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LEGEND STRATEGY INTERNATIONAL HOLDINGS GROUP COMPANY LIMITED

枋濬國際集團控股有限公司

(a company incorporated in the Cayman Islands with limited liability)

(Stock Code: 1355)

**ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2014**

The board (the “Board”) of directors (the “Directors”) of Legend Strategy International Holdings Group Company Limited (the “Company”) is pleased to announce the consolidated annual results of the Company and its subsidiaries (collectively the “Group”) for the year ended 31 December 2014 (the “Year”) which are prepared in accordance with the Hong Kong Financial Reporting Standards and have been agreed by the auditor of the Company, together with comparative figures for the year ended 31 December 2013 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2014

	Note	2014 HK\$	2013 HK\$
Revenue	4	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		(13,153,151)	(16,827,186)
Utilities		(1,857,458)	(1,799,710)
Other operating expenses		(30,219,888)	(17,863,871)
Other income		159,995	2,054,822
Operating (loss)/profit		(40,599,939)	1,320,992
Finance costs	5	(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)
Loss before tax		(60,178,163)	(3,293,434)
Income tax credit/(expenses)	6	8,634,678	(3,960,343)
Loss for the year attributable to owners of the Company	7	(51,543,485)	(7,253,777)
Other comprehensive (loss)/income:			
<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		6,210	—
Fair value changes on available-for-sale financial assets		—	(178,000)
Other comprehensive (loss)/income for the year, net of tax		(1,092,363)	2,118,761
Total comprehensive loss for the year attributable to owners of the Company		(52,635,848)	(5,135,016)
Loss per share	8		
— Basic (Hong Kong cents)		(21.96)	(3.99)
— Diluted (Hong Kong cents)		(21.96)	(3.99)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	<i>Note</i>	2014 <i>HK\$</i>	2013 <i>HK\$</i>
Non-current assets			
Property, plant and equipment		77,312,841	53,340,427
Prepayments	<i>10</i>	24,169,069	59,969,169
Rental deposits	<i>10</i>	2,243,510	1,425,273
Prepaid operating leases	<i>10</i>	9,823,653	10,529,348
Interests in joint ventures		6,831,600	25,432,735
Deferred income tax assets		1,688,384	1,284,573
		<u>122,069,057</u>	<u>151,981,525</u>
Current assets			
Trade receivables	<i>11</i>	7,741,933	10,295,474
Prepayments, deposits and other receivables	<i>10</i>	27,839,907	2,743,151
Amounts due from joint ventures		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>
Current liabilities			
Provision for asset retirement		2,422,083	2,299,176
Trade and other payables	<i>12</i>	21,696,678	16,625,205
Current income tax liabilities		1,733,623	13,936,056
Finance lease payables		419,560	342,694
		<u>26,271,944</u>	<u>33,203,131</u>
Net current assets		<u>13,746,989</u>	<u>445,484</u>
Total assets less current liabilities		<u>135,816,046</u>	<u>152,427,009</u>
Non-current liabilities			
Provision for asset retirement		1,485,747	1,440,769
Finance lease payables		155,583	516,251
		<u>1,641,330</u>	<u>1,957,020</u>
Net assets		<u>134,174,716</u>	<u>150,469,989</u>
EQUITY			
Capital and reserves attributable to the owners of the Company			
Share capital	<i>13</i>	2,617,701	2,165,001
Reserves		131,557,015	148,304,988
Total equity		<u>134,174,716</u>	<u>150,469,989</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 Unit 1303, 13th Floor, Tai Tung Building, 8 Fleming Road, Wanchai, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

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").

2 GOING CONCERN BASIS

The Group incurred a loss attributable to owners of the Company of HK\$51,543,485 (2013: 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 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. 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.

Segment profits or losses do not include interest income, finance costs, share-based payment expenses, auditor's remuneration and legal and professional fee.

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

	Hotel operations	Provision of hotel consultancy services	Total
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
For the year ended 31 December 2014			
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	<u>4,423,101</u>	<u>—</u>	<u>4,423,101</u>
For the year ended 31 December 2013			
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	<u>913,154</u>	<u>(1,500,000)</u>	<u>(586,846)</u>

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

	2014	2013
	HK\$	HK\$
Total (loss)/profit of reportable segments	(27,865,563)	11,464,567
Unallocated corporate expenses, net (<i>Note</i>)	(12,791,313)	(10,217,873)
Finance income	56,937	74,298
Finance costs	(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>(60,178,163)</u>	<u>(3,293,434)</u>
Loss before income tax	<u>(60,178,163)</u>	<u>(3,293,434)</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	2013
	HK\$	HK\$
Provision of hotel consultancy services segment		
Customer 1	—	9,306,989
Customer 2	—	12,075,500
	<u>—</u>	<u>21,382,489</u>
	<u>—</u>	<u>21,382,489</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.

Breakdown of revenue from all activities is as follows:

	2014	2013
	<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>

5. FINANCE COSTS

An analysis of finance costs is as follows:

	2014	2013
	<i>HK\$</i>	<i>HK\$</i>
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	(675,000)	(3,349,903)
	<u>448,789</u>	<u>848,630</u>

6. INCOME TAX (CREDIT)/EXPENSES

	2014	2013
	<i>HK\$</i>	<i>HK\$</i>
Current tax — Hong Kong Profits Tax		
Provision for the year	—	1,352,468
Over-provision in prior year	(8,710,909)	—
	(8,710,909)	1,352,468
Current tax — PRC		
Provision for the year	483,881	2,388,118
Deferred income tax	(407,650)	219,757
	<u>(8,634,678)</u>	<u>3,960,343</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.

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

7. LOSS FOR THE YEAR

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

	2014	2013
	HK\$	HK\$
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 of 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 (Note)	<u>5,167,969</u>	<u>2,276,985</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.

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 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.

8. 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.

9. DIVIDENDS

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

10. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	<i>Notes</i>	2014 <i>HK\$</i>	2013 <i>HK\$</i>
Prepayments			
Property, plant and equipment	(a)	24,169,069	59,969,169
Prepaid operating lease	(b)	10,689,458	11,393,935
Others		1,403,949	981,418
		36,262,476	72,344,522
Deposits			
Rental deposits		2,243,510	1,425,273
Other receivables			
		25,570,153	897,146
Total prepayments, deposits and other receivables		64,076,139	74,666,941

The amounts of prepayments, deposits and other receivables are analysed as follows:

Non-current portion			
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
		36,236,232	71,923,790
Current portion			
Prepayments		1,403,949	981,418
Prepaid operating lease		865,805	864,587
Other receivables		25,570,153	897,146
		27,839,907	2,743,151
		64,076,139	74,666,941

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.

11. 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 a provision for impairment of trade receivables of HK\$4,423,101 (2013: Reversal of 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.

	2014	2013
	HK\$	HK\$
Trade receivables	12,798,345	10,929,589
Provision for 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:

	2014	2013
	HK\$	HK\$
Neither past due nor impaired	180,341	110,005
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	3,647,294	—
	<u>7,561,592</u>	<u>10,185,469</u>
	<u>7,741,933</u>	<u>10,295,474</u>

The carrying amounts of the Group's trade receivables are denominated in RMB.

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

	2014	2013
	<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> </u>	<u> </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.

12. TRADE AND OTHER PAYABLES

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

The aging analysis of trade payables is as follows:

	2014	2013
	<i>HK\$</i>	<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> </u>	<u> </u>
	<u>4,311,517</u>	<u>3,072,392</u>

Accruals and other payables are analysed as follows:

	2014	2013
	<i>HK\$</i>	<i>HK\$</i>
Accruals		
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>
Other payables		
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>
Total accruals and other payables	<u>17,385,161</u>	<u>13,552,813</u>

13. SHARE CAPITAL

	<i>Note</i>	Number of Shares	Amount HK\$
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		<u>780,000,000</u>	<u>7,800,000</u>
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		<u>500,000</u>	<u>5,000</u>
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>	<u>43,500,000</u>	<u>435,000</u>
At 31 December 2014		<u>261,770,001</u>	<u>2,617,701</u>

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.

14. OPERATING LEASE COMMITMENTS

The Group leases various hotel premises under non-cancellable operating lease agreements. The leases have escalation clauses and renewal rights. The total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2014	2013
	<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>

15. 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 placees 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 placees 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.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND OPERATIONAL REVIEW

The Group is principally engaged in budget hotel operations, provision of hotel consultancy services and hotel management services in the PRC.

Hotel Operations

For the financial year ended 31 December 2014, the Group has three leased-and-operated hotels and four managed hotels under operation.

Revenue from hotel operations segment included the sales of hotel rooms and hotel membership card, and the hotel management services income. Segment revenue was HK\$29,700,841 during the financial year ended 31 December 2014, representing a decrease of 11.11% as compared with segment revenue of HK\$33,412,313 for the same period of the last financial year. Segment revenue decrease was due to the close of hotel in caitian in the PRC. The average room revenue of all hotels for the financial year ended 31 December 2014 was RMB171.9 compared with RMB183.7 for the same period of last financial year, representing an decrease of approximately 6.42%. The average occupancy rate of all hotels for the financial year ended 31 December 2014 is 90.55% compared to 88.7% for the same period of last financial year. The increase was due to the increase of marketing and promotion in the PRC.

The revenue from hotel management services was HK\$2,806,312 during the financial year ended 31 December 2014 (2013: HK\$2,335,769), it was generated from the provision of hotel management services for Welcomeinn Daimeisha Hotel, Welcomeinn Fushan Hotel, Welcomeinn Sanya Waterfront Hotel and Welcomeinn Sanya Jiuhoa Hotel.

The Group owns two joint venture companies by 60% each. Each of the joint venture company establishes a wholly-owned subsidiary named Welcomeinn Sanya Waterfront Hotel and Welcomeinn Sanya Jiuhoa Hotel to conduct the business of hotel operation in Sanya, the PRC.

For the past three years, the two joint ventures recorded a net loss and therefore the Group has recorded an impairment loss of HK6,797,484 for the two joint ventures companies for the year ended 31 December 2014. The net loss is due to the increasing number of tourists in the PRC visiting South East Asia countries instead of choosing Sanya for vacation and the increase of operating cost in Sanya. The Directors believe that the impairment loss is a non-cash expense and would not affect the cash flow of the Group.

During the financial year of 2014, the Group has five new hotels under constructions:

The Group confirmed a location in the North of Xiachong Fairground, Daya Bay district, Huizhou City, Guangdong Province, the PRC, to develop a leased-and-operated hotel (the “**Xiachong Hotel**”). The renovation work for Xiachong Hotel started in the fourth quarter of 2012. The Xiachong Hotel was expected to finish refurbishment in 2013 but due to the changing of floor plan and interior design of hotel, the commencement of operation will be delayed until the first half of 2015.

The Group confirmed a location in the Huicheng district, Huizhou City, Guangdong Province, the PRC, to develop a leased-and-operated hotel (the “**Huizhou Binjiang Hotel**”). The construction of hotel is almost completed and is expected to commence operation in the first quarter of 2015 after the approval of certain business licenses by the local government in the PRC.

The Group confirmed a location in Changping district, Dongguan City, Guangdong Province, the PRC to develop a leased-and-operated hotel (the “**Changping Hotel**”). As the declining of hospitality in Dongguan City, the Group decides to sublet the hotel to other investors for operation to minimize the cost of operation and obtain a stable income to the Company. The Directors believe that the subletting of hotel is in the best interest of the Company and shareholders and increase the revenue of the Group.

The Group confirmed a location in Buji, Longgang district, Shenzhen City, Guangdong Province, the PRC, to develop a leased-and-operated hotel (the “**Buji Hotel**”). Refurbishment of the Buji Hotel has been completed and waiting for the approval of business license for operation.

The Group confirmed a location in YueXiu district, Guangzhou City, Guangdong Province, the PRC to develop a leased-and-operated hotel (the “**YueXiu Hotel**”). The Group decides to develop a budget hip hotel in major city in the PRC to avoid the uncertainty of economic in local area. The YueXiu Hotel is under construction and development stage and is expected to commence operation in second half of 2015.

In March 2012, the Group had identified two locations in Meilin, Futian district and Shekou, Nanshan district respectively in Shenzhen City, Guangdong Province, the PRC to develop two leased-and-operated hotels (the “**Meilin Hotel**” and the “**Shekou Hotel**” respectively). However during the starting of construction and renovation, the Group discovered that these two premises may not be the suitable locations to operate the hotel business so the Group had changed the location from Meilin and Shekou to Changan (長安鎮), Dongguan City, Guangdong Province, the PRC. However, due to an abrupt slowdown of economic growth in Dongguan City since February 2014, the Group decided to withdraw all hotel development projects in Changan and the Group can get the refund of HK\$25,700,000 from the construction company according to the construction contracts in June 2014. The construction company agreed to repay the refund by 24 monthly installments plus 5% interest per annum. The Group has been accepted the construction company to repay HK\$25,700,000 by installment of 24 months due to avoiding the event of default and increase the interest income of the Group. However, there was a transfer fee for two hotels in total of HK\$4.37 million was non-refundable. The Directors believe that the withdrawal of hotel development projects and repaying the refund by installment are in the best interest to the Group and the shareholders.

On 27 January 2014, the Company entered into a memorandum of understanding (“**MOU**”) with Vanli Holdings Company Limited (萬力控股有限公司) (the “**Developer**”), a property developer in the PRC in relation to a proposed business cooperation (the “**Proposed Business Cooperation**”) in developing or operating not less than 50 budget hotels in the wholesale markets, multi-functional commercial complexes and shopping malls which are currently developed by the Developer in the PRC. However, the slowdown of the economy in the PRC and increase of uncertainty in hospitality industry, the Developer has cancelled the Proposed Business Cooperation with the Group after the MOU has been expired.

Future Development and Outlook for Hotel Operations

The Group plans to slowdown the expansion of its hotel network in the PRC due to the uncertainty of economic situation and increasing of competition in hospitality industry. The Group will also minimize the cost of operation and review all current hotel projects. The Directors believe that the Group should take a conservative strategy to face the competition and rapid market changes.

Hotel Consultancy Services

For the year ended 31 December 2014, there is no revenue generated from the provision of hotel consultancy services. The major reason is that two investors informed the Group in early August 2014, in writing to rescind their hotel consultancy service agreements, which were entered into with the Group in April 2014 due to lack of sufficient capital to develop their hotel businesses. At present, the Group has approached again the two investors and discussed to restart the hotel consultancy services. Currently, both parties are still in discussion and expected to have conclusion before 30 June 2015. If two customers finally do not fulfill the obligation in the hotel consultancy agreements, the Group reserves a right to take legal action against the two investors.

As uncertainties prevail within the hotel business in the PRC, the Directors believe that the Group would reconsider its strategic approach with regards to the hotel consultancy service until the hotel business in the PRC has improved.

FINANCIAL REVIEW

The Group has recorded a net loss attributable to owners for the year ended 31 December 2014 of the Company approximately HK\$51.54 million, representing a year-on-year increase of approximately HK\$44.29 million or 610% compared to approximately HK\$7.25 million for year ended 31 December 2013 (the “**Last Year**”).

The net loss for the year was mainly due to the decrease of revenues generated from the provision of hotel consultancy services in year 2014. The economic slowdown in the PRC causes the investors to be more conservative in the hotel accommodation sector and affects the revenue of the Group’s hotel consultancy services. Also, the increase of operating expenses and impairment loss in joint ventures cause the loss of the year 2014.

The Group reported a total revenue of approximately HK\$29.7 million (2013: approximately HK\$58.0 million) and recorded a year-on-year decrease of approximately HK\$28.3 million or 48.8% from the Last Year. Revenue mainly came from the hotel operations of approximately HK\$29.7 million, representing 100% of total revenue. The following table shows the key information of the Group’s leased-and-operated hotels for the years ended 31 December 2014 and 2013:

	Year ended 31 December		
	2014	2013	% change
Total			
Total available room nights [#]	100,006	136,315	(26.63%)
Occupancy	90.55%	88.7%	1.85%
ARR (RMB)*	171.9	183.7	(6.42%)
RevPAR (RMB)*	155.7	162.9	(4.42%)

* ARR: the average room revenue of all hotels divided by the total occupied room nights

* RevPAR: the average room revenue of all hotels divided by the total available room nights

Hotel Caitian has been closed in 2013

Operating Costs

The total operating costs increased by HK\$11.76 million, or approximately 20.03%, from HK\$58.70 million for the last year to HK\$70.46 million for the year ended 31 December 2014. The increase of operating expenses are due to: i) a write off of termination of development of two hotels for HK\$4,376,500; ii) a provision of HK\$4,423,101 has been made for impairment on trade receivables; and iii) increase of entertainment and professional fee expenses during the year of 2014. The following table shows the total operating costs for the years ended 31 December 2014 and 2013:

	Year ended 31 December		
	2014	2013	% change
Operating lease expenses	17,974,662	14,822,036	21.27%
Depreciation of property, plant and equipment	7,255,616	7,389,933	(1.82%)
Employee benefit expenses	13,153,151	16,827,186	(21.83%)
Utilities	1,857,458	1,799,710	3.21%
Other operating expenses	30,219,888	17,863,871	69.17%
	<u>70,460,775</u>	<u>58,702,736</u>	<u>20.03%</u>

Liquidity, Financial Resources and Capital Structure

As at 31 December 2014, the Group had bank balances and cash of approximately HK\$2.32 million (2013: approximately HK\$19.6 million). Gearing ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including “current and non-current borrowings” as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as “equity” as shown in the consolidated statement of financial position plus net debt. The gearing ratio for the year ended 31 December 2014 is nil (2013: nil).

The Group was in net cash position as at 31 December 2014.

Significant Changes to Financial Position

The debtors’ turnover days for the financial year ended 31 December 2014 was 94 days (2013: 69 days). It increased by 25 days as a result of slowdown of collection from debtors and poor financial performance in hotel industry.

For hotel operations, the majority of the customers of the Group pay by cash upon hotel room checkout. As a result, the trade debtors balance was immaterial compared with the revenue. The Group expects the customer payment pattern to be consistent in the future.

For hotel consultancy services, the trade debtors balance was HK\$3.16 million after impairment loss of HK\$3.16 million as of 31 December 2014. The trade debtors balance is expected to be fully settled in 2015 based on the repayment schedule as agreed with the customer.

For hotel management services, the payment term is quarterly settlement after the end of every quarter. The Directors are confident on the recoverability of the remaining outstanding trade debtors balances.

Capital Structure

On 12 August 2014 and 9 January 2015, the Company issued and allotted a total of 43,500,000 and 52,300,000 new ordinary shares at placing price of HK\$0.79 and HK\$0.66 each respectively. Save for the issue of new ordinary shares, there was no material change in the capital structure of the Group during the year ended 31 December 2014. The total number of the issued shares of the Company was 261,770,001 (2013: 216,500,001) as at 31 December 2014.

Foreign Exchange Exposure

Majority of the assets and liabilities of the Group were denominated in Renminbi and Hong Kong dollars. As at 31 December 2014, the Group had no significant exposure under foreign exchange contracts, interest, currency swaps or other financial derivatives.

Significant Investment

For the year ended 31 December 2014, other than those investment in construction of new hotels and joint ventures, there was no significant investment made by the Group.

Material Acquisitions or Disposals

For the year ended 31 December 2014, there were no material acquisitions or disposal of subsidiaries and affiliated companies by the Group.

Charges on Assets

As at 31 December 2014, the Group did not have any charges on its assets (2013: nil).

Capital Commitments and Contingent Liabilities

As at 31 December 2014, the Group had total capital commitments of approximately HK\$2.95 million (2013: approximately HK\$38.2 million) primarily related to the development and construction of new leased-and-operated hotels in the PRC. As at 31 December 2014, the Group did not have any material contingent liabilities (2013: nil).

Operating Lease Commitments

As at 31 December 2014, the Group had total operating lease commitments of approximately HK\$108.42 million (2013: HK\$130 million). The operating lease commitments are mainly related to the rental of hotels premises for hotel operations.

Employees and Remuneration Policies

The Group had 126 employees (2013: 128) as at 31 December 2014. The Group's remuneration practices are in line with the prevailing market practice and are determined on the basis of performance, qualification and experience of individual employee.

Dividends

The Directors do not recommend payment of any dividend in respect of the year ended 31 December 2014 (2013: nil).

EVENTS AFTER THE REPORTING PERIOD

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.

OUTLOOK

In the future, the Group will slowdown to expand the number of leased-and-operated hotels, and balance the risk and reward in hotel investment in the PRC. Moreover, the Group will focus on minimize the cost and maximum the profit in hotel operation so that the Group will become breakeven in year 2015.

The Group will also seek for more business opportunities in different segments to diversify the risk in the coming years.

CORPORATE GOVERNANCE

The Company is committed to ensure a high standard of corporate governance in the interests of the shareholders and devotes considerable effort to maintain high level of business ethics and corporate governance practices. The Company has complied with the Corporate Governance Code and Corporate Governance Report (the “CG Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”) throughout the year, except for certain deviations as specified with considered reasons for such deviations as explained below. The Board of the Company will keep reviewing and updating such practices from time to time to ensure compliance with legal and commercial standards.

Under Code Provision of A.2.1 of the CG Code, the role of the chairman and chief executive officer should be separated and should not be performed by the same individual. The post of Chairman and Chief Executive Officer are separated to ensure a clear division between the Chairman’s responsibility to manage the Board and the Chief Executive Officer’s responsibility to manage the Company’s business. The separation ensures a balance of power and authority so that power is not concentrated.

Mr. Fong Man Kelvin as a Chairman of the Group, plays a leading role and is responsible for effective running of the Board and responsibility of overall management, business development and implementation of the Group’s strategy determined by the Board in achieving its overall commercial objectives. The chief executive officer’s duties have been undertaken by the members of the Board. The Company is in process of identifying suitable candidate with appropriate experience as its chief executive officer. The Board considers that this structure will not impair the balance of power and authority of the Board. It currently comprises four Executive Directors and four Independent Non-executive Directors (The “INED(s)”), with INEDs representing 50% of the Board. Such a high percentage of INEDs in the Board could ensure their views carry significant weight and it reflects a strong independent element in the composition of the Board. At present, the Board also believe that under the leadership of Mr. Fong Man Kelvin as the Chairman, the Board’s decision could be made effectively and it is beneficial to the management and development of the Group’s businesses.

Under Code Provision C.1.2 of the CG Code, management should provide all members of the board with monthly updates giving a balanced and understandable assessment of the Company’s performance, position and prospects in sufficient detail.

During the year ended 31 December 2014, the Company had not commenced issuance of a monthly update on the Group's business performance as set out in Code C.1.2 of the CG Code as the finance department underwent a thorough review of the department operation and allocation of manpower. The Board understands that compliance with the CG Code is the essence of lifting the Company's corporate governance standard. Thus, the management of the Company has prepared the monthly updates to the Directors from August 2014 onwards.

Further information on the Company's corporate governance practices will be set out in the Corporate Governance Report contained in the Company's annual report for the year ended 31 December 2014, which will be sent to the shareholders in due course.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Group had adopted Appendix 10 of the Listing Rules, Model Code for Securities Transactions by directors of Listed Issuers ("Model Code") as its own code of conduct regarding directors' securities transactions on terms no less exacting than the required standard of dealings.

Having made specific enquiry with all the directors and all the directors of the Company had confirmed compliance with the required standard of dealings and the code of conduct for directors' securities transactions during the year ended 31 December 2014.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Shares of the Company during the year.

AUDIT COMMITTEE REVIEW

Pursuant to the requirements of the Code and the Listing Rules, the Group has established an audit committee (the "Audit Committee") which comprises four Independent Non-executive Directors. Mr. Wong Sui Chi Frankie is the chairman of the Audit Committee. The consolidated financial statements for the year ended 31 December 2014 have been reviewed by the Audit Committee of the Company.

COMPETING BUSINESS

For the year ended 31 December 2014, the Directors are not aware of any business or interest of the Directors, the management of the Company and their respective associates (as defined under the Listing Rules) that compete or may compete with the business of the Group and any other conflict of interest which any such person has or may have with the Group.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express my sincere gratitude to our customers, shareholders, bankers, and in turn the management and staff for their unreserved support for the Group during the year.

By Order of the Board
Legend Strategy International Holdings Group Company Limited
Fong Man Kelvin
Chairman and Executive Director

Hong Kong, 27 March 2015

As at the date of this announcement, the Board comprises:

Executive Directors:

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

Independent Non-Executive Directors:

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