Ding Yifan and Mr. Huang Yun are directors of the Offeror. Prior to Completion, the Offeror did not carry on any business since its incorporation until the entering into the Share Purchase Agreement, the Loan Agreement and the Share Charge and the transactions in connection therewith.

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## LETTER FROM OCTAL CAPITAL

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### **Mr. Ding Yifan (“Mr. Ding”)**

Mr. Ding, aged 33, owns 90% equity interest of the Offeror. He is the vice general manager of 北京華利恆益資本管理有限公司 (transliterated as “Beijing Huali Heng Yi Capital Management Ltd.”), a company established in the PRC on 6 March 2014 which is principally engaged in asset and investment management, project investments and consultancy services. Mr. Ding has over eight years of management experience in the finance industry. Mr. Ding is recognised as a Microsoft Certified Professional — Systems Engineer and Database Administrator.

Details of Mr. Huang Yun’s biography is set out in subsection headed “Biographies of new Directors to be nominated by the Offeror” under the section headed “Intention of the Offeror regarding the Group” below.

### **(IV) INTENTION OF THE OFFEROR REGARDING THE GROUP**

Following the close of the Offers, the Offeror intends to continue the existing principal businesses of the Group. The Offeror will conduct a review on the existing principal businesses and the financial position of the Group for the purpose of formulating business plans and strategies for the future business development of the Group. In this regard, the Offeror may look into business opportunities and consider whether any asset disposals, asset acquisitions, business rationalisation, business divestment, fund raising, restructuring of the business and/or business diversification will be appropriate in order to enhance the long-term growth potential of the Group. However, as at the Latest Practicable Date, the Offeror did not have any specific plan or proposal with respect to any acquisition of assets and/or business by the Group.

Save for the Offeror’s intention regarding the Group as set out above, the Offeror has no intention to discontinue the employment of the employees (save for the changes in the composition of the Board) or to dispose of or re-deploy the assets of the Group other than those in its ordinary course of business. Any disposal of the existing business of the Group, if contemplated, will be made in full compliance with the Listing Rules. The Offeror has no intention to inject any assets or businesses into the Company.

### **Proposed change of Board composition**

The Board is currently made up of eight Directors, comprising four executive Directors, being Mr. Fong Man Kelvin, Ms. Fong Nga Peggy, Mr. Mak Yiu Cho and Mr. Law Fei Shing and four independent non-executive Directors, being Dr. Wong Hak Kun Jerry, Mr. Wong Sui Chi Frankie, Mr. Frostick Stephen William and Mr. Liu Cheng Zhong.

Under the Share Purchase Agreement, the Vendor has agreed to procure such Directors as may be required by the Offeror to resign from the Board with effect from the earliest time permitted under the Takeovers Code. In this respect, as requested by the Offeror, all the existing Directors except for Mr. Law Fei Shing, an executive Director, will resign from the Board with effect from the earliest time permitted under the Takeovers Code.

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## LETTER FROM OCTAL CAPITAL

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The Offeror at present intends to nominate Mr. Huang Yun as new executive Director; and (i) Mr. Tso Hon Sai, Bosco; (ii) Mr. Leung Siu Hong; and (iii) Mr. Chung Wai Man as new independent non-executive Directors (together, the “**Proposed Directors**”) with effect from the Despatch Date after the despatch of the Composite Document or at a date as permitted under the Takeovers Code, the Listing Rules and the law applicable to the Company. Any changes to the composition of the Board will be made in compliance with the Takeovers Code and the Listing Rules. An announcement will be published by the Company in this regard.

### **Biographies of new Directors to be nominated by the Offeror**

#### *Executive Director*

##### **Mr. Huang Yun (“Mr. Huang”)**

Mr. Huang, aged 53, is proposed to be nominated as an executive Director. He owns 10% equity interest of the Offeror. He is also the chairman of 新傑致遠(北京)投資有限責任公司 (transliterated as “Xin Jie Zhi Yuan (Beijing) Investment Co., Ltd.”), an investment holding company holding interest in a chain of restaurants in the PRC. Mr. Huang has over 16 years of business experience, including investments on real estate, finance and securities, major chain catering enterprises and extensive experience in operation and investment management.

#### *Independent non-executive Directors*

##### **Mr. Tso Hon Sai, Bosco (“Mr. Tso”)**

Mr. Tso, aged 50, is proposed to be nominated as an independent non-executive Director. Mr. Tso obtained his Bachelor of Laws degree from King’s College London. He is currently a partner with Messrs Tso Au Yim & Yeung, Solicitors and has been a Hong Kong practising solicitor since 1990. Mr. Tso has been appointed as an independent non-executive director of China Fortune Investment (Holdings) Limited, (formerly known as “Neolink Cyber Technology (Holdings) Limited”) listed on GEM of the Stock Exchange (stock code: 8116) since 21 May 2007 and Imperial Pacific International Holdings Limited (formerly known as “First Natural Foods Holdings Limited”) listed on the Main Board of the Stock Exchange (stock code: 1076) since 21 November 2013. He also acted as an independent non-executive director of Goldin Financial Holdings Limited (formerly known as “Fortuna International Holdings Limited”) listed on the Main Board of the Stock Exchange (stock code: 530) during the period from 30 July 2003 to 15 November 2012 and acted as an independent non-executive director of Rising Development Holdings Limited (formerly known as “China Smarter Energy Group Holdings Limited”) listed on the Main Board of the Stock Exchange (stock code: 1004) during the period from 31 August 2007 to 3 August 2012.

##### **Mr. Leung Siu Hong (“Mr. Leung”)**

Mr. Leung, aged 39, is proposed to be nominated as an independent non-executive Director. Mr. Leung holds a master’s degree in Accountancy from the University of Aberdeen, Scotland. He is a fellow member of the Hong Kong Institute of Certified Public Accountants, Association of Chartered Certified Accountant, The Institute of Chartered Secretaries and

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## LETTER FROM OCTAL CAPITAL

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Administrators and The Hong Kong Institute of Chartered Secretaries. He has served as the company secretary and financial controller of China Starch Holdings Limited listed on the Main Board of the Stock Exchange (stock code: 3838) since February 2008. Mr. Leung also acted as the company secretary and financial controller of Ta Yang Group Holdings Limited listed on the Main Board of the Stock Exchange (stock code: 1991) during the period from March 2006 to January 2008.

### **Mr. Chung Wai Man (“Mr. Chung”)**

Mr. Chung, aged 51, is proposed to be nominated as an independent non-executive Director. He obtained a Bachelor’s degree (honours) in social sciences from the University of Hong Kong in December 1989 and a Master’s degree in international business management from the City University of Hong Kong in November 1998. Mr. Chung became an associate member of the Hong Kong Institute of Certified Public Accountants (then known as “The Hong Kong Society of Accountants”) in April 1995 and a fellow member of the Association of Chartered Certified Accountants in the United Kingdom in November 1999. He has been appointed as an independent non-executive director of E Lighting Group Holdings Limited listed on GEM of the Stock Exchange (stock code: 8222) since 11 September 2014. Mr. Chung held a managerial position with Deloitte Touche Tohmatsu from July 1995 to August 2000. Mr. Chung was a chief financial officer of Artel Solutions Group Holdings Limited listed on Main Board of the Stock Exchange (stock code: 931) from August 2000 to August 2002. He was the chief financial officer and company secretary of Venturepharm Laboratories Limited listed on GEM (stock code: 8225) from August 2002 to September 2003.

Save as disclosed above, each of the Proposed Directors has not held any other directorship in other public companies the securities of which are listed on any securities market in Hong Kong or overseas in the last three years and other major appointments and professional qualification.

Save as disclosed above, as at the Latest Practicable Date, each of the Proposed Directors did not have any interest in the Shares (within the meaning of Part XV of the SFO).

Save as disclosed above, as at the Latest Practicable Date, each of the Proposed Directors (i) did not hold any other positions in the Company or its subsidiaries; and (ii) did not have any other relationship with any other Directors, senior management, substantial Shareholders or controlling Shareholders.

As at the Latest Practicable Date, no service contract had been entered into between the Proposed Directors and the Company in relation to their proposed appointment. The Proposed Directors currently has no fixed terms of services with the Company. Pursuant to the articles of association of the Company, the Proposed Directors will not be subject to retirement by rotation or be taken into account in determining the number of directors to retire in the annual general meeting. The remuneration of the Proposed Directors has not been fixed and will be determined by the Board on the recommendation of remuneration committee of the Company with reference to their qualifications, experiences and duties and responsibilities in the Company.

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## LETTER FROM OCTAL CAPITAL

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There is no information in relation to the appointment of the Proposed Directors that is required to be disclosed nor are/were they involved in any of the matters required to be disclosed pursuant to Rules 13.51(2)(h) to 13.51(2)(v) of the Listing Rules; and there is no other matter that needs to be brought to the attention of the Shareholders.

### **Compulsory Acquisition**

The Offeror does not intend to exercise any power of compulsory acquisition of any Offer Shares outstanding and not acquired under the Offers after the close of the Offers.

### **Public float and maintaining the listing status of the Company**

The Offeror intends to maintain the listing of the Shares on the Stock Exchange after the close of the Offers. In the event that, at the close of the Offers, the public float of the Company falls below 25%, the proposed Directors who will be nominated by the Offeror and appointed as Directors and the then directors of the Offeror will undertake to the Stock Exchange that they will take appropriate steps to restore the minimum public float as required under the Listing Rules as soon as possible following the close of the Offers to ensure that sufficient public float exists for the Shares.

The Stock Exchange has stated that if, at the close of the Offers, less than 25% of the Shares are held by the public, or if the Stock Exchange believes that:

- (a) a false market exists or may exist in the trading of the Shares; or
- (b) there is insufficient Shares in public hands to maintain an orderly market,

it will consider exercising its discretion to suspend trading in the Shares until a level of sufficient public float is attained.

### **(V) GENERAL**

This Composite Document has been prepared for the purposes of complying with the laws of Hong Kong, the Takeovers Code and the Listing Rules and the information disclosed may not be the same as which would have been disclosed if this Composite Document had been prepared in accordance with the laws of the jurisdictions outside Hong Kong.

To ensure equality of treatment of all Shareholders, those Shareholders and Optionholders who hold Shares or Share Options as nominee on behalf of more than one beneficial owner should, as far as practicable, treat the holding of such beneficial owner separately. It is essential for the beneficial owners of the Shares and Share Options whose investments are registered in the names of nominees to provide instructions to their nominees of their intentions with regard to the Offers.

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## LETTER FROM OCTAL CAPITAL

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Attention of the Overseas Shareholders and Overseas Optionholders is drawn to the paragraph headed “Overseas Shareholders and Overseas Optionholders” of Appendix I to this Composite Document.

All documents and remittances to be sent to the Shareholders and Optionholders will be sent to them by ordinary post at their own risk. Such documents and remittances will be sent to the Shareholders and Optionholders at their respective addresses as they appear in the register of the members of the Company or the register of Optionholders or in the case of joint Shareholders, to such Shareholder or Optionholders whose name appears first in the register of members of the Company or register of Optionholders. The Offeror and parties acting in concert with it, the Company, Octal Capital, Challenge Capital, the Registrar or professional advisers or any of their respective directors or any other parties involved in the Offers will not be responsible for any loss or delay in transmission or any other liabilities that may arise as a result thereof or in connection therewith.

### (VI) ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this Composite Document which form part of this Composite Document. You are reminded to carefully read the “Letter from the Board”, the “Letter from the Independent Board Committee”, the “Letter from the Independent Financial Adviser” and other information about the Group, which are set out in this Composite Document before deciding whether or not to accept the Offers.

Yours faithfully,  
For and on behalf of  
**Octal Capital Limited**  
**Alan Fung**                      **Wong Wai Leung**  
*Managing Director*                      *Director*

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LETTER FROM THE BOARD

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**LEGEND STRATEGY INTERNATIONAL HOLDINGS  
GROUP COMPANY LIMITED**

**枋濬國際集團控股有限公司**

*(Incorporated in Cayman Islands with limited liability)*

**(Stock Code: 1355)**

*Executive Directors:*

Mr. Fong Man, Kelvin (*Chairman*)  
Ms. Fong Nga, Peggy  
Mr. Mak Yiu Cho  
Mr. Law Fei Shing

*Registered Office:*

Cricket Square  
Hutchins Drive  
P.O. Box 2681  
KY1-1111  
Cayman Islands

*Independent non-executive Directors:*

Dr. Wong Hak Kun, Jerry  
Mr. Wong Sui Chi, Frankie  
Mr. Frostick Stephen William  
Mr. Liu Cheng Zhong

*Principal Place of Business*

*in Hong Kong:*  
Room 2401-2402  
24/F Jubilee Centre  
46 Gloucester Road  
Wanchai  
Hong Kong

25 June 2015

*To the Independent Shareholders and Optionholders,*

Dear Sir or Madam,

**MANDATORY CONDITIONAL CASH OFFERS BY  
OCTAL CAPITAL LIMITED ON BEHALF OF  
CHINA MEDICAL OVERSEAS LIMITED  
TO ACQUIRE ALL THE ISSUED SHARES OF  
LEGEND STRATEGY INTERNATIONAL HOLDINGS  
GROUP COMPANY LIMITED AND  
CANCEL ALL OUTSTANDING SHARE OPTIONS OF  
LEGEND STRATEGY INTERNATIONAL HOLDINGS GROUP  
COMPANY LIMITED (OTHER THAN THOSE ALREADY OWNED OR  
AGREED TO BE ACQUIRED BY  
CHINA MEDICAL OVERSEAS LIMITED AND  
PARTIES ACTING IN CONCERT WITH IT)**

**INTRODUCTION**

Reference is made to the Joint Announcement.

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## LETTER FROM THE BOARD

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The Company and the Offeror jointly announced on 4 June 2015 that, among other things, on 29 May 2015, the Vendor and the Offeror entered into the Share Purchase Agreement pursuant to which the Offeror agreed to acquire and the Vendor agreed to sell the Sale Shares, being 102,576,466 Shares, representing approximately 32.66% of the entire issued share capital of the Company as at the date of the Joint Announcement, unconditionally. The consideration for the Sale Shares was HK\$156,941,992.98, equivalent to HK\$1.53 per Sale Share. Completion of the sale and purchase of the Sale Shares took place on 4 June 2015.

Immediately after Completion, the Offeror and parties acting in concert with it became interested in an aggregate of 102,576,466 Shares, representing approximately 32.66% of the entire issued share capital of the Company as at the date of the Joint Announcement. Accordingly, the Offeror and parties acting in concert with it are required to make a conditional mandatory cash offer to acquire all issued Shares (other than those Shares already owned or agreed to be acquired by the Offeror and parties acting in concert with it) pursuant to Rule 26.1 of the Takeovers Code. Pursuant to Rule 13.5 of the Takeovers Code, the Option Offer will be made to cancel all outstanding Share Options. Octal Capital is making the Offers for and on behalf of the Offeror.

The Independent Board Committee comprising Dr. Wong Hak Kun, Jerry, Mr. Wong Sui Chi, Frankie, Mr. Frostick Stephen William and Mr. Liu Cheng Zhong, the independent non-executive Directors, has been established to make a recommendation to the Independent Shareholders and the Optionholders as to whether the terms of the Offers are fair and reasonable and as to the acceptance of the Offers.

Challenge Capital has been appointed as the independent financial adviser to advise the Independent Board Committee in respect of the Offers. The full text of the letter from Challenge Capital to the Independent Board Committee is set out in this Composite Document.

Further terms and the procedures for acceptances of the Offers are set out in the “Letter from Octal Capital” and Appendix I to this Composite Document of which this letter forms part. The purpose of this Composite Document is to provide you with, among other things, information relating to the Company and the Offers as well as to set out (i) the “Letter from the Independent Board Committee” containing its recommendation to the Independent Shareholders and the Optionholders, and (ii) the “Letter from the Independent Financial Adviser” containing the advice of the Independent Financial Adviser to the Independent Board Committee in relation to the Offers.

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## LETTER FROM THE BOARD

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### THE OFFERS

#### Principal terms of the Offers

According to the “Letter from Octal Capital” contained in this Composite Document, Octal Capital is making the Offers for and on behalf of the Offeror in compliance with the Takeovers Code on the following basis:

#### The Share Offer

**For each Offer Share.....HK\$1.53 in cash**

#### The Option Offer

**For cancellation of each Share Option  
with an exercise price of HK\$1.822 .....HK\$0.0001 in cash**

The Share Offer Price of HK\$1.53 for each Offer Share is the same as the purchase price for each Sale Share paid by the Offeror under the Share Purchase Agreement. The Share Offer is extended to all Shareholders other than the Offeror and parties acting in concert with it in accordance with the Takeovers Code. Under the Option Offer, since the exercise price of the outstanding Share Options is above the Share Offer Price, the outstanding Share Options are out of money and, therefore, the Option Offer Price for the cancellation of each outstanding Share Option is set at a nominal value of HK\$0.0001.

Options which are not tendered under the Option Offer will not be cancelled; Optionholders of such options may exercise such options in accordance with the share option scheme adopted by the Company on 22 June 2011.

### FURTHER INFORMATION OF THE OFFERS

Please also refer to the “Letter from Octal Capital” contained in this Composite Document and Appendix I to this Composite Document for further information in relation to the Offers, the making of the Offers to the Overseas Shareholders and the Overseas Optionholders, taxation and acceptance and settlement procedures of the Offers.

### INFORMATION ON THE GROUP

The Company is a company incorporated in the Cayman Islands with limited liability, and the Shares have been listed on the Main Board of the Stock Exchange since 21 August 2013 by way of transfer of listing from the Growth Enterprise Market of the Stock Exchange to the Main Board of the Stock Exchange. The Group is principally engaged in operating budget hip hotels and providing hotel consultancy and management services in the PRC.

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## **LETTER FROM THE BOARD**

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Your attention is drawn to Appendices II and III to this Composite Document which contain further financial and general information of the Group.

### **INFORMATION ON THE OFFEROR**

Your attention is drawn to the section headed “Information on the Offeror” in the “Letter from Octal Capital” contained in this Composite Document.

### **INTENTION OF THE OFFEROR REGARDING THE GROUP**

Please refer to the section headed “Intention of the Offeror regarding the Group” in the “Letter from Octal Capital” for detailed information on the Offeror’s intention on the business and management of the Group as well as the proposed change of Board composition.

### **MAINTAINING THE LISTING STATUS OF THE COMPANY**

As mentioned in the “Letter from Octal Capital”, it is the intention of the Offeror to maintain the listing of Shares on the Stock Exchange after the close of the Offers. In the event that, at the close of the Offers, the public float of the Company falls below 25%, each of the proposed Directors who will be nominated by the Offeror and appointed as Directors and the then directors of the Offeror will undertake to the Stock Exchange to take appropriate steps as soon as possible following the close of the Offers to ensure that a sufficient public float exists for the Shares.

The Stock Exchange has stated that if, at the close of the Offers, less than 25% of the Shares are held by the public, or if the Stock Exchange believes that:

- (a) a false market exists or may exist in the trading of the Shares; or
- (b) there is insufficient Shares in public hands to maintain an orderly market,

it will consider exercising its discretion to suspend trading in the Shares until a level of sufficient public float is attained.

### **RECOMMENDATION**

Independent Shareholders and Optionholders are advised to read the recommendation of the Independent Board Committee set out on pages 27 to 28 of this Composite Document and the advice of the Independent Financial Adviser set out on pages 29 to 51 of this Composite Document before deciding on the actions to be taken on the Offers.

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## LETTER FROM THE BOARD

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### ADDITIONAL INFORMATION

Your attention is also drawn to the “Letter from Octal Capital” and the additional information contained in the appendices to this Composite Document and the accompanying Form(s) of Acceptance.

Yours faithfully,  
By order of the Board  
**Legend Strategy International Holdings Group Company Limited**  
**Fong Man, Kelvin**  
*Chairman and executive Director*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Set out below is the text of the letter of recommendation from the Independent Board Committee in respect of the Offers.



**LEGEND STRATEGY INTERNATIONAL HOLDINGS  
GROUP COMPANY LIMITED**  
**枋濬國際集團控股有限公司**  
*(Incorporated in Cayman Islands with limited liability)*  
**(Stock Code: 1355)**

25 June 2015

*To the Independent Shareholders and Optionholders,*

Dear Sir or Madam,

**MANDATORY CONDITIONAL CASH OFFERS BY  
OCTAL CAPITAL LIMITED ON BEHALF OF  
CHINA MEDICAL OVERSEAS LIMITED  
TO ACQUIRE ALL THE ISSUED SHARES OF  
LEGEND STRATEGY INTERNATIONAL HOLDINGS  
GROUP COMPANY LIMITED AND  
CANCEL ALL OUTSTANDING SHARE OPTIONS OF  
LEGEND STRATEGY INTERNATIONAL HOLDINGS GROUP  
COMPANY LIMITED (OTHER THAN THOSE ALREADY OWNED OR  
AGREED TO BE ACQUIRED BY  
CHINA MEDICAL OVERSEAS LIMITED AND  
PARTIES ACTING IN CONCERT WITH IT)**

### **INTRODUCTION**

We refer to the Composite Document dated 25 June 2015 jointly issued by the Offeror and the Company, of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Composite Document unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to consider the Offers and to make recommendations to you as to whether, in our opinion, the terms of the Offers are fair and reasonable so far as the Independent Shareholders and Optionholders are concerned and as to acceptance thereof.

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Challenge Capital has been appointed as the Independent Financial Adviser to advise us in respect of the terms of the Offers and as to acceptance thereof. Details of its advice and the principal factors taken into consideration by it in arriving at its advice and recommendations are set out in the “Letter from the Independent Financial Adviser” in the Composite Document.

We also wish to draw your attention to the Letter from the Board, the Letter from Octal Capital and the additional information set out in appendices to the Composite Document.

### RECOMMENDATIONS

Having taken into account the terms of the Offers, the advice and recommendation from Challenge Capital, we are of the opinion that the terms of the Offers are fair and reasonable so far as the Independent Shareholders and Optionholders are concerned and therefore we recommend the Independent Shareholders and Optionholders to accept the Offers.

Independent Shareholders are reminded to closely monitor the market price and liquidity of the Shares during the offer period and consider selling their Shares in the open market during the offer period, where possible, rather than accepting the Share Offer, if the net proceeds from the sale of such Shares in the open market would exceed the net amount receivable under the Share Offer. Optionholders should likewise consider exercising their Share Options in accordance with the terms of the share option scheme and selling in the market the Shares issued to them, if the net proceeds from the sale of such Shares in the open market would exceed the net amount receivable under the Option Offer.

Notwithstanding our recommendations, the Independent Shareholders and Optionholders are strongly advised that the decision to realise or to hold your investment in the Shares and Share Options is subject to individual circumstances and investment objectives and they should consider carefully the terms of the Offers. If in doubt, the Independent Shareholders and Optionholders should consult their own professional advisers for professional advice. Furthermore, the Independent Shareholders and Optionholders who wish to accept the Offers are recommended to read carefully the procedures for accepting the Offers as detailed in the Composite Document.

Yours faithfully,  
Independent Board Committee of  
**Legend Strategy International Holdings Group Company Limited**

<b>Dr. Wong Hak Kun,</b>	<b>Mr. Wong Sui Chi,</b>	<b>Mr. Frostick</b>	<b>Mr. Liu Cheng Zhong</b>
<b>Jerry</b>	<b>Frankie</b>	<b>Stephen William</b>	
	<i>Independent non-executive Directors</i>		

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*The following is the full text of a letter of advice from Challenge Capital Management Limited to the Independent Board Committee in relation to the Offers, which has been prepared for the purpose of inclusion in this Composite Document.*



信溢投資策劃有限公司  
**CHALLENGE CAPITAL MANAGEMENT LIMITED**

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3/F, Kailey Tower,  
16 Stanley Street,  
Central, Hong Kong

25 June 2015

*To: The Independent Board Committee of Legend Strategy  
International Holdings Group Company Limited*

Dear Sirs,

**MANDATORY CONDITIONAL CASH OFFERS BY  
OCTAL CAPITAL LIMITED ON BEHALF OF  
CHINA MEDICAL OVERSEAS LIMITED  
TO ACQUIRE ALL THE ISSUED SHARES OF  
LEGEND STRATEGY INTERNATIONAL HOLDINGS  
GROUP COMPANY LIMITED AND  
CANCEL ALL OUTSTANDING SHARE OPTIONS OF  
LEGEND STRATEGY INTERNATIONAL HOLDINGS GROUP  
COMPANY LIMITED (OTHER THAN THOSE ALREADY OWNED OR  
AGREED TO BE ACQUIRED BY  
CHINA MEDICAL OVERSEAS LIMITED AND PARTIES  
ACTING IN CONCERT WITH IT)**

### INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee in relation to the Offers, details of which are set out in the Composite Document jointly issued by the Offeror and the Company dated 25 June 2015, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Composite Document unless otherwise defined or the context requires otherwise.

Reference is made to the Joint Announcement dated 4 June 2015 in relation to, among other things, the Share Purchase Agreement and the Offers. On 29 May 2015, the Offeror and the Vendor entered into the Share Purchase Agreement, pursuant to which the Offeror has agreed to purchase and the Vendor has agreed to sell the Sale Shares, being 102,576,466 Shares, unconditionally for a total consideration of HK\$156,941,992.98, equivalent to HK\$1.53 per Sale Share.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Completion took place on 4 June 2015. Immediately after Completion, the Offeror and parties acting in concert with it were interested in an aggregate of 102,576,466 Shares, representing approximately 32.66% of the entire issued share capital of the Company as at the date of the Joint Announcement. Accordingly, the Offeror and parties acting in concert with it are required to make a conditional mandatory cash offers to acquire all issued Shares (other than those Shares already owned or agreed to be acquired by the Offeror and parties acting in concert with it) pursuant to Rule 26.1 of the Takeovers Code and to cancel all outstanding Share Options pursuant to Rule 13.5 of the Takeovers Code.

The Independent Board Committee comprising all of the Company's independent non-executive Directors, namely Dr. Wong Hak Kun, Jerry, Mr. Wong Sui Chi, Frankie, Mr. Frostick Stephen William and Mr. Liu Cheng Zhong, has been formed to consider and advise the Independent Shareholders and Optionholders in respect of the Offers. We, Challenge Capital Management Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee in connection with the Offers, in particular as to whether the terms of the Offers are fair and reasonable, and to give a recommendation in regards to acceptance of the Offers.

We are independent from and not connected with the Company, the Offeror, any of their respective substantial shareholders, or any party acting, or presumed to be acting, in concert with any of them. Accordingly, we are considered eligible to give independent advice on the Offers. Apart from the normal advisory fee payable to us in connection with our appointment as the Independent Financial Adviser to advise the Independent Board Committee, no arrangement exists whereby we shall receive any other fees or benefits from the Offeror and the Company or any of its substantial Shareholders or any person acting or deemed to be acting in concert with any of them.

### **BASIS OF OUR OPINION**

In formulating our opinion and recommendations, we have relied on the accuracy of the information, facts and representations contained or referred to in the Composite Document, and the information, facts and representations provided, and the opinions expressed, by the Directors, the Company and its management. We have assumed that all information, facts and representations contained or referred to in the Composite Document, and the information, facts and representations provided, and the opinions expressed, by the Directors, the Company and its management, are true, accurate and complete in all material respects as at the date of the Composite Document and that they may be relied upon in formulating our opinion.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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We also assumed that all views, opinions and statements of intention provided by the Directors, advisors and representatives of the Company have been arrived at after due and careful enquiries. The Directors have confirmed to us that no material facts have been withheld or omitted from the information supplied and opinions expressed. We consider that we have been provided with, and have reviewed, all currently available information and documents which are available under present circumstances to enable us to reach an informed view to provide a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any facts or circumstances which would render the information provided and representations made to us untrue, inaccurate or misleading. We consider that we have performed all necessary steps to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinion. We have not, however, conducted any independent verification of the information provided by the Directors, the Company and its management, nor have we conducted independent detailed investigation or audit into the businesses or affairs or future prospects of the Group. Our opinion is necessarily based on the financial, economic, market and other conditions in effect, and the information made available to us, as at the Latest Practicable Date.

All Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Composite Document (other than the information relating to the Offeror and parties acting in concert with it (including Mr. Law)) and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, the information contained in the Composite Document (other than the information relating to the Offeror and parties acting in concert with it (including Mr. Law)) 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 in the Composite Document misleading.

We have not considered the tax and regulatory implications on the Independent Shareholders and the Optionholders of their acceptance or non-acceptance of the Offers since these are particular to their own individual circumstances. In particular, Independent Shareholders and Optionholders who are residents overseas or subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own tax positions with regard to the Offers and, if in any doubt, should consult their own professional advisers.

This letter is issued for the information of the Independent Board Committee solely in connection with their consideration of the Offers, and except for its inclusion in the Composite Document, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our advice in respect of the Offers, we have considered the following principal factors and reasons:

#### 1. Terms of the Offers

Octal Capital, on behalf of the Offeror, will conditionally make the Offers in accordance with the Takeovers Codes and on the following basis:

##### 1.1. *The Share Offer*

**For each Offer Share .....HK\$1.53 in cash**

The Share Offer Price of HK\$1.53 for each Offer Share is the same as the purchase price for each Sale Share paid by the Offeror under the Share Purchase Agreement. The Share Offer is extended to all Independent Shareholders in accordance with the Takeovers Code.

Acceptance of the Share Offer by any person will constitute a warranty by such person or persons to the Offeror that the Shares acquired under the Share Offer are sold by such person or persons free from all liens, charges, encumbrances, rights of pre-emption and any other third party rights of any nature and together with all rights attaching to them, including the right to receive all dividends and other distributions, if any, declared, made or paid on or after the date on which the Offers are made.

##### 1.2. *The Option Offer*

**For cancellation of each Share Option  
with an exercise price of HK\$1.822 .....HK\$0.0001 in cash**

Under the Option Offer, since the exercise price of the outstanding Share Options is above the Share Offer Price, the outstanding Share Options are out of money and, therefore, the Option Offer Price for the cancellation of each outstanding Share Option is set at a nominal value of HK\$0.0001. The Option Offer is extended to all eligible Optionholders in accordance with the Takeovers Code.

Options which are not tendered under the Option Offer will not be cancelled; Optionholders of such options may exercise such options in accordance with the share option scheme adopted by the Company on 22 June 2011.

Acceptance of the Option Offer by the Optionholders will result in the cancellation of those outstanding Share Options, together with all rights attaching thereto.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The Offers are conditional on valid acceptances of the Share Offer being received (and not, where permitted, withdrawn) by 4:00 p.m. on or prior to the Offer Closing Date (or such later time(s) and/or date(s) as the Offeror may decide and the Executive may approve) in respect of such number of Shares which, together with the Shares already owned or agreed to be acquired before or during the Offers, would result in the Offeror and parties acting in concert with it holding more than 50% of the voting rights in the Company.

The Offeror will issue an announcement in relation to the revision, extension or lapse of the Offers or the fulfilment of the conditions to the Offers in accordance with the Takeovers Code and the Listing Rules. The latest time on which the Offeror can declare the Offers unconditional as to acceptance is 7:00 p.m. on the 60th day after the posting of the Composite Document (or such later date to which the Executive may consent).

Details of the terms of the Offers are contained in the Letter from Octal Capital and Appendix I to the Composite Document. Independent Shareholders and Optionholders are urged to read the relevant sections in the Composite Document in full.

## **2. Information on the Group**

### ***2.1. Principal activities***

The Company is a company incorporated in the Cayman Islands with limited liability, and the Shares have been listed on the Main Board of the Stock Exchange since 21 August 2013 by way of transfer of listing from the Growth Enterprise Market of the Stock Exchange to the Main Board of the Stock Exchange. The Group is principally engaged in operating budget hip hotels and providing hotel consultancy and management services in the PRC. According to the Company's annual report for the year ended 31 December 2014, the Group had three leased-and-operated hotels and four managed hotels under operation, and five new hotels under construction during the financial year ended 31 December 2014.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*Financial year ended 31 December 2013 compared with financial year ended 31 December 2012*

For the FY 2013, the Group's revenue decreased by approximately 36.4% to approximately HK\$58.0 million from approximately HK\$91.2 million for the corresponding period in 2012. Such decrease was mainly attributable to the 57.8% decrease in revenue from the Group's hotel consultancy services business from approximately HK\$58.2 million for the FY 2012 to approximately HK\$24.6 million for the FY 2013. As noted from the 2013 Annual Report, economic slowdown in the PRC caused investors to be more conservative in the hotel accommodation sector and affected the revenue of the Group's hotel consultancy services business. Revenue from the Group's hotel operations business remained relatively stable and increased from approximately HK\$33.0 million for the FY 2012 to approximately HK\$33.4 million for the FY 2013.

Total operating expenses of the Group increased by approximately 26.5% from approximately HK\$46.4 million for the FY 2012 to approximately HK\$58.7 million for the FY 2013. The increase in operating expenses was mainly due to (i) the increase in employee benefit expenses of approximately 70.9% from approximately HK\$9.8 million for the FY 2012 to approximately HK\$16.8 million for the FY 2013; and (ii) the increase in operating lease expenses of approximately 27.9% from approximately HK\$11.6 million for the FY 2012 to approximately HK\$14.8 million for the FY 2013.

The Group's share of loss from joint ventures increased from approximately HK\$20,870 for the FY 2012 to approximately HK\$3.8 million for the FY 2013. As a result of the decrease in revenue, the increase in operating expenses and the increase in the Group's share of loss from joint ventures, the Group recorded a net loss attributable to the owners of the Company of approximately HK\$7.3 million for the FY 2013 as compared to a net profit of approximately HK\$32.9 million for the FY 2012.

*Financial year ended 31 December 2014 compared with financial year ended 31 December 2013*

For the FY 2014, revenue of the Group decreased by approximately 48.8% to approximately HK\$29.7 million from approximately HK\$58.0 million for the corresponding period in 2013. Such decrease was mainly attributable to the reduction in revenue from the Group's hotel consultancy services business. As noted from the 2014 Annual Report, in August 2014, two investors informed the Group to rescind their hotel consultancy service agreements which were entered into with the Group in April 2014, and no revenue was generated from the Group's hotel consultancy services business for the FY 2014 (FY 2013: approximately HK\$24.6 million). Revenue from the hotel operations business also decreased from approximately HK\$33.4 million for the FY 2013 by approximately 11.1% to approximately HK\$29.7 million for the FY 2014, which was mainly attributable to (i) the closing down of a hotel in Caitian, the PRC in 2013; and (ii) the drop in average room revenue of approximately 6.4% as compared to the corresponding period in 2013.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Total operating expenses of the Group increased by approximately 20.0% from approximately HK\$58.7 million for the FY 2013 to approximately HK\$70.5 million for the FY 2014. The increase in operating expenses was mainly due to (i) a write-off in the amount of approximately HK\$4.4 million as resulted from the termination of two hotel development projects; (ii) the provision for impairment of trade receivables of approximately HK\$4.4 million for the FY 2014; and (iii) the increase in entertainment and professional fee expenses for the FY 2014.

The Group's share of loss from joint ventures increased from approximately HK\$3.8 million for the FY 2013 to approximately HK\$12.3 million for the FY 2014. Furthermore, as noted from the voluntary announcement issued by the Company on 23 April 2015, the Directors believed that the intense competition from Southeast Asian countries and the continuing increase in operating costs in Sanya, the PRC would adversely affect the performance of the joint ventures in the future. The Group recorded an impairment of interests in the joint ventures of approximately HK\$6.8 million for the FY 2014. As a result of the decrease in revenue, the increase in operating expenses and the share of loss from, and the impairment of interests in the joint ventures, net loss attributable to the owners of the Company widened from approximately HK\$7.3 million for the FY 2013 to approximately HK\$51.5 million for the FY 2014.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 2.3. *Financial position*

The following are summaries of the audited financial position of the Group as at 31 December 2014, 2013 and 2012 as extracted from the 2014 Annual Report and the 2013 Annual Report.

	<b>As at 31 December</b>		
	<b>2014</b> <i>HK\$</i> (audited)	<b>2013</b> <i>HK\$</i> (audited)	<b>2012</b> <i>HK\$</i> (audited)
<b>Non-current assets</b>			
Property, plant, and equipment	77,312,841	53,340,427	36,746,467
Prepayments	24,169,069	59,969,169	24,450,000
Rental deposits	2,243,510	1,425,273	1,497,017
Prepaid operating leases	9,823,653	10,529,348	10,998,264
Interest in joint ventures	6,831,600	25,432,735	19,492,931
Deferred income tax assets	1,688,384	1,284,573	1,452,223
	122,069,057	151,981,525	94,636,902
<b>Current assets</b>			
Trade receivables	7,741,933	10,295,474	48,276,139
Prepayments, deposits and other receivables	27,839,907	2,743,151	4,205,271
Amounts due from joint ventures	2,114,950	1,024,454	—
Available-for-sale financial assets	—	—	1,162,000
Bank and cash balances	2,322,143	19,585,536	27,880,476
	40,018,933	33,648,615	81,523,886
<b>Current liabilities</b>			
Provision for asset retirement	2,422,083	2,299,176	—
Trade and other payables	21,696,678	16,625,205	9,064,789
Current income tax	1,733,623	13,936,056	13,035,449
Finance lease payables	419,560	342,694	412,305
Financial derivatives	2,422,083	2,299,176	832,000
	26,271,944	33,203,131	23,344,543
<b>Non-current liabilities</b>			
Provision for asset retirement	1,485,747	1,440,769	3,457,087
Finance lease payables	155,583	516,251	889,153
Convertible notes — debt component	—	—	29,405,000
	1,641,330	1,957,020	33,751,240
<b>Net assets</b>	<b>134,174,716</b>	<b>150,469,989</b>	<b>119,065,005</b>
<b>Equity</b>			
Share capital	2,617,701	2,165,001	1,800,001
Reserves	131,557,015	148,304,988	117,265,004
<b>Total equity</b>	<b>134,174,716</b>	<b>150,469,989</b>	<b>119,065,005</b>

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As at 31 December 2014, total assets of the Group amounted to approximately HK\$162.1 million, comprised mainly, among other things, (i) property, plant and equipment of approximately HK\$77.3 million; (ii) prepayments, deposits and other receivables (including both non-current and current portions) of approximately HK\$64.1 million; (iii) trade receivables of approximately HK\$7.7 million; and (iv) bank and cash balances of approximately HK\$2.3 million. Total liabilities of the Group amounted to approximately HK\$27.9 million, mainly consisting of, among other things, trade and other payables of approximately HK\$21.7 million which included trade payables of approximately HK\$4.3 million, accruals of approximately HK\$11.6 million, and other payables of approximately HK\$5.8 million. Net asset value of the Group amounted to approximately HK\$134.2 million as at 31 December 2014.

### 3. Prospects of the Group

The Group is principally engaged in budget hotel operations, provision of hotel consultancy services and hotel management services in the PRC. With all of its leased-and-operated hotels and managed hotels located in the Southern China region, performance of the Group's business depends largely on the outlook of the tourism and hospitality industries in the PRC, especially in the Southern China region.

The supply of budget and mid-end hotels in the PRC has been growing at a fast rate over the past decade. According to the "2015 Chinese Hotel Chain Development and Investment Report" jointly issued by China Hotel Association and Shanghai Inntie Hotel Management Consultants Co., Ltd. (the "**CHCDI Report**"), the number of budget and mid-end hotels in the PRC increased from 522 in 2005 to 12,727 in 2013, and further to 16,375 in 2014, representing a compound annual growth rate of 46.6% from 2005 to 2014, and a year-on-year growth rate of 28.7% in 2014. As further stated in the CHCDI Report, certain major budget hotel groups are facing the challenge of declining profits, and the need for overall revamp and upgrade, rising costs as well as weakening of brand images have become the bottleneck for further development of budget hotels.

Based on the "China Hotel Market Overview 2014" produced by Jones Lang LaSalle Property Consultants Pte Ltd in conjunction with the China Tourism Hotel Association (the "**CHMO Report**"), which cited the results of the China Tourism Hotel Association 2014 survey of 269 hotels in the PRC (the "**CTHA 2014 Survey**"), the general performance for hotels across Mainland China declined substantially in terms of average daily rate and revenue per available room. We also noted from the CHMO Report that occupancy rate in the Southern China region decreased from 59.1% in 2012 to 56.4% in 2013, while revenue per available room decreased from RMB164 to RMB158 during the same period, according to the CTHA 2014 Survey. As stated in the CHMO Reports, respondents of the CTHA 2014 Survey estimated that, the occupancy rate and revenue per available room in Southern China region would stand at 57.2% and RMB163, respectively, both of which were below 2012's levels, and 67.7% of the hotels participated in the CTHA 2014 Survey suggested that the key operational challenge in 2014 was the lack of room demand.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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According to the 2014 Annual Report, the Group recorded significant loss for the FY 2014 as a result of the increased competition in the hospitality market. In order to tackle the tough operating environment, the Group continued to implement stringent long term cost control measures and slowdown its investments in hotel projects. The Group has also withdrawn all hotel development projects in Changan, Dongguan City, the PRC in view of the abrupt slowdown of economic growth in the area since February 2014.

Having taken into account the industry outlook of the hospitality industry in the PRC and the financial and operating performances of the Group as mentioned above, we concur with the Company that the operating environment of the Group will remain challenging in the near future.

#### **4. Information on the Offeror**

According to the Letter from Octal Capital, the Offeror is an investment holding company incorporated in the BVI with limited liability on 4 January 2011 and is owned by Mr. Ding Yifan and Mr. Huang Yun as to 90% and 10% equity interest, respectively. Please refer to the Letter from Octal Capital contained in the Composite Document for details of the Offeror.

#### **5. Intentions of the Offeror regarding the Group and proposed change to the composition of the Board**

According to the Letter from Octal Capital, following the close of the Offers, the Offeror intends to continue the existing principal businesses of the Group. The Offeror will conduct a review on the existing principal businesses and the financial position of the Group for the purpose of formulating business plans and strategies for the future business development of the Group. In this regard, the Offeror may look into business opportunities and consider whether any asset disposals, asset acquisitions, business rationalisation, business divestment, fund raising, restructuring of the business and/or business diversification will be appropriate in order to enhance the long-term growth potential of the Group. However, as at the Latest Practicable Date, the Offeror did not have any specific plan or proposal with respect to any acquisition of assets and/or business by the Group.

As further disclosed in the Letter from Octal Capital, save for the Offeror's intention regarding the Group as set out above, the Offeror has no intention to discontinue the employment of the employees (save for the changes in the composition of the Board) or to dispose of or re-deploy the assets of the Group other than those in its ordinary course of business. Any disposal of the existing business of the Group, if contemplated, will be made in full compliance with the Listing Rules. The Offeror has no intention to inject any assets or businesses into the Company.

The Board is currently made up of eight Directors, comprising four executive Directors, being Mr. Fong Man, Kelvin, Ms. Fong Nga, Peggy, Mr. Mak Yin Cho and Mr. Law Fei Shing and four independent non-executive Directors, being Dr. Wong Hak Kun, Jerry, Mr. Wong Sui Chi, Frankie, Mr. Frostick Stephen William and Mr. Liu Cheng Zhong.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Under the Share Purchase Agreement, the Vendor has agreed to procure such Directors as may be required by the Offeror to resign from the Board with effect from the earliest time permitted under the Takeovers Code. In this respect, as requested by the Offeror, all the existing Directors except for Mr. Law Fei Shing, an executive Director, will resign from the Board with effect from the earliest time permitted under the Takeovers Code.

The Offeror at present intends to nominate Mr. Huang Yun as new executive Director; and (i) Mr. Tso Hon Sai, Bosco; (ii) Mr. Leung Siu Hong; and (iii) Mr. Chung Wai Man as new independent non-executive Directors with effect from the Despatch Date after the despatch of the Composite Document or at a date as permitted under the Takeovers Code, the Listing Rules and the law applicable to the Company. Any changes to the composition of the Board will be made in compliance with the Takeovers Code and the Listing Rules. An announcement will be published by the Company in this regard. Biographies of the new Directors to be nominated by the Offeror are set out in the Letter from Octal Capital contained in the Composite Document.

### **6. Public float and maintaining the listing status of the Company**

The Offeror intends to maintain the listing of the Shares on the Stock Exchange after the close of the Offers. In the event that, at the close of the Offers, the public float of the Company falls below 25%, the proposed Directors who will be nominated by the Offeror and appointed as Directors and the then directors of the Offeror will undertake to the Stock Exchange that they will take appropriate steps to restore the minimum public float as required under the Listing Rules as soon as possible following the close of the Offers to ensure that sufficient public float exists for the Shares.

The Stock Exchange has stated that if, at the close of the Offers, less than 25% of the Shares are held by the public, or if the Stock Exchange believes that:

- (i) a false market exists or may exist in the trading of the Shares; or
- (ii) there is insufficient Shares in public hands to maintain an orderly market,

it will consider exercising its discretion to suspend trading in the Shares until a level of sufficient public float is attained.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 7. Evaluation of the Offer Price

#### 7.1. Comparison between the Offer Price and historical Share prices

The Share Offer Price of HK\$1.53 per Offer Share represents:

- (i) a premium of approximately 23.4% over the closing price of HK\$1.24 per Share as quoted on the Stock Exchange on 17 April 2015, being the trading day immediately prior to the commencement of the Offer Period;
- (ii) a discount of approximately 41.6% to the closing price of HK\$2.62 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a discount of approximately 30.8% to the average closing prices of approximately HK\$2.21 per Share as quoted on the Stock Exchange for the five consecutive trading days immediately prior to and including the Last Trading Day;
- (iv) a discount of approximately 27.8% to the average closing prices of approximately HK\$2.12 per Share as quoted on the Stock Exchange for the ten consecutive trading days immediately prior to and including the Last Trading Day;
- (v) a discount of approximately 23.5% to the average closing prices of approximately HK\$2.00 per Share as quoted on the Stock Exchange for the 30 consecutive trading days up immediately prior to and including the Last Trading Day;
- (vi) a discount of approximately 25.7% to the closing price of HK\$2.06 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- (vii) a premium of approximately 255.8% to the audited net assets per Share of approximately HK\$0.43 as at 31 December 2014 and 314,820,001 Shares in issue as at the Latest Practicable Date.

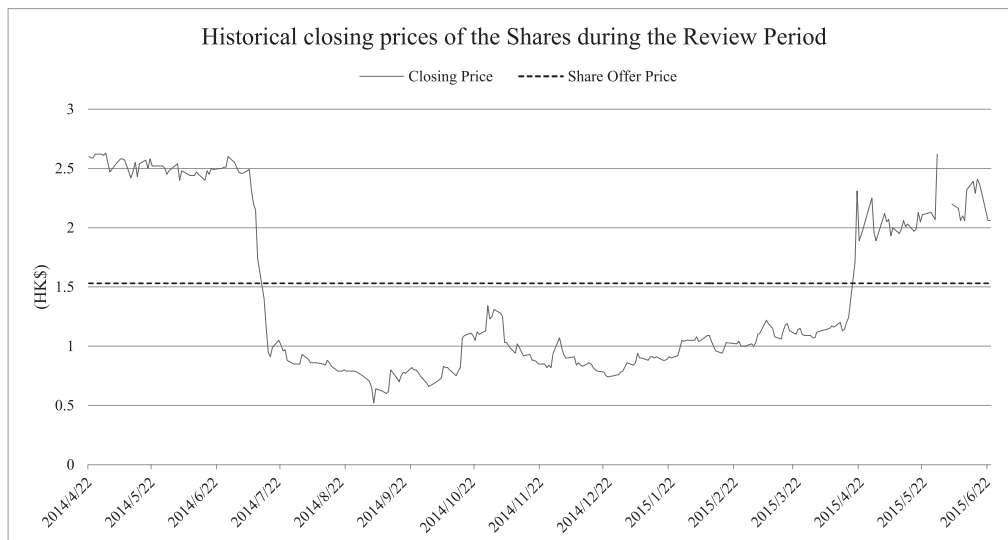
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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 7.2. *Historical price performance of the Shares*

The chart below depicts the closing prices of the Shares traded on the Stock Exchange starting from 22 April 2014, being the first trading day immediately after the date falling 12 months preceding the date of the Rule 3.7 Announcement, up to and including the Latest Practicable Date (the “**Review Period**”).



Source: Bloomberg

As shown in the chart above, during the Review Period, the highest and lowest closing prices of the Shares were HK\$2.63 per Share on 30 April 2014 and HK\$0.52 per Share on 4 September 2014, respectively. The Share Offer Price is within the range of the highest and lowest closing prices, and represents a discount of approximately 41.83% to the highest closing price and a premium of approximately 194.23% over the lowest closing price of the Shares during the Review Period.

Between the start of the Review Period and 11 July 2014, the Shares had been traded at prices above the Share Offer Price. On 11 July 2014, the Shares were closed at HK\$1.74 per Share, representing a decrease of 19.07% from the closing price of the previous trading day. The closing prices of the Shares dropped further by 19.54%, 17.14% and 18.10%, respectively, for the next three trading days (being 14 July 2014, 15 July 2014 and 16 July 2014) as compared to their respective previous trading day's closing prices. As noted from the announcement of the Company dated 14 July 2014, the Board was not aware of any reasons for such decreases in the price of the Shares.

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Since 14 July 2014 till 17 April 2015, being the last full trading day prior to the release of the Rule 3.7 Announcement, the closing prices of the Shares had remained below the Share Offer Price and ranged between HK\$0.52 per Share and HK\$1.40 per Share. On 13 August 2014, the Company issued a profit warning announcement in relation to the expected net loss position of the Group for the six months ended 30 June 2014 as compared to a net profit for the corresponding period of 2013. The closing price of the Shares continued its downward trend until a low of HK\$0.52 per Share was reached on 4 September 2014. On 12 September 2014, the Shares were closed at HK\$0.80 per Share, representing a 29.03% increase from previous trading day's closing price. As stated in the announcement of the Company dated 12 September 2014, the Board was not aware of any reasons for such increases in the price of the Shares save that the Company was considering a potential issue of bonds of the Company. On 16 October 2014, the closing price of the Shares experienced another significant jump of 30.49% and reached HK\$1.07 per Share. As stated in the announcement of the Company dated 16 October 2014, the Board was not aware of any reasons for such increases in the price of the Shares. Despite the issuing of a profit warning announcement on 7 January 2015 in relation to the expected net loss position of the Group for the year ended 31 December 2014 and a voluntary announcement on 27 January 2015 in relation to the expected impairment loss to be made on the Company's two joint ventures, the closing price of the Shares had demonstrated an overall upward trend since December 2014.

On 20 April 2015, being the date of the Rule 3.7 Announcement, the closing price of the Shares surged by 37.90% to HK\$1.71 per Share, and further by 35.09% to HK\$2.31 per Share on 21 April 2015, as compared to their respective previous trading day's closing prices. On 20 May 2015, the Company announced that discussion between the Vendor and the first potential purchaser had ceased and the Vendor was in discussion with the second potential purchaser, being the Offeror, for the possible sale of all Shares beneficially owned by the Vendor. The closing price of the Shares peaked at HK\$2.62 per Share on 29 May 2015, being the last trading day prior to the suspension of trading of the Shares on 1 June 2015 pending the release of the Joint Announcement. Trading of the Shares resumed on 5 June 2015 after the publication of the Joint Announcement and closed at HK\$2.06 per Share as at the Latest Practicable Date.

The Shares have been traded above the Share Offer Price since the release of the Rule 3.7 Announcement. Without any other known changes to the fundamentals of the Company, we believe that the surge in prices of the Shares after the Rule 3.7 Announcement was probably due to market reaction towards the possible change in control of the Company. It is uncertain whether the current price level of the Shares will be sustainable in the absence of the Offers.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 7.3. *Liquidity of the Shares*

The table below sets out the trading volume of the Shares during the Review Period:

	Total trading volume for the month/period	Maximum daily trading volume for the month/period	Minimum daily trading volume for the month/period	Average daily trading volume for the month/period <i>(Note 1)</i>	Approximate percentage of average daily trading volume to total number of shares in issue as at the Latest Practicable Date <i>(Note 2)</i>
<b>2014</b>					
April <i>(Note 3)</i>	426,000	128,000	0	65,857	0.02%
May	3,391,100	901,000	0	169,555	0.05%
June	4,401,000	971,000	0	220,050	0.07%
July	176,641,000	36,128,000	80,000	8,029,136	2.55%
August	32,769,000	6,824,000	360,000	1,560,429	0.50%
September	113,813,655	34,604,000	990,000	5,419,698	1.72%
October	257,433,800	43,004,000	510,000	12,258,752	3.89%
November	62,084,000	23,234,000	354,000	3,104,200	0.99%
December	35,065,000	15,492,000	120,000	1,669,762	0.53%
<b>2015</b>					
January	31,813,000	8,192,000	146,000	1,514,905	0.48%
February	21,149,000	5,854,000	40,000	1,174,944	0.37%
March	58,833,000	10,576,000	266,000	2,674,227	0.85%
April	199,551,000	47,066,000	646,000	10,502,684	3.34%
May	67,058,000	11,967,000	1,066,000	3,529,368	1.12%
June <i>(Notes 4 &amp; 5)</i>	63,280,000	14,278,000	726,000	4,867,692	1.55%

*Source: Bloomberg*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*Notes:*

1. Average daily trading volume is calculated by dividing the total trading volume for the month/period by the number of trading days during the month/period which excludes any trading day on which trading in the Shares on the Stock Exchange was suspended for the whole trading day
2. Based on 314,820,001 Shares in issue, being the total issued share capital of the Company as at the Latest Practicable Date
3. Since the beginning of the Review Period, i.e. 22 April 2014
4. The trading of Shares had been suspended from 1 June 2015 up to 4 June 2015
5. Up to the Latest Practicable Date

As illustrated in the above table, the average daily trading volume during the Review Period ranged from 60,857 Shares to 12,258,752 Shares, representing approximately 0.02% to 3.89% of the total number of Shares in issue as at the Latest Practicable Date. Higher trading volume was noted in July 2014, September 2014, October 2014, April 2015, May 2015 and June 2015. As advised by the Directors, they are not aware of any reason for the increase in trading volume in the months of July, September and October 2014. We consider that the increase in trading volume coupled with the surge in the price of the Shares since April 2015 was likely due to market reaction towards the possible change in control of the Company.

Save for the six months as mentioned above, the overall liquidity of the Shares was relatively low during the Review Period. As such, the Shareholders may find it difficult to dispose of a large number of Shares in the open market without exerting a downward pressure on the price of the Shares. We consider that the Share Offer provides the Independent Shareholders with an assured exit if they wish to realise their investments in the Shares.

#### **7.4. *Comparable companies***

The Group is principally engaged in budget hotel operations and provision of hotel consultancy services and hotel management services in the PRC, with revenue generated from budget hotel operations accounting for approximately 36.2%, 57.6%, and 100.0% of the Group's revenue for the FY 2012, FY 2013, and FY 2014, respectively, and provision of hotel consultancy services accounting for approximately 63.8%, 42.4%, and 0.0% of the Group's revenue for the FY 2012, FY 2013, and FY 2014, respectively.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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In assessing the fairness and reasonableness of the Share Offer Price, it is common practice to apply price-to-earnings ratio (the “**PE Ratio**”), price-to-book ratio (the “**PB Ratio**”), and enterprise value-to-earnings before interest, tax, depreciation and amortisation ratio (the “**EV/EBITDA Ratio**”) for evaluating the value of a company. We have not applied the PE Ratio and EV/EBITDA Ratio in our analysis as the Company recorded a loss before tax, interest, depreciation and amortisation, and a net loss for the FY 2014. We attempted to compare the PB Ratio implied by the Share Offer Price (the “**Implied PB Ratio**”) against the PB ratio of the comparable companies (the “**Comparables**”). In identifying the Comparables, we have considered all of the companies which (i) are listed on the Stock Exchange; (ii) have revenue generated from hotel operations contributing not less than 50.0% of their total revenue for the latest financial year; and (iii) have hotel operations in Hong Kong and/or the PRC for our analysis. We have identified 11 Comparables which is an exhaustive list based on the aforesaid criteria, and compared the Implied PB Ratio against the PB Ratio of the Comparables. We noted there is no direct Comparable to the Group as most of the Comparables (i) have a primary focus on the operation of high-end hotels (except for Shanghai Jin Jiang International Hotels Group Company Limited (stock code: 2006) (“**Jin Jiang**”)); and (ii) have a market capitalisation of over HK\$1 billion (except for Mexen Limited (stock code: 22) (“**Mexen**”) and Far East Hotels and Entertainment Limited (stock code: 37) (“**Far East**”). Among all of the Comparables that we have identified, we consider Jin Jiang as a closer Comparable to the Group on the basis that its hotel operations include star rated hotels as well as budget hotels which target similar customer groups and face common market environment and operational risks to the Group. Given that no public records of other Comparables which is engaged in exactly the same business as the Group and has a similar market capitalisation to the Group based on the aforesaid criteria are available, we consider the Comparables identified are fair and representative for the purpose of our analysis.

Independent Shareholders and Optionholders should note that the business, operation, and prospect of the Group are not exactly the same as the Comparables and thus the PB Ratios of the Comparables are only used to provide a general reference for the recent common market to book values on Hong Kong listed companies in the hospitality industry. We have not conducted any in-depth investigation into the business and operations of the Comparables save for the aforesaid criteria. The list of the Comparables and their respective PB Ratios are set out in the table below:

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Company (Stock code)	Principal business	Market capitalisation as at the Latest Practicable Date (HK\$ million)	Net asset value attributable to the shareholders of the company (HK\$ million)	PB Ratio (times)
Shangri-La Asia Ltd (69.HK)	Hotel ownership (including hotels under lease) and management services; property rentals from ownership and leasing of office properties, commercial properties and serviced apartments/ residences	40,741	57,683	0.7
The Hongkong & Shanghai Hotels Ltd (45.HK)	Full service hotels including ownership, operation and management of full service hotels; select service hotels; food and restaurants; passenger transportation vehicles and logistics; travel agency; and intra-group financial services, training and education, and corporate function	16,644	36,151	0.5
Shanghai Jin Jiang International Hotels Group Co Ltd (2006.HK)	Operations of hotels, commercial properties and clubs and services	20,038	19,207	1.0
Regal Hotels International Holdings Ltd (78.HK)	Hotel ownership business undertaken through Regal Real Estate Investment Trust; hotel operation and management businesses, asset management; property development and investment, and aircraft ownership and leasing business	4,491	13,197	0.3

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Company (Stock code)	Principal business	Market capitalisation as at the Latest Practicable Date (HK\$ million)	Net asset value attributable to the shareholders of the company (HK\$ million)	PB Ratio (times)
Magnificent Estates Ltd (201.HK)	Operations of property investment, property developments and operation of hotels	4,026	6,277	0.6
Dorsett Hospitality International Ltd (2266.HK)	Operation of hotel guest rooms, food and beverage outlets, conference facilities as well as rental income from leasing of various types of commercial space to hotel customers and lease tenants	3,487	4,142	0.8
Sino Hotels Holdings Ltd (1221.HK)	Hotel operation including owned and investments in associates of the group; club operation and hotel management; and investment holding	2,510	3,834	0.7
Asia Standard Hotel Group Ltd (292.HK)	Hotel and travel operations and securities investment	1,963	3,204	0.6
Carrianna Group Holdings Co Ltd (126.HK)	Restaurant and hotel operations and the provision of food and beverage services; development and sale of properties and the leasing of commercial and residential premises; and investment holding	1,229	3,852	0.3
Mexan Ltd (22.HK)	Hotel operations	610	350	1.7

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Company (Stock code)	Principal business	Market capitalisation as at the Latest Practicable Date (HK\$ million)	Net asset value attributable to the shareholders of the company (HK\$ million)	PB Ratio (times)
Far East Hotels and Entertainment Ltd (37.HK)	Hotel operations and property letting	580	356	1.6
			<b>Average</b>	0.8
			<b>Median</b>	0.7
			<b>Maximum</b>	1.7
			<b>Minimum</b>	0.3
The Company		481	134	3.6

*Source: Bloomberg and the latest annual or interim reports of the Comparables.*

*Notes:*

- The market capitalisation and the PB Ratio of the Comparables are calculated based on the market capitalisation as at the Latest Practicable Date divided by the most recent consolidated net asset value attributable to the shareholders of the Comparables as stated in their respective latest published annual or interim reports.
- The Implied PB Ratio of the Share Offer Price of approximately 3.6 times is calculated based on the Share Offer Price of HK\$1.53 per Offer Share divided by the audited consolidated net assets of the Company as at 31 December 2014 per Share of approximately HK\$0.43.

As illustrated in the table set out above, the PB Ratios of the Comparables ranged from approximately 0.3 times to approximately 1.7 times, with an average and median of approximately 0.8 times and 0.7 times respectively. The Implied PB Ratio of approximately 3.6 times is significantly higher than (i) the average and median of the PB Ratios of the Comparables; (ii) the PB Ratio of Jin Jiang; (iii) the PB Ratio of Mexen and Far East which have market capitalisation closest to that of the Group; and (iv) the PB Ratio of all of the Comparables as taken individually. As such, we consider the Share Offer Price, with reference to the Implied PB Ratio, is fair and reasonable given the current market valuation of the Comparables.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### RECOMMENDATIONS

#### The Share Offer

Taking into consideration the principal factors and reasons as discussed above, in particular:

- (i) the continuous decrease in the Group's revenue for the three years ended 31 December 2014 and the net loss positions of the Group for the two years ended 31 December 2014;
- (ii) the business of the Group is subject to challenges such as the increased competition, declining occupancy rate and revenue per available room in the PRC's hospitality market, uncertainties prevailing in the global economy as well as the PRC economy;
- (iii) the Shares had been traded at prices below the Share Offer Price for most of the time during the Review Period, and the recent surge in the price of the Shares was likely due to the speculation on the possible change in control of the Company which may not be sustainable in the absence of the Offers;
- (iv) the overall liquidity of the Shares was generally low during the Review Period which the Independent Shareholders may find it difficult to dispose of a large number of Shares in the open market without exerting a downward pressure on the price of the Shares, while the Offers provides the Independent Shareholders with an assured exit if they wish to realise their investments in the Shares;
- (v) the Share Offer Price represents a premium of 255.8% over the audited net asset value per Share as at 31 December 2014; and
- (vi) the Implied PB Ratio is higher than the range of the PB Ratios and the average of the PB Ratios of the Comparables.

We consider that the terms of the Share Offer are fair and reasonable so far as the Independent Shareholders are concerned and we recommend the Independent Board Committee to advise the Independent Shareholders to accept the Share Offer.

Please note however that the Shares have been traded at or above the Share Offer Price lately and the Independent Shareholders are reminded to closely monitor the stock market and the trading price and liquidity of the Shares during the Offer Period and shall, having regard to their own circumstances, consider selling their Shares in the open market instead of accepting the Share Offer if the net proceeds obtained from such disposal of the Shares (after deducting all transaction costs) would be higher than the proceeds from accepting the Share Offer (after deducting all transaction costs). Those Independent Shareholders who wish to retain some or all of their investments in the Shares and/or are confident in the future prospect of the Group or otherwise are reminded to closely monitor the development of the Group and any announcement of the Company in this regard.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### **The Option Offer**

Upon assessing the terms of the Option Offer, we noted that since the exercise price of the outstanding Share Options of HK\$1.822 per Share is above the Share Offer Price of HK\$1.53 per Offer Share, the outstanding Share Options are out of money and, therefore, the Option Offer Price for the cancellation of each outstanding Share Option is set at a nominal value of HK\$0.0001. We recognise that this is consistent with the normal practice adopted in Hong Kong in such circumstances and consider such basis of determining the Option Offer Price acceptable.

Based on the above, we consider that the terms of the Option Offer are fair and reasonable so far as the Optionholders are concerned and we recommend the Independent Board Committee to advise the Optionholders to accept the Option Offer.

Please note however that the Optionholders are advised to exercise their Share Options and dispose of the Shares so converted in the open market if the market price per Share exceeds the sum of the exercise price of the Share Options and the Option Offer Price and the net proceeds from such actions (after deducting all transaction costs) would exceed the net amount receivable under the Option Offer (after deducting all transaction costs). Optionholders should exercise caution in doing so and closely monitor the stock market and trading price and liquidity of the Shares during the Offer Period. In addition, the Optionholders are reminded that there will be a time lag between the exercise of the Share Options and the receipt of the Shares due to the time required for the administrative procedures for exercising the Share Options. Accordingly, the Optionholders who wish to exercise their Options should be mindful of price fluctuation of the Shares during the aforesaid time lag.

### **General**

Independent Shareholders and Optionholders should read carefully the procedures for accepting the Share Offer and the Option Offer as detailed in the Letter from Octal Capital and Appendix I to the Composite Document and the Forms of Acceptance, if they wish to accept the respective Offers.

Yours faithfully,  
For and on behalf of

**Challenge Capital Management Limited**

**Wilson Fok**  
*Managing Director*

**Esther Yuen**  
*Director*

**1. PROCEDURES FOR ACCEPTANCE**

To accept any of the Offers, you should complete and sign the Form(s) of Acceptance in accordance with the instructions printed thereon, which instructions forms part of the terms of the relevant Offers.

**1.1 The Share Offer**

- (a) If the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are in your name, and you wish to accept the Share Offer in respect of your Shares (whether in full or in part), you must send the **WHITE** Form of Share Offer Acceptance duly completed and signed together with the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof), to the Registrar, Union Registrars Limited, at A18/F., Asia Orient Tower, Town Place, 33 Lockhart Road, Wanchai, Hong Kong marked “Legend Strategy International Holdings Group Company Limited — Share Offer” on the envelope as soon as possible but in any event so as to reach the Registrar by not later than 4:00 p.m. on the Offer Closing Date or such later time and/or date as the Offeror may determine and announce in accordance with the Takeovers Code.
- (b) If the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are in the name of a nominee company or a name other than your own, and you wish to accept the Share Offer in respect of your Shares (whether in full or in part), you must either:
  - (i) lodge your share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares with the nominee company, or other nominee, and with instructions authorising it to accept the Share Offer on your behalf and requesting it to deliver the **WHITE** Form of Share Offer Acceptance duly completed and signed together with the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares to the Registrar; or
  - (ii) arrange for the Shares to be registered in your name by the Company through the Registrar, and deliver the **WHITE** Form of Share Offer Acceptance duly completed and signed together with the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares to the Registrar; or

- (iii) if your Shares have been lodged with your licensed securities dealer/registered institution in securities/custodian bank through CCASS, instruct your licensed securities dealer/registered institution in securities/custodian bank to authorise HKSCC Nominees Limited to accept the Share Offer on your behalf on or before the deadline set by HKSCC Nominees Limited. In order to meet the deadline set by HKSCC Nominees Limited, you should check with your licensed securities dealer/registered institution in securities/custodian bank for the timing on the processing of your instruction, and submit your instruction to your licensed securities dealer/registered institution in securities/custodian bank as required by them; or
  - (iv) if your Shares have been lodged with your investor participant's account maintained with CCASS, give your instruction via the CCASS Phone System or CCASS Internet System on or before the deadline set by HKSCC Nominees Limited.
- (c) If you have lodged transfer(s) of any of your Shares for registration in your name and have not yet received your share certificate(s), and you wish to accept the Share Offer in respect of your Shares, you should nevertheless complete and sign the **WHITE** Form of Share Offer Acceptance and deliver it to the Registrar together with the transfer receipt(s) duly signed by yourself. Such action will constitute an irrevocable authority to the Offeror and/or Octal Capital and/or their respective agent(s) to collect from the Company or the Registrar on your behalf the relevant share certificate(s) when issued and to deliver such share certificate(s) to the Registrar on your behalf and to authorise and instruct the Registrar to hold such share certificate(s), subject to the terms and conditions of the Share Offer, as if it was/they were delivered to the Registrar with the **WHITE** Form of Share Offer Acceptance.
- (d) If the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are not readily available and/or is/are lost, as the case may be, and you wish to accept the Share Offer in respect of your Shares, the **WHITE** Form of Share Offer Acceptance should nevertheless be completed and delivered to the Registrar together with a letter stating that you have lost one or more of your share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares or that it is/they are not readily available. If you find such document(s) or if it/they become(s) available, the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares should be forwarded to the Registrar as soon as possible thereafter. If you have lost the share certificate(s) and/or transfer receipt(s) and/or other document(s) of title in respect of your Shares, you should also write to the Registrar for a letter of indemnity which, when completed in accordance with the instructions given should be provided to the Registrar.

- (e) Acceptance of the Share Offer will be treated as valid only if the completed and signed **WHITE** Form of Share Offer Acceptance is received by the Registrar by not later than 4:00 p.m. on the Offer Closing Date or such later time and/or date as the Offeror may determine and announce in accordance with the Takeovers Code and the Registrar has recorded that the acceptance and any relevant documents required by Note 1 to Rule 30.2 of the Takeovers Code have been so received, and is:
- (i) accompanied by the relevant share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares and, if that/those share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) is/are not in your name, such other documents (e.g. a duly stamped transfer of the relevant Share(s) in blank or in favour of the acceptor executed by the registered holder) in order to establish your right to become the registered holder of the relevant Shares; or
  - (ii) from a registered Shareholder or his/her personal representative (but only up to the amount of the registered holding and only to the extent that the acceptance relates to the Shares which are not taken into account under another sub-paragraph of this paragraph (e)); or
  - (iii) certified by the Registrar or the Stock Exchange.
- (f) Seller's ad valorem stamp duty payable by the Shareholders who accept the Share Offer and calculated at a rate of 0.1% of the market value of the Offer Shares or consideration payable by the Offeror in respect of the relevant acceptances of the Share Offer, whichever is the higher, will be deducted from the amount payable by the Offeror to the relevant Shareholders on the acceptance of the Share Offer. The Offeror will arrange for payment of the seller's ad valorem stamp duty on behalf of the Shareholders who accept the Share Offer and will pay the buyer's ad valorem stamp duty in connection with the acceptance of the Share Offer and the transfer of the Offer Shares.
- (g) No acknowledgement of receipt of any **WHITE** Form of Share Offer Acceptance, share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares will be given.

**1.2 The Option Offer**

- (a) If you are an Optionholder and you wish to accept the Option Offer in respect of your Share Options (whether in full or in part), you must send the duly completed and signed **YELLOW** Form of Option Offer Acceptance together with the relevant certificate(s) or other documents (if any) evidencing the grant of the Share Options to you and any documents of title or entitlement (and/or any satisfactory indemnity or indemnities required in respect thereof) for the aggregate principal amount of Share Options which you hold that you wish to tender to the Option Offer to the company secretary of the Company at Rooms 2401-2402, 24/F, Jubilee Centre, 46 Gloucester Road, Wanchai, Hong Kong, marked “Legend Strategy International Holdings Group Company Limited — Option Offer” on the envelope as soon as possible but in any event so as to reach the company secretary of the Company by not later than 4:00 p.m. on the Offer Closing Date or such later time and/or date as the Offeror may determine and announce in accordance with the Takeovers Code.
- (b) No stamp duty will be deducted from the amount paid or payable to the Optionholder(s) who accept(s) the Option Offer.
- (c) No acknowledgement of receipt of any **YELLOW** Form of Option Offer Acceptance and/or the certificate(s) or other documents (if any) evidencing the grant of the Share Options to you and any documents of title or entitlement (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of the Share Options will be given.

**2. SETTLEMENT UNDER THE OFFERS****2.1 The Share Offer**

Provided that a valid **WHITE** Form of Share Offer Acceptance and the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of the relevant Shares as required by Note 1 to Rule 30.2 of the Takeovers Code are complete and in good order and in all respects and have been received by the Registrar by not later than 4:00 p.m. on the Offer Closing Date or such later time and/or date as the Offeror may determine and announce in accordance with the Takeovers Code, a cheque for the amount due to each of the Shareholders who accept the Share Offer less seller’s ad valorem stamp duty in respect of the Offer Shares tendered by him/her under the Share Offer will be despatched to such Shareholder by ordinary post at his/her own risk as soon as possible but in any event within seven (7) business days (as defined in the Takeovers Code) of (i) the date on which the duly completed acceptances of the Share Offer and the relevant documents of title in respect of such acceptances are received by the Registrar to render each such acceptance complete and valid or (ii) the date on which the Offers become or are declared unconditional in all respects, whichever is the later.

**2.2 The Option Offer**

Provided that a valid **YELLOW** Form of Option Offer Acceptance and the relevant option certificate(s) or other documents (if any) evidencing the grant of the Options and any documents of title or entitlement (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of the relevant Share Options are complete and in good order and in all respects and have been received by the company secretary of the Company by not later than 4:00 p.m. on the Offer Closing Date or such later time and/or date as the Offeror may determine and announce in accordance with the Takeovers Code, a cheque for the amount due to each of the Optionholders who accept the Option Offer in respect of the Options tendered by him/her under the Option Offer will be despatched to such Optionholder by ordinary post at his/her own risk as soon as possible but in any event within seven (7) business days (as defined in the Takeovers Code) of (i) the date on which the duly completed acceptances of the Option Offer and the relevant documents of title in respect of such acceptances are received by the company secretary of the Company to render each such acceptance complete and valid or (ii) the date on which the Offers become or are declared unconditional in all respects, whichever is the later.

Settlement of the consideration to which any Shareholder or Optionholder is entitled under the Share Offer or the Option Offer, as the case may be, will be implemented in full in accordance with its terms (save in respect of the payment of the seller's ad valorem stamp duty in respect of the Share Offer) without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such Shareholder or Optionholder.

**3. ACCEPTANCE PERIOD AND REVISIONS**

- (a) Unless the Offers have previously been revised or extended with the consent of the Executive, to be valid, the **WHITE** Form of Share Offer Acceptance must be received by the Registrar and the **YELLOW** Form of Option Offer Acceptance must be received by the company secretary of the Company, in each case, in accordance with the instructions printed thereon by 4:00 p.m. on the Offer Closing Date.
- (b) If the Offers are extended, the Offeror will issue an announcement in relation to any extension of the Offers, which announcement will state either the next Offer Closing Date or, a statement that the Offers will remain open until further notice. In the latter case, at least fourteen (14) days' notice in writing must be given before the Offers are closed to those Shareholders and Optionholders who have not accepted the relevant Offers before the Offers are closed. If, in the course of the Offers, the Offeror revises the terms of the Offers, all Shareholders and Optionholders, whether or not they have already accepted the Offers, will benefit under the revised terms. A revised offer must be kept open for at least fourteen (14) days following the date on which the revised offer document is posted.
- (c) If the Offer Closing Date is extended, any reference in this Composite Document and in the Forms of Acceptance to the Offer Closing Date shall, except where the context otherwise requires, be deemed to refer to the subsequent closing date.

**4. NOMINEE REGISTRATION**

To ensure equality of treatment of all Shareholders, those Shareholders who hold Shares as nominee on behalf of more than one beneficial owner should, as far as practicable, treat the holding of such beneficial owner separately. It is essential for the beneficial owners of the Shares whose investments are registered in the names of nominees to provide instructions to their nominees of their intentions with regard to the Offers.

**5. ANNOUNCEMENTS**

(a) By 6:00 p.m. on the Offer Closing Date (or such later time and/or date as the Executive may in exceptional circumstances permit), the Offeror must inform the Executive and the Stock Exchange of its decision in relation to the expiry, revision and extension of the Offers. The Offeror must publish an announcement in accordance with the Takeovers Code on the Stock Exchange's website by 7:00 p.m. on the Offer Closing Date stating the results of the Offers and whether the Offers have been revised, extended or expired. The announcement will state the following:

- (i) the total number of Offer Shares for which acceptances of the Share Offer have been received;
- (ii) the total number of Share Options for which acceptances of the Option Offer have been received;
- (iii) the total number of Shares and Share Options held, controlled or directed by the Offeror and parties acting in concert with it before the Offer Period; and
- (iv) the total number of Shares and Share Options acquired or agreed to be acquired during the Offer Period by the Offeror and parties acting in concert with it.

The announcement must also include details of any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company which the Offeror or any person acting in concert with it has borrowed or lent (save for any borrowed Shares which have been either on lent or sold) and specify the percentages of the issued share capital of the Company and the percentages of voting rights of the Company represented by these numbers.

- (b) In computing the total number of Shares and Share Options represented by acceptances, only valid acceptances that are completed and in good order, and which have been received by the Registrar (in the case of the Share Offer) or the company secretary of the Company (in case of the Option Offer), no later than 4:00 p.m. on the Offer Closing Date, being the latest time and date for acceptance of the Offers, shall be included.
- (c) As required under the Takeovers Code, all announcements in relation to the Offers will be made in accordance with the requirements of the Takeovers Code and the Listing Rules.

**6. RIGHT OF WITHDRAWAL**

The Offers are conditional upon fulfilment of the Condition set out in the letter from Octal Capital in this Composite Document. Acceptance of the Offers tendered by Shareholders, shall be irrevocable and cannot be withdrawn, except in the circumstances set out in the following paragraph or in compliance with Rule 17 of the Takeovers Code, which provides that an acceptor of the Offers shall be entitled to withdraw his/her/its consent within 21 days from the Offer Closing Date (being, 16 July 2015) and if the Offers have not by then become unconditional as to acceptances. An acceptor of the Offers may withdraw his/her/its acceptance by lodging a notice in writing signed by the acceptor (or his/her/its agent duly appointed in writing and evidence of whose appointment is produced together with the notice) to the Registrar and/or company secretary of the Company.

Furthermore, in the circumstances set out in Rule 19.2 of the Takeovers Code (which is to the effect that if the Offeror is unable to comply with any of the requirements of making announcements relating to the Offers as described under the paragraph headed “5. Announcement” above), the Executive may require that acceptors be granted a right of withdrawal, on terms acceptable to the Executive, until such requirements can be met.

Save as aforesaid, acceptances of the Offers shall be irrevocable and not capable of being withdrawn.

**7. OVERSEAS SHAREHOLDERS AND OVERSEAS OPTIONHOLDERS**

The making of the Offers to the Overseas Shareholders and the Overseas Optionholders may be affected by the laws of the relevant jurisdictions. The Overseas Shareholders and the Overseas Optionholders should observe any applicable legal or regulatory requirements. The Overseas Shareholders and the Overseas Optionholders should obtain appropriate legal advice regarding the implications of the Offers in the relevant jurisdictions with a view to observing any applicable legal or regulatory requirements. It is the responsibility of the Overseas Shareholders and the Overseas Optionholders who wish to accept the Offers to satisfy themselves as to the full observance of the laws and regulations of the relevant jurisdictions in connection therewith, including but not limited to the obtaining of any governmental, exchange control or other consents which may be required and the compliance with other necessary formalities or regulatory or legal requirements. The Overseas Shareholders and the Overseas Optionholders will also be fully responsible for the payment of any transfer or other taxes and duties by the accepting Overseas Shareholders or Overseas Optionholders payable in respect of all relevant jurisdictions. Acceptance of the Offers by the Overseas Shareholders and the Overseas Optionholders will constitute a representation and warranty by such person that the local laws and requirements have been complied with and such person is permitted under all applicable laws to receive and accept the Offers, and any revision thereof, and such acceptance shall be valid and binding in accordance with all applicable laws. For the avoidance of doubt, neither HKSCC nor HKSCC Nominees Limited will give, or be subject to, any of the above representation and warranty.

**8. TAX IMPLICATIONS**

Independent Shareholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of their acceptance of the Share Offer. It is emphasised that none of the Offeror and parties acting in concert with it, the Company and its ultimate beneficial owners and parties acting in concert with any of them, Octal Capital, Challenge Capital, the Registrar or any of their respective directors or professional advisers or any other parties involved in the Share Offer or any of their respective agents is in a position to advise the Independent Shareholders on their individual tax implications nor accepts responsibility for any taxation effects on, or liabilities of, any person or persons as a result of their acceptance of the Share Offer.

**9. GENERAL**

- (i) All communications, notices, Form(s) of Acceptance, share certificates, certificate(s) of Options, transfer receipts (as the case may be), other documents of title and/or any satisfactory indemnity or indemnities required in respect thereof and remittances to settle the consideration payable under the Offers to be delivered by or sent to or from the Shareholders and/or the Optionholders will be delivered by or sent to or from them, or their designated agents, by ordinary post at their own risk, and none of the Company, the Offeror, Octal Capital, Challenge Capital and any of their respective agents nor the Registrar or the company secretary of the Company or other parties involved in the Offers accepts any liability for any loss in postage or any other liabilities that may arise as a result thereof.
- (ii) The provisions set out in the Form(s) of Acceptance form part of the terms and conditions of the Offers.
- (iii) The accidental omission to despatch this Composite Document and/or Forms of Acceptance or any of them to any person to whom the Offers are made will not invalidate the Offers in any way.
- (iv) The Offers and all acceptances will be governed by and construed in accordance with the laws of Hong Kong.
- (v) Due execution of the Form(s) of Acceptance will constitute an authority to the Offeror, Octal Capital, or such person or persons as the Offeror may direct, to complete and execute any document on behalf of the person or persons accepting the Offers and to do any other act that may be necessary or expedient for the purposes of vesting in the Offeror or such person or persons as it may direct the Shares in respect of which such person or persons has accepted the Offers.

- (vi) Acceptance of the Offers by any person or persons will be deemed to constitute a warranty by such person or persons to the Offeror that the Shares are sold to the Offeror free from all liens, charges, encumbrances, rights of pre-emption and any other third party rights of any nature and together with all rights attached to them as at the date of this Composite Document or subsequently becoming attached to them, including the right to receive in full all dividends and other distributions, if any, declared, made or paid on or after the date on which the Offers are made, being the date of despatch of this Composite Document. For the avoidance of doubt, neither HKSCC nor HKSCC Nominees Limited will give, or be subject to, any of the above representation and warranty.
- (vii) Reference to the Offers in this Composite Document and in the Form(s) of Acceptance shall include any extension or revision thereof.
- (viii) In making their decision, the Independent Shareholders and Optionholders must rely on their own examination of the Offeror, the Group and the terms of the Offers, including the merits and risks involved. The contents of this Composite Document, including any general advice or recommendation contained herein together with the Form(s) of Acceptance, shall not be construed as any legal or business advice on the part of the Offeror, its beneficial owner, the Company and Octal Capital. The Independent Shareholders and Optionholders should consult their own professional advisers for professional advice.
- (ix) The English texts of this Composite Document and the Form(s) of Acceptance shall prevail over their respective Chinese texts for the purpose of interpretation in case of inconsistency.

## 1. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

The following is a summary of the financial results of the Group for each of the three years ended 31 December 2014 as extracted from the respective annual reports of the Company.

No qualified opinion had been given by the auditor of the Company, PricewaterhouseCoopers, Certified Public Accountants, in respect of the Group's audited consolidated financial statements for each of the two years ended 31 December 2013. No qualified opinion had been given by the auditor of the Company, ZHONGHUI ANDA CPA Limited, Certified Public Accountants, in respect of the Group's audited consolidated financial statements for the financial year ended 31 December 2014.

### RESULTS

	Year ended 31 December		
	2012	2013	2014
	HK\$'000	HK\$'000	HK\$'000
Revenue	91,155	57,969	29,701
(Loss)/profit before taxation	43,727	(3,293)	(60,178)
Income tax credit/(expenses)	(10,855)	(3,960)	8,635
(Loss)/profit for the year	32,872	(7,254)	(51,543)
Attributable to:			
Owners of the Company	32,872	(7,254)	(51,543)
(Loss)/profit per share (HK cents)	18.26	(3.99)	(21.96)
	As at 31 December		
	2012	2013	2014
	HK\$'000	HK\$'000	HK\$'000
Total assets	176,161	185,630	162,088
Total liabilities	57,096	35,160	27,913
Net current assets	58,179	445	13,747
Total assets less current liabilities	152,816	152,427	135,816
Net assets	119,065	150,470	134,175

For each of the three financial years ended 31 December 2014, no dividend was declared or paid and there were no exceptional items because of size, nature or incidence save for the impairment of interests in joint ventures of approximately HK\$6.8 million for the year ended 31 December 2014 and no profits or loss attributable to non-controlling interests of the Company for each of the three years ended 31 December 2014.

## 2. AUDITED CONSOLIDATED FINANCIAL INFORMATION OF THE GROUP

Set out below are the audited financial statements together with the relevant notes thereto as extracted from the annual report of the Company for the year ended 31 December 2014.

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

*For the year ended 31 December 2014*

	<i>Notes</i>	<b>2014</b> <i>HK\$</i>	<b>2013</b> <i>HK\$</i>
<b>Revenue</b>	7	29,700,841	57,968,906
Operating lease expenses		(17,974,662)	(14,822,036)
Depreciation of property, plant and equipment		(7,255,616)	(7,389,933)
Employee benefit expenses	8	(13,153,151)	(16,827,186)
Utilities		(1,857,458)	(1,799,710)
Other operating expenses		(30,219,888)	(17,863,871)
Other income	10	<u>159,995</u>	<u>2,054,822</u>
<b>Operating (loss)/profit</b>		<u>(40,599,939)</u>	<u>1,320,992</u>
Finance costs	11	(448,789)	(848,630)
Impairment of interests in joint ventures	18	(6,797,484)	—
Share of results of joint ventures	18	<u>(12,331,951)</u>	<u>(3,765,796)</u>
<b>Loss before tax</b>		(60,178,163)	(3,293,434)
Income tax credit/(expenses)	12	<u>8,634,678</u>	<u>(3,960,343)</u>
<b>Loss for the year attributable to owners of the Company</b>	13	(51,543,485)	(7,253,777)
<b>Other comprehensive (loss)/income:</b> <i>Items that may be reclassified to profit or loss:</i>			
Exchange differences on translating foreign operations		(1,098,573)	2,296,761
Share of other comprehensive income of joint ventures	18	6,210	—
Fair value changes on available-for-sale financial assets		<u>—</u>	<u>(178,000)</u>
<b>Other comprehensive (loss)/income for the year, net of tax</b>		<u>(1,092,363)</u>	<u>2,118,761</u>
<b>Total comprehensive loss for the year attributable to owners of the Company</b>		<u>(52,635,848)</u>	<u>(5,135,016)</u>
Loss per share	15		
— Basic (Hong Kong cents)		(21.96)	(3.99)
— Diluted (Hong Kong cents)		<u>(21.96)</u>	<u>(3.99)</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	<i>Notes</i>	<b>2014</b> <i>HK\$</i>	<b>2013</b> <i>HK\$</i>
<b>Non-current assets</b>			
Property, plant and equipment	16	77,312,841	53,340,427
Prepayments	17	24,169,069	59,969,169
Rental deposits	17	2,243,510	1,425,273
Prepaid operating leases	17	9,823,653	10,529,348
Interests in joint ventures	18	6,831,600	25,432,735
Deferred income tax assets	19	1,688,384	1,284,573
		<u>122,069,057</u>	<u>151,981,525</u>
<b>Current assets</b>			
Trade receivables	20	7,741,933	10,295,474
Prepayments, deposits and other receivables	17	27,839,907	2,743,151
Amounts due from joint ventures	21	2,114,950	1,024,454
Bank and cash balances		2,322,143	19,585,536
		<u>40,018,933</u>	<u>33,648,615</u>
<b>Current liabilities</b>			
Provision for asset retirement	22	2,422,083	2,299,176
Trade and other payables	23	21,696,678	16,625,205
Current income tax liabilities		1,733,623	13,936,056
Finance lease payables	24	419,560	342,694
		<u>26,271,944</u>	<u>33,203,131</u>
<b>Net current assets</b>		<u>13,746,989</u>	<u>445,484</u>
<b>Total assets less current liabilities</b>		<u>135,816,046</u>	<u>152,427,009</u>
<b>Non-current liabilities</b>			
Provision for asset retirement	22	1,485,747	1,440,769
Finance lease payables	24	155,583	516,251
		<u>1,641,330</u>	<u>1,957,020</u>
<b>Net assets</b>		<u><u>134,174,716</u></u>	<u><u>150,469,989</u></u>
<b>EQUITY</b>			
<b>Capital and reserves attributable to the owners of the Company</b>			
Share capital	25	2,617,701	2,165,001
Reserves		131,557,015	148,304,988
<b>Total equity</b>		<u><u>134,174,716</u></u>	<u><u>150,469,989</u></u>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

	Attributable to owners of the Company									
	Share capital	Share premium*	Exchange reserve*	Statutory reserve*	Share-based payment reserve*	Available-for-sale security reserve*	Other reserve*	Shareholder's contributions*	Retained earnings/ (accumulated losses)*	Total
	Notes	Note 28(c)(i)	Note 28(c)(ii)	Note 28(c)(iii)	Note 28(c)(iv)	Note 28(c)(v)				
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
At 1 January 2013	1,800,001	38,030,244	1,940,614	1,161,018	224,000	178,000	8,020,110	20,751,024	46,959,994	119,065,005
Total comprehensive income/(loss) for the year	—	—	2,296,761	—	—	(178,000)	—	—	(7,253,777)	(5,135,016)
Employee share option benefit	—	—	—	—	2,892,000	—	—	—	—	2,892,000
Exercise of share options by employees	5,000	1,086,750	—	—	(180,750)	—	—	—	—	911,000
Conversion of convertible notes	360,000	32,377,000	—	—	—	—	—	—	—	32,737,000
Transfer to statutory reserve	—	—	—	443,245	—	—	—	—	(443,245)	—
<b>At 31 December 2013 and 1 January 2014</b>	<b>2,165,001</b>	<b>71,493,994</b>	<b>4,237,375</b>	<b>1,604,263</b>	<b>2,935,250</b>	<b>—</b>	<b>8,020,110</b>	<b>20,751,024</b>	<b>39,262,972</b>	<b>150,469,989</b>
Total comprehensive loss for the year	—	—	(1,092,363)	—	—	—	—	—	(51,543,485)	(52,635,848)
Exercise of share options by employees	26	17,700	3,411,775	—	(558,775)	—	—	—	—	2,870,700
Issue of shares on placement	25	435,000	33,930,000	—	—	—	—	—	—	34,365,000
Transaction costs attributable to placement	—	(895,125)	—	—	—	—	—	—	—	(895,125)
Transfer to statutory reserve	—	—	—	138,500	—	—	—	—	(138,500)	—
<b>At 31 December 2014</b>	<b>2,617,701</b>	<b>107,940,644</b>	<b>3,145,012</b>	<b>1,742,763</b>	<b>2,376,475</b>	<b>—</b>	<b>8,020,110</b>	<b>20,751,024</b>	<b>(12,419,013)</b>	<b>134,174,716</b>

Note:

- \* These reserve accounts comprise the consolidated reserve of approximately HK\$131,557,015 (2013: HK\$148,304,988) in the consolidated statement of financial position.

**CONSOLIDATED STATEMENT OF CASH FLOWS***For the year ended 31 December 2014*

	<b>2014</b>	<b>2013</b>
	<i>HK\$</i>	<i>HK\$</i>
<b>Cash flows from operating activities</b>		
Loss before tax	(60,178,163)	(3,293,434)
Adjustments for:		
Depreciation	7,255,616	7,389,933
Amortisation of prepaid operating lease	865,788	864,587
Finance cost on asset retirement obligations	180,912	173,407
Finance cost on finance lease liabilities	39,033	53,962
Interest on overdue payments	3,844	—
Finance cost on convertible notes	—	621,261
Interest on other loan wholly repayable within one year	900,000	—
Interest income on non-current rental deposits carried at amortised cost	(56,346)	(73,667)
Bank interest income	(592)	(631)
Provision for/(reversal of) impairment of trade receivables	4,423,101	(586,846)
Share of results of joint ventures	12,331,951	3,765,796
Impairment of interests in joint ventures	6,797,484	—
Share based payment expenses	—	2,892,000
Net foreign exchange gain	—	1,040,800
Loss on disposal of property, plant and equipment	5,167,969	2,276,985
Gain on disposal of available-for-sales financial assets	—	(54,976)
Operating (loss)/profit before working capital changes	(22,269,403)	15,069,177
Increase in prepaid operating lease	(197,351)	(395,671)
(Increase)/decrease in trade and other receivables	(1,300,455)	40,595,188
(Increase)/decrease in rental deposits	(766,204)	100,571
Increase in trade and other payables	5,096,102	6,442,019
Increase in amounts due from joint ventures	(1,090,496)	(1,034,084)
Cash (used in)/generated from operations	(20,527,807)	60,777,200
Hong Kong profits tax paid	(32,524)	(343,179)
PRC income tax paid	(3,935,511)	(2,633,397)
Interest on overdue payments paid	(3,844)	—
Interest paid on other loan wholly repayable within one year	(900,000)	—
Net cash (used in)/generated from operating activities	<u>(25,399,686)</u>	<u>57,800,624</u>

**CONSOLIDATED STATEMENT OF CASH FLOWS** *(Continued)**For the year ended 31 December 2014*

	<b>2014</b>	<b>2013</b>
	<i>HK\$</i>	<i>HK\$</i>
<b>Cash flows from investing activities</b>		
Purchases of property, plant and equipment	(358,733)	(22,001,301)
Capital injections to joint ventures	(522,089)	(9,705,600)
Increase in prepayment for property, plant and equipment	(26,193,767)	(46,162,783)
Decrease in deposit for an acquisition of business	—	10,000,000
Interest received	592	631
Proceeds from disposal of available-for-sale financial assets	—	1,038,976
<b>Net cash used in investing activities</b>	<b><u>(27,073,997)</u></b>	<b><u>(66,830,077)</u></b>
<b>Cash flows from financing activities</b>		
Proceeds from conversion of share options	2,870,700	911,000
Repayment of finance lease liabilities	(322,835)	(495,595)
Net proceeds from issue of shares on placement	33,469,875	—
<b>Net cash generated from financing activities</b>	<b><u>36,017,740</u></b>	<b><u>415,405</u></b>
<b>Net decrease in cash and cash equivalents</b>	<b>(16,455,943)</b>	<b>(8,614,048)</b>
Cash and cash equivalents at the beginning of the year	19,585,536	27,880,476
Effect of foreign exchange rate changes	(807,450)	319,108
<b>Cash and cash equivalents at end of the year</b>	<b><u>2,322,143</u></b>	<b><u>19,585,536</u></b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***For the year ended 31 December 2014***1. GENERAL INFORMATION**

The Company was incorporated in the Cayman Islands with limited liability. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The address of its principal place of business is Room 2401-2402, 24/F Jubilee Centre, 46 Gloucester Road, Wanchai, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company. The Group is principally engaged in the budget hotel operations and provision of hotel consultancy and management services in the People's Republic of China (the "PRC"). The principal activities of its subsidiaries are set out in note 34 to the financial statements.

**2. GOING CONCERN BASIS**

The Group incurred a loss attributable to owners of the Company of HK\$51,543,485 (2013: HK\$7,253,777) for the year ended 31 December 2014 and as at 31 December 2014 the Group had bank and cash balances of HK\$2,322,143 (2013: HK\$19,585,536).

In order to improve the Group's operating performance and alleviate its liquidity risk, management is implementing measures to control costs and contain capital expenditures. Further investments in hotel operations will be made only when the Group has sufficient financial resources after meeting its day-to-day working capital and other capital commitment requirements. Moreover, on 9 January 2015, the Group completed placing of 52,300,000 shares at a price of HK\$0.66 per Placing Share. The net proceeds from the placing amount to approximately HK\$33.9 million will be used for general working capital of the Group. With the availability of additional funding from the placement and the anticipated positive cash flows from the hotel operations, the directors expect that these will improve the Group's cash flows and financial position in the coming twelve months.

The Company's directors have reviewed the Group's cash flow projections. The cash flow projections cover a period of twelve months from the date of approval of these consolidated financial statements. In the opinion of the directors, based on these cash flow projections and in light of the above, the Group will have sufficient financial resources in the coming twelve months to meet its financial obligations as and when they fall due. Accordingly, the directors are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

**3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS**

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) that are relevant to its operations and effective for its accounting year beginning on 1 January 2014. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards; and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group’s accounting policies, presentation of the Group’s financial statements and amounts reported for the current year and prior years.

The Group has not applied the new and revised HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new and revised HKFRSs but is not yet in a position to state whether these new and revised HKFRSs would have a material impact on its results of operations and financial position.

**4. SIGNIFICANT ACCOUNTING POLICIES**

These financial statements have been prepared in accordance with HKFRSs issued by the HKICPA, and the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

These financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires the directors to exercise its judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to these financial statements, are disclosed in note 5 to the financial statements.

The significant accounting policies applied in the preparation of these financial statements are set out below.

**Consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity’s returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties, to determine whether it has control. A potential voting right is considered only if the holder has the practical ability to exercise that right.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

**4. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***Consolidation** *(Continued)*

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

**Joint arrangement**

A joint arrangement is an arrangement of which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Relevant activities are activities that significantly affect the returns of the arrangement. When assessing joint control, the Group considers its potential voting rights as well as potential voting rights held by other parties, to determine whether it has joint control. A potential voting right is considered only if the holder has the practical ability to exercise that right.

A joint arrangement is either a joint operation or a joint venture. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Investment in a joint venture is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the joint venture in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of acquisition over the Group's share of the net fair value of the joint venture's identifiable assets and liabilities is recorded as goodwill. The goodwill is included in the carrying amount of the investment and is tested for impairment together with the investment at the end of each reporting period when there is objective evidence that the investment is impaired. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss.

The Group's share of a joint venture's post-acquisition profits or losses is recognised in consolidated profit or loss, and its share of the post-acquisition movements in reserves is recognised in the consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in a joint venture equals or exceeds its interest in the joint venture, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture. If the joint venture subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

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

**4. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***Foreign currency translation****(a) Functional and presentation currency**

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars ("HK\$"), which is the Company's functional and presentation currency.

**(b) Transactions and balances in each entity's financial statements**

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

**(c) Translation on consolidation**

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

- (i) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- (ii) Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and
- (iii) All resulting exchange differences are recognised in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are recognised in consolidated profit or loss as part of the gain or loss on disposal.

**4. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Leasehold improvements	Shorter of the unexpired term of lease and 7 years
Furniture and fixtures	5 years
Office equipment	5 years
Motor vehicles	5 years

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

**Construction in progress**

Construction in progress represents leasehold improvement stated at cost less accumulated impairment loss, if any. Cost includes the costs of leasehold improvements and capitalised interest charges arising from borrowings used to finance these assets during the period of construction. No provision for depreciation is made on construction in progress until such time the relevant assets are completed and are available for intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated in the preceding paragraphs.

**Leases*****The Group as lessee****(i) Operating leases*

Leases that do not substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

**4. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***Leases** *(Continued)***The Group as lessee** *(Continued)**(ii) Finance leases*

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. At the commencement of the lease term, a finance lease is capitalised at the lower of the fair value of the leased asset and the present value of the minimum lease payments, each determined at the inception of the lease.

The corresponding liability to the lessor is included in the statement of financial position as finance lease payable. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Assets under finance leases are depreciated the same as owned assets.

**The Group as lessor***Operating leases*

Leases that do not substantially transfer to the lessees all the risks and rewards of ownership of assets are accounted for as operating leases. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

**Recognition and derecognition of financial instruments**

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

**4. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***Trade and other receivables**

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the receivables' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in profit or loss.

Impairment losses are reversed in subsequent periods and recognised in profit or loss when an increase in the receivables' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

**Cash and cash equivalents**

For the purpose of the statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

**Financial liabilities and equity instruments**

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

**Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

**4. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

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

**Trade and other payables**

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

**Equity instruments**

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

**Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

**(a) Hotel operations**

Hotel revenue from hotel room and conference room rental is recognised when the services are rendered.

**4. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***Revenue recognition** *(Continued)***(b) Provision of hotel consultancy services**

Revenue in respect of provision of hotel consultancy service is recognised by reference to the stage of completion of the transaction at the end of the reporting period. The stage of completion of each transaction is determined based on the proportion of costs incurred at the end of the reporting period compared to the estimated total costs of the transaction. The outcome of a transaction can be estimated reliably when (a) the amount of revenue can be measured reliably; (b) it is probable that the economic benefits associated with the transaction will flow to the Group; (c) the stage of completion of the transaction at the reporting date can be measured reliably and (d) the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

**(c) Hotel management income**

Hotel management income from operating a hotel is recognised when the services are rendered.

**(d) Membership fee income**

The fair value of the consideration received or receivable is recognised on a straight-line basis over the life of the membership.

**(e) Rental income on sub-leased hotel premise**

Rental income in respect of rental of a sub-leased hotel premise is recognised on a straight-line basis over a lease period of 10 years.

**(f) Interest income**

Interest income is recognised using the effective interest method.

**Customer loyalty programmes**

The Group operates a loyalty programme where customers accumulate points to exchange free nights staying in the hotels operated by the Group. Sale of hotel rooms that result in membership points are accounted for as a separately identifiable component of the sales transaction(s) in which they are granted or sold (the “initial sale”). The fair value of the consideration received or receivable in respect of the initial sale is allocated between the components, i.e. the hotel rooms sold and the membership points granted. The fair value of the membership points is estimated by reference to the benefits (i.e. free extra night for staying) that the customer would obtain when redeeming the membership points and the expected future redemption rate. The estimate on expected redemption rate is based on statistical analysis of past customer behaviour. The Group reviews the loyalty programme on a regular basis, unused and expired membership points would be removed from the programme. Revenue from the membership points is deferred and is recognised when the points are redeemed and the amount of revenue is recognised based on the number of points redeemed relative to the total number expected to be redeemed.

**4. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***Employee benefits****(a) Employee leave entitlements**

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

**(b) Pension obligations**

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to profit or loss represents contributions payable by the Group to the funds.

The Group also participates in a defined contribution retirement scheme organized by the government in the People Republic of China (the "PRC"). The Group is required to contribute a specific percentage of the payroll of its employees to the retirement scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the retirement scheme. No forfeited contributions may be used by the employers to reduce the existing level of contributions.

**(c) Termination benefits**

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

**Share-based payments**

The Group issues equity-settled share-based payments to certain directors and employees. Equity-settled share-based payments are measured at the fair value (excluding the effect of non market-based vesting conditions) of the equity instruments at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

**4. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***Taxation**

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

**4. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***Related parties**

A related party is a person or entity that is related to the Group.

- (a) A person or a close member of that person's family is related to the Group if that person:
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Company or of a parent of the Company.
  
- (b) An entity is related to the Group if any of the following conditions applies:
  - (i) The entity and the Company 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 Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.
  - (vi) The entity is controlled or jointly controlled by a person identified in (a).
  - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

**Impairment of assets**

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and other intangible assets except deferred income tax assets and receivables to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

**4. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***Impairment of assets** *(Continued)*

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

**Provisions and contingent liabilities**

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present 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 expenditures 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 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 is remote.

**Events after the reporting period**

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the financial statements when material.

**5. KEY ESTIMATES****Key sources of estimation uncertainty**

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

**(a) *Property, plant and equipment and depreciation***

The Group determines the estimated useful lives, residual values and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. The Group will revise the depreciation charge where useful lives and residual values are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

**(b) *Impairment 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 be not recoverable. The recoverable amounts have been determined based on fair value less costs of disposal calculations or market valuations. These calculations require the use of judgements and estimates.

Management judgement is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related asset value may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs of disposal or net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could affect the net present value used in the impairment test and as a result affect the Group's financial position and results of the operations.

**(c) *Impairment loss for bad and doubtful debts***

The Group makes impairment loss for bad and doubtful debts based on assessments of the recoverability of the trade and other receivables, including the current creditworthiness and the past collection history of each debtor. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the trade and other receivables and doubtful debt expenses in the year in which such estimate has been changed. If the financial conditions of the debtors were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

**5. KEY ESTIMATES** *(Continued)***(d) Impairment loss for interests in joint ventures**

In determining whether the interests in joint ventures are impaired, the Group has to exercise judgement in assessing: (i) whether an event has occurred that may affect the value of interests in joint ventures; (ii) whether the carrying value of joint ventures can be supported by the net present value of future cash flows; (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate; and (iv) dividend policy of the joint ventures.

**(e) Asset retirement obligations**

The Group evaluates and recognises, on a regular basis, the present value of the obligations which arise from future reinstatement of leased hotel premises upon the end of lease terms. To establish the present value of the asset retirement obligations, estimates and judgement are applied in determining these future cash flows and the discount rate. Management estimates the future cash flows based on certain assumptions, such as the restoration costs based on quotations.

**(f) Income taxes**

Significant estimates are 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 outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different.

**6. FINANCIAL RISK MANAGEMENT**

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

**(a) Foreign currency risk**

The Group has minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in the functional currencies of the Group entities except certain trade receivables of subsidiaries denominated in Renminbi ("RMB") while its functional currency is HK\$. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

**6. FINANCIAL RISK MANAGEMENT** *(Continued)***(b) Credit risk**

The carrying amount of the trade and other receivables, amounts due from joint ventures, cash and bank balances and deposits included in the consolidated statement of financial position represents the Group's maximum exposure to credit risk in relation to the Group's financial assets.

In respect of hotel operations, the Group has no concentration of credit risk in view of its large number of customers. It has policies in place to ensure that sale of rooms to corporate customers are made to customers with an appropriate credit history. Sales to walk-in customers are made via credit cards or cash.

In respect of provision of hotel consultancy services for the year ended 31 December 2013, the Group has a concentration of credit risk in view of that all the trade debtors arose from one customer. The Group requests progress payments from customers in accordance with the milestones of the hotel consultancy agreements.

Amounts due from joint ventures are closely monitored by the directors.

The credit risk on cash and bank balances is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Rental deposits are mainly paid to seven (2013: seven) domestic private entities who are currently leasing the office and hotel premises to the Group. Other receivables primarily represent the amounts due from third and related parties which have long business relationship with the Group. Taking into consideration settlements subsequent to year end, management does not consider there is recoverability issue.

## 6. FINANCIAL RISK MANAGEMENT (Continued)

## (c) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The maturity analysis of the Group's financial liabilities is as follows:

	Less than 1 year <i>HK\$</i>	Between 1 and 2 years <i>HK\$</i>	Between 2 and 5 years <i>HK\$</i>	Over 5 years <i>HK\$</i>	Total <i>HK\$</i>
<b>At 31 December 2014</b>					
Trade and other payables	14,934,803	—	—	—	14,934,803
Finance lease payables	441,402	157,455	—	—	598,857
	<u>15,376,205</u>	<u>157,455</u>	<u>—</u>	<u>—</u>	<u>15,533,660</u>
<b>At 31 December 2013</b>					
Trade and other payables	8,142,842	—	—	—	8,142,842
Finance lease payables	377,892	377,892	157,455	—	913,239
	<u>8,520,734</u>	<u>377,892</u>	<u>157,455</u>	<u>—</u>	<u>9,056,081</u>

## (d) Interest rate risk

As the Group has no significant interest-bearing assets and liabilities except for finance lease payables, the Group's operating cash flows are substantially independent of changes in market interest rates.

The Group's finance lease payables bear interests at fixed interest rates and therefore are subject to fair value interest rate risks.

## 6. FINANCIAL RISK MANAGEMENT (Continued)

## (e) Categories of financial instruments

	2014 HK\$	2013 HK\$
<b>Financial assets:</b>		
Loans and receivables (including bank and cash balances)	39,992,689	32,203,429
<b>Financial liabilities:</b>		
Financial liabilities at amortised costs	14,934,803	8,142,842

## (f) Fair values

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

As at 31 December 2014 and 2013, there were no assets and liabilities that were measured at fair value.

## 7. OPERATING SEGMENT INFORMATION

The Group has two reportable segments as follows:

- Hotel operations (the sales of hotel membership cards, hotel management services income and rental income on a subleased premise are included in the hotel operation segment)
- Provision of hotel consultancy services

The Group's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies.

The accounting policies of the operating segments are the same as those described in note 4 to the financial statements. Segment profits or losses do not include interest income, finance costs, share-based payment expenses, auditor's remuneration and legal and professional fee.

## 7. OPERATING SEGMENT INFORMATION (Continued)

The segment information for the reportable segments for the year is as follows:

	<b>Hotel operations</b>	<b>Provision of hotel consultancy services</b>	<b>Total</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
<b>For the year ended 31 December 2014</b>			
Revenue from external customers	29,700,841	—	29,700,841
Segment loss	(27,865,563)	—	(27,865,563)
Depreciation of property, plant and equipment	7,255,616	—	7,255,616
Amortisation of prepaid operating lease	865,788	—	865,788
Provision for impairment of trade receivables	4,423,101	—	4,423,101
	<u>4,423,101</u>	<u>—</u>	<u>4,423,101</u>
<b>For the year ended 31 December 2013</b>			
Revenue from external customers	33,412,313	24,556,593	57,968,906
Segment (loss)/profit	(5,029,275)	16,493,842	11,464,567
Depreciation of property, plant and equipment	6,524,174	865,759	7,389,933
Amortisation of prepaid operating lease	864,587	—	864,587
Provision for/(reversal of) impairment of trade receivables	913,154	(1,500,000)	(586,846)
	<u>913,154</u>	<u>(1,500,000)</u>	<u>(586,846)</u>

## 7. OPERATING SEGMENT INFORMATION (Continued)

A reconciliation of segment results to loss before income tax is provided as follows:

	2014 HK\$	2013 HK\$
Total (loss)/profit of reportable segments	(27,865,563)	11,464,567
Unallocated corporate expenses, net (Note)	(12,791,313)	(10,217,873)
Finance income	56,937	74,298
Finance cost	(448,789)	(848,630)
Impairment of interests in joint ventures	(6,797,484)	—
Share of results of joint ventures	(12,331,951)	(3,765,796)
	<u>                    </u>	<u>                    </u>
Loss before income tax	<u><u>(60,178,163)</u></u>	<u><u>(3,293,434)</u></u>

Note:

Unallocated corporate expenses mainly represent share-based payment expenses, auditor's remuneration and legal and professional fee.

**Revenue from major customers:**

All revenue was derived from external customers in the PRC and Hong Kong during the years ended 31 December 2014 and 2013. No revenue derived from one customer represent 10% or more of the revenue of the Group for the year ended 31 December 2014. Revenue of HK\$21,382,489 was derived from two external customers for the year ended 31 December 2013. A summary of revenue earned from each of these major external customers is set out below.

	2014 HK\$	2013 HK\$
Provision of hotel consultancy services segment		
Customer 1	—	9,306,989
Customer 2	—	12,075,500
	<u>                    </u>	<u>                    </u>
	<u><u>                    </u></u>	<u><u>21,382,489</u></u>

The total of non-current assets other than deferred tax assets located in Hong Kong and the PRC were HK\$1,032,742 (2013: HK\$2,953,656) and HK\$119,347,931 (2013: HK\$147,743,296), respectively.

7. OPERATING SEGMENT INFORMATION *(Continued)*

Breakdown of revenue from all activities is as follows:

	<b>2014</b>	<b>2013</b>
	<i>HK\$</i>	<i>HK\$</i>
Hotel consultancy services	—	24,556,593
Sales from hotel operations — hotel room rental, hotel management services income and conference room rental	24,044,532	28,328,788
Management fee income	2,806,312	2,335,769
Rental income on a sub-leased premise	2,524,776	2,501,438
Sales of hotel membership cards	325,221	246,318
	<u>29,700,841</u>	<u>57,968,906</u>

## 8. EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	<b>2014</b>	<b>2013</b>
	<i>HK\$</i>	<i>HK\$</i>
Salaries, wages and allowances	11,254,228	12,134,677
Pension obligations	1,349,844	1,448,030
Share-based payment expenses	—	2,892,000
Other benefits	549,079	352,479
	<u>13,153,151</u>	<u>16,827,186</u>

## 9. DIRECTORS' EMOLUMENTS

The emoluments of each director were as follows:

		Salaries, allowances and benefits	Pension schemes contribution	Total	
	Notes	Fees HK\$	in kind HK\$	HK\$	
<b>Year ended 31 December 2014</b>					
<b>Executive directors:</b>					
Fong Man Kelvin ( <i>Chairman</i> )		—	918,000	15,000	933,000
Fong Nga Peggy		—	387,000	15,000	402,000
Yue Kwai Wa Ken	(a)	58,065	—	1,500	59,565
Yip Chung Wai David	(a)	58,065	—	1,500	59,565
Mak Yiu Cho	(b)	20,500	—	—	20,500
Law Fei Shing	(b)	20,500	—	—	20,500
<b>Non-executive director:</b>					
De Weyer Daniel Ludovicus Joannes	(c)	63,140	—	—	63,140
<b>Independent non-executive directors:</b>					
Wong Sui Chi Frankie		94,600	—	—	94,600
Wong Hak Kun Jerry		94,600	—	—	94,600
Frostick Stephen William	(d)	94,600	—	—	94,600
Liu Cheng Zhong	(d)	94,600	—	—	94,600
		<u>598,670</u>	<u>1,305,000</u>	<u>33,000</u>	<u>1,936,670</u>
<b>Year ended 31 December 2013</b>					
<b>Executive directors:</b>					
Fong Man Kelvin ( <i>Chairman</i> )		—	855,000	15,000	870,000
Fong Nga Peggy		—	360,000	15,000	375,000
<b>Non-executive director:</b>					
De Weyer Daniel Ludovicus Joannes	(c)	88,000	—	—	88,000
<b>Independent non-executive directors:</b>					
Wong Sui Chi Frankie		88,000	—	—	88,000
Tam Kwok Ming Banny	(e)	59,906	—	—	59,906
Tsoi Wing Sum	(d)	81,837	—	—	81,837
Wong Hak Kun Jerry		88,000	—	—	88,000
Frostick Stephen William	(d)	6,507	—	—	6,507
Liu Cheng Zhong	(d)	6,507	—	—	6,507
		<u>418,757</u>	<u>1,215,000</u>	<u>30,000</u>	<u>1,663,757</u>

## 9. DIRECTORS' EMOLUMENTS (Continued)

Note:

- (a) On 4 July 2014, Yue Kwai Wa Ken and Yip Chung Wai David were appointed as the executive directors of the Group. On 18 November 2014, Yue Kwai Wa Ken and Yip Chung Wai David resigned as executive directors of the Group.
- (b) On 19 November 2014, Mak Yiu Cho and Law Fei Shing were appointed as executive directors of the Group.
- (c) On 3 September 2014, De Weyer Daniel Ludovicus Joannes resigned as non-executive director of the Group.
- (d) On 4 December 2013, Tsoi Wing Sum resigned as independent non-executive director. On the same date, Frostick Stephen William and Liu Cheng Zhong were appointed as independent non-executive directors of the Group.
- (e) On 4 September 2013, Tam Kwok Ming Banny resigned as independent non-executive director of the Group.

During the year, no emoluments were paid by the Group to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

## (b) Five highest paid individuals

The five highest paid individuals in the Group during the year included two (2013: one) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining three (2013: four) individuals are set out below:

	2014	2013
	<i>HK\$</i>	<i>HK\$</i>
Salaries, wages and allowances	1,545,000	2,077,561
Pension obligations	30,000	41,030
Share-based payment expenses	—	1,084,500
	<u>1,575,000</u>	<u>3,203,091</u>

9. DIRECTORS' EMOLUMENTS *(Continued)*(b) Five highest paid individuals *(Continued)*

The emoluments fell within the following band:

	Number of individuals	
	2014	2013
HK\$Nil to HK\$1,000,000	3	3
HK\$1,000,001 to HK\$2,000,000	—	1
	3	4
	3	4

During the year, no emoluments were paid by the Group to the highest paid individuals of the Group as an inducement to join or upon joining the Group or as compensation for loss of office.

## 10. OTHER INCOME

	2014	2013
	HK\$	HK\$
Gain on disposal of available-for-sale financial assets	—	54,976
Compensation for early termination of lease <i>(Note 13)</i>	—	877,303
Net foreign exchange gain	68,012	1,040,800
Interest income on non-current rental		
deposits carried at amortised cost	56,346	73,667
Bank interest income	592	631
Others	35,045	7,445
	159,995	2,054,822
	159,995	2,054,822

## 11. FINANCE COSTS

An analysis of finance costs is as follows:

	2014 HK\$	2013 HK\$
Finance cost on asset retirement obligations	180,912	173,407
Finance cost on finance lease liabilities	39,033	53,962
Interest on overdue payments	3,844	—
Finance cost on convertible notes	—	3,971,164
Interest on other loan wholly repayable within one year	900,000	—
	<u>1,123,789</u>	<u>4,198,533</u>
Less: amount capitalised as construction in progress ( <i>Note 16</i> )	<u>(675,000)</u>	<u>(3,349,903)</u>
	<u><u>448,789</u></u>	<u><u>848,630</u></u>

## 12. INCOME TAX (CREDIT)/EXPENSES

	2014 HK\$	2013 HK\$
Current tax — Hong Kong Profits Tax		
Provision for the year	—	1,352,468
Over-provision in prior years	<u>(8,710,908)</u>	<u>—</u>
	<u>(8,710,908)</u>	<u>1,352,468</u>
Current tax — PRC		
Provision for the year	<u>483,880</u>	<u>2,388,118</u>
Deferred income tax ( <i>Note 19</i> )	<u>(407,650)</u>	<u>219,757</u>
	<u><u>(8,634,678)</u></u>	<u><u>3,960,343</u></u>

The Group is not subject to taxation in the Cayman Islands and British Virgin Islands (“BVI”).

Hong Kong Profits Tax has been provided at a rate of 16.5% (2013:16.5%) on the estimated assessable profits for the year.

**12. INCOME TAX (CREDIT)/EXPENSES** *(Continued)*

The PRC corporate income tax is provided at the rate of 25% (2013: 25%) for the year.

The reconciliation between the income tax expense and the product of profit before tax multiplied by tax rates applicable to profit or loss in the respective countries is as follows:

	<b>2014</b>	<b>2013</b>
	<i>HK\$</i>	<i>HK\$</i>
Loss before taxation	(60,178,163)	(3,293,434)
Tax calculated at domestic tax rates		
applicable to profits or loss in the respective countries	(11,865,521)	645,923
Tax effect of expenses that are not deductible	5,046,611	2,356,155
Tax effect of tax losses not recognised	3,742,776	336,909
Tax effect of income that is not taxable	(3,993)	—
Tax effect of impairment of interests in joint ventures	1,121,584	—
Tax effect of share of results of joint ventures	2,034,773	621,356
Over-provision in prior years	(8,710,908)	—
	<u>(8,634,678)</u>	<u>3,960,343</u>

**13. LOSS FOR THE YEAR**

The Group's loss for the year is stated after charging/(crediting) the following:

	<b>2014</b>	<b>2013</b>
	<i>HK\$</i>	<i>HK\$</i>
Provision for/(reversal of) impairment		
of trade receivables	4,423,101	(586,846)
Auditor's remuneration	1,200,000	2,129,000
Depreciation of property, plant and equipment	7,255,616	7,389,933
Impairment on interests in joint ventures	6,797,484	—
Minimum lease payment under operating lease	17,974,662	14,822,036
Loss on disposal of property, plant, and equipment <i>(Note)</i>	5,167,969	2,276,985
	<u>51,882,833</u>	<u>27,832,134</u>

*Note:*

During the year, construction in progress of HK\$4,376,500 was written off as a result of the termination of developments of two hotels.

**13. LOSS FOR THE YEAR** *(Continued)*

During the year ended 31 December 2013, as a result of early termination of a lease contract by the landlord, the Group closed down one operating budget hotel and wrote off property, plant and equipment of HK\$985,024 in this regard. The Group has recorded a compensation of early termination of HK\$877,303 (Note 10) from the landlord. Moreover, the Group relocated a hotel under construction to a new site and therefore the related construction in progress of HK\$1,253,290 was written off.

**14. DIVIDEND**

The directors of the Company did not recommend the payment of any dividend for the years ended 31 December 2014 and 2013.

**15. LOSS PER SHARE****(a) Basic loss per share**

The calculation of basic loss per share attributable to owners of the Company is based on the loss for the year attributable to owners of the Company of approximately HK\$51,543,485 (2013: HK\$7,253,777) and the weighted average number of ordinary shares of 234,744,549 (2013: 181,579,453) in issue during the year.

**(b) Diluted loss per share**

There was no dilutive potential ordinary shares for the Company's outstanding share options for the year.

For the year ended 31 December 2013, the exercise of the Group's outstanding convertible bonds would be anti-dilutive and there was no dilutive potential ordinary shares for the Company's outstanding share options. Accordingly, the diluted loss per share is same as basic loss per share for both years.

## 16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK\$	Furniture and fixtures HK\$	Office equipments HK\$	Motor vehicles HK\$	Construction in progress HK\$	Total HK\$
COST:						
1 January 2013	44,484,874	7,972,215	1,061,332	2,851,960	15,260,852	71,631,233
Additions	4,136	18,717	1,626	—	25,326,725	25,351,204
Disposal	(4,736,425)	(1,621,231)	(38,156)	(158,671)	(1,253,290)	(7,807,773)
Reclassification	(2,707)	—	2,707	—	—	—
Exchange realignment	1,242,383	225,503	32,041	8,570	581,889	2,090,386
<b>At 31 December 2013 and</b>						
1 January 2014	40,992,261	6,595,204	1,059,550	2,701,859	39,916,176	91,265,050
Additions	21,951	29,589	307,193	—	36,091,539	36,450,272
Write off	(1,445,292)	—	—	—	(4,376,500)	(5,821,792)
Transfer	13,791,230	—	—	—	(13,791,230)	—
Exchange realignment	(138,113)	(23,155)	(3,706)	(1,012)	(9,872)	(175,858)
<b>At 31 December 2014</b>	<b>53,222,037</b>	<b>6,601,638</b>	<b>1,363,037</b>	<b>2,700,847</b>	<b>57,830,113</b>	<b>121,717,672</b>
ACCUMULATED DEPRECIATION:						
1 January 2013	25,911,480	7,384,365	822,772	766,149	—	34,884,766
Charge for the year	6,207,945	506,049	137,055	538,884	—	7,389,933
Eliminated on disposals	(3,788,757)	(1,592,660)	(29,370)	(1)	—	(5,410,788)
Exchange realignment	816,726	214,596	26,575	2,815	—	1,060,712
<b>At 31 December 2013 and</b>						
1 January 2014	29,147,394	6,512,350	957,032	1,307,847	—	37,924,623
Charge for the year	6,614,050	38,475	80,074	523,017	—	7,255,616
Eliminated on written off	(653,823)	—	—	—	—	(653,823)
Exchange realignment	(94,982)	(22,933)	(3,279)	(391)	—	(121,585)
<b>At 31 December 2014</b>	<b>35,012,639</b>	<b>6,527,892</b>	<b>1,033,827</b>	<b>1,830,473</b>	<b>—</b>	<b>44,404,831</b>
CARRYING AMOUNTS:						
<b>At 31 December 2014</b>	<b>18,209,398</b>	<b>73,746</b>	<b>329,210</b>	<b>870,374</b>	<b>57,830,113</b>	<b>77,312,841</b>
At 31 December 2013	11,844,867	82,854	102,518	1,394,012	39,916,176	53,340,427

**16. PROPERTY, PLANT AND EQUIPMENT (Continued)**

During the year, the Group had capitalised borrowing costs amounting to HK\$675,000 (2013: HK\$3,349,903) (Note 11) on qualifying assets.

The Group leases a motor vehicle under non-cancellable finance leases (Note 24). The lease term is 5 years. Motor vehicle include the following amounts where the Group is a lessee under finance leases:

	<b>2014</b>	<b>2013</b>
	<i>HK\$</i>	<i>HK\$</i>
Cost — capitalised finance leases	1,661,051	1,661,051
Accumulated depreciation	(1,024,315)	(692,105)
	<u>636,736</u>	<u>968,946</u>

**17. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES**

	<i>Notes</i>	<b>2014</b>	<b>2013</b>
		<i>HK\$</i>	<i>HK\$</i>
<b>Prepayments</b>			
Property, plant and equipment	<i>(a)</i>	24,169,069	59,969,169
Prepaid operating lease	<i>(b)</i>	10,689,458	11,393,935
Others		1,403,949	981,418
		<u>36,262,476</u>	<u>72,344,522</u>
<b>Deposits</b>			
Rental deposits		2,243,510	1,425,273
<b>Other receivables</b>			
		25,570,153	897,146
Total prepayments, deposits and other receivables		<u>64,076,139</u>	<u>74,666,941</u>
The amounts of prepayments, deposits and other receivables are analysed as follows:			
<b>Non-current portion</b>			
Prepayments for property, plant and equipment		24,169,069	59,969,169
Rental deposits		2,243,510	1,425,273
Prepaid operating lease		9,823,653	10,529,348
		<u>36,236,232</u>	<u>71,923,790</u>
<b>Current portion</b>			
Prepayments		1,403,949	981,418
Prepaid operating lease		865,805	864,587
Other receivables		25,570,153	897,146
		<u>27,839,907</u>	<u>2,743,151</u>
		<u>64,076,139</u>	<u>74,666,941</u>

## 17. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (Continued)

Note:

- (a) These represented payments for construction costs for new office premise and budget hotels planned to be opened in the future.
- (b) The balance primarily represented the non-current portion of the operating lease payment paid to an independent third party in respect of the rental of a hotel premise in the PRC for a lease term of 15 years till 30 June 2026.

## 18. INTERESTS IN JOINT VENTURES

	2014 HK\$	2013 HK\$
Unlisted investments in Hong Kong:		
Share of net assets	6,831,600	18,844,088
Goodwill	6,797,484	6,588,647
	13,629,084	25,432,735
Impairment losses	(6,797,484)	—
	<u>6,831,600</u>	<u>25,432,735</u>

Notes:

- (a) The cost of unlisted investments in joint ventures includes shareholder's loans of HK\$32,254,689 (2013: HK\$31,732,600) to joint ventures for establishment of two hotels in the PRC. The Group will not demand for the repayment of the shareholder's loans, and accordingly, these loans are treated as capital injection by the Group into joint ventures. These loans are denominated in HK\$, unsecured and non-interest bearing.
- (b) Details of the Group's joint ventures at 31 December 2014 are as follows:

Name	Place of incorporation	Issued share capital	Percentage of ownership interest	Principal activities
Sanya Welcomeinn Waterfront Tourism Limited ("Waterfront")	Hong Kong	HK\$2 ordinary shares	60%	Investment holding and hotel operation
Sanya Welcomeinn Jinhua Tourism Limited ("Jinhua")	Hong Kong	HK\$2 ordinary shares	60%	Investment holding and hotel operation

- (c) The following tables show information of Waterfront and Jinhua. These joint ventures are accounted for in the consolidated financial statements using the equity method. The summarised financial information presented is based on the HKFRS financial statements of the joint ventures.

## 18. INTERESTS IN JOINT VENTURES (Continued)

## Summarised statement of financial position

	Waterfront		Jinhua	
	2014	2013	2014	2013
	HK\$	HK\$	HK\$	HK\$
<b>At 31 December:</b>				
Non-current assets	12,675,454	19,437,381	10,230,188	17,921,285
Current assets	1,057,258	887,807	998,299	3,737
Current liabilities	(7,818,712)	(6,245,893)	(5,756,487)	(597,504)
Net assets	<u>5,914,000</u>	<u>14,079,295</u>	<u>5,472,000</u>	<u>17,327,518</u>
Group's share of net assets	3,548,400	8,447,577	3,283,200	10,396,511
Goodwill	<u>3,917,072</u>	<u>3,897,071</u>	<u>2,880,412</u>	<u>2,691,576</u>
	7,465,472	12,344,648	6,163,612	13,088,087
Impairment losses	<u>(3,917,072)</u>	<u>—</u>	<u>(2,880,412)</u>	<u>—</u>
Carrying amount of interests	<u>3,548,400</u>	<u>12,344,648</u>	<u>3,283,200</u>	<u>13,088,087</u>
Cash and cash equivalents included in current assets	269,915	240,915	69,969	2,835
Current financial liabilities (excluding trade and other payables and provisions) included in current liabilities	—	—	—	—
Non-current financial liabilities (excluding trade and other payables and provisions) included in non-current liabilities	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

18. INTERESTS IN JOINT VENTURES *(Continued)*

## Summarised statement of profit or loss and other comprehensive income

	Waterfront		Jinhua	
	2014	2013	2014	2013
	HK\$	HK\$	HK\$	HK\$
<b>Year ended 31 December:</b>				
Revenue	7,138,448	1,799,188	1,928,746	—
Depreciation and amortisation	(3,046,443)	(1,512,909)	(1,940,840)	—
Impairment of property, plant and equipment	(3,897,886)	—	(5,997,991)	—
Interest income	748	108	—	—
Interest expense	—	—	—	—
Income tax expense	—	—	—	—
Loss from continuing operations	(8,230,646)	(6,204,472)	(12,322,606)	(15,450)
Other comprehensive loss	15,353	(56,404)	(5,003)	—
Total comprehensive loss	(8,215,293)	(6,260,876)	(12,327,609)	(15,450)
Dividends received from joint ventures	—	—	—	—

The Directors reviewed the joint ventures' operations and financial positions as at 31 December 2014 based on fair value calculation. A discount rate of 20.30% was applied on projected cash flow for fair value calculation. Due to the unsatisfactory operating performance, there was a decrease in the recoverable amount from fair value calculation. Accordingly, for the year ended 31 December 2014, an impairment loss of HK\$6,797,484 (2013: Nil) was provided for the Group's interests in the joint ventures.

As at 31 December 2014, the bank and cash balances of the Group's joint ventures in the PRC denominated in RMB amounted to HK\$331,163 (2013: HK\$238,363). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations.

## 19. DEFERRED INCOME TAX ASSETS

The following are the major deferred tax assets recognised by the Group.

	<b>Accelerated tax depreciation</b>	<b>Provisions</b>	<b>Total</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
At 1 January 2013	341,924	1,110,299	1,452,223
Debited to profit or loss for the year ( <i>note 12</i> )	(183,165)	(36,592)	(219,757)
Exchange differences	8,376	43,731	52,107
	<hr/>	<hr/>	<hr/>
At 31 December 2013 and 1 January 2014	167,135	1,117,438	1,284,573
Debited to profit or loss for the year ( <i>note 12</i> )	46,846	360,804	407,650
Exchange differences	(380)	(3,459)	(3,839)
	<hr/>	<hr/>	<hr/>
At 31 December 2014	<u>213,601</u>	<u>1,474,783</u>	<u>1,688,384</u>

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. As of 31 December 2014, the Group does not recognise deferred income tax assets of HK\$4,749,202 (2013: HK\$1,006,425) in respect of losses amounting to HK\$22,638,143 (2013: HK\$6,099,546) that can be carried forward against taxable income. Included in unrecognised tax losses are losses of HK\$2,982,083 (2013: HK\$nil) that will expire in 2019. Other tax losses may be carried forward indefinitely.

At the end of the reporting period, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries and joint ventures for which deferred tax liabilities have not been recognised is HK\$761,775 (2013: HK\$1,231,959). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

**20. TRADE RECEIVABLES**

The majority of the Group's revenue from hotel operations are made via credit cards or cash. Hotel rooms are rented to corporate customers with an appropriate credit history on credit terms of 30 days. For hotel consultancy services, the Group offers credit terms to external customers of 60 days upon acceptance of services by the customers. As at 31 December 2014, the Group has made provision for impairment of trade receivables of HK\$4,423,101 (2013: HK\$586,846). Trade receivables of HK\$7,561,592 (2013: HK\$10,185,469) were past due but not impaired. Management considered that no recoverability problem on these trade balances as a result of subsequent settlement received up to the date of this report and the agreement of the revised repayment schedule with certain trade debtors.

	<b>2014</b>	<b>2013</b>
	<i>HK\$</i>	<i>HK\$</i>
Trade receivables	12,798,345	10,929,589
Impairment	(5,056,412)	(634,115)
	<u>7,741,933</u>	<u>10,295,474</u>

The ageing analysis of these trade receivables is as follows:

	<b>2014</b>	<b>2013</b>
	<i>HK\$</i>	<i>HK\$</i>
Neither past due nor impaired	<u>180,341</u>	<u>110,005</u>
0-30 days past due	505,878	673,981
31-60 days past due	226,905	237,934
61-90 days past due	212,248	481,524
91-120 days past due	554,225	222,436
121-365 days past due	2,415,042	8,569,594
Over 365 days past due	<u>3,647,294</u>	<u>—</u>
	<u>7,561,592</u>	<u>10,185,469</u>
	<u>7,741,933</u>	<u>10,295,474</u>

**20. TRADE RECEIVABLES (Continued)**

The movements in the provision for impairment of trade receivables during the year are as follows:

	<b>2014</b>	<b>2013</b>
	<i>HK\$</i>	<i>HK\$</i>
At 1 January	634,115	1,500,000
Exchange realignment	(804)	—
Provision for the year	4,423,101	913,154
Amounts written off	—	(279,039)
Reversal of provision for impairment	—	(1,500,000)
	<u>5,056,412</u>	<u>634,115</u>
At 31 December	<u>5,056,412</u>	<u>634,115</u>

The reversal of provision for impairment has been included in “other operating expenses” in the consolidated statement of profit or loss.

**21. AMOUNTS DUE FROM JOINT VENTURES**

Amounts due from joint ventures as at 31 December 2014 are interest-free, unsecured and repayable on demand. Amounts are denominated in RMB.

Amounts due from joint ventures as at 31 December 2013 were interest-free, unsecured and repayable by July 2014. Amounts were denominated in RMB.

**22. PROVISION FOR ASSET RETIREMENT**

Under the terms of the tenancy agreements signed with landlords, the Group shall vacate and re-instate the leased hotel premises at the Group’s cost upon expiry of the relevant tenancy agreements in 8 to 10 years. Provision is therefore made for the best estimate of the expected reinstatement costs to be incurred. Movements of provision for asset retirement are as follows:

	<b>2014</b>	<b>2013</b>
	<i>HK\$</i>	<i>HK\$</i>
At 1 January	3,739,945	3,457,087
Finance cost on asset retirement obligations (Note 11)	180,912	173,407
Exchange differences	(13,027)	109,451
	<u>3,907,830</u>	<u>3,739,945</u>
At 31 December	3,907,830	3,739,945
Less: non-current portion	(1,485,747)	(1,440,769)
	<u>2,422,083</u>	<u>2,299,176</u>
Current portion	<u>2,422,083</u>	<u>2,299,176</u>

## 23. TRADE AND OTHER PAYABLES

	2014 <i>HK\$</i>	2013 <i>HK\$</i>
Trade payables	4,311,517	3,072,392
Accruals and other payables	17,385,161	13,552,813
	<u>21,696,678</u>	<u>16,625,205</u>

The aging analysis of trade payables is as follows:

	2014 <i>HK\$</i>	2013 <i>HK\$</i>
0 - 30 days	1,595,674	1,151,344
31 - 60 days	1,336,146	706,732
61 - 90 days	679,726	588,059
Over 90 days	699,971	626,257
	<u>4,311,517</u>	<u>3,072,392</u>

Accruals and other payables are analysed as follows:

	2014 <i>HK\$</i>	2013 <i>HK\$</i>
<b>Accruals</b>		
Accrued staff costs	2,609,497	1,811,239
Accrued audit and professional fee	2,866,155	2,910,200
Accrued effective rental payable	6,080,987	2,678,463
	<u>11,556,639</u>	<u>7,399,902</u>
<b>Other payables</b>		
Other tax payables	3,741,755	3,635,256
Payables to hotel constructors	783,520	—
Interest payable	—	1,471,164
Deferred revenue		
— membership fee	297,073	191,242
— customer loyalty programme	188,702	166,163
Receipt in advance	195,113	191,708
Others	622,359	497,378
	<u>5,828,522</u>	<u>6,152,911</u>
<b>Total accruals and other payables</b>	<u>17,385,161</u>	<u>13,552,813</u>

## 24. FINANCE LEASE PAYABLES

	Minimum lease payments		Present value of Minimum lease payments	
	2014	2013	2014	2013
	HK\$	HK\$	HK\$	HK\$
Within one year	441,402	377,892	419,560	342,694
In the second to fifth years, inclusive	157,455	535,347	155,583	516,251
	<u>598,857</u>	<u>913,239</u>	<u>575,143</u>	<u>858,945</u>
Less: Future finance charges	(23,714)	(54,294)	—	—
	<u>575,143</u>	<u>858,945</u>	575,143	858,945
Less: Amount due for settlement within 12 months (shown under current liabilities)			(419,560)	(342,694)
Amount due for settlement after 12 months			<u>155,583</u>	<u>516,251</u>

The average lease term is 5 years (2013: 5 years). At 31 December 2014, the average effective borrowing rate was 5% (2013: 5%). Interest rates are fixed at the contract dates and thus expose the Group to fair value interest rate risk. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. At the end of each lease term, the Group has the option to purchase the motor vehicle at nominal prices.

All finance lease payables are denominated in Hong Kong dollars.

The Group's finance lease payables are secured by the lessor's title to the leased assets.

## 25. SHARE CAPITAL

	<i>Notes</i>	Number of Shares	Amount <i>HK\$</i>
Authorised:			
Ordinary shares of HK\$0.01 (2013: HK\$0.01) each			
At 1 January 2013, 31 December 2013, 1 January 2014 and 31 December 2014		780,000,000	7,800,000
Issued and fully paid:			
Ordinary shares of HK\$0.01 (2013: HK\$0.01) each			
At 1 January 2013		180,000,001	1,800,001
Conversion of convertible notes	<i>(a)</i>	36,000,000	360,000
Exercise of share options		500,000	5,000
At 31 December 2013 and 1 January 2014		216,500,001	2,165,001
Exercise of share options		1,770,000	17,700
Issue of shares upon placing	<i>(b)</i>	43,500,000	435,000
At 31 December 2014		261,770,001	2,617,701

*Notes:*

- (a) The convertible notes was fully converted during 2013, an aggregate of 36,000,000 ordinary shares of HK\$0.01 each were issued at a conversion price of HK\$0.85 per share.
- (b) On 23 July 2014, the Company and Emperor Securities Limited entered into a placing agreement in respect of the placement of 43,500,000 ordinary shares of HK\$0.01 each to independent investors at a price of HK\$0.79 per share. The placement was completed on 12 August 2014 and the premium on the issue of shares amounting to approximately HK\$33,930,000 was credited to the Company's share premium account.

**25. SHARE CAPITAL (Continued)**

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maximise the return to the shareholders through the optimisation of the debt and equity balance.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the payment of dividends, issue new shares, buy-back shares, raise new debts, redeem existing debts or sell assets to reduce debts.

The Group monitors capital on the basis of the debt-to-adjusted capital ratio. This ratio is calculated as net debt divided by adjusted capital. Net debt is calculated as total debts less cash and cash equivalents. Adjusted capital comprises all components of equity (i.e. share capital, share premium, non-controlling interests, retained profits and other reserves) and includes some forms of subordinated debts.

During 2014, the Group's strategy, which was unchanged from 2013, was to maintain the gearing ratio of less than 20%. The gearing ratios at 31 December 2014 and 2013 were as follows:

	<b>2014</b> <i>HK\$</i>	<b>2013</b> <i>HK\$</i>
Total debt	575,143	858,945
Less: cash and cash equivalents	(2,322,143)	(19,585,536)
Net cash	(1,747,000)	(18,726,591)
Total equity	134,174,716	150,469,989
Adjusted capital	132,427,716	131,743,398
Debt-to-adjusted capital ratio	N/A	N/A

**26. SHARE-BASED PAYMENTS**

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include employee and business associate of the Group. The Scheme became effective on 22 June 2011 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 30% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of shares options in excess of this limit is subject to shareholders' approval in a general meeting.

**26. SHARE-BASED PAYMENTS** *(Continued)*

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than ten years from the date of the offer of the share options or the expiry date of the Scheme, if earlier.

The exercise price of share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

Details of the specific categories of options are as follows:

<b>Date of grant</b>	<b>Vesting period</b>	<b>Exercise period</b> <i>HK\$</i>	<b>Expiry date</b>	<b>Exercise price</b>
21 February 2012	No vesting period	21 February 2012 to 20 February 2014	20 February 2014	1.33
8 October 2013	No vesting period	8 October 2013 to 7 October 2015	7 October 2015	1.822

Options are forfeited if the employee leaves the Group.

## 26. SHARE-BASED PAYMENTS (Continued)

Details of the share options outstanding during the year are as follows:

	2014		2013	
	Number of share options	Weighted average exercise price HK\$	Number of share options	Weighted average exercise price HK\$
Outstanding at				
the beginning of the year	8,400,000	1.769	900,000	1.330
Granted during the year	—	—	8,000,000	1.822
Exercised during the year	(1,770,000)	1.622	(500,000)	1.822
Expired during the year	(180,000)	1.330	—	—
	<u>6,450,000</u>	<u>1.822</u>	<u>8,400,000</u>	<u>1.769</u>
Outstanding at the end of the year	6,450,000	1.822	8,400,000	1.769
	<u>6,450,000</u>	<u>1.822</u>	<u>8,400,000</u>	<u>1.769</u>
Exercisable at the end of the year	<u>6,450,000</u>	<u>1.822</u>	<u>8,400,000</u>	<u>1.769</u>

The weighted average share price at the date of exercise for share options exercised during the year was HK\$2.265. The options outstanding at the end of the year have a weighted average remaining contractual life of 1 year (2013: 2 years) and the exercise prices are HK\$1.822 (2013: range from HK\$1.330 to HK\$1.822). In 2014, no options were granted. In 2013, options were granted on 8 October 2013. The estimated fair values of the options granted on those dates are HK\$0.36.

These fair values were calculated using the Binomial Option Pricing Model. The inputs into the model are as follows:

	2013
Weighted average share price	1.822
Weighted average exercise price	1.822
Expected volatility	42%
Expected life	2 years
Risk free rate	0.34%
Expected dividend yield	0%

Expected volatility was determined by calculating the historical volatility of the Company's share price over the year preceding the date of grant of the options. The expected life used in the model has been adjusted, based on the Group's best estimate, for the effects of non transferability, exercise restrictions and behavioral considerations.

## 27. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2014 <i>HK\$</i>	2013 <i>HK\$</i>
<b>Non-current assets</b>		
Investments in subsidiaries	104,808,579	66,857,639
<b>Current assets</b>		
Due from subsidiaries	—	5,370,758
<b>Current liabilities</b>		
Due to a subsidiary	636,900	636,900
Accruals	3,060,368	3,875,230
	3,697,268	4,512,130
<b>Net current (liabilities)/assets</b>	(3,697,268)	858,628
<b>Net assets</b>	101,111,311	67,716,267
<b>EQUITY</b>		
Share capital	2,617,701	2,165,001
Reserves	98,493,610	65,551,266
	101,111,311	67,716,267

## 28. RESERVES

## (a) Group

The amounts of the Group's reserves and movements therein are presented in the consolidated statement of profit or loss and other comprehensive income and consolidated statement of changes in equity.

## 28. RESERVES (Continued)

## (b) Company

	Share premium (Note (c)(i)) HK\$	Share-based payment reserve (Note (c)(iv)) HK\$	Available-for sale security reserve HK\$	Accumulated losses HK\$	Total HK\$
At 1 January 2013	38,030,244	224,000	178,000	(2,664,943)	35,767,301
Loss for the year	—	—	—	(6,213,035)	(6,213,035)
Fair value changes on available-for-sale financial assets	—	—	(178,000)	—	(178,000)
Employee share option benefit	—	2,892,000	—	—	2,892,000
Exercise of share options by employees	1,086,750	(180,750)	—	—	906,000
Conversion of convertible notes	32,377,000	—	—	—	32,377,000
At 31 December 2013 and 1 January 2014	71,493,994	2,935,250	—	(8,877,978)	65,551,266
Loss for the year	—	—	—	(2,945,531)	(2,945,531)
Exercise of share options by employees	3,411,775	(558,775)	—	—	2,853,000
Issue of shares on placement	33,930,000	—	—	—	33,930,000
Transaction costs attributable to placement	(895,125)	—	—	—	(895,125)
At 31 December 2014	107,940,644	2,376,475	—	(11,823,509)	98,493,610

## (c) Nature and purpose of reserves

## (i) Share premium account

Under the Companies Law of the Cayman Islands, the funds in the share premium account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

## (ii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 4 to the financial statements.

**28. RESERVES (Continued)****(c) Nature and purpose of reserves (Continued)****(iii) Statutory reserve**

The statutory reserve, which is non-distributable, is appropriated from the profit after taxation of the Group's PRC subsidiaries under the applicable laws and regulations in the PRC.

**(iv) Share-based payment reserve**

The share-based payment reserve represents the fair value of the actual or estimated number of unexercised share options granted to employees of the Group recognised in accordance with the accounting policy adopted for equity-settled share-based payments in note 26 to the financial statements.

**(v) Other reserve**

The other reserves represent the difference between the nominal value of the issued capital of Legend Strategy Limited, Lai Ying International Limited and Triple Leaf Limited, the then shareholders of Legend Strategy Limited and the nominal value of the 135,000,001 shares issued and allotted to the shareholders of the above companies by the Company.

**29. CONTINGENT LIABILITIES**

As at 31 December 2014, the Group did not have any significant contingent liabilities (2013: Nil).

**30. CAPITAL COMMITMENTS**

The Group's capital commitments at the end of the reporting period are as follows:

	<b>2014</b>	<b>2013</b>
	<i>HK\$</i>	<i>HK\$</i>
Contracted but not provided for		
— Property, plant and equipment	2,954,960	38,225,301
	<u>2,954,960</u>	<u>38,225,301</u>

**31. OPERATING LEASE COMMITMENTS**

The Group leases various hotel premises under non-cancellable operating lease agreements. The lease terms of the tenancy agreements are set out in Note 22. The leases have escalation clauses and renewal rights. The total future minimum lease payments under non-cancellable operating leases are payable as follows:

	<b>2014</b>	<b>2013</b>
	<i>HK\$</i>	<i>HK\$</i>
Within one year	11,370,376	13,179,879
In the second to fifth years inclusive	42,523,234	40,631,817
After five years	54,526,630	76,191,099
	<u>108,420,240</u>	<u>130,002,795</u>

**32. FUTURE OPERATING LEASE ARRANGEMENTS**

As at 31 December 2014, the Group had future aggregate minimum lease receipts under non-cancellable operating leases as follows:

	<b>2014</b>	<b>2013</b>
	<i>HK\$</i>	<i>HK\$</i>
Within one year	2,527,486	2,536,462
In the second to fifth years inclusive	10,109,945	10,145,847
After five years	4,423,101	6,975,270
	<u>17,060,532</u>	<u>19,657,579</u>

**33. RELATED PARTY TRANSACTIONS**

In addition to those related party transactions and balances disclosed elsewhere in the financial statements, the Group had the following transactions with its related parties during the year.

	<b>2014</b>	<b>2013</b>
	<i>HK\$</i>	<i>HK\$</i>
Management fee income		
— Waterfront	592,846	118,189
— Jinhua	855,775	—
	<u>1,448,621</u>	<u>118,189</u>

## 34. INVESTMENTS IN SUBSIDIARIES

Particulars of the subsidiaries as at 31 December 2014 are as follows:

Company name	Place of incorporation/ registration and operation	Issued and paid up capital	Percentage of ownership interest	Principal activities
Legend Strategy International Limited	BVI	4 ordinary shares of US\$1 each	100% (direct)	Investment holding
Legend Strategy Limited	Hong Kong	HK\$10,000,000 ordinary shares	100% (indirect)	Investment holding and provision of hotel consultancy services
Welcome Inn Management Limited	Hong Kong	HK\$1 ordinary share	100% (indirect)	Provision of hotel management services
Legend Strategy Management Limited	BVI	1 ordinary share of US\$1	100% (indirect)	Rental of hotel premise
Shenzhen Yuelai Inn Tourists Co., Ltd.	The PRC*	HK\$8,000,000	100% (indirect)	Hotel operations
Shenzhen Yingde Tourists Co., Ltd.	The PRC*	HK\$8,000,000	100% (indirect)	Hotel operations
Shenzhen Modern Tourists Co., Ltd.	The PRC*	HK\$1,000,000	100% (indirect)	Hotel operations and provision of hotel consultancy services
Shenzhen Yuelai Inn Co., Ltd.	The PRC*	HK\$5,000,000	100% (indirect)	Hotel operations

\* Wholly owned Foreign Enterprise

The above list contains the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group.

**35. EVENTS AFTER THE REPORTING PERIOD**

On 22 December 2014, the Company entered into a placing agreement with Emperor Securities Limited (“Placing Agent”) whereby the Company agreed to place, through the Placing Agent, on a best effort basis, a maximum of 52,300,000 new shares to not less than six places at a price of HK\$0.66 per placing share.

On 9 January 2015, the Company completed the placing, in which 52,300,000 placing shares have been successfully placed by the Placing Agent to not less than six places at the placing price of HK\$0.66 per placing share. The net proceeds of approximately HK\$33.9 million were raised from the placing.

**36. APPROVAL OF FINANCIAL STATEMENTS**

These financial statements were approved and authorised for issue by the Board of Directors on 27 March 2015.

**3. INDEBTEDNESS**

At the close of business on 31 May 2015, being the latest practicable date for ascertaining the information prior to the printing of this document, apart from intra-group liabilities and normal trade payables, the Group did not have any debt securities authorised or created but unissued, issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance leases, hire purchase commitments, guarantees or other material contingent liabilities.

Save as disclosed above, the Directors have confirmed that there have been no material changes in the indebtedness and contingent liabilities of the Group since 31 May 2015.

**4. MATERIAL CHANGE**

The Directors confirm that save as disclosed below, there had been no material change in the financial or trading position or outlook of the Group since 31 December 2014, being the date to which the latest published audited consolidated financial statements of the Company were made up, and up to and including the Latest Practicable Date:

- (i) the operating environment of the Group had remained challenging and the increased competition in the hospitality market in the PRC had caused further decline in the revenue of the Group; and
- (ii) the placing of 52,300,000 new Shares by the Company at a placing price of HK\$0.66 per Share on 9 January 2015.

**1. RESPONSIBILITY STATEMENT**

This Composite Document includes particulars given in compliance with the Takeovers Code for the purpose of providing information to the Shareholders and the Optionholders with regard to the Offeror, the Group and the Offers.

The directors of the Offeror jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document (other than that relating to the Vendor and the Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Composite Document (other than those expressed by the Vendor and the Group) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document the omission of which would make any statements in this Composite Document misleading.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document (other than that relating to the Offeror and parties acting in concert with it (including Mr. Law)) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Composite Document (other than those expressed by the Offeror and parties acting in concert with it (including Mr. Law)) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any statements in this Composite Document misleading.

This Composite Document, for which all Directors jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document (other than the information relating to the Offeror and parties acting in concert with it (including Mr. Law)) is in compliance with the Listing Rules. The Directors confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, the information contained in this Composite Document (other than the information relating to the Offeror and parties acting in concert with it (including Mr. Law)) 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 in this Composite Document misleading.

## 2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date were as follows:

<i>Authorised share capital:</i>	<i>HK\$</i>
<u>780,000,000</u> Shares	<u>7,800,000.00</u>

*Issued and paid-up share capital:*

<u>314,820,001</u> Shares	<u>3,148,200.01</u>
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All the Shares in issue rank pari passu in all respects with each other, including the rights in respect of capital and dividends and voting. Save for 750,000 Shares were allotted and issued by the Company pursuant to the exercise of 750,000 Share Options on 9 June 2015, the Company has not issued any other Share since 31 December 2014, the date to which the latest audited financial statements of the Company were made up, and up to the Latest Practicable Date.

As at the Latest Practicable Date, there were 314,820,001 Shares in issue, of which the Offeror and parties acting in concert with it held 102,576,446 Shares, representing approximately 32.58% of the issued share capital of the Company.

As at the Latest Practicable Date, the Company had 5,700,000 Share Options in respect of 5,700,000 Shares, all of which were exercisable at the exercise price of HK\$1.822. All 5,700,000 Share Options were granted pursuant to the share option scheme adopted by the Company on 22 June 2011.

Other than the Shares in issue and the Share Options, the Company has no other outstanding Shares, options, warrants, derivative or other securities that are convertible or exchangeable into Shares or other types of equity interest in issue.

### 3. MARKET PRICES

The table below shows the closing price of the Shares as quoted on the Stock Exchange on (i) the last day on which trading took place in each of the calendar months during the Relevant Period; (ii) the trading day immediately prior to the commencement of the Offer Period (iii) the Last Trading Day; and (iv) the Latest Practicable Date:

<b>Date</b>	<b>Closing price</b> <i>HK\$</i>
31 October 2014	1.31
28 November 2014	0.94
31 December 2014	0.79
30 January 2015	1.05
27 February 2015	1.00
31 March 2015	1.07
17 April 2015 (last trading day prior to the Offer Period)	1.24
30 April 2015	1.89
29 May 2015 (the Last Trading Day)	2.62
Latest Practicable Date	2.06

During the Relevant Period, the highest closing price of the Shares as quoted on the Stock Exchange was HK\$2.62 on 29 May 2015 and the lowest closing price of the Shares as quoted on the Stock Exchange was HK\$0.74 on 24 December 2014.

### 4. DISCLOSURE OF INTERESTS

#### **(a) Directors and the chief executives' interests and short positions in shares, underlying shares and debentures of the Company and its associated corporations**

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executives of the Company, including their respective associates in the equity or equity securities of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were deemed or taken to have under the provisions of the SFO); (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers had been notified to the Company and the Stock Exchange were as follows:

Name	Capacity	Number of Shares held	Approximate percentage of interest in the Company's issued share capital
Mr. Law	Person having a security interest in Shares	102,576,466 <i>(Note)</i>	32.58%

*Note:* The Shares are subject to a charge under the Share Charge made between the Offeror (as chargor) and Excel Precise (as chargee) which is owned as to 25% by Mr. Law and as to 73.5% by True Promise Investment Limited, a company which in turn is wholly-owned by Mr. Law.

Save as disclosed above, as at the Latest Practicable Date, none of the Director and the chief executives of the Company, including their respective associates had any interests or short positions in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were deemed or taken to have under the provisions of the SFO); (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers to be notified to the Company and the Stock Exchange.

**(b) Substantial shareholders, the Offeror and parties acting in concert with it and other person's interests and short positions in shares, underlying shares and securities of the Company**

As at the Latest Practicable Date, according to the register kept by the Company pursuant to Section 336 of the SFO and, so far as is known to the Directors, the persons or entities who had an interest or a short position in the Shares or the underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company, or of any other company which is a member of the Group, or in any options in respect of such share capital were as follows:

<b>Names</b>	<b>Capacity</b>	<b>Number of Shares held</b>	<b>Approximate percentage of interest in the Company's issued share capital</b>
The Offeror	Beneficial owner	102,576,466	32.58%
Ding Yifan	Interest in a controlled corporation	102,576,466	32.58%
Excel Precise International Limited	Person having a security interest in Shares	102,576,466	32.58%
True Promise Investment Limited	Interest in a controlled corporation	102,576,466	32.58%
呂娜	Interest of child under 18 or spouse	102,576,466	32.58%

Save as disclosed above, so far as is known to the Directors, as at the Latest Practicable Date, no person had an interest or a short position in the Shares or the underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company, or of any other company which is a member of the Group, or any options in respect of such share capital.

Save as disclosed above, as at the Latest Practicable Date, no other person had any interest or short position in the Shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

## **5. INTEREST IN THE COMPANY AND THE OFFEROR AND ARRANGEMENTS IN CONNECTION WITH THE OFFERS**

As at the Latest Practicable Date:

- (a) no benefit would be given to any Director as compensation for loss of office or otherwise in connection with the Offers;
- (b) neither the Company, any member of the Group nor any of the Directors was interested in or owned or controlled any shares, convertible securities, warrants, options or derivatives of the Offeror;

- (c) save as disclosed in paragraph “4. Disclosure of Interests” of this appendix, neither the Offeror, its directors nor any party acting in concert with the Offeror was interested in or owned or controlled any Shares, derivatives, warrants or convertible or exchangeable securities carrying rights to subscribe for, convert or exchange into, Shares;
- (d) there were no Shares, convertible securities, warrants, options or derivatives of the Company which the Company, Directors, Offeror or any party acting in concert with it has borrowed or lent;
- (e) none of the subsidiaries of the Company and pension fund of the Company or of a subsidiary of the Company or an adviser to the Company as specified in class (2) of the definition of associate under the Takeovers Code owned or controlled any Shares, convertible securities, warrants, options or derivatives of the Company;
- (f) save for the charge over the Sale Shares and the Offer Shares to be and/or possibly to be acquired by the Offeror under the Share Offer in favour of Excel Precise pursuant to the Share Charge, there is no arrangement (whether by way of option, indemnity or otherwise) of any kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who was an associate of the Company by virtue of classes (1), (2), (3) or (4) of the definition of “associate” under the Takeovers Code or with the Offeror or any person acting in concert with it;
- (g) no Shares, convertible securities, warrants, options or derivatives of the Company were managed on a discretionary basis by fund managers connected with the Company;
- (h) none of the Offeror or parties acting in concert with it has received any irrevocable commitment to accept or reject the Offers;
- (i) no person had irrevocably committed himself or herself or itself to accept or reject the Offers;
- (j) there was no agreement or arrangement between any Director and any other person which was conditional on or dependent upon the outcome of the Offers or otherwise connected with the Offers;
- (k) there was no agreement, arrangement or understanding (including any compensation arrangement) existing between the Offeror or any person acting in concert with it and any Director, recent Directors, Shareholders or recent Shareholders having any connection with or being dependent upon the Offers;
- (l) save for the Share Purchase Agreement, the Loan Agreement and the Share Charge, there is no agreement or arrangement to which the Offeror or its ultimate beneficial owners or any person acting in concert with any of them (including Mr. Law), is a party which relates to circumstances in which it may or may not seek to invoke a pre-condition or a condition to the Offers;

- (m) save for the Share Purchase Agreement, Loan Agreement and Share Charge, no material contracts have been entered into by the Offeror in which any Director has a material personal interest; and
- (n) the Offeror, the directors of the Offeror and any persons acting in concert with the Offeror had no other intention to transfer, charge or pledge any of the Shares to be acquired by the Offeror pursuant to the Share to any other persons, nor had the Offeror, the directors of the Offeror and any persons acting in concert with the Offeror entered into any such agreement, arrangement, undertaking or understanding.

## 6. DEALING IN SECURITIES AND OTHER ARRANGEMENTS

- (a) During the Relevant Period,
  - (i) save for the transactions contemplated under the Share Purchase Agreement, none of the Directors had dealt for value in any Shares, convertible securities, warrants, options or derivatives of the Company;
  - (ii) none of the Company, any of its subsidiaries, the Directors had dealt for value in any shares, convertible securities, warrants, options or derivatives of the Offeror; and
  - (iii) no person who had any arrangements of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Offeror or any parties acting in concert with it had dealt for value in the Shares or any convertible securities, warrants, options or derivatives in respect of any Shares.

None of the Offeror, its directors, and parties acting in concert with the Offeror (other than those with exempt principal trader status) had dealt for value in any Shares, warrants, options, derivatives and securities carrying conversion or subscription rights into Shares during the Relevant Period.

- (b) During the Offer Period and up to the Latest Practicable Date,
  - (i) none of the subsidiaries of the Company or any pension funds of the Group nor any adviser to the Company as specified in class (2) of the definition of “associate” under the Takeovers Code (but excluding exempt principal traders) had dealt for value in the Shares or any convertible securities, warrants, options or derivatives in respect of any Shares;
  - (ii) no persons who had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or any person who is an associate of the Company by virtue of classes (1), (2), (3) or (4) of the definition of “associate” under the Takeovers Code had dealt for value in the Shares or any convertible securities, warrants, options or derivatives in respect of any Shares; and

- (iii) no fund managers (other than exempt fund managers) connected with the Company who managed funds on a discretionary basis had dealt for value in the Shares or any convertible securities, warrants, options or derivatives in respect of any Shares.

## 7. DIRECTORS' SERVICE CONTRACTS

### Appointments

Mr. Mak Yiu Cho entered into a service agreement with the Company commencing from 19 November 2014 for an initial fixed term of three years and is subject to retirement by rotation and re-election at the general meeting of the Company in accordance to the articles of association of the Company. Mr. Mak Yiu Cho receives an annual director's fee of HK\$180,000, which was determined by the Board with reference to his experience, his duties and responsibilities with the Company and the prevailing market conditions.

Mr. Law entered into a service agreement with the Company commencing from 19 November 2014 for an initial fixed term of three years and is subject to retirement by rotation and re-election at the general meeting of the Company in accordance to the articles of association of the Company. Mr. Law receives an annual director's fee of HK\$180,000, which was determined by the Board with reference to his experience, his duties and responsibilities with the Company and the prevailing market conditions.

None of the above service agreements have replaced or amended previous service agreements entered between the Company and each of Mr. Mak Yiu Cho and Mr. Law within six months before the date of the commencement of the Offer Period.

### Resignations

Mr. Yue Kwai Wa Ken and Mr. Yip Chung Wai David resigned as executive directors of the Company with effect from 18 November 2014 due to their other business commitments.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with the Company or any of its subsidiaries or associated companies which (i) (including both continuous and fixed term contracts) had been entered into or amended within six months before the date of the commencement of the Offer Period; or (ii) was a continuous contract with a notice period of 12 months or more; or (iii) was a fixed term contract with more than 12 months to run irrespective of the notice period; or (iv) was not determinable by the employer within one year without payment of compensation (other than statutory compensation).

None of the Directors will be or has been given any benefits (save for any statutory compensation required under appropriate laws) as compensation for loss of office or otherwise in connection with the Offers.

## 8. EXPERTS AND CONSENTS

The following are the qualifications of the experts who have given opinion or advice which is contained or referred to in this Composite Document:

<b>Name</b>	<b>Qualification</b>
Octal Capital	a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
Challenge Capital	a corporation licensed to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO, being the independent financial adviser to the Independent Board Committee in relation to the Offers

Each of the above experts has given and has not withdrawn its written consent to the issue of this Composite Document with the inclusion of the text of its letter, report, and/or references to its name in the form and context in which it appears.

## 9. LITIGATION

As at the Latest Practicable Date, none of the Company or any of its subsidiaries were engaged in any litigation or arbitration or claim of material importance and no litigation or claim of material importance is pending or threatened by or against the Company or any member of the Group.

## 10. MATERIAL CONTRACTS

The following contracts, not being contracts entered into in the ordinary course of business carried on or intended to be carried on by the Company or any of its subsidiaries, had been entered into by any member of the Group after the date falling two years before the commencement of the Offer Period up to and including the Latest Practicable Date:

- (a) a deed of release dated 4 June 2015 made between Mr. Fong Man, Kelvin and the Company pursuant to which Mr. Fong Man, Kelvin has irrevocable and unconditionally exempted and released all liabilities due from the Group to Mr. Fong and unconditionally exempted and released any claim against the Group;

- (b) a placing agreement dated 22 December 2014 made between the Company and Emperor Securities Limited in respect of the placing of a maximum of 52,300,000 new Shares on a best effort basis, details of which are disclosed in the Company's announcement dated 22 December 2014;
- (c) a placing agreement dated 23 July 2014 made between the Company and Emperor Securities Limited in respect of the placing of a maximum of 43,500,000 new Shares on a best effort basis, details of which are disclosed in the Company's announcement dated 23 July 2014;
- (d) a loan agreement dated 25 March 2014 made between Emperor Finance Limited as lender and the Company as borrower in respect of a revolving loan facility to an aggregate extent of HK\$45,000,000; and
- (e) a memorandum of understanding dated 27 January 2014 made between the Company and Vanli Holdings Company Limited in respect of a proposed business cooperation in developing or operating budget hip hotels, details of which are disclosed in the Company's announcement dated 27 January 2014.

## 11. GENERAL

- (i) The registered office address of the Offeror is situated at Palm Grove House, P.O. Box 438, Road Town, Tortola, British Virgin Islands.
- (ii) The principal members of the Offeror's concert group are:
  - (a) The Offeror.
  - (b) Mr. Huang Yun whose correspondence address is Flat C, 22nd Floor, Chuang's On The Park, 162 Tung Lo Wan Road Causeway Bay, Hong Kong.
  - (c) Mr. Ding Yifan whose correspondence address is 402, Unit 2, Building 5, Beijing Military Hospital, No. 2 Chaoneibeixiao Street, Dongcheng District, Beijing, the PRC.
  - (d) Mr. Law whose correspondence address is Room 1321, Leighton Centre, 77 Leighton Road, Causeway Bay, Hong Kong.
  - (e) Excel Precise who correspondence address is Room 1321, Leighton Centre, 77 Leighton Road, Causeway Bay, Hong Kong.
- (iii) The registered office of the Company is situated at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. Its head office and principal place of business is situated at Room 2401-2402, 24th Floor Jubilee Centre, 46 Gloucester Road, Wanchai, Hong Kong.

- (iv) The company secretary of the Company is Ms. Au Man Wai. She is an associate member of The Hong Kong Institute of Chartered Secretaries and Administrators.
- (v) The Hong Kong branch share registrar and transfer office of the Company is Union Registrars Limited of A18/F., Asia Orient Tower, Town Place, 33 Lockhart Road, Wanchai, Hong Kong.
- (vi) The registered office of Octal Capital is located at 801-805, 8th Floor, Nan Fung Tower, 88 Connaught Road Central, Hong Kong.
- (vii) The registered office of Challenge Capital is located at 3rd Floor, Kailey Tower, 16 Stanley Street, Central, Hong Kong.
- (viii) The English text of this Composite Document and the Form(s) of Acceptance shall prevail over the Chinese text, in case of any inconsistency.

## **12. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection on (i) the website of the SFC (<http://www.sfc.hk>); and (ii) the website of the Company at [www.legendstrategy.com](http://www.legendstrategy.com) during the period from the date of the Composite Document up to and including the Offer Closing Date:

- (a) the memorandum and articles of association of the Company;
- (b) the memorandum and articles of association of the Offeror;
- (c) the annual reports of the Company for the two financial years ended 31 December 2013 and 2014, respectively;
- (d) the letter from Octal Capital, the text of which is set out in this Composite Document;
- (e) the letter from the Independent Board Committee, the text of which is set out in this Composite Document;
- (f) the letter from the Independent Financial Adviser, the text of which is set out in this Composite Document;
- (g) the written consents referred to in the paragraph headed “8. Experts and Consents” in this appendix;
- (h) the material contracts referred to under the paragraph headed “10. Material Contracts” in this appendix; and
- (i) the service contracts of the Directors referred to in the paragraph headed “7. Directors’ Service Contracts” in this appendix.