悦来客栈 welcome inn

LEGEND STRATEGY INTERNATIONAL HOLDINGS GROUP COMPANY LIMITED

朸 濬 國 際 集 團 控 股 有 限 公 司

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

Stock Code : 8160

LISTING BY WAY OF PLACING

Sponsor

Quam CAPITAL 華富嘉洛企業融資

Sole Bookrunner

SBI E2-Capital

SBI E2-CAPITAL (HK) LIMITED

Joint Lead Managers

Quam Securities & Futures 華富嘉洛證券期貨

SBI E2-Capital

SBI E2-CAPITAL (HK) LIMITED

Co-lead Manager

SBI E2-Capital

SBI E2-CAPITAL FINANCIAL SERVICES LIMITED

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

LEGEND STRATEGY INTERNATIONAL HOLDINGS GROUP COMPANY LIMITED
朸濬國際集團控股有限公司

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

LISTING ON THE GROWTH ENTERPRISE MARKET OF THE STOCK EXCHANGE OF HONG KONG LIMITED BY WAY OF PLACING

Number of Placing Shares	:	**45,000,000 Placing Shares**
Placing Price	:	**Not more than HK$1.20 per Placing Share and expected to be not less than HK$0.80 per Placing Share (payable in full upon application, plus brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%)**
Nominal value	:	**HK$0.01 per Share**
Stock code	:	**8160**

Sponsor

Sole Bookrunner

SBI E2-CAPITAL (HK) LIMITED

Joint Lead Managers

SBI E2-CAPITAL (HK) LIMITED

Co-lead Manager

SBI E2-CAPITAL FINANCIAL SERVICES LIMITED

A copy of this prospectus, together with the documents specified in the paragraph headed "Documents delivered to the Registrar of Companies in Hong Kong" in Appendix VI to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies Ordinance. The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any other documents referred to above.

The final Placing Price is expected to be fixed by agreement between the Company and the Joint Lead Managers (for themselves and on behalf of the Co-lead Manager) on the Price Determination Time, which is currently scheduled at or before 5:00 p.m. on 11 July 2011 (or such later time and/or date as agreed between the Company and the Joint Lead Managers (for themselves and on behalf of the Co-lead Manager)). The Placing Price will not be more than HK$1.20 per Placing Share and is expected to be not less than HK$0.80 per Placing Share. If the Company and the Joint Lead Managers (for themselves and on behalf of the Co-lead Manager) are unable to reach an agreement on the final Placing Price by the Price Determination Time, the Placing will not become unconditional and will not proceed.

The Joint Lead Managers (for themselves and on behalf of the Co-lead Manager), with the Company's consent, may reduce the indicative Placing Price range stated in this prospectus at any time prior to the Price Determination Time. In such a case, a notice of the reduction of the indicative Placing Price range will be published on the GEM Website at www.hkgem.com and the Company's website at www.legendstrategy.com, as soon as practicable following the decision to make such reduction. Such notice will also include confirmation or revision, as appropriate, of the statistics of the Placing as currently set out in the section headed "Summary" of this prospectus, and any other financial information which may change as a result of such reduction.

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

The Placing is managed by the Joint Lead Managers on a best-efforts basis and is not underwritten. Prospective investors of the Placing Shares should note that the Joint Lead Managers (for themselves and on behalf of the Co-lead Manager) are entitled to terminate their obligations under the Placing Agreement by notice in writing to be given by the Joint Lead Managers (for themselves and on behalf of the Co-lead Manager) upon the occurrence of any of the events set forth under the paragraph headed "Grounds for termination" in the section headed "Structure and conditions of the Placing" of this prospectus at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Further details of these termination provisions are set out under the paragraph headed "Grounds for termination" in the section headed "Structure and conditions of the Placing" of this prospectus. Prospective investors should carefully refer to that section for further details.

30 June 2011

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM means that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

	2011 *(Notes 1 and 4)*
Price Determination Time *(Note 2)*	at or before 5:00 p.m. on 11 July
Announcement of the final Placing Price and the level of indication of interest in the Placing to be published on the GEM Website at **www.hkgem.com** and the Company's website at **www.legendstrategy.com** on or before	14 July
Allotment of Placing Shares to placees (or their designated person(s)) on or before	14 July
Deposit of share certificates for the Placing Shares into CCASS on or before *(Note 3)*	14 July
Dealings in Shares on GEM to commence at 9:00 a.m. on	15 July

Notes:

1. All times and dates refer to Hong Kong local times and dates.

2. The Price Determination Time is scheduled at or before 5:00 p.m. on 11 July 2011 (or such later time and/or date as agreed between the Company and the Joint Lead Managers (for themselves and on behalf of the Co-lead Manager)). If the Joint Lead Managers (for themselves and on behalf of the Co-lead Manager) and the Company are unable to reach an agreement on the final Placing Price at or before the Price Determination Time, the Placing will not become unconditional and will lapse immediately.

3. The share certificates are expected to be issued in the name of HKSCC Nominees Limited or in the name of the placee(s) or their agent(s) as designated by the Joint Lead Managers (for themselves and on behalf of the Co-lead Manager). Share certificates for the Placing Shares to be distributed via CCASS will be deposited into CCASS on or about 14 July 2011 for credit to the respective CCASS participant's stock accounts designated by the Joint Lead Managers (for themselves and on behalf of the Co-lead Manager), the placees or their agents, as the case may be. The Company will not issue any temporary documents of title.

4. If there is any change to the above expected timetable, the Company will make appropriate announcement on the GEM Website.

The Placing is managed by the Joint Lead Managers on a best efforts basis and is not underwritten. The Placing is conditional upon, among other things, a minimum amount of gross proceeds of the Placing of HK$36,000,000 (or such amount as agreed between the Company and the Joint Lead Managers (for themselves and on behalf of the Co-lead Manager), being raised and the relevant total Placing Price being received by the Joint Lead Managers at or before the Price Determination Time.

Share certificates will only become valid certificates of title provided that, no later than 8:00 a.m. on the Listing Date, the Placing has become unconditional and the Placing Agreement has not been terminated in accordance with its terms. If the Placing Agreement does not become unconditional or is terminated in accordance with its terms and conditions, the Company will make an announcement as soon as possible.

No dealing in the Placing Shares should take place prior to the Listing Date. Investors who trade the Placing Shares on the basis of publicly available allocation details prior to the receipt of the share certificates or prior to the share certificates becoming valid certificates of title do so entirely at their own risk.

Details of the structure of the Placing, including the conditions thereto, are set out in the section headed "Structure and conditions of the Placing" of this prospectus.

IMPORTANT NOTICE TO INVESTORS

This prospectus is issued by the Company solely in connection with the Placing and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Placing Shares offered by this prospectus pursuant to the Placing. This prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a placing of the Placing Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong.

You should rely only on the information contained in this prospectus to make your investment decision. The Company, the Sponsor, the Sole Bookrunner, the Joint Lead Managers and the Co-lead Manager have not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorised by the Company, the Sponsor, the Sole Bookrunner, the Joint Lead Managers, the Co-lead Manager, any of their respective directors, officers, employees, affiliates or representatives or any other person involved in the Placing.

The contents on the Company's website at ***www.legendstrategy.com*** *do not form part of this prospectus.*

Page

CONTENTS

This summary aims to give you an overview of the information contained in this prospectus. Since it is a summary, it does not contain all the information that may be important to you. You should read the prospectus in its entirety before you decide to invest in the Placing Shares.

There are risks associated with any investment in companies listed on GEM. Some of the particular risks in investing in the Placing Shares are set out in the section headed "Risk factors" of this prospectus. You should read that section carefully before you decide to invest in the Placing Shares.

BUSINESS OVERVIEW

Hotel operation

The Group is an operator and consultant of budget hip hotels, being economic hotels with stylish and comfortable environment, in the PRC. During the Track Record Period, the Group has four leased-and-operated hotels under operation. The Group focuses on delivering values to budget-conscious hotel guests, such values included stylish design, cleanliness, comfort, friendly service, geographical convenience and safety. When designing the hotels, the Group pays attention on design details as well as placing emphasis on choosing cost effective yet durable building materials which it believes to be indispensable in delivering the aforesaid values to budget conscious travellers. The interior decoration is carefully thought out to create a stylish and modern ambience to the Group's hotels. Providing comfort to its customers is also one of the Group's top priorities. The Group's hotels are budget hotels which use branded mattresses and the beds therein are furnished with fresh, crisp white linen and sumptuous pillows. Each room of the Group's hotels is also provided with complimentary broadband internet access, air conditioning and a walk-in shower. The locations of the Group's hotels are strategically selected through a very stringent and detailed process to ensure certain exposure and convenience for the hotel guests.

The Group develops its hotels through leasing part of existing commercial buildings and converting them into hotel accommodations. This does not only open up a wider choice and increases flexibility in selecting potential sites for new hotels, but also substantially reduces the lead time and start up cost for hotel conversion when compared to a normal green field hotel project.

The values created by the Group's hotels enjoyed very positive response from the market. To further enhance the loyalty of the customers, the Group launched a loyalty programme which requires customers to pay membership fee for the enjoyment of membership discount. As at 31 December 2010, the loyalty programme had approximately 7,300 members in total[*(Note)*]. Customers under the loyalty programme accounted for approximately 14.3% of Total Available Room Nights during the Track Record Period.

Note: The Company does not categorise members under the loyalty programme into active and inactive members. The 7,300 members represent all members under the loyalty programme as at 31 December 2010.

Hotel consultancy services

Leveraging on the expertise and valuable experience built up over the years in operating budget hip hotels, the Group has also started to provide hotel consultancy services to Independent Third Parties hotel investors in 2009. The Group's ability to establish low cost yet stylish hotels with competitive room rates appeals to hotel investors. The hotel consultancy services provided by the Group include site selection through site analysis on location, traffic and people flow, questionnaires and environmental analysis, feasibility study, hotel interior design, preparing operating procedures and quality manual that complies with ISO 9001:2008 requirements and providing assistance in selecting contractors for building construction. During the Track Record Period, the Group had entered into four hotel consultancy agreements with two hotel investors for the provision of hotel consultancy services for Da Mei Sha Hotel, WBT Hotel, Gaomiao Hotel and Zhongxin Hotel. In 2011 and up to the Latest Practicable Date, the Group has entered into one hotel consultancy agreement for the provision of hotel consultancy services for South China Hotel. These hotel investors are Independent Third Parties who are not connected with the Group other than entering into the hotel consultancy agreements with the Group. These hotel investors do not have experience in the hotel industry and therefore engaged the Group to provide the hotel consultancy services. During the year ended 31 December 2010, the Group has completed the provision of hotel consultancy services for Da Mei Sha Hotel, WBT Hotel, Gaomiao Hotel and Zhongxin Hotel. The Company is in the process of site selection for South China Hotel.

As the Group's hotel consultancy business has only been launched since December 2009, there can be no assurance that it will generate long term revenue to the Group. Details are set out in the paragraph headed "The Group has a limited operating history in hotel consultancy business and consultancy fee is paid on a project basis" under the section headed "Risk factors" of this prospectus. Further details of hotel consultancy business are set out in the paragraph headed "Hotel consultancy services" under the section headed "Business" of this prospectus and the paragraph headed "Revenue from the provision of hotel consultancy services" under the section headed "Financial information" of this prospectus.

The following table sets out the particulars of all leased-and-operated hotels of the Group:

Hotel	Commencement date	Location	Approximate GFA	No. of rooms available	Lease term	Revenue		Total Available Room Nights		Occupancy		ARR		RevPAR	
						Year ended 31 December		Year ended 31 December		Year ended 31 December		Year ended 31 December		Year ended 31 December	
						2009	2010	2009	2010	2009	2010	2009	2010	2009	2010
			(sq.m.)			*(HK$ million)*	*(HK$ million)*			*(%)*	*(%)*	*(RMB)*	*(RMB)*	*(RMB)*	*(RMB)*
Welcome Inn Caitian	11 December 2006	Futian District, Shenzhen	2,000	87	20 November 2005 – 19 November 2015	5.0	6.2	31,133	31,425	78.8	96.1	183.9	188.1	145.0	180.7
Welcome Inn Nanshan	30 May 2008	Nanshan District, Shenzhen	7,000	192	1 January 2007 – 31 December 2014	10.1	13.2	64,711	67,337	67.2	87.7	191.2	194.3	128.5	170.4
Welcome Inn Baoan	25 April 2008	Baoan District, Shenzhen	1,700	59	1 January 2011 – 30 December 2017	2.1	2.5	19,355	21,535	63.7	89.2	134.3	123.7	85.5	110.4
Welcome Inn Luohu	26 November 2008	Luohu District, Shenzhen	2,000	80	1 February 2008 – 31 January 2018	2.2	5.4	25,011	28,812	40.6	95.6	171.3	175.6	69.5	168.0
Total						19.4	27.3	140,210	149,109	64.0	91.2	178.9	179.4	114.6	163.6

The following chart sets forth the business events and milestones of the Group:

Year		Event/Milestone
2006	November	Mr. Fong commenced setting up the budget hip hotel business in the PRC
	December	Welcome Inn Caitian commenced operation
2007	March	Moon Ko was incorporated in Hong Kong
	March	Triple Leaf was incorporated in Hong Kong
	May	Legend Strategy was incorporated in Hong Kong
2008	April	Welcome Inn Baoan commenced operation
	May	Welcome Inn Nanshan commenced operation
	November	Welcome Inn Luohu commenced operation
2009	October	The Group obtained ISO 9001:2008 certification
	December	The Group started to provide hotel consultancy services to hotel investors who are Independent Third Parties
2010	November	The Group entered into the 1506 CC Strategic Agreement with 1506 CC, a Chinese industry park developer and operator
2011	March	The Group entered into the Shu Yong Consultancy Agreement with Mr. Shu Yong, an international contemporary artist

Customers

The Group's customers can be categorised into two types, namely hotel guests and hotel investors under the hotel consultancy agreements who are Independent Third Parties. For each of the two years ended 31 December 2010, the Group's five largest customers in aggregate accounted for approximately 3.0% and approximately 29.6% of the Group's revenue respectively. For the two years ended 31 December 2010, the Group's largest customer accounted for approximately 0.8% and approximately 19.1% of the Group's revenue respectively.

Hotel guests can be categorised into three types, namely corporate customers with contractual arrangements, customers who have joined loyalty programme and individual guests. Individual guests accounted for the majority of occupancy of the Group's leased-and-operated hotels.

The hotel investors under the hotel consultancy agreements are Independent Third Parties who are not connected with the Group other than entering into the hotel consultancy agreements with the Group. These hotel investors are not engaged in other hotel development and operation business.

Procurement and suppliers

The main suppliers of the Group comprise of suppliers of disposable amenities, cleansing products and laundry services. The Group has established business relationships with the major suppliers for about two years. For each of the two years ended 31 December 2010, the Group's five largest suppliers in aggregate accounted for approximately 91.0% and approximately 98.3% of the Group's total purchase respectively. For each of the two years ended 31 December 2010, the Group's largest supplier accounted for approximately 39.8% and approximately 51.1% of the Group's total purchase respectively.

Leased properties

As at the Latest Practicable Date, the Group had a total of 12 leased properties in Hong Kong and the PRC for its hotels, staff quarters and office premises. There is a defect in the title of the leased property in which Welcome Inn Caitian is located. Details of the defective title are set out in the paragraph headed "Certain property owners are not able to produce certain title documents" under the section headed "Risk factors" and the sub-section headed "Properties" under the section headed "Business" of this prospectus.

COMPETITIVE STRENGTHS

The Directors believe that the success of the Group is principally attributable to the following factors:

- Unique interior design;
- Comprehensive quality management system;
- Comparatively short lead time in opening a budget hip hotel;
- Simple management structure; and
- Ready for scalable expansion.

STRATEGIES AND BUSINESS OBJECTIVES

The Group's objective is to enhance the return to the Shareholders through exploiting its competitive advantages to grow further with an aim to becoming a leading budget hip hotel provider in the PRC.

Having considered the market potential and evaluated the Group's market position and competitive strengths, the Group intends to achieve its business objectives and further growth through implementation of the following strategies:

- Continue to expand the Group's leased-and-operated hotel portfolio with focus on the Southern PRC;
- Continue to expand the hotel consultancy business;
- Expand the business by offering hotel management services;
- Continue to forge and strengthen strategic relationships with strategic partners; and
- Continue to enhance the awareness of the brand names "悦來客棧" and "Welcome Inn".

USE OF PROCEEDS

Proposed use of net proceeds from the Placing

On the basis that the Placing Price ranges from HK$0.8 to HK$1.2, the Directors estimate that the net proceeds payable to the Group from the Placing (after deducting placing commission and estimated expenses payable by the Group in connection with the Placing) will range from approximately HK$18.6 million to HK$36.2 million. On the basis that the Placing Price is HK$1.0 (being the mid-point of the indicative range of the Placing Price), the Directors intend that the net proceeds payable to the Group from the Placing will be applied for the period from the Latest Practicable Date to 31 December 2012 as follows:

	From the Latest Practicable Date to 31 December 2011	**For the six months ending 30 June 2012**	**For the six months ending 31 December 2012**	**Total**
	(HK$ thousand)	*(HK$ thousand)*	*(HK$ thousand)*	*(HK$ thousand)*
Continue to expand the Group's leased-and-operated hotel portfolio with focus on the Southern PRC				
Capital expenditures and expenses on Fujian Hotel	11,050	1,542	1,542	14,134
Capital expenditures and expenses on Heyuan Hotel	—	10,360	1,602	11,962
Continue to expand the hotel consultancy business				
Expenses on participating in tradeshows, exhibitions and special public relation activities	—	30	30	60
Expand the business by offering hotel management services				
Capital expenditures and expenses on a new management office	1,000	—	—	1,000
Continue to enhance the awareness of the brand names				
Capital expenditures on internet booking system and front desk booking system upgrade	—	90	90	180
Marketing and advertising expenses	—	30	30	60
Total	**12,050**	**12,052**	**3,294**	**27,396**

The table below illustrates the plans of Fujian Hotel and Heyuan Hotel:

	Fujian Hotel	**Heyuan Hotel**
Location	Quanzhou, Fujian Province, the PRC	Heyuan, Guangdong Province, the PRC
Expected capital expenditure and expenses	Approximately HK$14.1 million	Approximately HK$12.0 million
Number of rooms	About 100	About 100
Target average daily room rate	About RMB250	About RMB200
Area	Approximately 5,000 sq.m.	Approximately 4,000 sq.m.
Expected time of commencement of operation	Early 2012	Second half of 2012

The expenses in relation to the Group's future plan to recruit a development director and an operation director of approximately RMB1.2 million from the Latest Practicable Date to 31 December 2012 will be funded by internal resources. The Company will employ a designer and a design technical staff for the expansion of the hotel consultancy business whose salaries of approximately RMB0.3 million from the Latest Practicable Date to 31 December 2013 will be funded by internal resources. No proceeds from the Placing is expected to be applied to the implementation of the Group's business plans from 1 January 2013 to 31 December 2013. The expected expenses for launching marketing campaign, promoting the membership programme and improving design quality for the year ending 31 December 2013 are approximately HK$1 million which will be financed by the Group's internally generated cashflows and other financing.

If the Placing Price is finally determined to be less than HK$1.0 (being the mid-point of the indicative range of the Placing Price), the Group will reduce the proposed use of net proceeds on a pro rata basis. If the Placing Price is finally determined to be more than HK$1.0, the Group will increase the above proposed usage on a pro rata basis. The Group will finance such shortfall by internal cash resources and/or other financing, as and when appropriate. To the extent that the net proceeds of the Placing are not immediately applied to the above purposes, it is the Directors' present intention that such net proceeds will be deposited into interest-bearing bank accounts with licensed banks and/or financial institutions in Hong Kong. The same will be disclosed in the relevant annual report.

FINANCIAL INFORMATION OF THE GROUP

The following is the financial information of the Group during the Track Record Period. The following information is extracted from, and should be read in conjunction with, the accountant's report (the "**Accountant's Report**") set out in Appendix I to this prospectus.

Combined Statements of Comprehensive Income

	Year ended 31 December	
	2009	**2010**
	HK$	*HK$*
Revenue	19,545,963	37,317,933
Operating lease expenses	(8,420,635)	(7,492,727)
Depreciation of property, plant and equipment	(6,296,756)	(6,368,671)
Employee benefit expenses	(3,482,436)	(4,039,804)
Utilities	(1,330,644)	(1,429,882)
Other operating expenses	(3,322,780)	(4,380,740)
Operating (loss)/profit	(3,307,288)	13,606,109
Finance income	50,425	52,402
Finance cost	(128,476)	(135,844)
Finance cost — net	(78,051)	(83,442)
(Loss)/profit before income tax	(3,385,339)	13,522,667
Income tax expense	(91,480)	(3,973,136)
(Loss)/profit for the year	(3,476,819)	9,549,531
Other comprehensive income:		
Currency translation differences	97,079	548,765
Total comprehensive (loss)/income for the year	(3,379,740)	10,098,296
(Loss)/profit attributable to:		
Equity holders of the Company	(3,187,896)	9,185,202
Non-controlling interest	(288,923)	364,329
	(3,476,819)	9,549,531
Total comprehensive (loss)/income attributable to:		
Equity holders of the Company	(3,087,951)	9,680,370
Non-controlling interest	(291,789)	417,926
	(3,379,740)	10,098,296
Earnings per Share	N/A	N/A
Dividends	—	—

Combined Statements of Financial Position

	As at 31 December	
	2009	**2010**
	HK$	*HK$*
ASSETS		
Non-current assets		
Property, plant and equipment	29,552,774	24,212,636
Rental deposit	851,076	934,358
Prepaid operating lease	349,028	295,577
Deferred income tax assets	1,535,976	1,529,620
	32,288,854	26,972,191
Current assets		
Trade debtors, prepayments and deposits	372,176	4,362,218
Cash and cash equivalents	212,110	263,590
	584,286	4,625,808
Total assets	32,873,140	31,597,999
(DEFICIT)/EQUITY		
Capital and reserves attributable to the equity holders of the Company		
Issued equity	10,000	10,000
Reserves	(14,567,729)	15,275,116
	(14,557,729)	15,285,116
Non-controlling interest	2,393,525	—
Total (deficit)/equity	(12,164,204)	15,285,116
LIABILITIES		
Non-current liabilities		
Provision for asset retirement	2,774,655	3,010,390
	2,774,655	3,010,390
Current liabilities		
Trade and other payables	9,790,040	7,650,611
Amount due to a director	32,171,180	1,338,103
Current income tax liabilities	301,469	4,313,779
	42,262,689	13,302,493
Total liabilities	45,037,344	16,312,883
Total equity and liabilities	32,873,140	31,597,999
Net current liabilities	(41,678,403)	(8,676,685)
Total assets less current liabilities	(9,389,549)	18,295,506

Combined Statements of Cash Flows

	Year ended 31 December	
	2009	**2010**
	HK$	*HK$*
Cash flows from operating activities		
Cash generated from operations	7,580,732	15,055,682
Income tax paid	—	—
Net cash generated from operating activities	7,580,732	15,055,682
Cash flows from investing activities		
Purchase of property, plant and equipment	(564,433)	(171,694)
Interest received	—	49
Net cash used in investing activities	(564,433)	(171,645)
Cash flows from financing activities		
Decrease in amount due to a director	(6,889,056)	(12,438,859)
Consideration paid for acquiring the equity of a subsidiary from a non-controlling shareholder	—	(2,400,000)
Net cash used in financing activities	(6,889,056)	(14,838,859)
Net increase in cash and cash equivalents	127,243	45,178
Cash and cash equivalents at beginning of the year	84,132	212,110
Exchange gains on cash and cash equivalents	735	6,302
Cash and cash equivalents at end of the year	212,110	263,590

The table below illustrates the breakdown of the Group's revenue during the Track Record Period:

		Year ended 31 December	
		2009	**2010**
	Note	*HK$*	*HK$*
Hotel operations			
— Provision of hotel accommodation services to corporate customers with contractual arrangements			
— Guests under commercial sales agreements	(a)	2,751,745	3,975,643
— Guests under intermediaries sales agreements	(b)	349,401	1,658,509
— Guests under long term sales agreement	(c)	620,656	1,216,581
— Provision of hotel accommodation services to customers who have joined the loyalty programme	(b)	2,889,486	3,614,002
— Provision of hotel accommodation services to individual guests	(b)	12,226,915	16,206,090
— Conference room rental	(b)	549,011	652,896
— Sale of hotel membership cards	(d)	158,749	361,726
Hotel consultancy services	(e)	—	9,632,486
Total		**19,545,963**	**37,317,933**

Notes:

(a) The sales to these customers are on credit terms of 30 days.

(b) The sales to these customers are due immediately upon check-out.

(c) These customers have to pay deposits equivalent to one month rental in advance. If the deposit is insufficient to cover the respective hotel room rental and other fees, the customer has to pay for the difference at the end of the month or upon check-out, whichever is earlier.

(d) The sales to these customers are due immediately upon the application of membership cards. The hotel membership is to be renewed every three years.

(e) The sales to these customers are settled by instalments in accordance with the repayment schedule listed in the sub-section headed "Principal terms of the hotel consultancy agreements" under the section headed "Business" of this prospectus except for one customer which the settlement date for an amount of HK$564,454 was extended to on or before 30 June 2011 pursuant to the supplementary agreement dated 25 October 2010.

The financial performance of the Group during the Track Record Period

The Group experienced significant fluctuation in its net profit during the Track Record Period. The Group incurred a net loss of approximately HK$3.5 million for the year ended 31 December 2009 and a net profit of approximately HK$9.5 million for the year ended 31 December 2010. The net loss for the year ended 31 December 2009 was mainly due to under-utilisation of the Group's hotel and the high fixed costs in hotel operations. In 2009, occupancy of the Group's hotels remained low, ranging from approximately 40.6% to approximately 78.8%, since three out of four of its hotels, namely Welcome Inn Baoan, Welcome Inn Nanshan and Welcome Inn Luohu were established in 2008 and their customer base and goodwill required time to build up. The Group's financial results improved for the year ended 31 December 2010 mainly due to the new source of revenue generated from the hotel consultancy business and increased profit margin from the hotel operations as occupancy improved. The risk relating to the fluctuation of the Group's financial results is set out in the paragraph headed "The Group experienced significant fluctuation in its net profit during the Track Record Period and the four months ended 30 April 2011" under the section headed "Risk factors" of this prospectus.

The financial performance of the Group for the four months ended 30 April 2011

Based on the unaudited management accounts of the Group, the revenue generated from the Group's hotel operation for the four months ended 30 April 2011 represented a slight increase compared to the same period last year. The Group has not recognised any revenue from the provision of hotel consultancy services for the four months ended 30 April 2011. Comparatively, for the same period last year, the Group recorded revenue generated from the provision of services under the hotel consultancy agreement for Da Mei Sha Hotel. The Group recorded non-recurring expenses in relation to the Listing of approximately HK$2.1 million for the four months ended 30 April 2011. Otherwise, the total expenses of the Group for the four months ended 30 April 2011 is comparable to the same period last year. Given no revenue from the hotel consultancy business was recognised and the Group incurring expenses in relation to the Listing, the Group was in a loss position for the four months ended 30 April 2011. Excluding the non-recurring expenses in relation to the Listing, the Group recorded an immaterial loss for the four months ended 30 April 2011.

The overall Total Available Room Nights for the four leased-and-operated hotels of the Group remained stable at 50,160 and 49,353 for the four months ended 30 April 2010 and 2011 respectively. The overall occupancy for the four leased-and-operated hotels of the Group was approximately 86.7% and approximately 80.6% for the four months ended 30 April 2010 and 2011 respectively. The slight decrease in occupancy for the four months ended 30 April 2011 was mainly due to competition from a new budget hotel nearby Nanshan Hotel which opened in late 2010. The overall ARR for the four leased-and-operated hotels of the Group was approximately RMB167.4 and approximately RMB181.3 for the four months ended 30 April 2010 and 2011 respectively. The increase of the ARR for the four months ended 30 April 2011 was mainly due to the increase in ARR of Luohu Hotel as a result of its increased popularity benefited from its prominent location. The overall RevPAR for the four leased-and-operated hotels of the Group remained stable at approximately RMB145.2 and approximately RMB146.1 for the four months ended 30 April 2010 and 2011 respectively.

The Group has completed providing services under four hotel consultancy agreements in the year ended 31 December 2010 which contributed total revenue of HK$9,632,486 for the year, representing approximately 25.8% of the total revenue of the Group. The Group has entered into only one hotel consultancy agreement (i.e. South China Hotel) in 2011 which has yet to contribute any revenue to the Group up to 30 April 2011. The Group is in the process of site selection for South China Hotel. The Group targets to enter into four new hotel consultancy agreements and two new hotel management agreements during the period from the Latest Practicable Date to 31 December 2011. The Company is currently identifying potential target customers and is in discussion with some potential hotel investors for the Group's hotel consultancy and management businesses. However, no specific term has been agreed and the Directors cannot guarantee that the Group will be able to enter into new hotel consultancy agreements or hotel management agreements with hotel investors in the future. The revenue generated from the hotel consultancy business may be subject to fluctuation depending on the success of the Group in entering into new hotel consultancy agreements. Further, since the Group has no experience in engaging in the hotel management business, the Directors cannot guarantee that it will be successful in generating sufficient revenue to make this business profitable. As such, the financial results of the Group for the second half of 2011 may or may not improve depending on, among other things, whether the Group will be able to enter into the new hotel consultancy agreements and hotel management agreements. Further details of the risks relating to the Group's hotel consultancy and hotel management businesses are set out in the paragraphs headed "The Group has a limited operating history in hotel consultancy business and consultancy fee is paid on a project basis" and "The Group lacks experience in engaging in the hotel management business" under the section headed "Risk factors" of this prospectus.

The financial results of the Group for the year ending 31 December 2011 will also be affected by the non-recurring expenses in relation to the Listing. The estimated expenses in relation to the Listing are approximately HK$17.8 million (based on the maximum Placing Price of HK$1.20 per Placing Share), of which approximately HK$15.5 million is directly attributable to the issue of new Shares to the public and is to be accounted for as a deduction from equity. The remaining estimated listing expenses of approximately HK$2.3 million are charged to profit or loss of the Group for the year ending 31 December 2011, of which approximately HK$2.1 million has been recognised during the four months ended 30 April 2011. Such expenses in relation to the Listing have not been incurred during the Track Record Period. The Directors would like to emphasise that such cost is a current estimate for reference only and the final amount to be recognised to the profit or loss of the Group for the year ending 31 December 2011 is subject to adjustment based on audit and the then changes in variables and assumptions.

Accordingly, the financial results of the Group for the year ending 31 December 2011 are expected to be materially and adversely affected by the estimated expenses in relation to the Listing.

It should be noted that the above unaudited financial results for the four months ended 30 April 2011 may not be indicative of the full year results for 2011. As set out in the section headed "Risk factors" of this prospectus, the Group's business and financial performance may be affected by a number of factors, including, among other things, the risk factors headed "The Group may experience an increase in labour costs", "The Group's financial position and operating results could be materially and adversely affected by its concentration of suppliers", "The Group has an increasing concentration of and reliance on major customers and the loss of any of such customers could materially and adversely affect the Group's business and financial position", "The seasonality of the hotel industry could have a material adverse effect on the Group's revenue and financial condition" and "The financial results of the Group are expected to be affected by the expenses in relation to the Listing" under the section headed "Risk factors" of this prospectus.

No material adverse change

The Directors confirm that, save as disclosed in the paragraph headed "The financial performance of the Group for the four months ended 30 April 2011" of this section, there has not been any material adverse change in the financial or trading position of the Group since 31 December 2010, being the date of the Group's last audited accounts, up to the Latest Practicable Date.

DIVIDEND AND DIVIDEND POLICY

The Group did not declare nor pay any dividends to shareholders of the Group during the Track Record Period.

The payment and the amount of any dividends, if paid, will depend on the results of operations, cash flows, financial condition, statutory and regulatory restrictions on the payment of dividends by the Group, future prospects and other factors that the Directors may consider relevant. Holders of the Shares will be entitled to receive such dividends pro rata according to the amounts paid up or credited as paid up on the Shares. The declaration of payment and amount of dividends will be subject to the Directors' discretion.

Dividends may be paid only out of the Group's distributable profits as permitted under the relevant laws. To the extent profits are distributed as dividends, such portion of profits will not be able to be reinvested in the Group's operations. There can be no assurance that the Directors will be able to declare or distribute any dividend in the amount set out in any plan of the Board or at all. The dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by the Group in the future.

STATISTICS OF THE PLACING

	Based on a Placing Price of HK$0.80 per Placing Share	Based on a Placing Price of HK$1.20 per Placing Share
Market capitalisation of the Shares *(Note 1)*	HK$144 million	HK$216 million
Historical price/earnings multiple *(Note 2)*	15.7 times	23.5 times
Unaudited pro forma adjusted net tangible asset value per Share *(Note 3)*	HK$0.19	HK$0.29

Notes:

1. The calculation of the market capitalisation of the Shares is based on the respective Placing Price of HK$0.80 and HK$1.20 per Placing Share and 180,000,000 Shares in issue immediately after completion of the Placing but takes no account of any Share which may fall to be allotted and issued pursuant to the general mandate for the allotment and issue of Shares or any Shares which may be repurchased by the Company pursuant to the general mandate for repurchase of Shares referred to in the paragraph headed "Written resolutions of all the Shareholders passed on 22 June 2011" in Appendix V to this prospectus.

2. The calculation of the historical price/earnings multiple is based on the profit attributable to equity holders of the Company for the year ended 31 December 2010, the respective Placing Price of HK$0.80 and HK$1.20 per Placing Share and on the assumption that 180,000,000 Shares, comprising Shares in issue as at the date of this prospectus and Shares to be issued pursuant to the Placing, had been in issue throughout the year.

3. The unaudited pro forma adjusted net tangible asset value per Share has been arrived at after the adjustments referred to in the sub-section headed "Unaudited pro forma adjusted net tangible assets" under the section headed "Financial information" of this prospectus, and on the basis of the respective Placing Price of HK$0.80 and HK$1.20 per Placing Share and 180,000,000 Shares in issue immediately following completion of the Placing.

RISK FACTORS

Risks relating to the Group's business

- If the Group's future expansion is unsuccessful, the business of the Group may be adversely affected
- The Group may not be able to successfully identify, secure or operate additional hotel properties
- The Group's success is dependent on the retention of certain key personnel
- The Group has a limited operating history in hotel consultancy business and consultancy fee is paid on a project basis
- The Group may experience an increase in labour costs
- Majority of the Group's revenue comes from the Shenzhen operations

- The development of new hotels is subject to a number of risks beyond the Group's control, including insufficient growth in demand for hotel rooms
- The Group may not be able to obtain sufficient funding for its capital expenditure and other funding requirements in a timely manner or on acceptable terms, which could limit its capacity for future business development
- The Group has recorded net current liabilities
- The Group experienced significant fluctuation in its net profit during the Track Record Period and the four months ended 30 April 2011
- The Group's historical financial condition may not be treated as an indication of its future profitability
- The Group lacks experience in engaging in the hotel management business
- The Group's financial position and operating results could be materially and adversely affected by its concentration of suppliers
- The Group has an increasing concentration of and reliance on major customers and the loss of any of such customers could materially and adversely affect the Group's business and financial position
- The financial results of the Group are expected to be affected by the expenses in relation to the Listing
- The Group intends to refurbish or further develop the existing leased hotel properties which could result in cost overruns or disruptions of the leased-and-operated hotel operations
- The Group may not be able to register the existing brand names
- The Group's insurance coverage may be insufficient to protect the Group against potential liabilities arising during the course of the operations
- Prohibited activities, accidents or injuries in the Group's hotels may adversely affect the Group's reputation and hold the Group liable
- The Group may not be able to renew the leases with the hotel property owners and the rent for the leased hotel properties may increase
- Certain property owners are not able to produce certain title documents
- A few lease agreements have not been registered according to relevant PRC rules and regulations
- The Group may be subject to fine due to delay in full payment of registered capital

- The Group may be required to pay up any outstanding social insurance, or subject to penalties for any irregularities arising from the contribution to the social insurance.

Risks relating to the hotel industry

- The hotel industry is subject to intense and growing competition
- The Group's business may be adversely affected by a reduction in travel or discretionary consumer spending as a result of a downturn in the PRC or the global economy
- The Group's financial and operating performance may be adversely affected by adverse weather conditions, epidemics, natural disasters and other catastrophes, wars, the threat of terrorist attacks and the occurrence of international or political crises
- The seasonality of the hotel industry could have a material adverse effect on the Group's revenue and financial condition
- The Group's co-operation with third-party websites and other hotel reservation intermediaries may adversely affect the Group's margins and profitability
- The Group is subject to renewal of various licences and various hotel industry, health and safety, and environmental laws and regulations that may subject the Group to liability
- Fluctuations in the price of disposable amenities, cleansing products and laundry services

Risks relating to the PRC

- Adverse changes in economic and political policies of the PRC government could have a material adverse effect on the overall economic growth of the PRC, which could adversely affect business of the Group
- Governmental control of currency conversion and fluctuations in the value of the RMB may affect the value of investment, the Group's ability to remit the dividend to the shareholders and the ability of the Group's PRC subsidiaries to obtain financing
- PRC regulations on loans and direct investments by offshore holding companies to PRC entities may delay or prevent the Group from using proceeds received from the Placing to make loans or additional capital contributions to the PRC subsidiaries of the Group
- PRC legal system embodies uncertainties that could limit the legal protection available to Shareholders and the Group
- The Group may be classified as a "resident enterprise" of the PRC which could result in unfavourable tax consequences to the Group and the non-PRC Shareholders

- The Group may experience difficulties in effecting services of legal process, enforcing foreign judgment or bringing original actions in the PRC

Risks relating to the Placing

- The Placing is not underwritten
- There has been no prior public market for the Shares and an active trading market may not develop
- The trading volume and market price of the Shares following the Placing may be volatile
- Shareholders and investors may face difficulties in protecting their interests because the Company is incorporated under the laws of the Cayman Islands and these laws may provide different protections to minority Shareholders than the laws of Hong Kong
- The interests of the Controlling Shareholder may be inconsistent with those of the minority Shareholders
- Statistics in this prospectus are derived from different official sources and may not be reliable
- Future sales of substantial amount of the Shares in the public market could adversely affect the prevailing market price of the Shares

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

"1506 CC"	一五零六創意城投資有限公司 (1506 Creative City Investment Company Limited*), a company established on 25 October 2007 in the PRC with limited liability
"1506 CC Strategic Agreement"	the strategic framework agreement dated 2 November 2010 entered into between Legend Strategy and 1506 CC
"Ablewise"	Ablewise Trading Limited, a limited company incorporated in the BVI on 20 September 2005 which was indirectly wholly-owned by the Company as at the Latest Practicable Date
"Articles" or "Articles of Association"	the articles of association of the Company adopted by the Shareholders on 22 June 2011 to take effect on the Listing Date, a summary of which is set out in Appendix IV to this prospectus
"associate(s)"	has the meaning ascribed to it under the GEM Listing Rules
"Board"	the board of Directors
"Business Day"	any day (other than a Saturday, a Sunday or public holiday in Hong Kong) on which banks in Hong Kong are generally open for normal banking business
"BVI"	the British Virgin Islands
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"chief executive(s)"	has the meaning ascribed to it under the GEM Listing Rules
"Co-lead Manager"	SBI E2-Capital Financial Services Limited, a corporation licensed by the SFC to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 9 (asset management) regulated activities (as defined in the SFO), acting as co-lead manager of the Placing
"Companies Law"	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
"Companies Ordinance"	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Company"	Legend Strategy International Holdings Group Company Limited (朸濬國際集團控股有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 23 February 2011

"connected person(s)"	has the meaning ascribed to it under the GEM Listing Rules
"Controlling Shareholder(s)"	has the meaning ascribed to it under the GEM Listing Rules and, in the context of this prospectus, means Mr. Fong, who is interested in approximately 55.4% of the total issued share capital of the Company immediately after the Placing
"Da Mei Sha Hotel"	the hotel located at 2nd Floor, Xin Hai Garan Agile, Inner Road, Dameisha, Shenzhen, the PRC and invested by an Independent Third Party
"Deed of Non-competition Undertaking"	a deed of non-competition undertaking dated 25 June 2011 entered into by Mr. Fong in favour of the Company
"Director(s)"	the director(s) of the Company
"Dr. Pradit"	Dr. Pradit Sintavanarong, the then shareholder and director of Moon Ko
"Gaomiao Hotel"	the hotel located at Shiwan Town, 6 Gaomiao Road, Foshan, the PRC and invested by an Independent Third Party
"GEM"	the Growth Enterprise Market of the Stock Exchange
"GEM Listing Rules"	the Rules Governing the Listing of Securities on GEM
"GEM Website"	**http://www.hkgem.com**, being the internet website operated by the Stock Exchange
"Group"	the Company and its subsidiaries or, where the context so requires, in respect of the period before the Company became the holding company of its present subsidiaries, such subsidiaries as if they were the Company's subsidiaries at that time
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"HKSCC"	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
"Independent Third Party(ies)"	a person(s) or company(ies) which is/are independent of and not connected with the directors, chief executive, controlling shareholders or substantial shareholders of the Company or its subsidiaries, or any of their respective subsidiaries or associates
"Joint Lead Managers"	Quam Securities and SBI E2-Capital and "Joint Lead Manager" means any one of them

"Lai Ying"	Lai Ying International Limited (勵盈國際有限公司), a limited company incorporated in Hong Kong on 13 April 2007 which was indirectly wholly-owned by the Company as at the Latest Practicable Date
"Latest Practicable Date"	27 June 2011, being the latest practicable date prior to the printing of this prospectus for ascertaining certain information contained herein
"Legend Strategy"	Legend Strategy Limited (朸濬有限公司), a limited company incorporated in Hong Kong on 28 May 2007 which was indirectly wholly-owned by the Company as at the Latest Practicable Date
"Legend Strategy International"	Legend Strategy International Limited (朸濬國際公司), a limited company incorporated in the BVI on 15 December 2010 which was directly wholly-owned by the Company as at the Latest Practicable Date
"Listing"	the listing of the Shares on GEM
"Listing Date"	the date on which dealings of the Shares first commence on GEM, which is expected to be on or around 15 July 2011
"Listing Division"	the listing division of the Stock Exchange
"Main Board"	the stock market operated by the Stock Exchange prior to the establishment of the GEM (excluding the option market) and which stock market continues to be operated in parallel with the GEM and which, for the avoidance of doubt, excludes the GEM
"Memorandum"	the memorandum of association of the Company, as amended from time to time
"Modern Tourists"	深圳摩登旅業管理有限公司 (Shenzhen Modern Tourists Management Co. Ltd.*), a limited company established in the PRC on 25 April 2008 which was indirectly wholly-owned by the Company as at the Latest Practicable Date
"Moon Ko"	Moon Ko Development International Limited (滿高發展國際有限公司), a limited company incorporated in Hong Kong on 1 March 2007 which was indirectly wholly-owned by the Company as at the Latest Practicable Date
"Mr. De Weyer"	Mr. De Weyer, Daniel Ludovicus Joannes, a Shareholder and a non-executive Director
"Mr. Fong"	Mr. Fong, Man Kelvin (方文), the Controlling Shareholder, the chairman and an executive Director

"Mr. Qiu"	Mr. Qiu Dai Lun (邱代倫), a Shareholder
"Mr. Wong"	Mr. Wong, William (黃褘淏) (formerly named Wong, Hiu Fan William (黃曉帆)), the chief executive officer and an executive Director
"Placing"	the conditional placing of the Placing Shares by the Placing Agents on behalf of the Company for cash at the Placing Price, as further described in the section headed "Structure and conditions of the Placing" of this prospectus
"Placing Agents"	the Joint Lead Managers and the Co-lead Manager
"Placing Agreement"	the conditional placing agreement entered into on 29 June 2011 among the Company, Mr. Fong, Mr. Wong, the Sponsor, the Joint Lead Managers and the Co-lead Manager relating to the Placing, particulars of which are summarised in the section headed "Structure and conditions of the Placing" of this prospectus
"Placing Price"	the price per Placing Share (exclusive of brokerage, the Stock Exchange trading fee and SFC transaction levy), which will not be more than of HK$1.20 per Placing Share and is expected to be not less than HK$0.80 per Placing Share, such price to be fixed at or before the Price Determination Time
"Placing Shares"	the Shares being offered for subscription at the Placing Price under the Placing
"PRC" or "China"	the People's Republic of China, and for the purposes of this prospectus and for geographical reference only, excluding Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan
"Price Determination Time"	the time, expected to be at or before 5:00 p.m. on 11 July 2011 or such later time and/or date as may be agreed between the Joint Lead Managers (for themselves and on behalf of the Co-lead Manager) and the Company, at which the final Placing Price is fixed for the purpose of the Placing
"Quam Capital" or "Sponsor"	Quam Capital Limited, a corporation licenced to carry on type 6 (advising on corporate finance) regulated activities under the SFO, acting as the sponsor of the Listing

"Quam Securities"	Quam Securities Company Limited, a corporation licensed by the SFC to carry on type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities) and type 9 (asset management) regulated activities under the SFO, one of the Joint Lead Managers
"Reorganisation"	the corporate reorganisation arrangements undergone by the Group in preparation for the Listing, details of which are set out in the section headed "History and corporate structure" of this prospectus
"SBI E2-Capital" or "Sole Bookrunner"	SBI E2-Capital (HK) Limited, a corporation licensed by the SFC to carry on type 1 (dealing in securities) and 6 (advising on corporate finance) regulated activities (as defined in the SFO), acting as the sole bookrunner of the Placing and one of the Joint Lead Managers
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended and supplemented from time to time
"Share(s)"	ordinary shares of HK$0.01 each in the share capital of the Company
"Share Option Scheme"	the share option scheme conditionally adopted by the Company on 22 June 2011, the principal terms of which are summarised in the paragraph headed "Share Option Scheme" in Appendix V to this prospectus
"Shareholder(s)"	the holder(s) of the Shares
"Shu Yong Consultancy Agreement"	the art consultancy framework agreement dated 22 March 2011 entered into between Legend Strategy and Mr. Shu Yong
"South China Hotel"	the hotel for which the Group acts as a consultant under a hotel consultancy agreement and was in the process of site selection as at the Latest Practicable Date
"State Council"	中華人民共和國國務院 (State Council of the PRC*)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiaries"	has the meaning ascribed to it under the GEM Listing Rules
"Substantial Shareholder(s)"	has the meaning ascribed to it under the GEM Listing Rules
"Takeovers Code"	the Code on Takeovers and Mergers

"Track Record Period"	the two financial years ended 31 December 2010
"Triple Leaf"	Triple Leaf Limited (三葉有限公司), a limited company incorporated in Hong Kong on 15 March 2007 which was indirectly wholly-owned by the Company as at the Latest Practicable Date
"Triple Leaf (BVI)"	Triple Leaf (B.V.I.) Limited, a limited company incorporated in the BVI on 25 February 2011 and owned by Mr. Jiang Wen, Mr. Markus Rall and Mr. Kan Yau Shan in equal shares as at the Latest Practicable Date
"US"	the United States of America
"WBT Hotel"	the hotel located at Factory No. 9, 2 West Bi Tang Street, Foshan, the PRC and invested by an Independent Third Party
"Welcome Inn Baoan"	the hotel located at Building 23, Xinan Second Road, Baoan District 5, Shenzhen, the PRC and operated directly by Modern Tourists, which was opened on 25 April 2008
"Welcome Inn Caitian"	the hotel located at 2nd and 3rd Floors, Ganlan Peng Garden Podium Building, No. 3030 Caitian Road, Futian District, Shenzhen, the PRC and operated directly by Yuelai Inn Tourists, which was opened on 11 December 2006
"Welcome Inn Luohu"	the hotel located at 3rd Floor, Jiabin Garden Podium Building, Shennan Road South, Luohu District, Shenzhen, the PRC and operated directly by Yuelai Inn, which was opened on 26 November 2008
"Welcome Inn Nanshan"	the hotel located at Yilida Jingying Complex Building, No. 2009 Nanshan Main Road, Nanshan District, Shenzhen, the PRC and operated directly by Yingde Tourists, which was opened on 30 May 2008
"Yingde Tourists"	深圳盈的旅業有限公司 (Shenzhen Yingde Tourists Co. Ltd.*), a limited company established in the PRC on 30 May 2008 which was indirectly wholly-owned by the Company as at the Latest Practicable Date
"Yuelai Inn"	深圳悦來客棧有限公司 (Shenzhen Yuelai Inn Co. Ltd.*), a limited company established in the PRC on 26 November 2008 which was indirectly wholly-owned by the Company as at the Latest Practicable Date

"Yuelai Inn Tourists"	深圳悅來客棧旅業有限公司 (Shenzhen Yuelai Inn Tourists Co. Ltd.*), a limited company established in the PRC on 11 December 2006 which was indirectly wholly-owned by the Company as at the Latest Practicable Date
"Zhongxin Hotel"	the hotel located at 9, 13, 15, 16, 35, 37, 39, 40, 41, 42, 43, 44, 45, 49 Zhongxin Lane and 5, 6, 29, 77 Shizi Lane, Shiwan Town, Foshan, the PRC and invested by an Independent Third Party
"HK$" or "Hong Kong dollar(s)"	Hong Kong dollars, the lawful currency of Hong Kong
"RMB" or "Renminbi"	the lawful currency of the PRC
"US$" or "US dollar(s)"	US dollars, the lawful currency of the US
"m"	metre
"sq.ft."	square feet
"sq.m."	square metre
"%"	per cent.

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

The English version of the Chinese names which are included in this prospectus and marked with "" are for identification purposes only, and should not be regarded as the official English translation of such Chinese names or words unless stated otherwise. If there is any inconsistency, the Chinese names shall prevail.*

This glossary contains definitions and explanations of certain terms used in this prospectus in connection with the Group and its business. Some of these definitions may not correspond to standard industry definitions or usage of these terms.

"ARR"	the room revenue of a hotel or hotels (including related service charges) during a period divided by the Total Occupied Room Nights of such hotel or hotels during the corresponding period
"CAGR"	compound annual growth rate
"GDP"	gross domestic product
"GFA"	gross floor area
"ISO"	International Organisation for Standardisation
"ISO 9001"	ISO standard for quality management system
"leased-and-operated hotel(s)"	the leased real estate property(ies) on which the Group operates hotel(s)
"occupancy"	Total Occupied Room Nights of a hotel or hotels during a period divided by the Total Available Room Nights
"RevPAR"	room revenue of a hotel or hotels (including related service charges) during a period divided by the Total Available Room Nights of such hotel or hotels during the same period
"SGS"	SGS United Kingdom Limited Systems and Services Certification
"Total Available Room Nights"	all room nights available for sale excluding the hotel rooms which are under renovation
"Total Occupied Room Nights"	all room nights sold and including room nights provided to guests on a complimentary basis

Forward-looking statements contained in this prospectus are subject to risks and uncertainties.

This prospectus contains forward-looking statements that are based on various assumptions regarding the Group's present and future business strategy and the environment in which the Group will operate in the future and are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- the business strategies and prospects of the Group;
- the capital expenditure plans of the Group;
- the amount and nature of, and potential for, future development of the business of the Group;
- the operations of the Group;
- the dividend policy of the Group;
- projects under construction or planning;
- the regulatory environment of hotel industry in general;
- future development in hotel industry;
- certain statements in the section headed "Financial information" of this prospectus with respect to trends in prices, operations, overall market trends, risk management and exchange rates; and
- other statements in this prospectus which are not historical facts.

The words "anticipate", "believe", "could", "expect", "intend", "may", "going forward", "plan", "seek", "will", "would" and similar expressions, as they relate to the Group or management of the Group, are intended to identify a number of these forward-looking statements. The Directors confirm that these forward-looking statements are made after due and careful consideration. These forward-looking statements reflecting the views of management of the Group with respect to future events are not a guarantee of future performance and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this prospectus. One or more of these risks or uncertainties may materialise, or underlying assumptions may be incorrect.

Subject to the requirements of the GEM Listing Rules, the Group does not intend to publicly update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way the Group expects, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this prospectus are qualified by reference to this cautionary statement.

You should carefully consider all of the information in this prospectus, including the risks and uncertainties described below, before making an investment in the Placing Shares. You should pay particular attention to the fact that the Group's business is, to a significant extent, located in the PRC, and the Group is governed by a legal and regulatory environment which in some respects differ from that which prevails in other countries. The Group's business, financial condition or results of operations could be materially and adversely affected by any of the risks and uncertainties described below. Additional risks and uncertainties not presently known to the Group, or not expressed or implied below, or that the Group deems immaterial, could also harm its business, financial condition and results of operations. The trading prices of the Shares could decline due to any of these risks and uncertainties, and you may lose all or part of your investment.

RISKS RELATING TO THE GROUP'S BUSINESS

If the Group's future expansion is unsuccessful, the business of the Group may be adversely affected

Under the Group's business expansion plan, the Group will increase its total number of leased-and-operated hotels in the near future. The ability of the Group to expand its hotel operation successfully will depend on a number of factors, including the Group's ability to obtain financing on acceptable terms, the availability and selection of suitable locations, the brand management and some of which may be beyond the control of the Group. In addition, the anticipated rapid growth of hotel business may require the Group to have a more integrated and comprehensive operational, information and accounting system, training programme, managerial talent and other resources to manage and operate its expansion of hotel business effectively. In such circumstances, the Group cannot guarantee the returns of its business expansion plan.

The quality of the Group's services and hotels is crucial to the success of the expansion plan. Any significant failure or deterioration of quality control system may seriously damage the Group's brand names and have a material adverse effect on the Group's reputation in the market among current or prospective customers, which could be an obstacle to achieving the Group's business expansion plan. There is no assurance that the Group will be able to effectively and efficiently manage the growth of operations or maintain the quality standards. If the Group is unable to do so, the Group's results of operations and financial condition may be materially and adversely affected.

As the Group plans to operate new hotels in new markets in the PRC where its management may have less or no operating experience, the costs incurred relating to the opening, operation and promotion of these new hotels may be substantially greater than the existing markets that the Group currently has presence. These hotels may attract fewer hotel guests than the Group's existing hotels, while the Group may incur substantial additional costs in relation to the operation of these new hotels. Unanticipated expenses may be incurred by the Group's hotels in new market which may also cause certain non-financial key performance indicators to decline, such as the RevPAR and occupancy, as hotels in new markets may have lower ARR and occupancy than markets in which the Group currently operates. Expansion into new markets will cause substantial demand on managerial, operational, financial, information technology and other resources. Inability to anticipate changing demand of new markets could result in lower revenue and increased expenses and otherwise harm the results of operations and financial performance of the Group.

The Group may not be able to successfully identify, secure or operate additional hotel properties

The Group plans to open more hotels in the PRC to accelerate its business growth. The Group may not be successful in identifying and leasing additional hotel properties at desirable locations and on commercially reasonable terms, or at all. It may be difficult to increase the number of hotels in developed cities as the competition for prime locations may be severe and rental prices may be high in such cities. Competition may reduce the number of suitable investment opportunities available to the Group and consequently increase the bargaining power of property owners seeking to lease their properties. If the Group fails to successfully identify new hotel properties, the Group's ability to execute the growth strategy could be impaired and its business and prospects may be materially and adversely affected.

The Group's success is dependent on the retention of certain key personnel

The Group's ability to compete and succeed in its business has been, and will continue to be, heavily dependent upon the continuing services of the key personnel of the Group. The Group relies on the experience of Mr. Fong (the chairman of the Company and an executive Director) and Mr. Wong (the chief executive officer of the Company and an executive Director) to devise the Group's strategic objectives and manage the business. In particular, the Group relies on the architectural experience of Mr. Fong as he is actively involved in designing the hotels (including both the leased-and-operated hotels and hotels under the hotel consultancy agreements). The Directors cannot guarantee that the Group will be able to retain Mr. Fong and Mr. Wong, the loss of their services in the absence of any suitable replacements may have a negative impact on the Group's operation and future profitability. As a result, the Group's financial condition and operating result may be materially and adversely affected.

The Group has a limited operating history in hotel consultancy business and consultancy fee is paid on a project basis

The Group commenced the hotel consultancy business in December 2009 and has a limited operating history in this business segment. The consultancy fee received for the year ended 31 December 2010 amounted to approximately HK$9,632,486, which accounted for approximately 25.8% of the total revenue of the Group for the year. However, the Group's hotel consultancy business is at an early stage of development, and the revenue, potential income and cash flow from this new business is unproven. The Group had completed providing the services under four hotel consultancy agreements in 2010. Since 2011 and up to the Latest Practicable Date, the Group had entered into only one hotel consultancy agreement with an independent hotel investor for the provision of hotel consultancy services for South China Hotel. As the Group's hotel consultancy business has only been launched since December 2009, there can be no assurance that it will generate long term revenue to the Group. Also, the consultancy fee is paid on a project basis. The Directors cannot guarantee that the Group will be able to enter into new hotel consultancy agreements with hotel investors in the future. As such, the revenue generated from the hotel consultancy business may be subject to fluctuation depending on the success of the Group in entering into new hotel consultancy agreements. The success of the Group's hotel consultancy business will also depend on many factors outside its control, including the economic development of the market, which can cause fluctuations to the Group's revenue. Because of the Group's limited operating history in this business segment, its historical financial data may not provide a meaningful basis for investors to evaluate the hotel consultancy business of the Group and its prospects. Accordingly, evaluation of the Group's hotel consultancy business and its prospects is difficult, and there can be no assurance that the Group will succeed in this business.

The Group may experience an increase in labour costs

Labour costs in the PRC are increasing and may continue to increase in the future. The Group relies on labour resources for the provision of the Group's services, and therefore a high proportion of the Group's costs are labour costs. During the Track Record Period, the Group's employee benefit expenses accounted for approximately 15.2% and approximately 17.0% of the Group's total operating expenses respectively. There is no assurance that the Group will not experience an increase in labour costs. Such negative incident may have a significant impact on the Group's business, results of operations and financial condition.

Majority of the Group's revenue comes from the Shenzhen operations

The Group currently relies on its Shenzhen operations for the majority of its revenue and profits. During the Track Record Period, most of the revenue were generated from the Group's hotels in Shenzhen. As such, the Group's revenue and results of operations are substantially dependent on conditions in Shenzhen, in general, and demand for hotel rooms in Shenzhen, in particular. The developments in Shenzhen and any neighbouring region, including:

(i) economic and political developments;

(ii) changes in the PRC's regulations, including changes to regulations or other restrictions imposed on tourists by the PRC government; and

(iii) the outbreak of any severe contagious disease or pandemic within Shenzhen, or any neighbouring region,

may have a significant adverse impact on travel to Shenzhen. As a result, the Group's business, results of operations and financial condition may be adversely affected.

The development of new hotels is subject to a number of risks beyond the Group's control, including insufficient growth in demand for hotel rooms

If future demand for the Group's hotel rooms does not match the growth of the Group's business, the Group may experience lower occupancy than expected or be required to adopt lower room rates to attract hotel guests, which may cause the Group not being able to achieve a satisfactory return and have a material adverse impact on the Group's financial condition and results of operations.

New project development and property conversions are also subject to a number of additional risks, many of which are outside the Group's control, and those risks include but not limited to:

(i) delay in obtaining necessary licences or approvals from government authorities;

(ii) shortages of labour, materials, equipment, contractors and skilled labour;

(iii) property deterioration after acquisition;

(iv) the possibility of discovering previously undetected defects or problems in a property to be converted;

(v) social disorder and other extraordinary events; and

(vi) political and regulatory risks.

Besides, the Group relies on third party contractors for hotel construction and conversion and is subject to risks relating to the performance of these contractors. There is no assurance that the hotel construction and conversion will be completed on schedule without additional costs or that the services rendered by the third party contractors will fulfill the quality level required by the Group. The occurrence of any of these events could have a material adverse effect on the financial performance of the Group.

The Group may not be able to obtain sufficient funding for its capital expenditure and other funding requirements in a timely manner or on acceptable terms, which could limit its capacity for future business development

The Group expects to incur a high level of capital expenditure to implement the growth strategy, remain competitive or expand its hotel network in the foreseeable future. To fund the Group's ongoing operations and future expansion, the Group needs sufficient internal resources and/or access to additional financing from external sources. If adequate funding is not available, the Group's ability to develop and expand its business could be adversely affected. The Group's ability to obtain external financing in the future and the related financing cost on acceptable terms is subject to a variety of uncertainties, including:

(i) the PRC government approvals necessary for obtaining financing in the domestic markets;

(ii) the Group's future results of operations, financial condition and cash flow;

(iii) the condition of the international and domestic financial markets; and

(iv) changes in the monetary policies of the PRC government with respect to bank interest rates and lending practices.

The Group may be unable to obtain additional capital in a timely manner or on acceptable terms, or at all, which could have a material adverse effect on liquidity, financial condition and ability to pursue the expansion plans.

The Group has recorded net current liabilities

The Group had a net current liabilities of approximately HK$41.7 million and approximately HK$8.7 million as at 31 December 2009 and 31 December 2010 respectively. The net current liabilities as at 31 December 2009 was primarily due to a debt owed to Mr. Fong and outstanding trade and other payables. The amount due to Mr. Fong was approximately HK$32.2 million as at 31 December 2009. On 31 December 2010, Mr. Fong waived the amounts due to him by the Group at the sum of approximately HK$20.8 million. The Group maintained a lower rental payables balance as at 31 December 2010 as compared with such balance as at 31 December 2009 due to a rental waiver granted by the landlord of Welcome Inn Nanshan. As a result, the net current liabilities as at 31 December 2010 was substantially reduced compared with that as at 31 December 2009. The Group recorded net current assets of approximately HK$0.6 million as at 30 April 2011 based on unaudited management accounts. This was mainly attributable to the increase of cash and cash equivalents due to capital injection into Legend Strategy by the then shareholders in proportion to their shareholdings, and decrease in trade and other payable and amount due to a director as a result of settlement of the payables during the period.

Further details of the liquidity condition of the Group is set out in the section headed "Financial information" of this prospectus.

Nonetheless, the Directors cannot guarantee that the Group will not experience net current liabilities in the future which may limit the Group's working capital for the purposes of operations or capital for business expansion plan and adversely affect the Group's financial position accordingly.

The Group experienced significant fluctuation in its net profit during the Track Record Period and the four months ended 30 April 2011

The Group incurred a net loss of approximately HK$3.5 million for the year ended 31 December 2009 and a net profit of approximately HK$9.5 million for the year ended 31 December 2010. The net loss for the year ended 31 December 2009 was mainly due to under-utilisation of the Group's hotel and the high fixed costs in hotel operations. In 2009, occupancy of the Group's hotels remained low, ranging from approximately 40.6% to approximately 78.8%, since three out of four of its hotels, namely Welcome Inn Baoan, Welcome Inn Nanshan and Welcome Inn Luohu were established in 2008 and their customer base and goodwill required time to build up. The Group's financial results improved for the year ended 31 December 2010 mainly due to the new source of revenue generated from the hotel consultancy business and increased profit margin from the hotel operations as occupancy improved. Based on the unaudited management accounts of the Group, the Group was in a loss position for the four months ended 30 April 2011 mainly due to the lack of revenue from the hotel consultancy business being recognised and the Group incurring non-recurring expenses in relation to the Listing of approximately HK$2.1 million during the period.

With the fluctuation in the Group's profitability during the Track Record Period and the four months ended 30 April 2011, the Company cannot assure that it could generate profit in the future and maintain or increase the profit of the Group. The Group's ability to achieve profitability will depend on its growth of its existing business and the success of the implementation of its business expansion plans. The Group's profitability is affected by a number of factors outside of the Group's control. The Group's operating results may be adversely affected by any of such factors.

The Group's historical financial condition may not be treated as indication of its future profitability

The Group's future success depends on its ability to achieve its hotel business expansion plan, including development of leased-and-operated hotels. However, the Group's limited operating history makes it difficult to evaluate the Group's future prospects. As a result, the Group's historical financial condition may not be indicative of its future profitability. Investors should consider the Group's future prospects in light of the risks and challenges encountered by a company with limited operating history. These risks and challenges include, among others:

(i) the uncertainties associated with the Group's ability to continue its growth and maintain profitability;

(ii) improving and preserving the Group's competitive position in the hotel industry in the PRC;

(iii) offering consistent and high-quality accommodations and services to retain and attract guests;

(iv) implementing the Group's strategy and modifying it from time to time to respond effectively to competition and changes in hotel guest preferences;

(v) increasing awareness of brand and continuing to develop hotel guest loyalty; and

(vi) recruiting, training and retaining qualified managerial and other personnel.

If the Group is unsuccessful in addressing any of these risks or challenges, its business may be materially and adversely affected.

The Group lacks experience in engaging in the hotel management business

The Group intends to expand its hotel business by offering hotel management services. Since the Group has no experience in engaging in the hotel management business, the Directors cannot guarantee that it will be successful in generating sufficient revenue to make this business profitable. The success of such business depends on a number of factors, both within and outside the control of the Group, including the successful employment of the Group's experience built from managing its leased-and-operated hotels to offer hotel management services. Accordingly, evaluation of the Group's hotel management business and its prospects is difficult, and there can be no assurance that the Group will succeed in this business.

The Group's financial position and operating results could be materially and adversely affected by its concentration of suppliers

The Group has a concentration of suppliers that the Group's five largest suppliers in aggregate accounted for approximately 91.0% and approximately 98.3% of the Group's total purchases for the two years ended 31 December 2010 respectively. The major suppliers of the Group are suppliers of disposable amenities, cleansing products and laundry services. Although suppliers of such products and services are readily replaceable, there is no assurance that the Group can secure adequate supply at commercially viable prices in a timely manner to meet the Group's requirements. In addition, the Group does not have long term supply contracts with these suppliers and therefore the Group cannot guarantee consistent supplies from these suppliers. A shortage of such supplies could result in the Group's inability to operate its hotel business, therefore its financial position and operating results could be materially and adversely affected.

The Group has an increasing concentration of and reliance on major customers and the loss of any of such customers could materially and adversely affect the Group's business and financial position

The Group has an increasing concentration of and reliance on major customers that the Group's five largest customers accounted for approximately 3.0% and approximately 29.6% of the Group's revenue for the two years ended 31 December 2010 respectively. This is mainly due to the commencement of the hotel consultancy business in December 2009 which contributed revenue on a project basis. For the year ended 31 December 2010, the Group completed the projects under four hotel consultancy agreements entered into with two hotel investors, which contributed approximately 25.8% of the Group's total revenue for the year. The Directors cannot guarantee that the Group will be able to enter into new hotel consultancy agreements with these or other hotel investors in the future. If any of the hotel investors materially reduces or delays payment, or terminates the hotel consultancy agreements with the Group, the Group's cash flow and profitability may be adversely impacted.

The financial results of the Group are expected to be affected by the expenses in relation to the Listing

The financial result of the Group for the year ending 31 December 2011 will be affected by the non-recurring expenses in relation to the Listing. The estimated expenses in relation to the Listing are approximately HK$17.8 million, of which approximately HK$15.5 million is directly attributable to the issue of new Shares to the public and is to be accounted for as a deduction form equity. The remaining estimated listing expenses of approximately HK$2.3 million are charged to profit or loss of the Group for the year ending 31 December 2011. Such expenses in relation to the Listing have not been incurred during the Track Record Period.

Accordingly, the financial results of the Group for the year ending 31 December 2011 are expected to be materially and adversely affected by the estimated expenses in relation to the Listing.

The Group intends to refurbish or further develop the existing leased hotel properties which could result in cost overruns or disruptions of the leased-and-operated hotel operations

In order to improve and maintain the conditions of the leased-and-operated hotels, the Group needs to conduct refurbishments of the hotels. These refurbishments may be more costly than expected and are subject to risk of delay and cost overrun. Moreover, even though the operations of hotels may not need to stop entirely during the refurbishment, there may be situations where refurbishment would disrupt hotel operations and adversely affect the Group's revenue. The disruption and other risks associated with refurbishments or the failure to improve and maintain the conditions of the hotels could have an adverse effect on the Group's business, financial condition and results of operations.

The Group may not be able to register the existing brand names

During the Track Record Period, the Group operated the hotels under the brand names of "悅來", "悅來客棧" and "Welcome Inn". The Directors believe that brand names, trade names and trademarks are critical to the Group's success in the long term. The Group has made applications for the registration of word marks and logo marks containing "悅來客棧", "悅來" and "Welcome Inn" as trademarks in the PRC in February and March 2011 which are accepted and currently being processed by 國家工商行政管理總局商標局 (Trademark Department of the State Administration of Industry and Commerce*) as at the Latest Practicable Date. It is expected that the registrations will be completed within two years from the respective dates of applications. Before the trademarks are successfully registered in the PRC, the Group is unable to prevent one or more other parties from using the same brand names or word marks or logo marks to promote hotel business. Any use by a third party of the "悅來", "悅來客棧" or "Welcome Inn" brand names or logo marks may impact hotel guests' perception of the Group's hotels. In particular, hotel guests may believe that other hotels using the same brand names are related to the Group, and recognition of and confidence in the Group's brand names may be negatively impacted if the standard of any services or amenities offered in third-party hotels are below that of the Group. If the Group is unable to register any of the said trademarks, it may not be able to effectively promote the hotel business and the Group's hotel occupancy, revenue and profitability may be materially and adversely affected. Further details of the Group's trademarks are set out in the sub-section headed "Intellectual properties" under the section headed "Business" of this prospectus and the sub-paragraph headed "Intellectual property rights of the Group" under the section headed "Further information about the business of the Group" in Appendix V to this prospectus.

The Group's insurance coverage may be insufficient to protect the Group against potential liabilities arising during the course of the operations

The Group's operations may be affected by a number of risks, including business interruption or potential damage to the Group's facilities and equipment caused by adverse weather conditions, human error, terrorist attack, war, pollution or labour disputes. Moreover, the Group faces risks relating to provision of services to hotel guests such as causing damage to hotel guests' belongings. Consistent with industry practice, the Group does not maintain insurance against all risks associated with the hotel industry, either because the Directors have deemed it commercially unfeasible to do so, or the risk is minimal, or the premium is not justifiable, or because the insurers have carved certain risks out of their standard policies. These risks include, but are not limited to, events such as the loss of business arising from increased competition, the loss of any business resulting from negative effects on the changing business cycles or supply of rooms. If an incident occurs in relation to which the Group has inadequate insurance coverage, the business, financial position and operating results of the Group could be materially and adversely affected. Further, the Directors cannot guarantee that the Group will be able to renew the existing insurance policies on commercially reasonable terms, or at all.

Prohibited activities, accidents or injuries in the Group's hotels may adversely affect the Group's reputation and hold the Group liable

There are inherent risks of prohibited activities (such as illegal drug use, gambling, violence or prostitution by guests), accidents or injuries taking place in the Group's hotels. The occurrence of one or more prohibited activities, accidents or injuries at any of the Group's hotels could adversely affect the Group's safety reputation among hotel guests, harm the Group's brand name, decrease the overall occupancy, and increase the costs of implementing additional safety measures. Moreover, if prohibited activities, accidents or injuries occur at any of the Group's hotels, the Group may be held liable for fines or damages. The Group's current property and liability insurance policies may not provide adequate or any coverage for such losses, and the Group may be unable to renew the insurance policies or obtain new insurance policies without paying higher premium. The Group has not experienced any material prohibited activities, accidents or injuries in its hotels during the Track Record Period.

The Group may not be able to renew the leases with the hotel property owners and the rent for the leased hotel properties may increase

All the Group's leased-and-operated hotels are operated under leases. The leases of the hotel properties in Nanshan, Caitian, Luohu and Baoan will expire on 31 December 2014, 19 November 2015, 31 January 2018 and 15 August 2017 respectively. The Directors cannot guarantee that the property owners will renew the leases or renew the terms of the leases acceptable to the Group upon their expiration. If any of the property owners is unwilling to renew the lease or the Directors are of the view that the terms of the proposed new lease are not commercially acceptable or reasonable, it would have a material adverse effect on the Group's revenue, profit margin and results of operations.

The Directors also cannot guarantee that the rent for the leased properties will not increase. Rental expense is one of the Group's major costs in its business operations. For the two years ended 31 December 2009 and 2010, total rent for the Group's leased properties amounted to approximately HK$8,420,635 and HK$7,492,727 representing approximately 36.8% and 31.6% of the operating expenses of the Group respectively. Given that there has been a general rising trend of rent in the PRC, any substantial increase in rental expenses in future may have a material adverse impact on the Group's profitability.

Certain property owners are not able to produce certain title documents

As at the Latest Practicable Date, the Group had a total of 12 leased properties in Hong Kong and the PRC for its hotels, staff quarters and office premises. All of such properties are leased from Independent Third Parties. The leased property for Welcome Inn Caitian (the "**Caitian Property**") belongs to 中國人民武裝警察部隊 (the People's Armed Police Force of China*) (the "**PAPF**"). The lessor has the right to use the Caitian Property under 中國人民武裝警察部隊房地產租賃許可證 (Real Estate Title Certificate of the People's Armed Police Force of China*) (the "**Lease Permit**") issued by the 中國人民武裝警察部隊後勤部基建營房部 (Logistic Department and Infrastructure and Housing Department of the People's Armed Police Force of China*). However, the Lease Permit had expired on 31 December 2009 and to the best knowledge of the Directors, the application by the lessor for a new Lease Permit is in progress. However, it is not certain when a new Lease Permit will be issued and if a new Lease Permit will be issued at all. As advised by the Company's PRC legal advisers, if the PAPF refuses to issue a new Lease Permit, the lessor may not be entitled to lease the Caitian Property to the Group and the lease agreement may not be enforceable. In such event, the Group may risk being requested by the PAPF to vacate from the property and hence would have a material adverse effect on the Group's revenue, profit margin and results of operations. In the event that the Group is requested to vacate the Caitian Property, it is expected that the Group will incur a loss of approximately HK$3.6 million, being the carrying amount of Welcome Inn Caitian (including all immovable assets such as leasehold improvements) as at 31 December 2010. Further details of the Caitian Property are set out in the sub-section headed "Properties" under the section headed "Business" of this prospectus.

Further, the landlord of a staff quarter is unable to produce evidence of ownership in the property, and the validity of such lease agreement may be challenged. If the lease agreement is found to be invalid by the competent authorities or if the landlord turn out does not possess valid title, the Group may have to relocate the staff quarter and in such circumstance, the Group would have to incur additional relocation costs.

The Controlling Shareholder has agreed to keep the Group indemnified for any losses that the Group may suffer from any failure of any member of the Group in leasing or obtaining licence or permit to use any property interests owned or leased or otherwise used or occupied by the Group, or to obtain any property certificate in respect of such properties. Please refer to the paragraph "Estate duty and tax indemnity" under the section "Other Information" in Appendix V to this prospectus for further details.

A few lease agreements have not been registered according to relevant PRC rules and regulations

According to the relevant PRC rules and regulations, a lease agreement shall be registered with the relevant authority within 30 days after the lease agreement is entered into, failing which the relevant authority is entitled to request the parties of the lease to rectify the situation within a time limit. The lease agreements of the Caitian Property and Welcome Inn Nanshan have not been registered with the relevant authority. As at the Latest Practicable Date, the lease agreement of Welcome Inn Nanshan was in the process of registration with the relevant authority. In addition, the Company intends to register the lease agreement of the Caitian Property after the issue of a new Lease Permit. However, to the understanding of the Company, the registration of the lease agreement of the Caitian Property may be subject to the validity of the Lease Permit. As such, the Company may or may not successfully register such lease agreement.

Further, none of the lease agreements of the staff quarters have been registered with the relevant PRC authorities as the respective landlords of the properties are unwilling to provide the Group with the original building ownership certificates for registration purpose or are reluctant to complete the required registration, as confirmed by the Directors. Should such staff quarters are required to be relocated, alternative staff quarters be available in close proximity. The Directors believe that the cost of relocation for one staff quarter is estimated to be approximately RMB1,000. The Directors do not anticipate the relocation of staff quarter to have any material potential operational and financial impact on the Group.

As at the Latest Practicable Date, the Group had not received any rectification or penalty order. If the parties still fail to register the lease agreement, they may be subject to a fine in the sum between RMB1,000 and RMB10,000. According to the relevant PRC rules and regulations, the Group may be liable for the fine as mentioned above.

The Controlling Shareholder has agreed to keep the Group indemnified for any losses that the Group may suffer from any failure of any member of the Group in leasing or obtaining licence or permit to use any property interests owned or leased or otherwise used or occupied by the Group, or to obtain any property certificate in respect of such properties. Please refer to the paragraph "Estate duty and tax indemnity" under the section "Other Information" in Appendix V to this prospectus for further details.

The Group may be subject to fine due to delay in full payment of registered capital

The registered capital of Modern Tourists and Yuelai Inn were all fully paid. However, such registered capital were fully paid after the time limit specified by the relevant registration authority due to administrative omission. According to 中華人民共和國公司登記管理條例 (the PRC Company Registration and Management Regulations*), the relevant registration authority is entitled to request a company which has delayed full payment of its registered capital to pay a fine in a sum between 5% to 15% of the amount due. The Group is subject to an aggregate maximum penalty of HK$187,500 for the delay in full payment of the registered capital of Modern Tourists and Yuelai Inn. As advised by the Company's PRC legal advisers, the delay in full payment of registered capital will not affect the valid existence and will not cause any material adverse effect on the legal status of Modern Tourists and Yuelai Inn. 深圳市市場監督管理局 (the Market Supervision and Administration Bureau of Shenzhen*), the competent authority, confirmed that as at 31 December 2010, none of Modern Tourists and Yuelai Inn was in breach of 市場監督管理法律法規 (the Law and Regulation of Market Supervision and Administration*). No provision for the penalty has been made during the Track Record Period since the Directors consider the financial impact of such penalty is insignificant and it is not probable that the Group's subsidiaries will be subject to such penalty since the Group has obtained the confirmation from 深圳市市場監督管理局 (the Market Supervision and Administration Bureau of Shenzhen*) that both Modern Tourists and Yuelai Inn were not in breach of 市場監督管理法律法規 (the Law and Regulation of Market Supervision and Administration*). No objections have been raised by the relevant registration authority up to the Latest Practicable Date in relation to the delayed payment of the registered capital of Modern Tourists and Yuelai Inn. If the relevant registration authority decides to enforce the regulations and request any of Modern Tourists or Yuelai Inn to pay fines, it would have a material adverse effect on the Group's results of operations.

The Controlling Shareholder has entered into a deed of indemnity with and in favour of the Company in which the Controlling Shareholder has agreed with each member of the Group that he will indemnify and at all times keep all and each of the members of the Group fully indemnified on demand against all losses, costs (including all legal costs), expenses, penalties or other liabilities which any of the members of the Group may incur in connection with or sustain from the delay in capital contribution to any members of the Group by the relevant shareholders. Please refer to paragraph headed "Estate duty and tax indemnity" under the section headed "Other Information" in Appendix V to this prospectus.

The Group may be required to pay up any outstanding social insurance, or subject to penalties for any irregularities arising from the contribution to the social insurance

As set out in the sub-section headed "Litigation and legal compliance" under the section headed "Business" of this prospectus, the Group has not fully paid and has not been required by the relevant local authorities to fully pay the social insurance contribution for some of the Group's employees.

The Group may be required to pay up any outstanding social insurance, or subject to penalties for any irregularities arising from the contribution to the social insurance. The Controlling Shareholder has entered into a deed of indemnity with and in favour of the Company in which the Controlling Shareholder has agreed with each member of the Group that he will indemnify and at all times keep all and each of the members of the Group fully indemnified on demand against all losses, costs (including all legal costs), expenses, penalties or other liabilities which any of the members of the Group may incur in connection with or sustain from the under-provision of social insurance to any members of the Group by the relevant shareholders.

RISKS RELATING TO THE HOTEL INDUSTRY

The hotel industry is subject to intense and growing competition

The hotel industry is highly competitive in the PRC. The Group's competitors include operators of single guesthouses and hotels located in the vicinity of the Group's hotels, local hotel chains with multiple hotels, established property developers who have entered the hotel industry, and large international hotel chains operating multiple hotels under a variety of brand names. The competition to attract hotel guests is primarily based on the location of the hotel, price, property size, quality of rooms, amenities and facilities, hotel guest brand recognition and loyalty, geographic coverage, quality of services provided, and relationships with travel agents and third party wholesalers. Many of the competitors have operated in the industry for substantially longer periods of time than the Group and have accumulated more operational, managerial, sales and marketing experience, brand recognition, human resources and financial resources. The Directors cannot guarantee that some or many of the competitors will not engage in hotel business in markets in which the Group is operating or plan to operate, which will increase the supply of available hotel rooms in those areas and thereby increase competition and negatively impact the Group's occupancy and room rates. The Directors cannot guarantee that the Group will be able to successfully compete against the current and future competitors. In particular, if more established competitors engage in significant price discount to attract hotel guests, the Group may be forced to substantially reduce the hotel room rates to maintain occupancy, and it would have a material adverse effect on the Group's revenue, profitability and results of operations.

In addition, competition for hotel staff, particularly experienced ones, is intensive in the hotel industry. The Group's hotel staff interacts with the guests and are critical in maintaining consistent and high-quality services, and enhances the brand names and reputation. The Group must recruit and train qualified managerial and other employees on a timely basis to keep pace with the planned future growth. Due to rapid growth of the economy in the PRC, there is a shortage in the supply of labour in the market. The Group needs to compete against other hotel operators which have substantially more established brand names that may potentially be perceived to be more attractive than the Group's brand names, which may offer better compensation, benefits and potential for career advancement and international exposure. The Group also needs to face competition for labour from other industries in the PRC. If the Group fails to recruit, train and retain qualified managers and other employees, the quality of the Group's hotel services may deteriorate and the Group may be unable to implement the expansion plans, which in turn may have a material adverse effect on the Group's brand names, business, financial condition and results of operations.

The Group's business may be adversely affected by a reduction in travel or discretionary consumer spending as a result of a downturn in the PRC or the global economy

The Group's business may be adversely affected by a reduction in business travel or discretionary consumer spending as a result of a downturn in the PRC or the global economy. Consumer demand for the hotel accommodation and convention amenities which are provided by the Group are particularly sensitive to downturns in the economy. In particular, the Group is vulnerable to decline in demand from travellers. Changes in consumer preferences, level of travel, or discretionary consumer spending brought about by factors such as deterioration in general economic conditions, decrease in disposable consumer income, fear of recession or decline in consumer confidence in the economy could reduce consumers' demand for the hotel services provided by the Group, thus imposing practical limits on pricing and consequently will have an adverse effect on the Group's business, financial condition and results of operations.

The Group's financial and operating performance may be adversely affected by adverse weather conditions, epidemics, natural disasters and other catastrophes, wars, the threat of terrorist attacks and the occurrence of international or political crises

The Group's financial and operating performance may be adversely affected by adverse weather conditions, epidemics, natural disasters and other catastrophes, wars, the threat of terrorist attacks and the occurrence of international and political crises, particularly in the PRC. Losses caused by adverse weather conditions, epidemics, natural disasters and other catastrophes, such as severe acute respiratory syndrome, avian flu, swine flu, earthquakes, typhoons, wars and terrorist attacks are either uninsurable or too expensive to justify insuring against. In the event an uninsured loss or a loss in excess of insured limits occurs, the Group could lose all or a portion of the capital it has invested in the hotels, as well as the anticipated future revenue from the hotels. Similarly, wars (including the potential for war), terrorist attacks (including threats of terrorist attacks), as well as geopolitical uncertainty and international conflict, may affect travelling and may in turn have a material adverse effect on the Group's business and results of operations. In addition, the Group may not be adequately prepared in contingency planning or recovery capability in relation to a major incident or crisis, and as a result, the Group's operational continuity may be adversely affected and reputation may be harmed.

The seasonality of the hotel industry could have a material adverse effect on the Group's revenue and financial condition

The hotel industry is seasonal in nature and can cause fluctuations in the Group's revenue and financial conditions. This seasonality can be expected to cause periodic fluctuations in the Group's occupancy, hotel room rates and operating expenses. The results of operations are affected by seasonal fluctuation in demand for hotel services. The corporate customers contribute a significant portion of revenue to the Group. The Group experiences lower revenue in Chinese New Year holidays during which most of the workers in the PRC are on vacation and less business trips are arranged. The revenue earned from the hotel operations segment during January 2009 and February 2010 (the months with Chinese New Year holidays) dropped by approximately 26.5% and approximately 37.0% compared with the average monthly revenue earned from the hotel operations segment for the two years ended 31 December 2010 respectively. The Directors cannot guarantee that the Group's cash flow will be sufficient to offset any shortfalls that occur as a result of these fluctuations, and the Group may have to enter into short-term borrowings in order to enhance the cash flow position at any time during the financial year. As a result, volatility in the financial performance resulting from the seasonality of the hotel industry could have a material adverse effect on the Group's revenue and financial condition.

The Group's co-operation with third-party websites and other hotel reservation intermediaries may adversely affect the Group's margins and profitability

The Group has contracted with operators of websites and other hotel reservation intermediaries who are Independent Third Parties to whom the Group pays commission for such services. If these intermediaries continue to develop their hotel guest bases and the percentage of bookings at the Group's hotels made through their systems becomes even more significant, they may be able to negotiate higher commission or other significant concessions from the Group, which could adversely affect the Group's margins and profitability.

The Group is subject to renewal of various licences and various hotel industry, health and safety, and environmental laws and regulations that may subject the Group to liability

The Group is required to obtain applicable licences and renew them from time to time for the operation of its hotel business. The Group does not have automatic rights of renewal to the licences. The Directors cannot guarantee that the conditions or requirements the Group may be required to satisfy or meet will not change from time to time. If the Group is unable to renew the licences in a timely manner or if the relevant government authority does not approve the application for a renewal of the licences, the Group may be subject to fines or penalties and may be required to cease the hotel operations, which may have a material adverse effect on the Group's financial condition and results of operations.

The Group's business is also subject to various health, safety and environmental laws and regulations, including fire prevention, public safety, health and sanitary requirements. Therefore, there could be risks of monetary damages, the imposition of fines, or the suspension or disruption of operations, which could materially adversely affect the financial condition and results of operations. Furthermore, the failure to obtain environmental approvals from local environmental protection agencies and non-compliance with applicable health and safety regulations may subject the hotels to fines or suspension of operations, which could materially adversely affect the financial condition and results of operations. New regulations could also require the Group to retrofit or modify the hotels or incur other significant expenses.

Fluctuations in the price of disposable amenities, cleansing products and laundry services

The price of disposable amenities, cleansing products and laundry services required by the Group may fluctuate due to changes in the supply and demand of the market. There is no assurance that the disposable amenities, cleansing products and laundry services required by the hotel operation will not be subject to any shortage in supply or upsurge in demand which may lead to an increase in prices. If the Group is unable to pass these increased cost to its hotel guests because of the competitive nature of hotel industry, the Group's profit margin will decrease and the Group's profitability may be materially and adversely affected.

RISKS RELATING TO THE PRC

Adverse changes in economic and political policies of the PRC government could have a material adverse effect on the overall economic growth of the PRC, which could adversely affect business of the Group

The Group conducts substantially all of the business operations in the PRC. Since the travel industry is highly sensitive to business and personal discretionary spending levels, it tends to decline during general economic downturns. In view of that, the Group's results of operations, financial condition and prospects are subject to a significant degree to economic developments in the PRC. The PRC's economy is different from the economies of most developed countries in many respects, including the level of government intervention, level of development, growth rate, control of foreign exchange and allocation of resources. While the PRC economy has experienced significant growth in the past 20 years, growth has been uneven across different regions and among various economic sectors. In addition, the PRC has also experienced a recent reduction on its economic growth as part of the world financial crisis. The PRC government has executed various measures to encourage economic development and guide the allocation of resources. While some of these measures benefit the overall PRC economy, they may also have a negative effect on the Group. For instance, the Group's results of operations and financial condition may be adversely affected by government control over capital investments or changes in environmental, health, labour or tax regulations.

Governmental control of currency conversion and fluctuations in the value of the RMB may affect the value of investment, the Group's ability to remit the dividend to the shareholders and the ability of the Group's PRC subsidiaries to obtain financing

Substantially all of the Group's net revenue and operating expenses are currently generated in RMB. In addition, the Group will require foreign currencies for dividend payment (if any) to the Shareholders. As a result, the Group is exposed to foreign currency fluctuations.

In the PRC, since 1994, the conversion of RMB into foreign currencies including Hong Kong and US dollars, has been based on rates set by the People's Bank of China. The PRC government has, with effect from 21 July 2005, reformed the exchange rate regime by permitting RMB to fluctuate within a narrow and managed band based on market supply and demand with reference to a basket of currencies. The PRC government has since made further adjustments to the exchange rate system. Any appreciation of RMB may result in the decrease in the value of the Group's foreign currency-denominated assets, including the net proceeds from the Placing. Conversely, any depreciation of RMB may adversely affect the value of any dividends payable on the Shares in foreign currency terms.

Further, any future restrictions on currency exchanges may limit the ability to use net revenue generated in RMB to fund possible business activities outside the PRC or expenditure denominated in foreign currencies. Although the PRC government introduced regulations in 1996 to allow greater convertibility of RMB for current account transactions, including trade and services-related foreign exchange transactions and payment of dividend, significant restrictions still remain, including primarily the restriction that enterprises may only buy, sell and/or remit foreign currencies at those banks authorised to conduct foreign exchange business after providing valid commercial documents. In addition, remittance of foreign currencies abroad and conversion of RMB for capital account items, including direct investment and loans, is subject to government approval in PRC, and companies are required to open and maintain separate foreign exchange accounts for capital account items. Under the current group structure, the Company's income is derived principally from dividend payments from the Company's PRC subsidiaries. Shortage in foreign currencies may restrict the ability of the PRC subsidiaries to remit sufficient foreign currencies to pay dividends or other payments to the Company, or otherwise satisfy their foreign currency-denominated obligations. The Directors cannot guarantee that the Chinese regulatory authorities will not impose more stringent restrictions on the convertibility of RMB, especially with respect to foreign exchange transactions.

PRC regulations on loans and direct investments by offshore holding companies to PRC entities may delay or prevent the Group from using proceeds received from the Placing to make loans or additional capital contributions to the PRC subsidiaries of the Group

Any loans or capital contributions the Company, as an offshore entity, makes to its PRC subsidiaries, including the proceeds of the Placing, are subject to PRC regulations. For example, a foreign-invested enterprise may offer loans according to the PRC regulations, provided that the sum of the long-term, mid-term and short-term loans shall not exceed the difference between the approved investment amount and the registered capital, and such loans must be registered with 中華人民共和國國家外匯管理局 (the State Administration of Foreign Exchange of the PRC*) or its authorised organisation. In addition, the Company's capital contribution to its PRC subsidiaries by way of increasing the registered capital of the PRC subsidiaries must be approved by the competent authority of the Ministry of Commerce of the PRC. There is no assurance that the Group will be able to obtain the approvals on a timely basis, or at all. If the Group fails to obtain such approvals, its ability to make equity contribution or provide loans to the PRC subsidiaries, to fund their operations or to utilise the proceeds of this Placing may be adversely affected, which could adversely affect the liquidity of the PRC subsidiaries and their ability to fund working capital.

PRC legal system embodies uncertainties that could limit the legal protection available to Shareholders and the Group

A majority of operations of the Group is located in the PRC and such operations are governed by the legal system of the PRC. The PRC legal system is based on written statutes. Prior court decisions may be cited for reference only but have limited precedential value. The PRC government has promulgated laws and regulations dealing with economic matters such as foreign investment, corporate organisation and governance, commerce, taxation and trade since the late 1970s. However, as these laws and regulations are relatively new and are still evolving, interpretation and enforcement of these laws and regulations may involve significant uncertainties and certain degrees of inconsistencies. Many laws, regulations, policies and legal requirements have only been recently adopted by the PRC central or local governments, and their enforcement, implementation and interpretation may involve uncertainty due to the lack of established practice available for reference. Some of the laws and regulations are still at a developing stage and are subject to changing policies. The Group cannot predict the effect of future legal developments in the PRC, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the pre-emption of local regulations by national law. As a result, there is substantial uncertainty as to the legal protection available to the Group and investors. Moreover, due to the limited number of published cases and the non-binding nature of prior court decisions, the outcome of dispute resolution may not be as consistent or predictable as in other more developed jurisdictions, which may limit the legal protection available to the Group.

The Group may be classified as a "resident enterprise" of PRC which could result in unfavourable tax consequences to the Group and non-PRC Shareholders

The State Council promulgated 中華人民共和國企業所得稅法實施條例 (the Regulation on the Implementation of PRC Enterprise Income Tax Law (the "**EIT Regulation**")) on 6 December 2007, effective as at 1 January 2008. The EIT Regulation defines the term "de facto management bodies" as "bodies that substantially carry out comprehensive management and control on the business operation, employees, accounts and assets of enterprises". Under the EIT Regulation, an enterprise incorporated outside China whose "de facto management bodies" are located in China is considered a "resident enterprise" and will be subject to a uniform 25% enterprise income tax rate on its global income. In 2009, the State Administration of Taxation further laid down certain criteria for determining if a foreign enterprise which is controlled by enterprises in the PRC has its "de facto management body" located in the PRC. If all of these criteria are satisfied, the relevant foreign enterprise controlled by a PRC enterprise will be deemed to have its "de facto management bodies" located in the PRC and therefore be considered a resident enterprise in the PRC. These criteria include: (i) the senior managing personnel and organisation responsible for the day-to-day operation of the enterprise discharge the duties primarily within the PRC; (ii) decisions about the enterprise's financial and human resource matters are made or subject to approval by organisation or personnel within the PRC; (iii) the enterprise's primary assets, books and records, company seals, and minutes of board and shareholders' meetings are located or maintained within the PRC; and (iv) 50% or more of voting board members or senior executives of the enterprise habitually reside in the PRC.

However, there have been no official implementation rules regarding the determination of the "de facto management bodies" for foreign enterprises which are not controlled by PRC enterprises (including companies like the Company). The Company is currently not treated as a PRC resident enterprise by the relevant tax authorities. Since some of the Group's management is currently based in the PRC and is expected to remain in the PRC in the future, the Company cannot guarantee that it will not be considered a "resident enterprise" under the new EIT Regulation and not be subject to the enterprise income tax rate of 25% on the global income of the Group. In addition, although the EIT Regulation provides that investment income (such as dividend and bonus) between "qualified resident enterprises" is exempted income, it is not clear what is considered a "qualified resident enterprise" under such law.

Furthermore, according to 中華人民共和國企業所得稅法 (the PRC Enterprise Income Tax Law*) (the "**EIT Law**") effective as at 1 January 2008, the capital gains made by foreign Shareholders from sales of the Shares and dividends on the Shares payable to foreign Shareholders may be regarded as income from "sources within PRC" and therefore subject to income tax of 10% (or lower if certain tax treaties apply). If the Company is required under the EIT Law to withhold PRC income tax on the dividends payable to the foreign Shareholders, or if the foreign investors are required to pay PRC income tax on the transfer of the Shares, the value of the foreign Shareholders' investment in the Shares may be materially and adversely affected.

The Group may experience difficulties in effecting services of legal process, enforcing foreign judgement or bringing original actions in the PRC

The Company is incorporated in the Cayman Islands. The majority of its assets and subsidiaries and their assets are located in the PRC. Moreover, a significant number of the officers of the Group reside within the PRC. Therefore it may be difficult for investors to effect service of process outside the PRC upon the Group's officers, including matters arising under applicable securities laws. Moreover, a judgement of a court of another jurisdiction may only be reciprocally recognised or enforced if the jurisdiction has a treaty with the PRC or if judgements of the PRC courts have been recognised in that jurisdiction. However, the PRC does not have treaties for the reciprocal enforcement of judgements of courts in the Cayman Islands. As a result, recognition and enforcement in the PRC of judgements of a court in Cayman Islands is subject to uncertainties.

RISKS RELATING TO THE PLACING

The Placing is not underwritten

The Placing is managed by the Joint Lead Managers on a best-efforts basis but is not underwritten. Therefore, there is no guarantee that the Placing will proceed as scheduled. Should the amount of gross proceeds of the Placing raised be less than HK$36 million (being 45 million Placing Shares times the lowest Placing Price of HK$0.8 per Placing Share) (or such amount as agreed between the Company and the Joint Lead Managers (for themselves and on behalf of the Co-lead Manager)) or the relevant total Placing Price is not received by the Joint Lead Managers at or before the Price Determination Time, the Placing will not proceed.

There has been no prior public market for the Shares and an active trading market may not develop

Prior to the Placing, there was no public market for the Shares. The Placing Price for the Shares was the result of negotiations between the Company and the Placing Agents, and the Placing Price may differ significantly from the market price for the Shares following the Placing. The Company has applied for the listing of, and permission to deal in, the Shares on the Stock Exchange. However, a listing on the Stock Exchange does not guarantee that an active trading market for the Shares will develop following the Placing or in the future.

The trading volume and market price of the Shares following the Placing may be volatile

The market price and trading volume of the Shares on the Stock Exchange may be volatile. Factors such as variations in the Group's revenue, earnings and cash flow and announcements of new investments, strategic alliances or acquisitions and changes in the rates and markets may result in large and sudden changes in the volume of the Shares traded and price at which the Shares trade. The Directors cannot guarantee that these developments will not occur in the future.

Shareholders and investors may face difficulties in protecting their interests because the Company is incorporated under the laws of the Cayman Islands and these laws may provide different protections to minority Shareholders than the laws of Hong Kong

The Company's corporate affairs are governed by the Memorandum and Articles of Association and by the Companies Law and common law of the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders differ in some respects from those established under statutes or judicial precedent in existence in Hong Kong. Such differences may mean that the minority Shareholders may have different protections than they would have under the laws of Hong Kong.

The interests of the Controlling Shareholder may be inconsistent with those of the minority Shareholders

Immediately following the Placing, the Controlling Shareholder will be Mr. Fong. As at the Latest Practicable Date, the Controlling Shareholder was holding approximately 73.9% of the total issued Shares, thereby giving the Controlling Shareholder the ability to control actions that require majority Shareholders' approval. If the interests of the Controlling Shareholder conflict with the interests of other Shareholders, or if the Controlling Shareholder chooses to cause the Group's business to pursue strategic objectives that conflict with the interests of other Shareholders, those other Shareholders could be disadvantaged by the actions that the Controlling Shareholder chooses to pursue. In addition, the Controlling Shareholder has entered into the Deed of Non-competition Undertaking in favour of the Company pursuant to which there are certain non-competition restrictions imposed on the Controlling Shareholder. If the Deed of Non-competition Undertaking is terminated, the Controlling Shareholder may compete with the Company in the future. The Directors cannot guarantee that any conflicts of interest or overlap of business activities and operations between the Controlling Shareholder and the Group will not arise and materially and adversely affect the Group's financial condition, results of operations and prospects.

Statistics in this prospectus are derived from different official sources and may not be reliable

The Directors believe that the sources of the facts and statistics presented in this prospectus such as statistics relating to the hotel industry in the PRC are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. The Directors have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information has not been independently verified by the Directors, the Sponsor, the Joint Lead Managers, the Sole Bookrunner, the Co-lead Manager or any other party involved in the Placing and no representation is given as to its accuracy.

Future sales of substantial amount of the Shares in the public market could adversely affect the prevailing market price of the Shares

Future sales of a substantial number of the Shares by the existing shareholders, or the possibility of such sales, could negatively impact the market price of the Shares in Hong Kong and the ability of the Group to raise equity capital in the future at an appropriate time and price.

The Shares held by certain of the existing shareholders are subject to lock-up beginning on the date on which trading in the Shares commences on the Stock Exchange. While the Group is not aware of any intentions of the existing shareholders to dispose of significant amounts of their shares upon expiry of the relevant lock-up periods, the Group cannot guarantee that they will not dispose of any of their Shares. In the event that any of the existing shareholders disposes of Shares upon expiry of the relevant lock-up periods, this would lead to an increase in the number of the Shares in public hands, and could negatively impact the market price of the Shares or lead to volatility in the market price or trading volume of the Shares, affecting the value of your investment.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules and the GEM Listing Rules for the purpose of giving information to the public with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this prospectus misleading.

DEALINGS AND SETTLEMENT

Dealings in the Shares on GEM are expected to commence at 9:00 a.m. on 15 July 2011. Shares will be traded in board lots of 3,000 Shares each.

The stock code for the Shares is 8160.

The Company will not issue any temporary documents of title.

Dealings in the Shares on GEM will be effected by participants of the Stock Exchange whose bid and offer quotations will be available on the GEM's teletext page information system. Delivery and payment for Shares dealt on GEM will be effected two trading days following the transaction date.

Settlement of transactions between participants of the the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. Only certificates for Shares registered on the branch share register of the Company will be valid for delivery in respect of transactions effected on GEM.

If you are unsure about the procedures for dealings and settlement arrangement on GEM on which the Shares are listed and how such arrangements will affect your rights and interests, you should consult your stockbroker or other professional advisers.

THE PLACING IS NOT UNDERWRITTEN

This prospectus is published solely in connection with the Placing which is sponsored by the Sponsor. Subject to the terms and conditions of the Placing Agreement including, among other things, the determination of the Placing Price between the Joint Lead Managers (for themselves and on behalf of the Co-lead Manager) and the Company at or before the Price Determination Time. **The Placing is managed by the Joint Lead Managers on a best-efforts basis and is not underwritten.** Particulars of the placing arrangements are set forth in the section headed "Structure and conditions of the Placing" of this prospectus. **Should the amount of gross proceeds raised under the Placing be less than HK$36,000,000 (being 45,000,000 Placing Shares times the lowest Placing Price of HK$0.80 per Placing Share) (or such amount as agreed between the Company and the Joint Lead Managers (for**

themselves and on behalf of the Co-lead Manager)) or the relevant total Placing Price is not received by the Joint Lead Managers at or before the Price Determination Time, the Placing will not proceed.

RESTRICTIONS ON OFFER OF THE PLACING SHARES

No action has been taken to permit the offering of the Placing Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong.

The distribution of this prospectus and the offering of the Placing Shares in certain jurisdictions are restricted by law. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation, nor is it calculated to invite or solicit offers in any jurisdiction or in any circumstances in which such offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation.

The Placing Shares are offered solely on the basis of the information contained and the representations made in this prospectus. So far as the Placing is concerned, no person is authorised to give any information or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by the Company, the Sponsor, the Sole Bookrunner, the Joint Lead Managers, the Co-lead Manager, any of their respective directors, officers, representatives, or any affiliates of any of them, or any other person or party involved in the Placing.

APPLICATION FOR LISTING ON THE GEM

An application has been made to the Stock Exchange for the listing of, and permission to deal in, the Shares in issue, the Placing Shares and as otherwise described in this prospectus on GEM (including any Shares which may be issued pursuant to the exercise of any option which may be granted under the Share Option Scheme).

No part of the Shares or loan capital of the Company is listed, traded, or dealt in on any stock exchange. As at the Latest Practicable Date, the Company was not seeking or proposing to seek listing of, or permission to deal in, the securities of the Company on any other stock exchange.

A total of 45,000,000 Placing Shares representing approximately 25% of the enlarged issued share capital of the Company immediately following completion of the Placing (without taking into account of any Shares which may be allotted and issued pursuant to the exercise of any option which may be granted under the Share Option Scheme) will be made available under the Placing.

Under section 44B(1) of the Companies Ordinance, if the permission for the Shares offered under this prospectus to be listed on GEM has been refused before the expiration of three weeks from the date of the closing of the application of the Placing or such longer period not exceeding six weeks as may, within the said three weeks, be notified to the Company by or on behalf of the Stock Exchange, then any allotment made on an application in pursuance of this prospectus shall, whenever made, be void.

Pursuant to Rule 11.23(7) of the GEM Listing Rules, at the time of the Listing and at all times thereafter, the Company must maintain the "minimum prescribed percentage" of 25% of the issued share capital of the Company in the hands of the public.

Only securities registered on the branch register of members of the Company kept in Hong Kong may be traded on GEM unless the Stock Exchange otherwise agrees.

ELIGIBILITY FOR ADMISSION INTO CCASS

Subject to the granting of listing of, and permission to deal in, the Shares on GEM and the Company's compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance, and settlement in CCASS with effect from the date of commencement of dealings in the Shares on GEM or any other date as HKSCC chooses.

Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements have been made for the Shares to be admitted into CCASS. If investors are unsure about the details of CCASS settlement arrangement and how such arrangement will affect their rights and interests, they should seek the advice of their stockbroker or other professional advisers.

HONG KONG REGISTER OF MEMBERS AND STAMP DUTY

All of the Shares will be registered on the Company's branch register of members to be maintained in Hong Kong by the Company's branch share registrar and transfer office, Union Registrars Limited at 18th Floor, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong.

The Company's principal register of members will be maintained by the Company's principal share registrar and transfer office, Codan Trust Company (Cayman) Limited at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

Dealings in the Shares registered in the branch register of members of the Company in Hong Kong will be subject to Hong Kong stamp duty.

Unless determined otherwise by the Company, dividends payable in Hong Kong dollars in respect of the Shares will be paid to the Shareholders listed on the Company's Hong Kong branch register of members to be maintained in Hong Kong, by ordinary post, at the Shareholders' risk, to the registered address of each Shareholder or if joint Shareholders, to the first-named therein in accordance with the Articles.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors for the Placing Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of holding and dealing in the Shares. It is emphasised that none of the Company, the Sponsor, the Sole Bookrunner, the Joint Lead Managers, the Co-lead Manager, any of their respective directors, officers, representatives, or any affiliates of any of them, or any other person or party involved in the Placing accepts responsibility for any tax effects or liabilities of holders of the Shares resulting from the subscription, purchase, holding or disposal of the Shares.

ROUNDINGS

Any discrepancies in any table between totals and sums of individual amounts listed in any table are due to rounding.

STRUCTURE AND CONDITIONS OF THE PLACING

Further details of the structure and conditions of the Placing are set forth in the section headed "Structure and conditions of the Placing" of this prospectus.

DIRECTORS

Name	Address	Nationality
Executive Directors		
Mr. Fong, Man Kelvin	House 31, Seasons Palace 157 Kam Sheung Road Kam Tin Yuen Long New Territories Hong Kong	British
Mr. Wong, William (formerly named "Mr. Wong, Hiu Fan William")	2nd Floor, DD 137 Lot 141 C2 Block 2 Dragon Cove Phase III Lung Kwu Tan Tuen Mun New Territories Hong Kong	Chinese
Non-executive Director		
Mr. De Weyer, Daniel Ludovicus Joannes	Suite 3702 Sutton Court Gateway Apartments Harbour City Kowloon Hong Kong	Belgian
Independent non-executive Directors		
Dr. Wong, Hak Kun Jerry	Flat 413, Block D Telford Gardens Kowloon Bay Kowloon Hong Kong	Chinese
Mr. Tam, Kwok Ming Banny	Room H, 38th Floor Block 2 Cheerful Garden 23 Siu Sai Wan Road Siu Sai Wan Hong Kong	Chinese
Mr. Tsoi, Wing Sum	Flat C, 14th Floor Serene Court 84 Victoria Road Kennedy Town Hong Kong	Chinese

PARTIES INVOLVED IN THE PLACING

Sponsor	Quam Capital Limited Room 3208, Gloucester Tower The Landmark 11 Pedder Street Central Hong Kong
Sole Bookrunner	SBI E2-Capital (HK) Limited Unit A2, 32/F United Centre 95 Queensway Hong Kong
Joint Lead Managers	Quam Securities Company Limited Room 3208, Gloucester Tower The Landmark 11 Pedder Street Central Hong Kong SBI E2-Capital (HK) Limited Unit A2, 32/F United Centre 95 Queensway Hong Kong
Co-lead Manager	SBI E2-Capital Financial Services Limited Unit A2, 32/F United Centre 95 Queensway Hong Kong

Legal advisers to the Company	*As to Hong Kong law:* Tung & Co. 19th Floor, 8 Wyndham Street Central Hong Kong *As to PRC law:* Jingtian & Gongcheng Room 2401–2402 New World Centre 6009 Yintian Road Futian District Shenzhen 518026 China *As to Cayman Islands law:* Conyers Dill & Pearman Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Legal advisers to the Sponsor and the Joint Lead Managers	*As to Hong Kong law:* K&L Gates 44th Floor, Edinburgh Tower The Landmark 15 Queen's Road Central Hong Kong *As to PRC law:* Guangdong Jiangshanhong Law Firm Room 4505–4508, Block A United Plaza No. 5022 Binhe Road Shenzhen China 518026
Reporting accountant	PricewaterhouseCoopers Certified Public Accountants 22nd Floor, Prince's Building Central Hong Kong
Property valuer	Norton Appraisals Limited Unit 01, 21st Floor Emperor Group Centre 288 Hennessy Road Wanchai Hong Kong

Registered office	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Principal place of business in Hong Kong	Unit 1303, 13th Floor Tai Tung Building 8 Fleming Road Wanchai Hong Kong
Headquarters	Room 1309, West Building Haian Towers Commercial and Cultural Centre Nanshan District Shenzhen The PRC
Company's website	**www.legendstrategy.com** *(information contained in this website does not form part of this prospectus)*
Company secretary	Mr. Kam, Tik Lun *(CPA, ACCA, LL.M (ICFL), CIM)*
Compliance officer	Mr. Wong, William
Authorised representatives *(for the purpose of the GEM Listing Rules and for the purpose of Part XI of the Companies Ordinance)*	Mr. Wong, William 2nd Floor, DD 137 Lot 141 C2 Block 2 Dragon Cove Phase III Lung Kwu Tan Tuen Mun New Territories Hong Kong Mr. Kam, Tik Lun Flat B, 2nd Floor, Block 6 Villa Carlton 369 Tai Po Road Kowloon Hong Kong

Audit committee	Mr. Tam, Kwok Ming Banny *(Chairman)* Dr. Wong, Hak Kun Jerry Mr. Tsoi, Wing Sum
Nomination committee	Mr. Tam, Kwok Ming Banny *(Chairman)* Dr. Wong, Hak Kun Jerry Mr. Tsoi, Wing Sum Mr. Wong, William Mr. De Weyer, Daniel Ludovicus Joannes
Remuneration committee	Mr. Tam, Kwok Ming Banny *(Chairman)* Dr. Wong, Hak Kun Jerry Mr. Tsoi, Wing Sum Mr. Wong, William Mr. De Weyer, Daniel Ludovicus Joannes
The Cayman Islands principal share registrar and transfer office	Codan Trust Company (Cayman) Limited Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Hong Kong branch share registrar and transfer office	Union Registrars Limited 18th Floor, Fook Lee Commercial Centre Town Place 33 Lockhart Road Wanchai Hong Kong
Compliance adviser	Quam Capital Limited Room 3208, Gloucester Tower The Landmark 11 Pedder Street Central Hong Kong
Principal bankers	*The PRC* Industrial Bank Co., Ltd. Industrial Bank Building No. 4013 Shennan Road Futian District Shenzhen The PRC

Industrial and Commercial Bank of China
1st Floor, New Century Garden
Nanshan Road
Nanshan District
Shenzhen
The PRC

Hong Kong

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141 Des Voeux Road Central
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Hong Kong

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Certain information and statistics set out in this section have been extracted from various government publications, market data providers and other independent third party sources. None of the information in this Industry Overview section is based on or otherwise derived from reports or sources commissioned by the Company, its connected persons, the Sponsor, the Sole Bookrunner, the Joint Lead Managers, the Co-lead Manager or any other party involved in the Placing. The Company believes that these sources are appropriate sources for such information and statistics and have taken reasonable care in extracting and reproducing such information and statistics. The Company has no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information has not been independently verified by the Company, the Sponsor, the Sole Bookrunner, the Joint Lead Managers, the Co-lead Manager or any other party involved in the Placing and no representation is given as to its accuracy.

SOURCES OF INFORMATION

Certain information and statistics set forth in this section are derived from publications and reports of the National Bureau of Statistics of China, International Monetary Fund, the China Statistical Yearbook 2010, the National Tourism Administration, the Yearbook of China Tourism Statistics 2001 to 2010, the China Hotel Association, the 2011 first quarter PRC chain budget hotel industry report by 上海盈碟酒店管理諮詢有限公司 (Shanghai Inntie Hotel Management Consultancy Company Limited*) ("**Inntie**") and the Guangdong Tourism Board. Publications and reports of these organisations were prepared in the ordinary course of business and not commissioned by the Company or the Sponsor. Aside from the Yearbook of China Tourism Statistics purchased by the Company at a total cost of approximately RMB250, all articles and statistics reports, etc. mentioned above are obtained from public domain or the internet.

The National Bureau of Statistics of China

The National Bureau of Statistics of China is an agency directly under the State Council in charge of statistics and economic accounting in the PRC. The information disclosed in this prospectus from the National Bureau of Statistics of China is publicly available information.

International Monetary Fund

The International Monetary Fund is an organisation of 187 countries, working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world. The information disclosed in this prospectus from the International Monetary Fund is publicly available information.

The National Tourism Administration

The National Tourism Administration of the PRC is an agency directly under the State Council in charge of tourism development in the PRC. The information disclosed in this prospectus from the National Tourism Administration of the PRC is publicly available information.

The China Hotel Association

The China Hotel Association is a non-profit organisation with its establishment approved by the PRC government. The China Hotel Association promotes and coordinates the development and the sustainability of the hotel industry in the PRC. The information disclosed in this prospectus from the China Hotel Association is publicly available information.

上海盈碟酒店管理諮詢有限公司 (Shanghai Inntie Hotel Management Consultancy Company Limited*)

Inntie is a hotel training and management consultancy company. The information disclosed in this prospectus from Inntie is publicly available information.

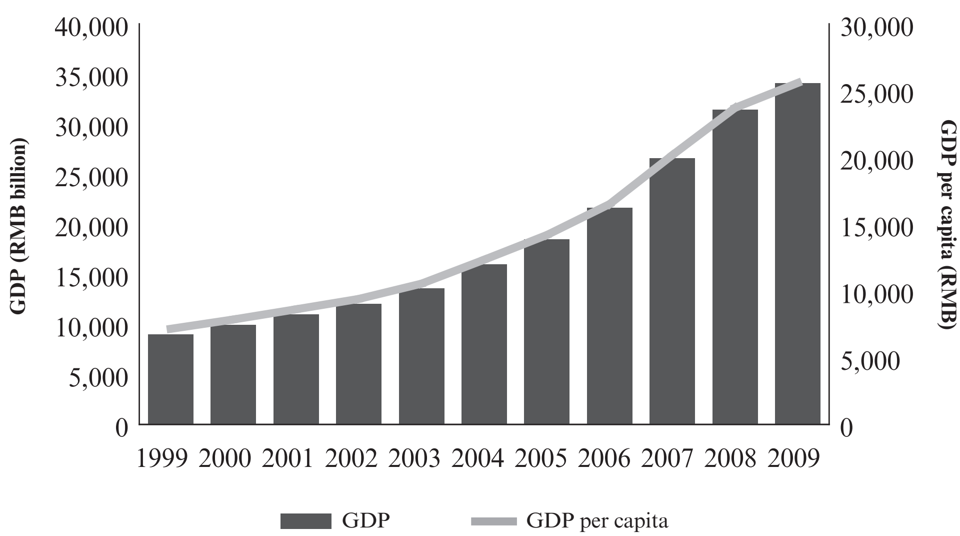
The Guangdong Tourism Board

The Guangdong Tourism Board is the government agency of the Guangdong Province, the PRC responsible for planning, promoting and regulating the local tourism industry. The information disclosed in this prospectus from the Guangdong Tourism Board is publicly available information.

HOTEL INDUSTRY OVERVIEW

The PRC economy

The PRC economy has been growing at an accelerated pace in the past decade. According to the National Bureau of Statistics of China, the PRC's GDP and GDP per capita grew at CAGR of approximately 14.3% and approximately 13.6% respectively from 1999 to 2009. The following chart illustrates the PRC's GDP and GDP per capita from 1999 to 2009:



Source: The China Statistical Yearbook 2010

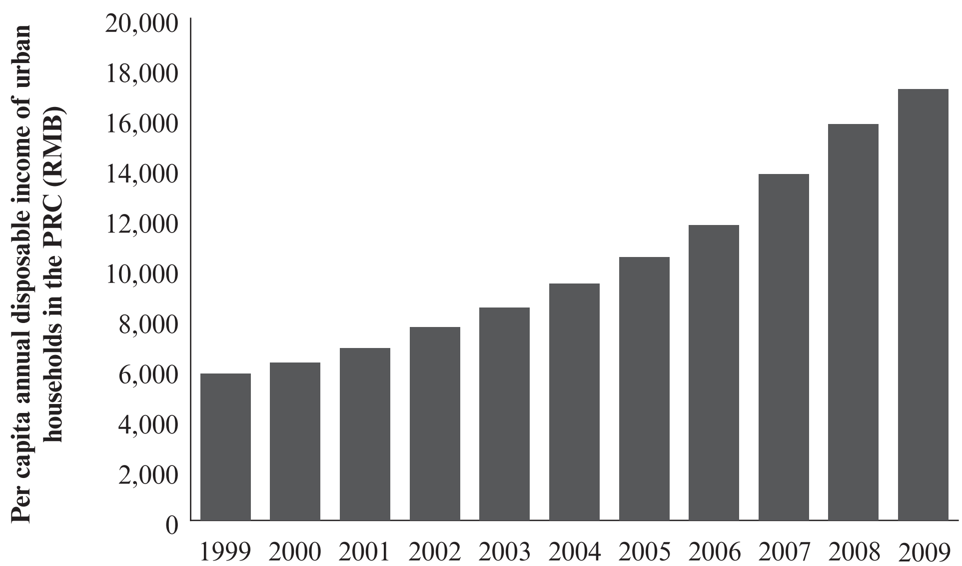
The PRC economy is expected to sustain its growth in the next five years. According to the projection from the International Monetary Fund, the PRC economy will grow at 9.6% and 9.5% in 2011 and 2015 respectively annually. The table below shows the forecast growth rate of GDP of selected countries or region in 2011 and 2015:

	Forecast	
	2011	**2015**
	(%)	*(%)*
The PRC	9.6	9.5
Hong Kong	4.7	4.3
US	2.3	2.6
Euro Area *(Note)*	1.5	1.7

Source: International Monetary Fund — World Economic Outlook October 2010

Note: Euro Area includes Germany, France, Italy, Spain, Netherlands, Belgium, Greece, Austria, Portugal, Finland, Ireland, Slovak Republic, Slovenia, Luxembourg, Cyprus and Malta.

Improvement in the PRC economy has enhanced the spending capacity of the PRC households. The per capita annual disposable income of urban households in the PRC increased by a CAGR of approximately 11.4% from 1999 to 2009. The chart below shows the per capita annual disposable income of urban households in the PRC from 1999 to 2009:

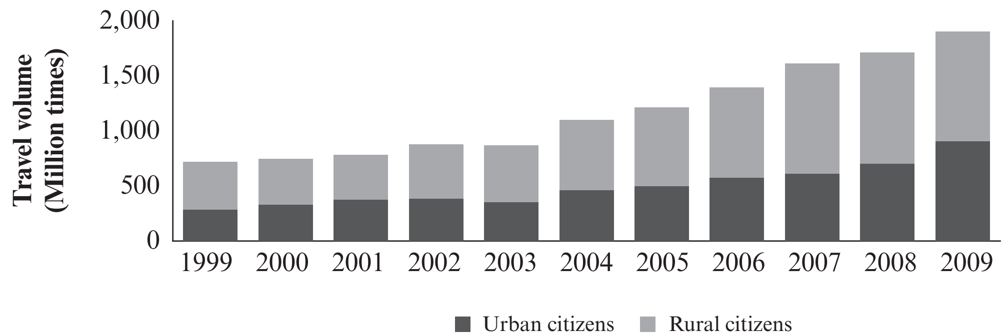


Source: The China Statistical Yearbooks 2000 to 2010

The PRC tourism industry

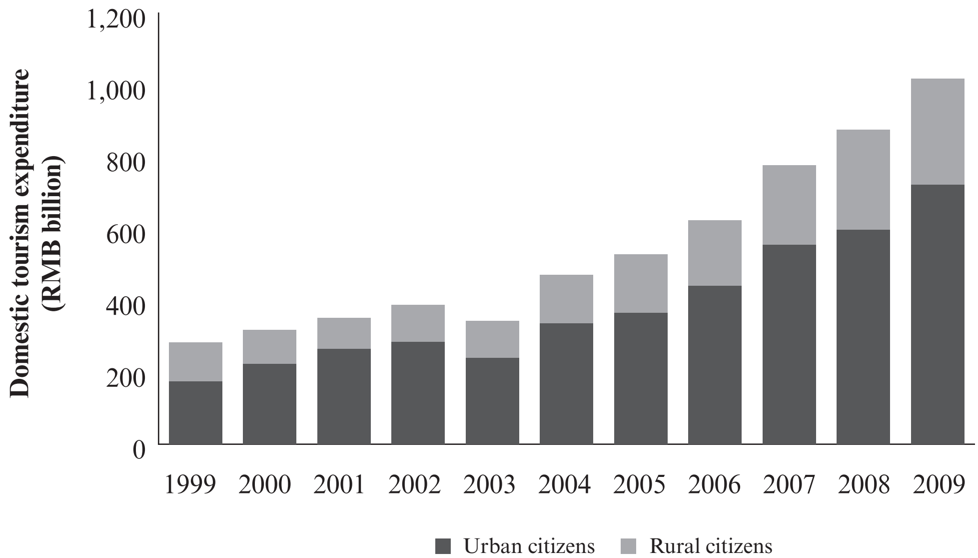
Domestic tourism

Consistent with the growth in the PRC economy and wealth, the number of times of domestic travel of urban and rural citizens in the PRC increased from approximately 284 million times and approximately 435 million times in 1999 to approximately 903 million times and approximately 999 million times in 2009 respectively. The increase in number of times of travel represents a CAGR of approximately 12.3% and approximately 8.7% for urban and rural citizen from 1999 to 2009 respectively. The following chart illustrates the growth of the number of times of domestic travel of urban and rural citizens in the PRC from 1999 to 2009:



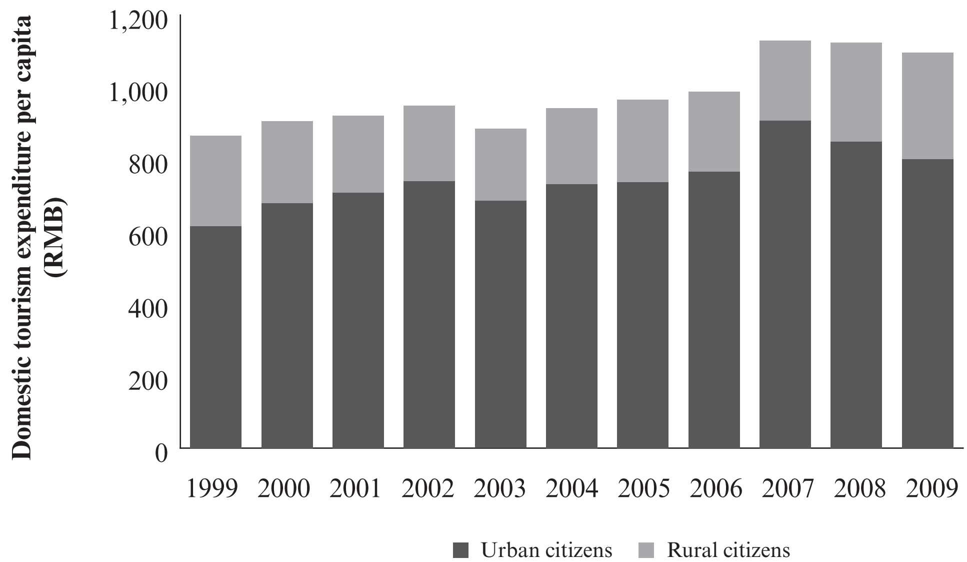
Source: The China Statistical Yearbook 2010

Due to the improvement in the economy, together with the rapid development of the traffic network, the number of times of domestic travel in the PRC increased substantially, which in turn also increases the total domestic tourism expenditure in the PRC. The total domestic tourism expenditure in the PRC increased from approximately RMB175 billion and approximately RMB108 billion for urban and rural citizens in the PRC in 1999 to approximately RMB723 billion and approximately RMB295 billion in 2009 respectively. The following chart illustrates the growth in tourism expenditure for urban and rural citizens in the PRC from 1999 to 2009:



Source: The China Statistical Yearbook 2010

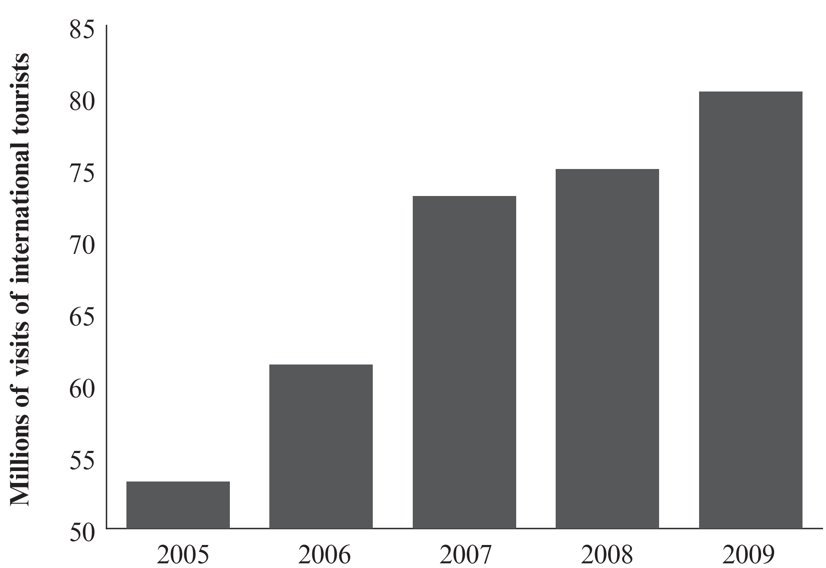
The domestic tourism expenditure per capita increased from approximately RMB615 and approximately RMB250 for urban and rural citizens in the PRC in 1999 to approximately RMB801 and approximately RMB295 in 2009 respectively. The following chart illustrates the growth in domestic tourism expenditure per capita in the PRC from 1999 to 2009:



Source: The China Statistical Yearbook 2010

Inbound tourism

Pursuant to the National Tourism Administration of the PRC, the number of visits of international tourists increased at a CAGR of approximately 10.8% from 2005 to 2009. The chart below shows the growth of number of visits of international tourists in the PRC from 2005 to 2009:



Source: The National Tourism Administration of the PRC

The Guangdong Province had the highest international tourism receipt in the PRC in 2009. The following table illustrates the top 10 provinces/major cities with the highest international tourism receipt in the PRC in 2009:

Province/City	**US$ million**
Guangdong	10,028
Shanghai	4,744
Beijing	4,357
Jiangsu	4,016
Zhejiang	3,224
Fujian	2,599
Liaoning	1,856
Shandong	1,765
Tianjin	1,183
Yunnan	1,172

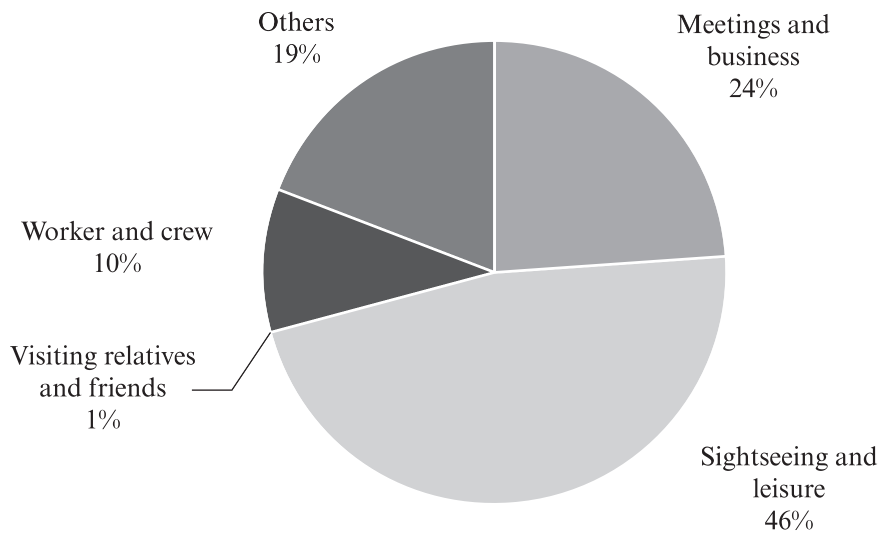
Source: The Yearbook of China Tourism Statistics 2009

The number of arrivals of international tourists to the Guangdong Province accounted for approximately 34% of the total number of arrivals of international tourists visiting the PRC in 2009. The table below shows the top 10 provinces/major cities with the highest number of arrivals of foreign tourists in the PRC in 2009:

Province/City	**Arrivals**	**Approximate % of total arrivals**
Guangdong	27,478,009	34%
Zhejiang	5,706,385	7%
Jiangsu	5,568,257	7%
Shanghai	5,333,935	7%
Beijing	4,125,145	5%
Fujian	3,120,348	4%
Shandong	3,100,379	4%
Liaoning	2,931,954	4%
Yunnan	2,844,902	4%
Guangxi	2,098,516	3%

Source: The Yearbook of China Tourism Statistics 2009

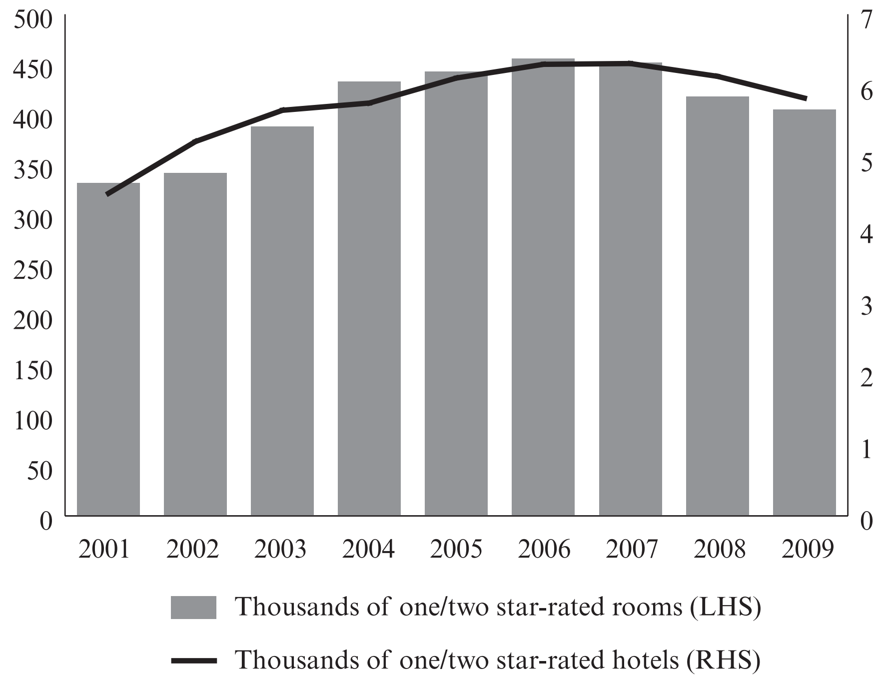
Most of the international tourists visiting the PRC are for sightseeing and leisure while approximately 24% of the international tourists visited the PRC for the purpose of meetings and business in 2009. The graph below illustrates the purpose of visits by international tourists in 2009:



Source: The National Tourism Administration of the PRC

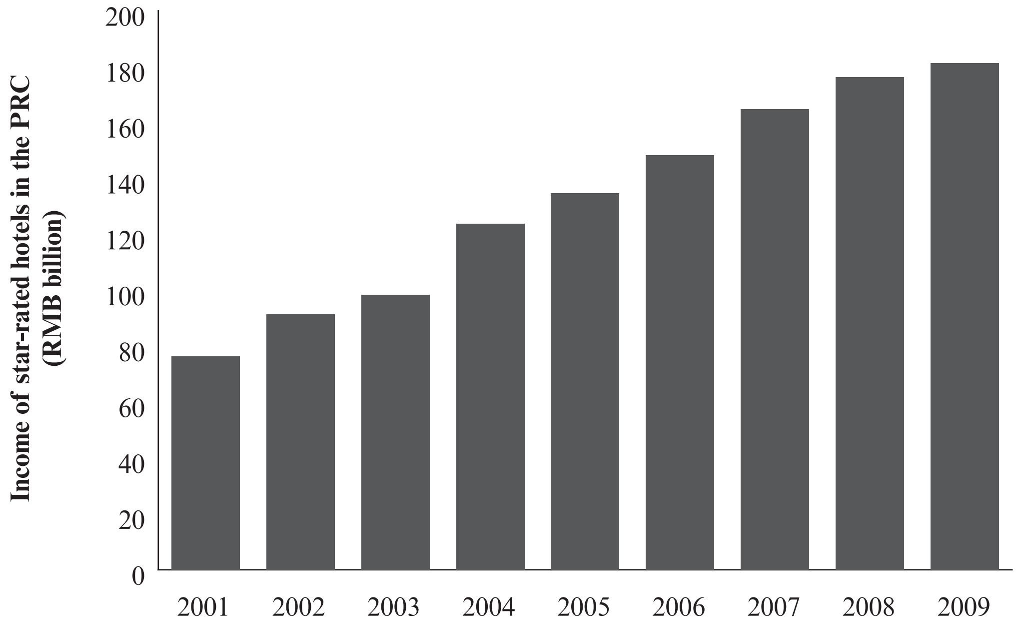
Hotel industry in the PRC

The number of the one/two star-rated hotels in the PRC, which the Directors consider as direct competitors of the Group in addition to other non star-rated budget hotels, steadily increased from 4,501 hotels in 2001 to 5,830 hotels in 2009. The chart below illustrates the growth of the one/two star-rated hotels in terms of the number of hotel rooms and hotels from 2001 to 2009:



Sources: The Yearbook of China Tourism Statistics 2001–2009 and the National Tourism Administration of the PRC

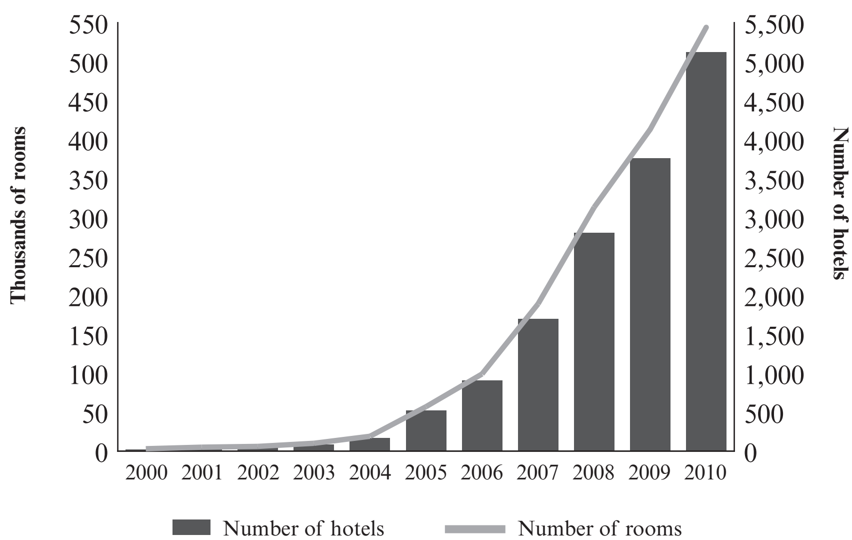
In concurrence with the growth in the PRC's overall economy and tourism industry, the total income of hotels in the PRC increased at a CAGR of approximately 11.4% from 2001 to 2009. The chart below illustrates the growth in income of star-rated hotels in the PRC from 2001 to 2009:



Source: The National Tourism Administration of the PRC

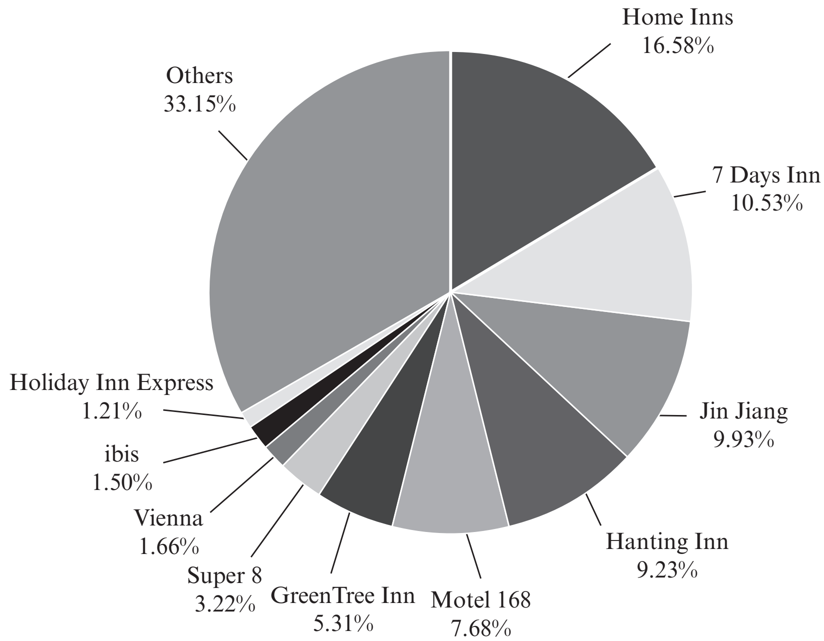
Budget hotel industry in the PRC

The development of budget hotels has accelerated in recent years with the number of rooms increased from 3,236 in 2000 to 544,210 in 2010 at a CAGR of approximately 15.8%. The major reasons for the growth of the number of budget hotels include the rapid development in the economy of the PRC and the increase in disposable income, according to the China Hotel Association. Although the per capita annual disposable income has been increasing in recent years, the domestic tourism expenditure per capita has increased in a much slower pace comparatively, which indicated that the PRC residents are cost conscious in tourism expenditure. Budget hotels in the PRC are popular among tourists and business travellers on limited budgets. In particular, small and medium sized corporations are the major target customers for budget hotels in the PRC due to the constraint in travel budget. The growth of the number of small and medium sized corporations has also contributed to the development of the budget hotels. The number of budget hotel and the number of budget hotel rooms has grown at a CAGR of approximately 21.3% and approximately 15.8% respectively from 2000 to 2010. The total number of budget hotels and budget hotel rooms in the PRC in the first quarter of 2011 amounted to 5,513 and 582,022 respectively. The following chart shows the growth in the number of budget hotels and the number of budget hotel rooms in the PRC from 2000 to 2010:



Source: Innite

The budget hotel industry is dominated by the top players. The top 10 players accounted for approximately 66.85% of the total number of budget hotel rooms in the PRC in the first quarter of 2011. Within the budget hotel industry, the budget hotel service providers vary in price and quality. For instance, the Bestay Hotel Express provides a low end but value accommodation service whilst the Heyi hotels provide more luxurious decorations with a higher price. The market players compete by capturing potential market share, and enhancing brand management and operation cost control. The following chart illustrates the market share of number of budget hotel rooms by the top market players in the PRC in the first quarter of 2011:



Source: Inntie

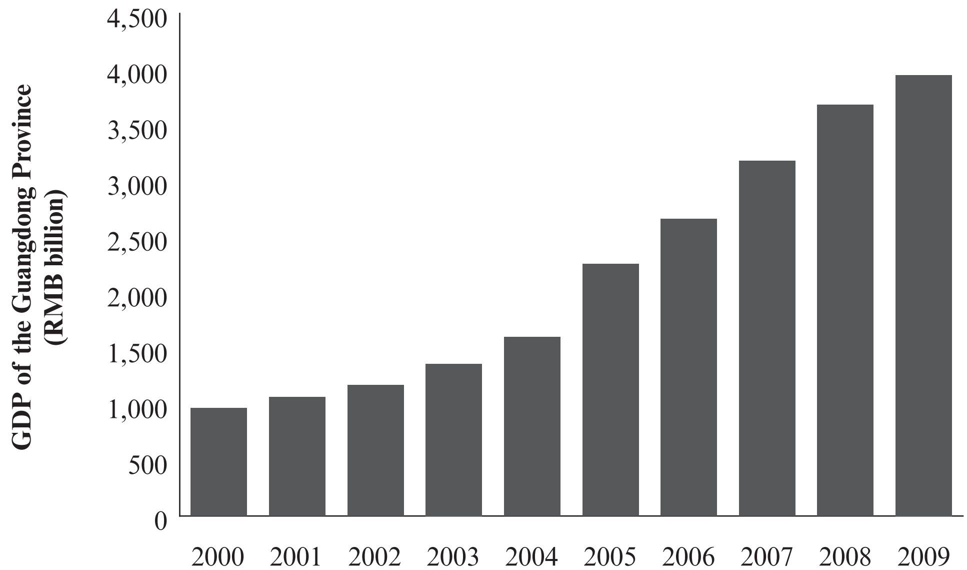
In the PRC, approximately 66.4% of the budget hotels marketed at ARR equivalent to or below RMB200 in the first quarter of 2011, according to Inntie. The following table shows the ARR of budget hotels in major cities in the PRC in the first quarter of 2011:

	Nanjing	**Guangzhou**	**Hangzhou**	**Shenzhen**	**Beijing**	**Shanghai**
ARR *(RMB)*	193.88	221.40	214.74	213.77	244.09	232.50

Source: Inntie

Tourism and hotel industry of the Guangdong Province

The Guangdong Province is one of the major provinces in the PRC. The GDP contributed by the Guangdong Province in 2009 was the highest amongst all other provinces at approximately 10.8% according to the China Statistical Yearbook 2010. The GDP of the Guangdong Province increased at a CAGR of approximately 16.9% from 2000 to 2009. The following chart shows the growth in GDP of the Guangdong Province from 2000 to 2009:



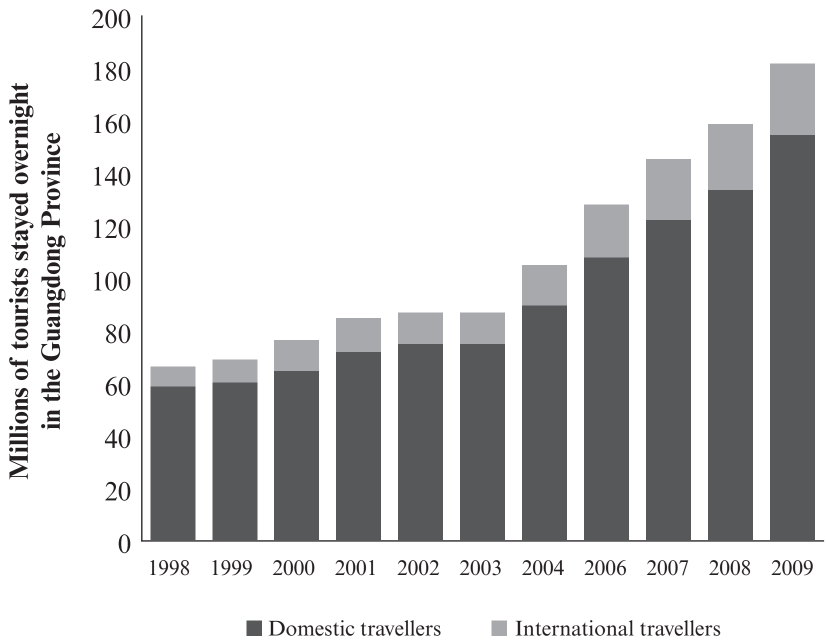
Source: The China Statistical Yearbook 2010

In 2008, the total income of the Guangdong Province from tourism amounted to approximately RMB266.8 billion with an increase of approximately 8.67% from 2007 according to the Yearbook of China Tourism Statistics 2009.

The Guangdong Province has a number of tourism attractions. Danxia, Xijiao, Luofu, and Boluo mountains are unique natural sceneries. In addition, the Guangdong Province is the base for the production facilities and offices of a wide range of multinational and Chinese corporations. The Guangdong Province also hosts the largest Import and Export Fair in China, the Canton Fair, in Guangzhou every year.

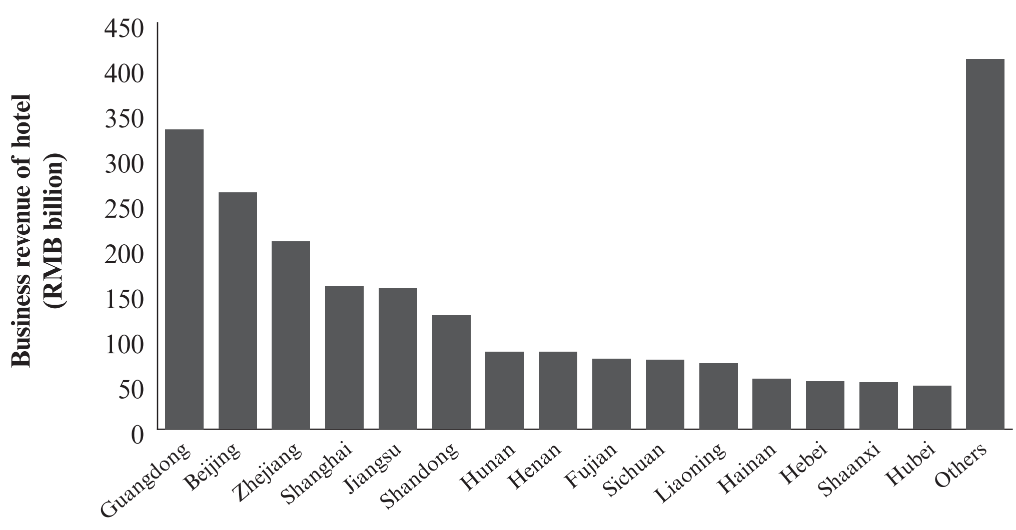
In 2010, the Asian games was held in Guangzhou with 45 countries attending. According to the People's Government of the Guangdong Province, there were in total 10,156 sportsman, 7,787 technical officers and 9,049 registered media personnel involved in the Asian games. In August 2011, the Universiade 2011 will be held in Shenzhen, Guangdong Province. There will be representatives from all over the world of which 438 representatives will be from 75 universities of 21 different provinces, autonomous regions and municipalities in the PRC.

According to the Guangdong Tourism Board, the number of tourists stayed overnight in the Guangdong Province increased at a CAGR of approximately 9.6% from 1998 to 2009, reaching approximately 182 million tourists in 2009. The following chart shows the number of domestic and international tourists stayed overnight in the Guangdong Province from 1998 to 2009:



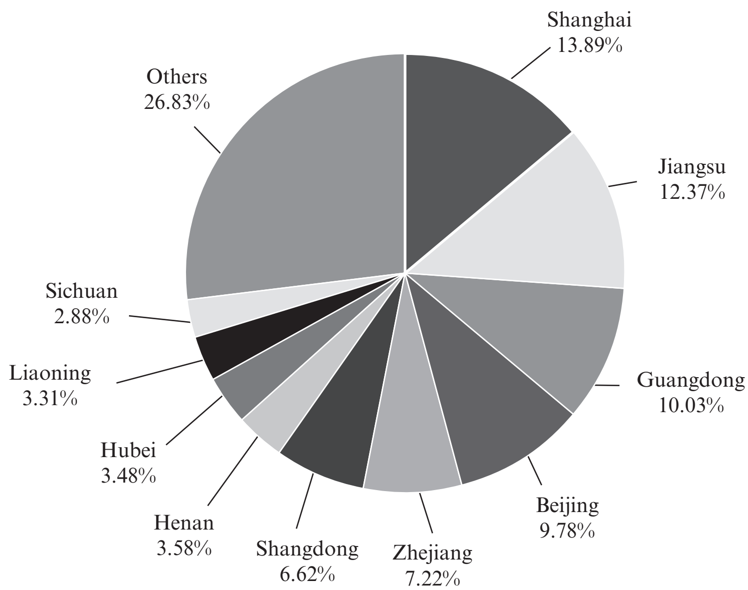
Source: The Guangdong Tourism Board

Further, the business revenue from hotels in the Guangdong Province was the highest amongst all regions in the PRC in 2009, according to the China Statistic Yearbook 2010. In 2009, the hotel industry in the Guangdong Province generated a revenue of approximately RMB332 billion. The chart below illustrates the business revenue of hotels in 2009 by regions:



Source: The China Statistical Yearbook 2010

The number of rooms of budget hotels in the Guangdong Province is the third highest comparing with other regions in the PRC. The following chart illustrates the distribution of budget hotel rooms by regions in the PRC in the first quarter of 2011:



Source: Inntie

Principal laws and regulations related to industrial policy

According to 指導外商投資方向規定(國務院令第346號) (Provisions of Foreign Investment Direction (Decree of the State Council No. 346)*) issued by the State Council on 11 February 2002 and effective on 1 April 2002, foreign investments are classified into four categories: encouraged, permitted, restricted and prohibited. Foreign investment which is classified as encouraged, restricted and prohibited categories are listed in 外商投資產業指導目錄 (Foreign Investment Industrial Guidance Catalogue*). Foreign investment that is not classified as encouraged, restricted, or prohibited is categorised as permitted. Foreign investment in the permitted category is not listed in 外商投資產業指導目錄 (Foreign Investment Industrial Guidance Catalogue*). Under the provisions of the 外商投資產業指導目錄(2007年修訂) (Foreign Investment Industrial Guidance Catalogue (Amended in 2007)*) issued by 國家發展和改革委員會 (National Development and Reform Commission*) and 商務部 (Ministry of Commerce*) issued on 31 October 2007 and effective on 1 December 2007, the construction and operation of top-grade hotel is classified as a restricted industry under the Foreign Investment Industrial Catalogue, and the construction and operation of other types of hotels has not been listed in the encouraged, restricted, and prohibited categories in 外商投資產業指導目錄 (Foreign Investment Industrial Guidance Catalogue*).

Under the provisions of 關於加快住宿業發展的指導意見 (Recommendations on Accelerating the Development of Lodging Industry*) issued and promulgated by the Ministry of Commerce on 22 March 2010, developing budget hotels is the principal strategy for promoting the transformation of the traditional lodging industry, accelerating the transformation of the lodging industry structure and providing convenient, safe, hygienic and comfortable accommodations for the general public. Expanding the development of budget hotels, raising brand awareness, and promoting the chain development of budget hotels will increase the ratio of budget hotels in the PRC from less than 10% to around 20% within two to three years.

Principal laws and regulations related to hotel operations

Under the provisions of 旅館業治安管理辦法 (Measures for the Control of Security in the Hotel Industry*), issued by 公安部 (Ministry of Public Security*) on 10 November 1987 and adopted by the State Council on 23 September 1987, and the Decision of the State Council on 國務院對確需保留的行政審批專案設定行政許可的決定(國務院令第412號) (Establishing Administrative Licence for the Administrative Examination and Approvals Items Necessary to be Retained (Decree of the State Council No. 412)*) promulgated by the State Council on 29 June 2004, enterprises engaging in the hotel industry shall obtain a 特種行業許可證 (Licence of Special Trade*) approved and issued by provincial public security authority in the region. Additionally, under 旅館業治安管理辦法 (Measures for the Control of Security in the Hotel Industry*), hotel operators are obligated to exercise security controls, such as duly registering guests to whom accommodations are provided and examining the identification cards of the guests. If the operators discover anyone violating the law, behaving suspiciously or there is an offender wanted by the public security authority, the hotel must report to local public security authority immediately and none of such information shall be concealed and withheld.

Under the provisions of 公共場所衛生管理條例(國發[1987]24號) (Public Area Hygiene Regulations (Guo Fa [1987] No. 24)*) issued by the State Council on 1 April 1987, hotel operators must obtain 衛生許可證 (Public Area Hygiene Licence*) issued by provincial public health administrative department before the commencement of business. Any employee that serves customers directly in public areas in any industry, must first obtain 健康合格證 (Health Certification*) prior to work.

Under the provisions of 中華人民共和國消防法 (Fire Prevention Law*), which was revised and adopted in 中華人民共和國第十一屆全國人民代表大會常務委員會 (the PRC 11th Standing Committee of the National People's Congress*) in their 5th meeting on 28 October 2008, and promulgated and effected on 1 May 2009, public gathering places, such as hotels, are required to perform fire prevention safety inspection to their facility by respective provincial security fire fighting authority prior to the commencement of business.

Under the provisions of 娛樂場所管理條例(國務院令(第458號)) (Regulations for Administration of Entertainment Facilities (Decree of the State Council No. 458)*), which was adopted in the 122th Standing Meeting of the State Council on 18 January 2006 and effective from 1 March 2006, and the Circular on Carrying out 文化部關於貫徹〈娛樂場所管理條例〉的通知(文市發(2006)7號) (Regulations for Administration of Entertainment Facilities issued by Ministry of Culture (Wen Shi Fa [2006] No. 7)*) on 6 March 2006, which was issued and promulgated by 文化部 (Ministry of Culture*), hotels that operate entertainment businesses such as discos and video games are required to obtain 娛樂經營許可證 (Licence for Entertainment Business Operations*).

Principal Laws and Regulations Related to Consumer Protection

Under the provisions of 中華人民共和國消費者權益保護法(主席令第十一號) (Law on the Protection of the Rights and Interests of Consumers (Decree of the President No. 11)*), which was adopted in the 4th meeting of 中華人民共和國第八屆全國人民代表大會常務委員會 (the PRC 8th Standing Committee of the National People's Congress*) adopted on 31 October 1993 and effective 1 January 1994, business operators are required to ensure their commodities and services meet safety requirements. If business operators acknowledge that any of their commodity and service, even under proper use, has serious defects which may incur personal injury or damage to property, such operators must report to related administrative department and disclose to the public immediately with adoption of preventive measures. Business operators shall provide customers with accurate information of their commodities and services and refrain from conducting false advertising. Business operators shall not set unreasonable or unfair terms for consumers or alleviate or release themselves from civil liability for harming the legal rights and interests of consumers by means of standard contracts, circulars, announcements, shop notices or other means. Business operators shall not insult consumers, conduct searches on consumers or articles carried by consumers, or infringe upon the personal freedom of consumers.

Business operators may be subject to civil liabilities for failing to fulfill the obligations stated above. These liabilities include but are not limited to discontinuing offence against the consumer, restoring the consumer's reputation, eliminating the adverse effects suffered by the consumer, and offering an apology and compensation for any losses incurred.

Business operators may be subjected to penalties such as the issuance of a warning, confiscation of any illegal income, imposition of a fine ranging from one to five fold of the illegal income, order to cease business operation, and revocation of its business licence, etc.

On 4 December 2003, 最高人民法院審判委員會 (the Board of Review of the Supreme People's Court*) enacted the 最高人民法院關於審理人身損害賠償案件適用法律若干問題的解釋(法釋[2003]20號) (Interpretation of Some Issues Concerning the Application of Law for the Trial of Cases on Compensation for Personal Injury (Fa Shi [2003] No. 20)*) in their 1299th meeting. The Supreme People's Court shall support to further increase the liabilities of business operators engaged in the operation of hotels, restaurants, or entertainment facilities or any other natural person, legal entity and organisation of public activities and subject such operators to compensatory liability for failing to fulfill their statutory obligation to a reasonable extent or guarantee the personal safety of others.

Principal laws and regulations related to environmental protection

Under the provisions of 中華人民共和國清潔生產促進法 (Law of the PRC on Promoting Clean Production*) adopted by 中華人民共和國第九屆全國人民代表大會常務委員會 (the PRC 9th Standing Committee of the National People's Congress*) in their 28th meeting on 29 June 2002, and effective on 1 January 2003, enterprises pursuing service business in restaurant, entertainment, and hospitality, etc, shall adopt the use of technology and facility which are energy and water efficient and beneficial to environmental protection, and also minimise or eliminate the use of wasteful and polluting consumables.

Under the provisions of 中華人民共和國水污染防治法(主席令第八十七號) (Law of the PRC on the Prevention and Control of Water Pollution (Decree of the President No. 87)*), revised and adopted in 中華人民共和國第十屆全國人民代表大會常務委員會 (the PRC 10th Standing Committee of the National People's Congress*) on their 32nd meeting on 28 February 2008, and effective on 1 June 2008, enterprises that directly or indirectly discharge industrial wastewater or medical effluent or any wastewater or effluent restricted under the regulation shall obtain the 排污許可證 (Licence of Pollution Discharge*) issued and approved by 排水管理部門 (Department of Drainage*).

Under the provision of 城市排水許可管理辦法 (Administrative Measures for Urban Sewage License*) discussed and adopted by 建設部 (the Ministry of Construction*) in their 112th standing meeting on 11 December 2006, and effective on 1 March, 2007, enterprise and sole proprietor pursuing business in manufacturing, construction, electricity and natural gas production, research, hospitality and beverages, entertainment, residential services and other services and connecting with the urban water discharging network and its affiliated facilities to discharge wastewater shall obtain 城市排水許可證 (Urban Wastewater Discharge Permit*) issued and approved by 排水管理部門 (Department of Drainage).

Principal laws and regulations related to trademarks

Under the provisions of 中華人民共和國商標法(主席令第59號) (PRC Trademark Law (Decree of the President No. 59)*) and 商標法實施條例(國務院令第358號) (Implementation Regulation of the PRC Trademark Law (Decree of the State Council No. 358)*) approved in the 24th meeting of 中華人民共和國第五屆全國人民代表大會常務委員會 (the PRC 5th

Standing Committee of the National People's Congress*) adopted in 23 August 1982 and amended on 22 February 1993 and 27 October 2001, registered trademarks that have been approved by 國家工商行政管理總局商標局 (Trademark Department of the State Administration of Industry and Commerce*) will obtain legal protection and be granted a term of ten years from the date of the approved registration. Contracts to authorise the use of trademarks are required to be reported to 國家工商行政管理總局商標局 (Trademark Department of the State Administration of Industry and Commerce*). The laws and regulations stated above have imposed relevant provisions on violating the authorised use of trademarks and the associated penalties.

Principal laws and regulations related to land use of hotel

According to the 土地利用現狀分類 (Classification of Land Utilisation Situations*) jointly issued by 中華人民共和國質量監督檢驗檢疫總局 (General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China*) and 中國國家標準化管理委員會 (Standardisation Administration of the PRC*), on 10 August 2007, land usage is classified as agricultural land, construction land and unused land. Construction land is categorised by its land use as commercial and services use, mining, industrial and storage use, residential use, public administration and services use, transportation use and special category, etc., in which the scope of commercial and services land use includes wholesale and retails use, hospitality and food and beverages use (including motel, hotel, inn, hostel, guesthouse, resort, restaurant and bars, etc.), commercial and financial use and other commercial use, etc.

Principal laws and regulations related to taxation

Enterprise income tax

Under the provisions of 中華人民共和國企業所得稅法 (Enterprises Income Tax Law of the PRC*) and its implementation regulations effective from 1 January 2008, a resident enterprise is subject to enterprise income tax for the income derived from both inside and outside the territory of the PRC. An institution or establishment set up by a non-resident enterprise in the PRC is subject to enterprise income tax for the income derived from such organisation or establishment in the PRC and the income derived from outside the PRC that has an actual connection with such organisation or establishment in the PRC. For a non-resident enterprise which has not set up an institution or establishment in the PRC, or has set up an institution or establishment but the income derived has no actual connection with such institution or establishment, its income derived in the PRC will be subject to enterprise income tax.

The enterprise income tax rate is 25%. A non-resident enterprise without a permanent establishment in the PRC or such non-resident enterprise which has set up a permanent establishment in the PRC but its income is not connected with the above-mentioned permanent establishment will be subject to tax on its PRC-sourced income. The income shall be taxed at the reduced rate of 10%.

Under the provision of 內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排 (Arrangement between the Mainland and Hong Kong for the Avoidance of Double Taxation and Tax Evasion on Income*) effective on 1 January 2007, where a Hong Kong tax resident enterprise and as a beneficial owner directly holds at least 25% of shareholding of a PRC enterprise, the withholding tax rate with respect to the payment of dividends by such PRC enterprise to such Hong Kong tax resident enterprise and as the beneficial owner is 5%. Otherwise, the withholding tax rate is 10% for the relevant dividends.

Under the provision of 關於加強非居民企業股企股權轉讓所得企業所得稅管理的通知（國稅函698號）(Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises (State Administration of Taxation Circular No. 698)*), issued by 國家稅務總局 (State Administration of Taxation*) on 10 December 2009, where a foreign investor transfers its indirect equity interest in a PRC resident enterprise by disposing of its equity interests in an overseas holding company (excluding buying and selling the stocks of a PRC resident enterprise effected through public stock exchanges) (hereinafter referred to as an "**Indirect Transfer**"), and such overseas holding company is located in a tax jurisdiction that: (i) has an effective tax rate less than 12.5% or (ii) does not tax foreign income of its residents, the foreign investor shall report to the competent tax authorities of the PRC resident enterprise of this Indirect Transfer. The PRC tax authority will verify the authenticity of the Indirect Transfer. If it was established for the purpose of avoiding PRC tax, the PRC tax authority may disregard the existence of the overseas holding company. As a result, gains derived from such Indirect Transfer may be subject to PRC withholding tax at a rate up to 10%. State Administration of Taxation Circular No. 698 also provides that, where a non-PRC resident enterprise transfers its equity interests in a PRC resident enterprise to its related parties at a price lower than the fair market value, the relevant tax authority has the power to make a reasonable adjustment to the taxable income of the transaction.

Business tax

Under the provision of 中華人民共和國營業稅暫行條例(國務院令第540號) (Provisional Regulations of the PRC on Business Tax (Decree of the State Council No. 540)*) issued by the State Council on 10 November 2008 and implemented on 1 January 2009 and 中華人民共和國營業稅暫行條例實施細則 (Detailed Rules for Implementation of the Provisional Regulations of the PRC on Business Tax*) issued by 中華人民共和國財政部 (Ministry of Finance of the PRC*) on 1 January 2009, all institutions and individuals providing taxable services are subject to business tax, in which the business tax rate for services industry is 5%.

HISTORY AND DEVELOPMENT

Business milestones

The following chart sets forth the business events and milestones of the Group:

Year		Event/Milestone
2006	November	Mr. Fong commenced setting up the budget hip hotel business in the PRC
	December	Welcome Inn Caitian commenced operation
2007	March	Moon Ko was incorporated in Hong Kong
	March	Triple Leaf was incorporated in Hong Kong
	May	Legend Strategy was incorporated in Hong Kong
2008	April	Welcome Inn Baoan commenced operation
	May	Welcome Inn Nanshan commenced operation
	November	Welcome Inn Luohu commenced operation
2009	October	The Group obtained ISO 9001:2008 certification
	December	The Group started to provide hotel consultancy services to hotel investors who are Independent Third Parties
2010	November	The Group entered into the 1506 CC Strategic Agreement with 1506 CC, a Chinese industry park developer and operator
2011	March	The Group entered into the Shu Yong Consultancy Agreement with Mr. Shu Yong, an international contemporary artist

Business development

Mr. Fong started the Group's business in 2006. Prior to the establishment of the Group, Mr. Fong had operated interior design business in Hong Kong for about seven years. In 2006, Mr. Fong started to set up budget hip hotel business in the PRC and design hotels for business travellers and tourists in the PRC. The Group's existing leased-and-operated hotels are located in Shenzhen, a business centre in the Southern region of the PRC.

In December 2006, Mr. Fong incorporated Yuelai Inn Tourists, a wholly foreign owned enterprise in Shenzhen, to operate Welcome Inn Caitian. Welcome Inn Caitian commenced operation on 11 December 2006, which occupies an area with a total GFA of approximately 2,000 sq.m. with 87 rooms to accommodate a maximum of 274 hotel guests under the brand name of Welcome Inn (悦來客棧). Welcome Inn Caitian targets tourists and business travellers with a limited budget. Welcome Inn Caitian achieved an annual occupancy of approximately 75.5%, 68.5%, 78.8% and 96.1% for the years 2007, 2008, 2009 and 2010 respectively.

On 15 March 2007, Triple Leaf was incorporated in Hong Kong by Mr. Fong together with investors introduced by Mr. Wong. On 28 May 2007, Legend Strategy was established and owned as to 85% and 15% respectively by Lai Ying, a wholly-owned company of Mr. Fong and Triple Leaf. Mr. Wong was appointed as a director of Legend Strategy to assist Mr. Fong to identify investors to invest in the Group's hotel business.

Following the establishment of Legend Strategy, Mr. Fong transferred all his interests in Yuelai Inn Tourists to Legend Strategy on 16 November 2007 at a consideration of HK$8,000,000, which was the paid up registered capital of Yuelai Inn Tourists and determined on an arm's length basis.

Upon the accession of Mr. Wong, the Group managed to raise funds for the development of the hotel business through Mr. Wong's connections and relationships. The Group began to expand its hotel portfolio in Shenzhen in 2008.

On 30 May 2008, Welcome Inn Nanshan commenced operation, which occupies an area with a total GFA of approximately 7,000 sq.m. with 192 hotel rooms to accommodate a maximum of 651 hotel guests. On 30 May 2008, Yingde Tourists was established as a foreign wholly owned enterprise in Shenzhen by Mr. Fong to operate Welcome Inn Nanshan.

In August 2007, the Group began the conversion of Welcome Inn Baoan in the Baoan District of Shenzhen. Welcome Inn Baoan commenced operation on 25 April 2008. The Group established Modern Tourists on 25 April 2008 to operate Welcome Inn Baoan. Welcome Inn Baoan occupies an area with a total GFA of approximately 1,700 sq.m., with 59 hotel rooms to accommodate a maximum of 204 hotel guests.

On 1 March 2007, Mr. Fong and Dr. Pradit, an independent investor established Moon Ko in Hong Kong. Moon Ko was owned as to 60% by Mr. Fong and 40% by Dr. Pradit. On 26 November 2008, Moon Ko and Yuelai Inn Tourists formed a Sino-foreign joint venture, Yuelai Inn, to operate Welcome Inn Luohu. Welcome Inn Luohu commenced operation on 26 November 2008 and occupies an area with a total GFA of approximately 2,000 sq.m., with 80 hotel rooms to accommodate a maximum of 265 hotel guests.

In response to the rapid growth of the Group's budget hip hotel business, the Group adopted standardised work procedures and a comprehensive quality management system to maintain high quality services to the customers. On 16 October 2009, the Group was awarded ISO 9001:2008 certification in respect of the quality in its work and management system.

In order to maximise return for the Group, the Group started to provide hotel consultancy services to hotel investors who are Independent Third Parties since December 2009. Up to the Latest Practicable Date, the Group had entered into five hotel consultancy agreements with three hotel investors for the provision of hotel consultancy services for Da Mei Sha Hotel, WBT Hotel, Gaomiao Hotel, Zhongxin Hotel and South China Hotel. These hotel investors are Independent Third Parties who do not have any relationship with the Group other than entering into the hotel consultancy agreements with the Group. The provision of hotel consultancy services for Da Mei Sha Hotel, WBT Hotel, Gaomiao Hotel and Zhongxin Hotel has been completed. The Company is in the process of site selection for South China Hotel.

In November 2010, the Group entered into the 1506 CC Strategic Agreement with 1506 CC. Pursuant to the 1506 CC Strategic Agreement, 1506 CC will give priority to the Group as the hotel service providers of 1506 CC's creative industry parks in the PRC during the three years' term of the 1506 CC Strategic Agreement. As at the Latest Practicable Date, 1506 CC has developed a theme park named "1506 Creative City (1506 創意城)" (the "**Creative City**") which is located at Foshan within the centre of the Pearl River Delta of the PRC.

In March 2011, the Group entered into the Shu Yong Consultancy Agreement with Mr. Shu Yong, who shall provide advice to the Group on the decoration of the Group's hotels design or produce masterpiece for these hotels or advise the Group on sourcing of masterpiece. He shall act as an organiser in sourcing and providing work of art to the Group's hotels.

CORPORATE HISTORY

Legend Strategy International

Legend Strategy International was incorporated as a limited company in BVI on 15 December 2010 with an authorised share capital of US$50,000 and is wholly-owned by Mr. Fong.

On 23 March 2011, as part of the Reorganisation, Mr. Fong transferred 1 share, being his entire interest in Legend Strategy International to the Company at par value of US$1.00 each.

Lai Ying

Lai Ying is a limited company incorporated in Hong Kong on 13 April 2007 by Mr. Fong with an issued share capital of HK$1.00 at the date of incorporation, and the issued share capital was increased to HK$10,000 on 5 May 2007, while Mr. Fong was the sole shareholder and director of Lai Ying. Lai Ying is an investment holding company holding 65% shareholding interests in Legend Strategy immediately before the Reorganisation.

Triple Leaf

Triple Leaf was incorporated in Hong Kong on 15 March 2007 with an issued share capital of HK$1,000. Triple Leaf is an investment holding company formed by Mr. Fong together with individual investors and was holding 14% shareholding interests in Legend Strategy immediately before the Reorganisation. These individual investors, namely, Mr. De Weyer, Jiang Wen, Markus Rall, Qiu Wen and Kan Yau Shan, had invested HK$684,000, HK$190,000, HK$190,000, HK$190,000 and HK$190,000 respectively for their shareholding interests in Triple Leaf. The shareholding structure of Triple Leaf immediately prior to the Reorganisation is set out as follows:

Shareholders of Triple Leaf	**Approximately shareholding** *(%)*
Mr. De Weyer	34.2%
Mr. Fong	27.8%
Jiang Wen	9.5%
Markus Rall	9.5%
Qiu Wen	9.5%
Kan Yau Shan	9.5%
Total	100.0%

Legend Strategy

Legend Strategy is the holding company of the four Group companies operating the four leased-and-operated hotels of the Group and is also engaged in the provision of hotel consultancy services. It was incorporated in Hong Kong on 28 May 2007 and owned as to 85% by Lai Ying and 15% by Triple Leaf. Mr. Fong and Mr. Wong were the directors of Legend Strategy at the time of its establishment. In November 2008, Lai Ying and Triple Leaf transferred their 85% and 15% shareholding interests in Legend Strategy to Mr. Fong and Mr. Wong at the consideration of HK$8,500 and HK$1,500 respectively, and such shareholding interests were transferred back to Lai Ying and Triple Leaf at the same consideration in November 2009. For the period between 24 November 2009 and 20 October 2010, individual investors were invited to invest in the Group. These individual investors, namely, Mr. De Weyer, Ho Yin Man, Carmen, Qiu Wen, Tuo Wei Wei and Wang Huaner, had invested HK$2,550,000, HK$850,000, HK$1,700,000, HK$850,000 and HK$850,000 respectively for their shareholding interests in Legend Strategy, representing

HK$850,000 for every 1% interest in Legend Strategy. All these individual investors' investments were irrevocably settled by 20 October 2010 and were used as general working capital for the development of the Group's business. Accordingly, Lai Ying and Triple Leaf transferred their shares in Legend Strategy to the individual investors. The investment cost per Share of the individual investors was approximately HK$0.63 representing approximately 21.3% and approximately 47.5% discount to the minimum and maximum indicative range of the Placing Price, which was determined on an arm's length basis with reference to the then book value of Legend Strategy. There were no special rights attached to the shares held by these individual investors and no lock-up arrangements in respect of these shares.

Pursuant to a share transfer agreement dated 17 November 2010 entered into among Lai Ying, Mr. Qiu, Legend Strategy, Triple Leaf, Mr. Fong, Mr. Wong and 佛山創意產業園投資管理有限公司 (Foshan Creative Production Garden Investment Management Company Limited*) (the "**17 November Agreement**"), Mr. Qiu acquired 8% shareholding interests in Legend Strategy from Lai Ying at a consideration of HK$4,800,000. Pursuant to a supplemental agreement (together with the 17 November Agreement, the "**Investment Agreement**") signed by the same parties on 18 March 2011, the 17 November Agreement was amended to remove certain protections of Mr. Qiu including, among others, (i) his right to appoint a director; (ii) undertakings to list and to complete the Reorganisation before designated long-stop dates; (iii) warranties on certain audit figures, liabilities, litigations and compliance issues of the target group; and (iv) his pre-emptive rights to subscribe the shares of Legend Strategy. Subject to the above, it is not considered that the supplemental agreement affected Mr. Qiu's legal ownership of the shares in Legend Strategy and that his risks and rewards in Legend Strategy had been affected since the signing of the 17 November Agreement. The investment by Mr. Qiu was irrevocably settled on 19 November 2010 and was used as the Group's general working capital. The investment costs per Share of Mr. Qiu was approximately HK$0.44 representing approximately 45.0% and 63.3% discount to the minimum and maximum indicative range of the Placing Price, which was determined on an arms' length basis with reference to the then earnings and performance of Legend Strategy. Pursuant to the Investment Agreement, Mr. Qiu's 8% shareholding interests in Legend Strategy does not bear any special rights and is not subject to any lock-up arrangements.

The table below sets out the details of pre-IPO investments by each of the individual investors:

Name of pre-IPO investor	Date of investment	Amount of consideration paid	Payment date of the consideration	Approximate cost per Share paid	Respective approximate discount to the indicative Placing Price as to (i) minimum price of HK$0.80 and (ii) maximum price of HK$1.20 (%)	Use of proceeds from the pre-IPO investment	Approximate shareholding held upon Listing (%)
Mr. Qiu	17 November 2010	HK$4,800,000	19 November 2010	HK$0.44	(i) 45.0% (ii) 63.3%	Working capital of the Group	8.0%
Mr. De Weyer	(i) 28 May 2007 (ii) 15 July 2008 (iii) 20 October 2010	(i) HK$570,000 (ii) HK$114,000 (iii) HK$2,550,000	(i) 28 May 2007 (ii) 15 July 2008 (iii) 20 October 2010	HK$0.31	(i) 61.3% (ii) 74.2%	Working capital of the Group	7.8%
Qiu Wen	(i) 28 May 2007 (ii) 3 February 2010	(i) HK$190,000 (ii) HK$1,700,000	(i) 28 May 2007 (ii) 3 February 2010 and 29 March 2010	HK$0.42	(i) 47.5% (ii) 65.0%	Working capital of the Group	3.3%
Tuo Wei Wei	3 February 2010	HK$850,000	3 February 2010	HK$0.63	(i) 21.3% (ii) 47.5%	Working capital of the Group	1.0%
Ho Yin Man, Carmen	3 February 2010	HK$850,000	3 February 2010	HK$0.63	(i) 21.3% (ii) 47.5%	Working capital of the Group	1.0%
Wang Huaner	7 May 2010	HK$850,000	7 May 2010	HK$0.63	(i) 21.3% (ii) 47.5%	Working capital of the Group	1.0%
Jiang Wen	28 May 2007	HK$190,000	28 May 2007	HK$0.11	(i) 86.3% (ii) 90.8%	Working capital of the Group	1.3%
Markus Rall	28 May 2007	HK$190,000	28 May 2007	HK$0.11	(i) 86.3% (ii) 90.8%	Working capital of the Group	1.3%
Kan Yau Shan	28 May 2007	HK$190,000	28 May 2007	HK$0.11	(i) 86.3% (ii) 90.8%	Working capital of the Group	1.3%

Note: The above investors are independent of and not connected with each other.

Mr. Qiu is a real estate developer in the PRC. Ho Yin Man, Carmen is a merchandiser of garment products in Hong Kong. Qiu Wen is an investor relationship officer of a mining company in Hong Kong. Tuo Wei Wei is a property sales agent in Hong Kong. Wang Huaner is a manager of an information technology company in the PRC. Jiang Wen is a manager of a knitting factory in the PRC. Markus Rall is a member of the executive board of a company carrying on business of manufacturing offset printing presses in Germany. Kan Yau Shan is one of the owners of a company carrying on the business of property development in Hong Kong. All of them are individual investors to the Group's business. Other than the fact that they are shareholders of Legend Strategy or Triple Leaf, they do not, whether present or past, have any relationship with the Group, its other shareholders, directors, senior management and their respective associates. They are not engaged in hotel development and operation business. The Shares held by them are considered part of the public float for the purpose of Rule 11.23(7) of the GEM Listing Rules.

Immediately before the Reorganisation, the shareholding structure of Legend Strategy was as follows:

Shareholders of Legend Strategy	**Shareholding** *(%)*
Lai Ying	65%
Triple Leaf	14%
Mr. Qiu	8%
Mr. Fong	5%
Mr. De Weyer	3%
Qiu Wen	2%
Ho Yin Man, Carmen	1%
Tuo Wei Wei	1%
Wang Huaner	1%
Total	100%

In March 2011, a total sum of HK$9,990,000 was injected into Legend Strategy by its then shareholders in proportion to their then shareholdings. On 1 March 2011, the authorised share capital of Legend Strategy was increased from HK$10,000 to HK$15,000,000 and a total of 9,990,000 shares of Legend Strategy were issued and allotted to the respective shareholders in proportion to their shareholding interests. The shareholding structure of Legend Strategy remained unchanged after the allotment of new shares.

Moon Ko

Moon Ko is a limited company incorporated in Hong Kong by Mr. Fong and Dr. Pradit on 1 March 2007 with an issued share capital of HK$8,750,000. At the time of its incorporation, Mr. Fong and Dr. Pradit were the only directors and shareholders holding 60% and 40% shareholding interests in Moon Ko respectively. Other than being a director and shareholder of Moon Ko, there is no relationship, whether present or past, between Dr. Pradit and the Group, its shareholders, directors, senior management and their respective associates.

Moon Ko was established as an investing vehicle to form, with Yuelai Inn Tourists, a Sino-foreign joint venture, Yuelai Inn, to operate Welcome Inn Luohu.

Pursuant to an agreement dated 16 September 2010, Mr. Fong paid a sum of HK$3,400,000 and on 22 December 2010, Dr. Pradit transferred his 40% shareholding interests in Moon Ko to Legend Strategy. The consideration of HK$3,400,000 was determined after taking into account of the registered capital of Moon Ko and the relevant transaction costs. On 22 December 2010, Mr. Fong transferred the remaining 60% shareholding interests in Moon Ko to Legend Strategy at a consideration of HK$1.00. As a result, Legend Strategy became the sole beneficial owner of Moon Ko.

Ablewise

Ablewise is a BVI company set up by Mr. Fong on 20 September 2005. On 28 May 2007, Mr. Fong transferred 1 share with a par value of US$1.00 each being his entire shareholding interests in Ablewise to Legend Strategy on an arm's length basis. After the share transfer, Ablewise became a wholly-owned subsidiary of Legend Strategy.

Yuelai Inn Tourists

On 11 December 2006, Yuelai Inn Tourists was established as a wholly foreign owned enterprise in the PRC by Mr. Fong with a registered capital of HK$8,000,000. Yuelai Inn Tourists is the operator of Welcome Inn Caitian.

On 16 November 2007, Mr. Fong transferred his entire equity interests in Yuelai Inn Tourists to Legend Strategy for a consideration of HK$8,000,000, which was its paid up registered capital and determined on an arm's length basis.

Yingde Tourists

On 30 May 2008, Yingde Tourists was established as a wholly foreign owned enterprise in the PRC by Mr. Fong with a registered capital of HK$8,000,000. Yingde Tourists is the operator of Welcome Inn Nanshan.

On 10 December 2010, Mr. Fong transferred his entire equity interests in Yingde Tourists to Legend Strategy for a consideration of HK$8,000,000, which was its paid up registered capital and determined on an arm's length basis.

Modern Tourists

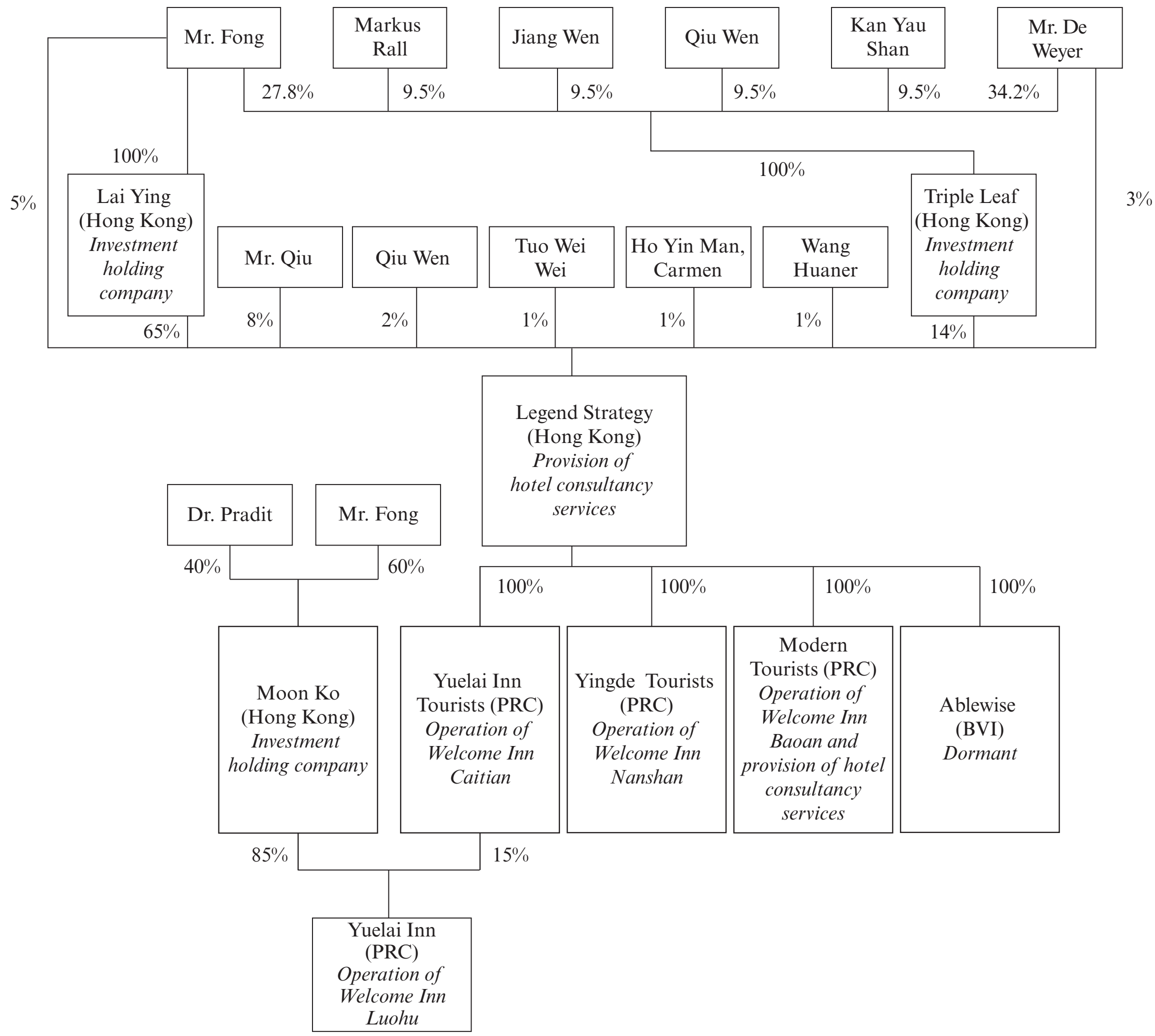
On 25 April 2008, Modern Tourists was established as a wholly foreign owned enterprise in the PRC with a registered capital of HK$1,000,000 and owned by Legend Strategy. Modern Tourists is the operator of Welcome Inn Baoan and provides hotel consultancy services.

Yuelai Inn

On 26 November 2008, Yuelai Inn was established as a Sino-foreign joint venture in the PRC with a registered capital of HK$5,000,000 and was held as to 85% and 15% by Moon Ko and Yuelai Inn Tourists respectively. Yuelai Inn is the operator of Welcome Inn Luohu.

SHAREHOLDING STRUCTURE OF THE GROUP IMMEDIATELY BEFORE AND AFTER COMPLETION OF THE REORGANISATION AND THE PLACING

The following chart shows the Group's shareholding structure of the Group immediately prior to the Reorganisation and the Placing:



The Group underwent the Reorganisation in preparation for the Listing. The principal steps involved in the Reorganisation are summarised below:

(a) On 15 December 2010, Legend Strategy International was incorporated in BVI with limited liability with an authorised share capital of US$50,000 divided into 50,000 shares with par value of US$1.00 each. On the same day, one share with par value of US$1.00 was allotted and issued as fully paid to Mr. Fong.

(b) On 22 December 2010, Mr. Fong paid a sum of HK$3,400,000 to Dr. Pradit in accordance with an agreement dated 16 September 2010 and Dr. Pradit transferred all his 40% shareholding interests in Moon Ko to Legend Strategy at a consideration of HK$1.00. On the same day, Mr. Fong transferred all his 60% shareholding interests in Moon Ko to Legend Strategy at a consideration of HK$1.00.

(c) On 23 February 2011, the Company was incorporated in the Cayman Islands as an exempted company with limited liability with an authorised share capital of HK$390,000 divided into 39,000,000 shares with par value of HK$0.01. On the same day, one subscriber share with par value of HK$0.01 was transferred to Mr. Fong. On 23 March 2011, the authorised share capital of the Company was increased to HK$7,800,000.

(d) On 1 March 2011, Legend Strategy increased its authorised share capital from HK$10,000 to HK$15,000,000 and a total of 9,990,000 shares of Legend Strategy were issued and allotted to its shareholders in proportion to their respective percentages of shareholding interests.

(e) On 23 March 2011, Mr. Fong transferred one share representing 100% shareholding interests in Legend Strategy International to the Company at par value.

(f) On 24 March 2011, Legend Strategy International acquired 10,000 shares with par value of HK$1.00 each in the share capital of Lai Ying and all the shareholder's loan from Mr. Fong. In consideration of such acquisition, the Company allotted and issued 87,750,000 Shares, credited as fully paid to Mr. Fong; and in turn, Legend Strategy International allotted and issued one share with par value of US$1.00 credited as fully paid to the Company.

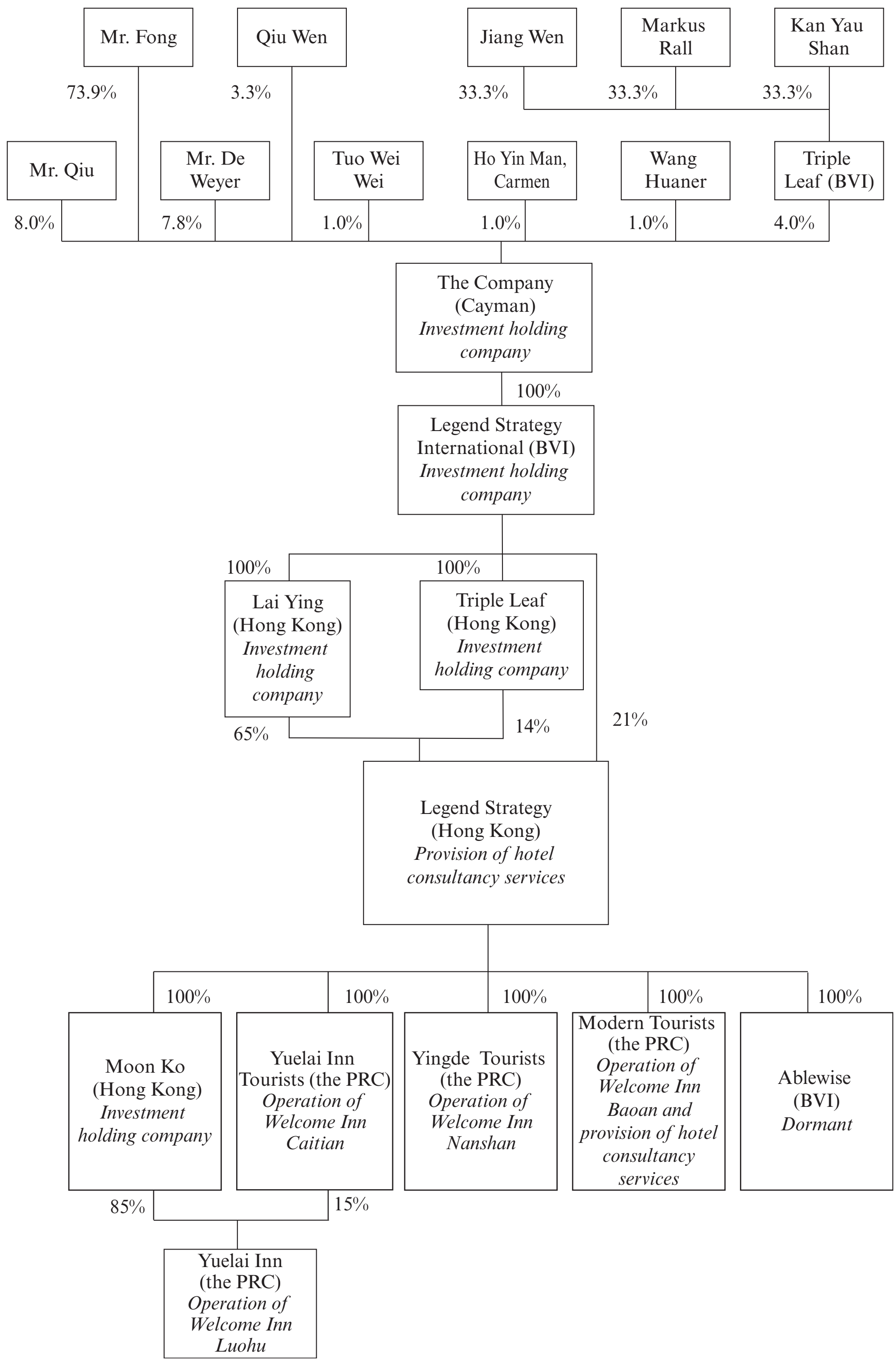
(g) On 27 April 2011, Legend Strategy International acquired 278 shares, 342 shares, 95 shares, 95 shares, 95 shares and 95 shares with par value of HK$1.00 each (representing approximately 27.8%, 34.2%, 9.5%, 9.5%, 9.5% and 9.5% of its shareholding interests respectively) in the share capital of Triple Leaf and all the shareholders' loan from Mr. Fong, Mr. De Weyer, Markus Rall, Jiang Wen, Qiu Wen and Kan Yau Shan respectively. In consideration of such acquisitions, the Company allotted and issued 5,259,465 Shares, 6,473,655 Shares, 1,791,720 Shares, 1,791,720 Shares, 1,791,720 Shares and 1,791,720 Shares to Mr. Fong, Mr.

De Weyer, Markus Rall, Jiang Wen, Qiu Wen and Kan Yau Shan, respectively; and in turn Legend Strategy International allotted and issued one share with the par value of US$1.00 credited as fully paid to the Company.

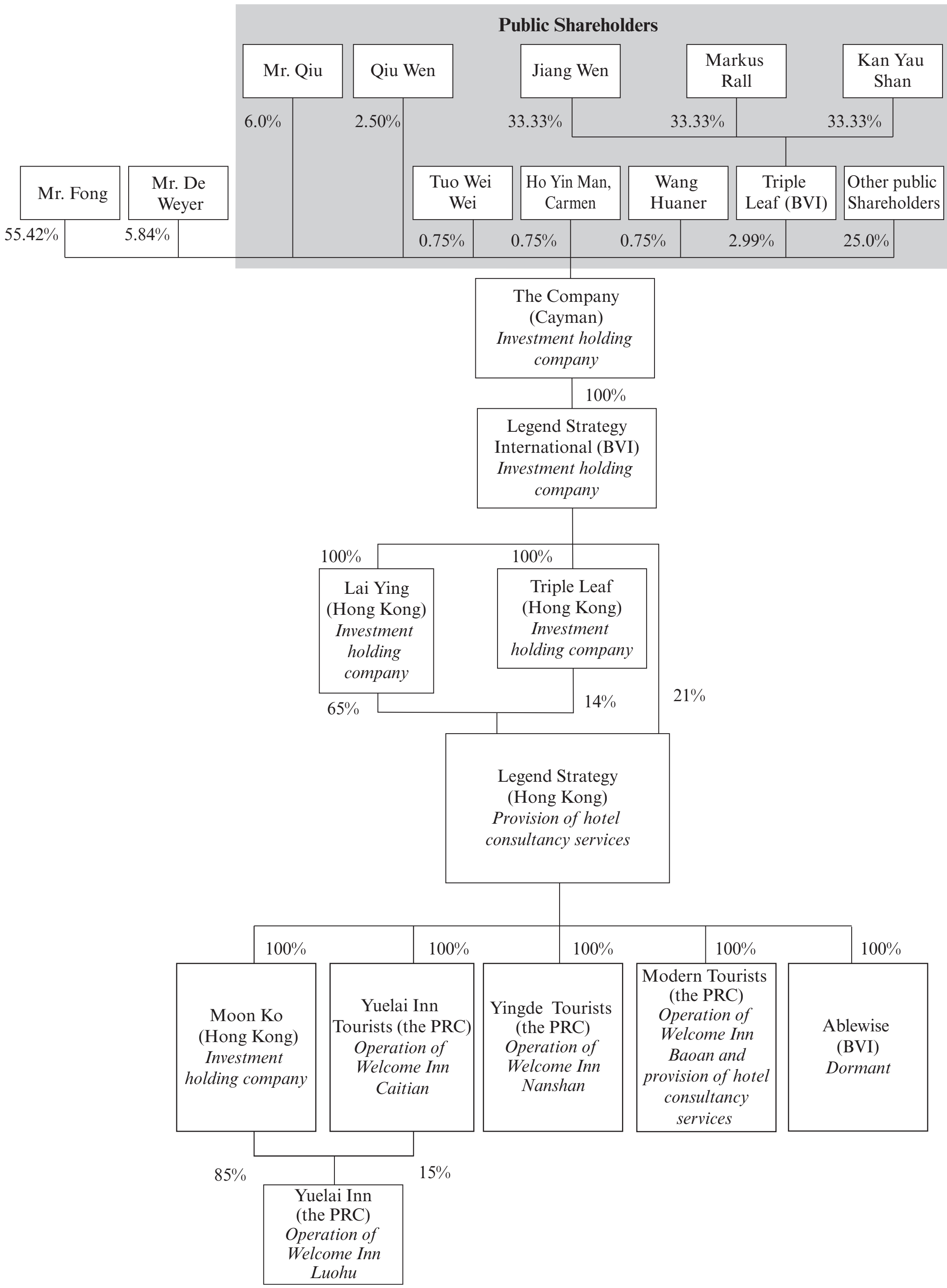
(h) On 19 June 2011, Legend Strategy International acquired 500,000 shares, 800,000 shares, 300,000 shares, 200,000 shares, 100,000 shares, 100,000 shares and 100,000 shares with a par value of HK$1.00 each in the share capital of Legend Strategy (representing 5%, 8%, 3%, 2%, 1%, 1% and 1% of its shareholding interests respectively) from Mr. Fong, Mr. Qiu, Mr. De Weyer, Qiu Wen, Tuo Wei Wei, Ho Yin Man, Carmen and Wang Huaner respectively and the shareholders' loan due and owed by Legend Strategy from Mr. Fong, Mr. De Weyer, Qiu Wen, Tuo Wei Wei, Ho Yin Man, Carmen and Wang Huaner respectively. In consideration of such acquisitions, the Company allotted and issued 6,750,000 Shares, 10,800,000 Shares, 4,050,000 Shares, 2,700,000 Shares, 1,350,000 Shares, 1,350,000 Shares and 1,350,000 Shares to Mr. Fong, Mr. Qiu, Mr. De Weyer, Qiu Wen, Tuo Wei Wei, Ho Yin Man, Carmen and Wang Huaner respectively; and in turn Legend Strategy International allotted and issued one share with par value of US$1.00 credited as fully paid to the Company.

(i) On 24 June 2011, Triple Leaf (BVI) acquired 1,791,720 Shares, 1,791,720 Shares and 1,791,720 Shares (representing approximately 1.3%, 1.3% and 1.3% of the shareholding interests in the Company respectively) from Markus Rall, Jiang Wen and Kan Yau Shan respectively. In consideration of such acquisitions, Triple Leaf (BVI) allotted and issued to each of Markus Rall, Jiang Wen and Kan Yau Shan one share with par value of US$1.00 in its share capital.

Upon completion of the Reorganisation, the Company became the holding company of the Group. The following chart sets out the shareholding structure of the Group immediately after the Reorganisation but prior to completion of the Placing:



The following chart sets forth the shareholding structure of the Group after the Reorganisation and immediately following the Placing:



OVERVIEW

Hotel operation

The Group is an operator and consultant of budget hip hotels in the PRC. During the Track Record Period, the Group has four leased-and-operated hotels under operation. The Group focuses on delivering values to budget-conscious hotel guests, such values included stylish design, cleanliness, comfort, friendly service, geographical convenience and safety. When designing the hotels, the Group pays attention on design details as well as placing emphasis on choosing cost effective yet durable building materials which it believes to be indispensable in delivering the aforesaid values to budget conscious travellers. The interior decoration is carefully thought out to create a stylish and modern ambience to the Group's hotels. Providing comfort to its customers is also one of the Group's top priorities. The Group's hotels are budget hotels which use branded mattresses and the beds therein are furnished with fresh, crisp white linen and sumptuous pillows. Each room of the Group's hotels is also provided with complimentary broadband internet access, air conditioning and a walk-in shower. The locations of the Group's hotels are strategically selected through a very stringent and detailed process to ensure certain exposure and convenience for the hotel guests.

The Group develops its hotels through leasing part of existing commercial buildings and converting them into hotel accommodations. This does not only open up a wider choice and increases flexibility in selecting potential sites for new hotels, but also substantially reduces the lead time and start up cost for hotel conversion when compared to a normal green field hotel project.

The values created by the Group's hotels enjoyed very positive response from the market. To further enhance the loyalty of the customers, the Group launched a loyalty programme which requires customers to pay membership fee for the enjoyment of membership discount. As at 31 December 2010, the loyalty programme had approximately 7,300 members in total[Note]. Customers under the loyalty programme accounted for approximately 14.3% of Total Available Room Nights during the Track Record Period.

Hotel consultancy services

Leveraging on the expertise and valuable experience built up over the years in operating budget hip hotels, the Group has also started to provide hotel consultancy services to Independent Third Parties hotel investors in 2009. The Group's ability to establish low cost yet stylish hotels with competitive room rates appeals to hotel investors. The hotel consultancy services provided by the Group include site selection through site analysis on location, traffic and people flow, questionnaires and environmental analysis, feasibility study, hotel interior design, preparing operating procedures and quality manual that complies with ISO 9001:2008 requirements and providing assistance in selecting contractors for building work. During the Track Record Period, the Group had entered into four hotel consultancy agreements with two hotel investors for the provision of hotel

Note: The Company does not categorise members under the loyalty programme into active and inactive members. The 7,300 members represent all members under the loyalty programme as at 31 December 2010.

consultancy services for Da Mei Sha Hotel, WBT Hotel, Gaomiao Hotel and Zhongxin Hotel. In 2011 and up to the Latest Practicable Date, the Group has entered into one hotel consultancy agreement for the provision of hotel consultancy services for South China Hotel. These hotel investors are Independent Third Parties who are not connected with the Group other than entering into the hotel consultancy agreements with the Group. These hotel investors do not have experience in the hotel industry and therefore engaged the Group to provide the hotel consultancy services. During the year ended 31 December 2010, the Group has completed the provision of hotel consultancy services for Da Mei Sha Hotel, WBT Hotel, Gaomiao Hotel and Zhongxin Hotel. The Company is in the process of site selection for South China Hotel.

Business trend

The Group incurred a net loss of approximately HK$3.5 million for the year ended 31 December 2009 and a net profit of approximately HK$9.5 million for the year ended 31 December 2010. The net loss for the year ended 31 December 2009 was mainly due to under-utilisation of the Group's hotel and the high fixed costs in hotel operations. The Group's financial result improved in the year ended 31 December 2010 mainly due to the new source of revenue generated from the hotel consultancy business and increased profit margin from the hotel operations as occupancy improved. Based on the unaudited management accounts of the Group, the Group was in a loss position for the four months ended 30 April 2011 mainly due to the lack of revenue from the hotel consultancy business recognised and the Group incurring non-recurring expenses in relation to the Listing of approximately HK$2.1 million during the period. The financial result of the Group for the year ending 31 December 2011 will be affected by, among other things, the non-recurring expenses in relation to the Listing and whether the Company is successful in entering into new hotel consultancy agreements and hotel management agreements. Further details are set out in the paragraphs headed "The financial performance of the Group during the Track Record Period" and "The financial performance of the Group for the four months ended 30 April 2011" under the section headed "Summary" of this prospectus, the paragraphs headed "The Group has a limited operating history in hotel consultancy business and consultancy fee is paid on a project basis", "The Group lacks experience in engaging in the hotel management business", "The Group experienced significant fluctuation in its net profit during the Track Record Period and the four months ended 30 April 2011" and "The financial results of the Group are expected to be affected by the expenses in relation to the Listing" under the section headed "Risk factors" of this prospectus and the paragraph headed "The financial performance of the Group for the four months ended 30 April 2011" under the section headed "Financial information" of this prospectus.

COMPETITIVE STRENGTHS

The Directors believe that the success of the Group is principally attributable to the following factors:

Unique interior design

The Group's in house design team designs the interior for all its hotels. The advantage is that the experience accumulated and opinions on usage from customers of all previous projects are retained within the Group, this allows the elimination of deficiency and in return enhance the continuous improvement in the quality of design of subsequent hotel developments. With experience built up over time, not only the efficiency of use of hotel space be maximised, it also helps to identify cost efficient building materials with longer durability to be used in later hotels. The Directors believe, the use of appropriate building materials not only prolong the life span of the hotels and makes them look fresh and new at all time, but also substantially reduce its daily maintenance costs.

Furthermore, the Group's business development team through learning from their previous experience in hotel conversion, gained knowledge in efficient space planning to achieve maximum return on a given space. This is evidenced by the delineation of 87 guest rooms out of a limited space of approximately 2,000 sq.m. in Welcome Inn Caitian (with the gross area of approximately 17.5 sq.m. and net area of approximately 13.5 sq.m. in average per guest room). During the Track Record Period, the Group recorded a number of repeated hotel guests. The design of the Group's hotels stresses on style, comfort and functionality, with an aim to build up the market position as a budget hip hotel. The Directors believe that the reasons for repeated patronage is largely due to the high level of cleanliness, comfort and quality of service that offered by the Group's hotels.

For more details regarding the unique interior design, please refer to the paragraph headed "Design of hotels" in this section.

Comprehensive quality management system

The Group believes that standardised work procedures and a comprehensive quality management system are the key factors to achieve and maintain quality services. The Group adopts a quality management system covering various aspects of hotel operation to ensure that high quality services are delivered to customers. The Group therefore applied and was awarded ISO 9001:2008 quality management system certification for provision of hotel services (excluding restaurant service) for all the Group's leased-and-operated hotels in the PRC. To the best knowledge of the Directors, the Group is one of the very few budget hotels which has obtained the ISO 9001:2008 certification. Further, the ISO 9001:2008 quality management system serves as a good platform for scalable expansion in the future as it ensures the stability of service being provided to the Group's leased-and-operated hotels and for hotels under the hotel consultancy agreements. For more details regarding the Group's quality management system, please refer to the paragraph headed "Quality control" in this section.

Comparatively short lead time in opening a budget hip hotel

The Group's leased-and-operated hotels were converted from commercial buildings or industrial buildings, this conversion plus leased-and-operated model uses much less lead time when compared to a greenfield project.

Other than the leased-and-operated conversion model which shorten the lead time, the Group's business development team also helps to speed up the hotel conversion process. The business development team is based in the head office in Shenzhen. It is primarily responsible for researching and evaluating new markets and locations, conducting feasibility studies and identifying potential investors. The business development team possesses working knowledge on and experience in hotel interior design, selection of building materials, cost and quality control, which helps to reduce repetitive construction work and achieve more efficient floor space subdivision and planning, and hence leads to shorter lead time and lower costs in commencing hotel operations.

Simple management structure

Salary is one of the major expenses in hotel management. In order to control the number of management personnel, the Group maintained a flat management structure so that more staff could be deployed to front line duties.

Guests rooms to staff ratio in the housekeeping department is another indicator in effective hotel management. The higher the ratio the lower the operation cost. The guests rooms to staff ratio of the Group is approximately 5:1, which offers flexibility to the Group in allocating labour resources and hence reduce staff costs.

Ready for scalable expansion

The Directors believe that, in order to develop a scalable business, the Group should further its expansion capability by equipping structured workflow and implementing standardised management system.

The Group has prepared its structured workflow, which concerns the conversion of the leased-and-operated hotels, including floor space planning, site selection criteria and conversion project supervision. Coupled with years of accumulated experience of the Group in the hotel industry as well as the experience of the Group's execution team, the Directors believe that the Group has engendered sufficient skills to accommodate larger scale of expansion.

The management of the Group is well-aware of the essence of hotel management and has therefore spent two years to hammer out effective working procedures, namely ISO 9001:2008 management standards, in 2008. The implementation of ISO 9001:2008 enables the Group to effectively reduce the training time for new hotel staff, equips any hotel that the Group will develop in the future with a comprehensive management system, and keeps employees in different posts in the Group's leased-and-operated hotels well-informed of their duties and area of responsibilities. All the aforementioned merits, to the understanding of the Directors, are indispensible for the successful development of the Group.

The Directors consider that the Group has covered and strengthened the above areas which the Directors believe are crucial to the implementation of the Group's future expansion plan.

STRATEGIES AND BUSINESS OBJECTIVES

The Group's objective is to enhance the return to the Shareholders through exploiting its competitive advantages to grow further with an aim to becoming a leading budget hip hotel provider in the PRC.

Having considered the market potential and evaluated the Group's market position and competitive strengths, the Group intends to achieve its business objectives and further growth through implementation of the following strategies:

Continue to expand the Group's leased-and-operated hotel portfolio with focus on the Southern PRC

The Group plans to continue to expand its network in the PRC with focus on the Southern PRC, in particular, the Guangdong Province in the next two to three years. In view of the proposal of urbanisation in the developing cities of the PRC introduced at the 中央經濟工作會議 (Central Economy Work Conference*), the Directors believe that such policy will attract corporations to seek business opportunities and expand their businesses across these cities and thereby stimulating a large demand for hotel accommodations. The Group plans to take this opportunity to expand its hotel operations in the second-tier and third-tier cities in the Southern PRC, such as Foshan, Xiamen, Fuzhou and Quanzhou. Furthermore, many of such second-tier and third-tier cities in the Southern PRC are major centres for manufacturing and trading businesses, conventions, exhibitions and events which attract business and leisure travellers to the regions and thus the demand for business hotels is stimulated.

As at the Latest Practicable Date, the Group had identified a location in the Fujian Province, the PRC, to develop a leased-and-operated hotel ("**Fujian Hotel**"). Fujian Hotel is expected to be refurbished in late 2011 with the commencement of operation in early 2012. In addition, the Group is planning to open a leased-and-operated hotel in Heyuan City, the Guangdong Province ("**Heyuan Hotel**") in the second half of 2012.

The table below illustrates the plans of Fujian Hotel and Heyuan Hotel:

	Fujian Hotel	Heyuan Hotel
Location	Quanzhou, Fujian Province, the PRC	Heyuan, Guangdong Province, the PRC
Expected capital expenditure and expenses	Approximately HK$14.1 million	Approximately HK$12.0 million
Number of rooms	About 100	About 100
Target average daily room rate	About RMB250	About RMB200
Area	Approximately 5,000 sq.m.	Approximately 4,000 sq.m.
Expected time of commencement of operation	Early 2012	Second half of 2012

Continue to expand the hotel consultancy business

The Group intends to continue an expansion of the hotel consultancy business. It will strengthen the business development team to help accelerate the growth. The Group will participate in tradeshow, exhibition and special public relation activities to identify potential hotel investors. The Company is currently identifying potential target customers and is in discussion with some potential hotel investors for the Group's hotel consultancy business. However, no specific term has been agreed. The table below sets out the targeted number of hotel consultancy agreements to be entered into in the following years:

	From the Latest Practicable Date to 31 December 2011	For the year ending 31 December 2012	For the year ending 31 December 2013
Number of hotel consultancy agreements	4	4	4

Expand the business by offering hotel management services

Leveraging on the expertise and valuable experience built up over the years in managing budget hip hotels, the Group intends to expand its business by offering hotel management services to hotels invested by Independent Third Parties. The Company is currently identifying potential target customers and is in discussion with some potential hotel investors (including those who have entered into hotel consultancy agreements with the Group) for the Group's hotel management business. However, no specific term has been agreed. The Group shall manage the daily operation of the hotel and shall determine all policies and procedures relating to the overall management and operation of the hotel. The hotel investor will bear all the operating expenses of the hotel and pay the Group management fee based on the revenue of the hotel. The table below sets out the targeted number of hotel management agreements to be entered into in the following years:

	From the Latest Practicable Date to 31 December 2011	For the year ending 31 December 2012	For the year ending 31 December 2013
Number of hotel management agreements	2	2	2

Continue to forge and strengthen strategic relationships with strategic partners

The Group has entered into the 1506 CC Strategic Agreement with 1506 CC for the development of the Group's budget hip hotel business in 1506 CC's creative industry parks in the PRC. The Group has also entered into the Shu Yong Consultancy Agreement with Mr. Shu Yong, an international contemporary artist, who shall provide advice to the Group on the decoration of the Group's hotels and act as an organiser in sourcing and providing work of art to the Group's hotels in order to strengthen its market position as a budget hip hotel. For more details regarding the Group's strategic cooperation with strategic partners, please refer to the paragraphs headed "Strategic cooperation with strategic partners" in this section.

The Group intends to continue to seek more opportunities to form strategic partnerships with established property or property-related groups with strong brand names, as well as strengthen its relationships with its existing strategic partners, in order to promote a mutually beneficial and long-term relationship. The Directors believe that this strategy provides an effective and efficient channel for expanding its hotel portfolio and exploring new markets. The Group expects that such partnerships with property or property-related groups will afford the Group greater recognition by benefiting from the strong brand names of the strategic partners. The Directors believe that these relationships can continue to provide the Group with a platform to develop the hotel business.

Continue to enhance the awareness of the brand names "悦來客棧" and "Welcome Inn"

The Group intends to continue to promote the brand names of "悦來客棧" and "Welcome Inn". The Group will achieve this by continuing to focus on prouding quality service and creating a contemporary and artistic image for the Group's hotels. The Group intends to strengthen and consolidate public recognition of "悦來客棧" and "Welcome Inn" as budget hip hotels brand names with unique contemporary and artistic design through the strategic partnership with Mr. Shu Yong, an international contemporary artist. Such public recognition will enable the Group to obtain premium value, such as attracting more guests and increase in brand awareness of its hotel business in the long term. The Group will continue to adopt brand promotion policies to facilitate consistent identification of "悦來客棧" and "Welcome Inn" and allocate more resources on sales and marketing promotion so as to enhance the public awareness of the brand names "悦來客棧" and "Welcome Inn".

The Group is applying for the registration of word marks and logo marks containing "悦來客棧", "悦來" and "Welcome Inn" as trademarks in the PRC. The applications were submitted in February and March 2011, accepted and currently being processed by the 國家工商行政管理總局商標局 (Trademark Department of the State Administration of Industry and Commerce*). It is expected that the registration will be completed within two years from the respective date of applications. Certain trademarks containing "悦來客棧" or "悦來" have already been registered by others in the PRC. However, the specific services in respect of which such trademarks were registered for do not include providing accommodation and operation of hotel business. As such, the Company's PRC legal advisers advised that it is not expected that there will be any infringement from the use of the brand names of "悦來客棧" or "悦來" by the Group for the operation of hotel business in the PRC prior to registration. If the Company fails to register its trademarks, it will consider other options including (i) modifying its trademarks to satisfy trademark requirements (if applicable); (ii) establishing new brands; or (iii) acquiring existing registered trademarks from the trademark department. The Company is advised that it would be allowed to operate under the acquired registered trademarks after completion of the acquisition and notarisation procedures which usually take approximately one week's time. Further, the Company may consider using other brand names to operate new hotels in other regions.

HOTEL OPERATIONS

Overview

During the Track Record Period, the Group's hotel portfolio comprised of four leased-and-operated hotels.

The following table sets out the particulars of all leased-and-operated hotels of the Group:

Hotel	Commencement date	Location	Approximate GFA (sq.m.)	No. of rooms available	Lease term	Total cost of property, plant and equipment as at 31 December 2010 (HK$ million)
Welcome Inn Caitian	11 December 2006	Futian District, Shenzhen	2,000	87	20 November 2005 – 19 November 2015	Approximately 10.5
Welcome Inn Nanshan	30 May 2008	Nanshan District, Shenzhen	7,000	192	1 January 2007 – 31 December 2014	Approximately 17.7
Welcome Inn Baoan	25 April 2008	Baoan District, Shenzhen	1,700	59	1 January 2011 – 30 December 2017	Approximately 6.5
Welcome Inn Luohu	26 November 2008	Luohu District, Shenzhen	2,000	80	1 February 2008 – 31 January 2018	Approximately 8.3

The following table shows information on the revenue from hotel operation, Total Available Room Nights, occupancy, ARR, and RevPAR of each of the Group's leased-and-operated hotels for the Track Record Period:

	Year ended 31 December	
	2009	**2010**
Welcome Inn Caitian		
Revenue *(HK$ million)*	5.0	6.2
Total Available Room Nights	31,133	31,425
Occupancy *(%)*	78.8%	96.1%
ARR *(RMB)*	183.9	188.1
RevPAR *(RMB)*	145.0	180.7
Welcome Inn Nanshan		
Revenue *(HK$ million)*	10.1	13.2
Total Available Room Nights	64,711	67,337
Occupancy *(%)*	67.2%	87.7%
ARR *(RMB)*	191.2	194.3
RevPAR *(RMB)*	128.5	170.4
Welcome Inn Baoan		
Revenue *(HK$ million)*	2.1	2.5
Total Available Room Nights	19,355	21,535
Occupancy *(%)*	63.7%	89.2%
ARR *(RMB)*	134.3	123.7
RevPAR *(RMB)*	85.5	110.4

	Year ended 31 December	
	2009	**2010**
Welcome Inn Luohu		
Revenue *(HK$ million)*	2.2	5.4
Total Available Room Nights	25,011	28,812
Occupancy *(%)*	40.6%	95.6%
ARR *(RMB)*	171.3	175.6
RevPAR *(RMB)*	69.5	168.0
Total		
Revenue *(HK$ million)*	19.4	27.3
Total Available Room Nights	140,210	149,109
Occupancy *(%)*	64.0%	91.2%
ARR *(RMB)*	178.9	179.4
RevPAR *(RMB)*	114.6	163.6

Welcome Inn Caitian

Welcome Inn Caitian, the Group's first budget hip hotel in the PRC, commenced operation in 2006. The hotel has three floors and a total GFA of approximately 2,000 sq.m., comprising 87 rooms. The hotel is conveniently located at a commercial area in the Futian District and in proximity of the Shenzhen central business district, surrounded by CoCo Park (國際蘇活購物公園) (a shopping complex), the Shenzhen Convention and Exhibition Centre (深圳會展中心) and Huaqiangbei Commercial Street (華強北商業街) (a large electronic market). Welcome Inn Caitian is also situated near transportation hubs such as the Futian bus terminal, the Luohu train station and the Huanggang border (皇崗口岸).

Welcome Inn Nanshan

Welcome Inn Nanshan commenced operation in 2008. The hotel has five floors and a total GFA of approximately 7,000 sq.m., comprising 192 rooms, including an executive suite. The hotel is conveniently located at the commercial area in the Nanshan District and in proximity of the Guang Cai Xin Tiandi (光彩新天地) (a commercial complex), and theme parks such as the Window of the World (世界之窗) and the World at Sea (海上世界). Welcome Inn Nanshan is situated near the Hong Kong-Shenzhen Western Corridor and the Shekou Port (蛇口碼頭).

Welcome Inn Baoan

Welcome Inn Baoan commenced operation in 2008. The hotel has four floors and a total GFA of approximately 1,700 sq.m., comprising 59 rooms. The hotel is conveniently located at a commercial area in the Baoan District and adjoining the Baoan Airport, the Nan Tou custom (南頭海關), the Baoan coach terminal and the Xi Xiang Pier (西鄉碼頭).

Welcome Inn Luohu

Welcome Inn Luohu commenced operation in 2008. The hotel has one floor and a total GFA of approximately 2,000 sq.m., comprising 80 rooms. The hotel is conveniently located at the financial centre area in the Luohu District, adjoining the World Financial Centre (世界金融中心), the Shenzhen Book Store (深圳書城), The Mixc (萬象城), the Citic City Plaza (中信城市廣場), the Shun Hing Square (信興廣場地王大廈), the Shenzhen Grand Theatre (深圳大劇院) and the Dongmen Commercial Pedestrian Street (東門商業步行街). Welcome Inn Luohu is also situated near Huaqiang North Commercial Street and Shenzhen train terminal.

Set out below is a map showing the locations of the Group's leased-and-operated hotels in Shenzhen, the PRC:

Note:

The locations of the hotels under the hotel consultancy agreements are as follows:

- Da Mei Sha Hotel is located in Yantian District, Shenzhen, the PRC. This hotel is not in proximity of the Group's leased-and-operated hotels in Shenzhen.
- WBT Hotel, Gaomiao Hotel and Zhongxin Hotel are located in Foshan, the PRC.
- South China Hotel is in the process of site selection.

Site selection

The Group's strategies on site selection apply to both (i) the Group's leased-and-operated hotels and (ii) hotels under hotel consultancy agreements.

The business development team of the Group will consider factors, including but not limited to the following, when identifying sites for new hotels:

(i) examining physical condition of the building themselves as to whether it is suitable for hotel operations;

(ii) proximity to centre of commercial activities, central business district or tourist attraction;

(iii) attractiveness of location and accessibility;

(iv) flow of the crowd;

(v) facilities available in the vicinities, such as restaurants and parking facilities;

(vi) forecast growth and economic development of the market; and

(vii) proximity to convention and exhibition centres or transportation hubs.

Site selection for and conversion of leased-and-operated hotels

The Group's multi-step conversion process starts with planning and site selection by the Group's business development team. After careful and detailed site analysis, the site will be approved by the Group's chief executive officer, the Group will negotiate with the relevant property owners or landlords for lease, which are subject to the final approval of the Group's chief executive officer. After the lease has been executed by the owner or lessor, the business development team will proceed to the design stage. The business development team will develop a detailed layout plan and proposed design concept. The Group will then engage contractors for the conversion work through a tender process. The Group will invite qualified construction contractors to submit competitive bids for the conversion and related work. The decision to award a contract is made by the Group's business development team after taking into consideration the bidder's capability to satisfy contract requirements, and its reputation for quality and price. The construction contractors are responsible for completing various phases of conversion. Construction materials are selected by the

Group's business development team and are then purchased by the construction contractors. The Group's business development team will conduct periodic reviews of the work of the contractors to ensure that the quality meets the requirements and the costs are within budget.

The Company's PRC legal advisers confirmed that the Company has obtained all necessary licences and permits to operate hotels in the PRC, such as 特種行業許可證 (Licence of Special Trade*) and 衛生許可證 (Public Area Hygiene Licence*). Since hotel is under the category of commercial and service land use, there is no change in land use by converting commercial building areas into hotels. The Company's PRC legal advisers confirmed that the conversion of commercial building areas into the Group's leased-and-operated hotels is in compliance with the relevant PRC laws and regulations.

Design of hotels

The interior of the Group's leased-and-operated hotels are designed by the Group's business development team. With carefully thought out design details such as lighting effects and the use of cost effective yet durable, visually matching and appealing materials, the Group aims to create a high standard of interior decoration to attract the hotel guests.

The business development team helps create unified designs to the hotels operated by the Group and also maintains the Group's stringent approach to control costs and minimise lead time in the design stage. In order to ensure the accurate implementation of design and high standard in finishing, the Group's business development team works closely with the construction contractors during the hotel conversion stage.

Caring for the guests is part of the working life in Welcome Inn, the Group puts effort in making sure the customers feel at home and comfortable. The Group is one of the very few hotels in the budget sector to use branded mattresses and beddings in the guest rooms. The Group is also aware of the fact that people are more cautious on their health and well being than ever, therefore, the Group has also introduced a number of non-smoking rooms in each of the hotels to give the customers a choice of smoke free environment.

Besides, in all of the Group's hotels, the Group has dedicated a zone for only lady's guest rooms.

HOTEL CONSULTANCY SERVICES

Since 2009, the Group has started to provide hotel consultancy services for hotels invested by Independent Third Parties. The Group identifies potential hotel investors through business networks of the Directors and senior management of the Group and participating in tradeshow, exhibition and special public relations activities. The Directors believe that the Group's ability to establish low cost stylish hotels with competitive room rates appeals to hotel investors. The Directors also believe that the successful track record of the Group's hotels is one of the reasons that attract hotel investors.

Principal terms of the hotel consultancy agreements

Subject to the negotiations with individual hotel investors, the principal terms of the hotel consultancy agreements are generally similar. Pursuant to the hotel consultancy agreements, the Group provides to the hotel investors, the following services:

(i) site selection through detailed studies on the traffic flow etc.;

(ii) site assessment and feasibility analysis;

(iii) preparing ISO 9001:2008 operating procedures and quality manual;

(iv) hotel interior design; and

(v) construction contractor selection.

The Group will provide assistance in selecting construction contractors and the hotel investors will engage construction contractors themselves. The Group is not responsible for assisting the hotel investors to obtain relevant hotel operation licenses.

The duration of the hotel consultancy agreements is from the date of agreements up to the date of identifying construction contractors.

The consultancy fee payable to the Group under the hotel consultancy agreements are determined after arm's length negotiation between the Group and the hotel investors after taking into account the size of the hotels, the estimated number of guest rooms of the hotels and the complexity of the projects. The hotel consultancy agreements also set out the additional consultancy fee payable to the Group should the actual number of guest rooms of the hotel pursuant to the finalised hotel interior design package exceeds the number estimated at the signing of the hotel consultancy agreement.

The initial consultancy fee is payable in four instalments whereby 30% of the total initial consultancy fee will be payable at each of the following three stages, namely:

(i) the date of hotel consultancy agreement;

(ii) within seven days upon the delivery of ISO 9001:2008 operating procedures and quality manual; and

(iii) within seven days upon the delivery of hotel interior design package.

The remaining 10% of the initial consultancy fee is payable within seven days upon the commencement of the construction or conversion work. The initial consultancy fee for the services of site selection, site assessment and feasibility analysis is covered by the first instalment payable upon signing of the hotel consultancy agreement.

Should the actual number of guest rooms of the hotel pursuant to the finalised hotel interior design package exceeds the number estimated at the signing of the hotel consultancy agreement, additional consultancy fee is payable according to the above instalment schedule. The first instalment of the additional consultancy fee is payable upon the delivery of hotel interior design package calculated based on the percentage of total initial consultancy fee paid or payable by that stage. The remaining payments of the additional consultancy fee will be payable the same as the remaining schedule of the initial consultancy fee. The hotel investor shall reimburse the Group upon demand for all reasonable expenses incurred by the Group in relation to the hotel consultancy services. In no circumstances shall the fee paid by the hotel investor to the Group be refundable.

Duration of hotel consultancy services

The provision of services under the hotel consultancy agreements are typically completed within five months. The general time line of hotel consultancy services is as follows:

Services	**Period**
Site selection	approximately 2 weeks
Site assessment and feasibility analysis	approximately 2 weeks
Preparing ISO 9001: 2008 operating procedures and quality manual	approximately 2 weeks
Hotel interior design	approximately 10 weeks
Construction contractor selection	approximately 2 weeks

The services of site selection, site assessment and feasibility analysis are performed concurrently, following the completion of which the Group will begin drawing the hotel interior design and preparing the operating procedures and quality manual. Upon completion of the hotel interior design, the Group will begin selecting the construction contractor.

Up to the Latest Practicable Date, the Group had entered into five hotel consultancy agreements with three hotel investors for the provision of hotel consultancy services for Da Mei Sha Hotel, WBT Hotel, Gaomiao Hotel, Zhongxin Hotel and South China Hotel.

The following table sets out the details of each hotel consultancy agreement entered by the Group during the Track Record Period and up to the Latest Practicable Date:

	Location	Background of hotel investors	Date of engagement	Major terms of the hotel consultancy agreement	Approximate no. of rooms available	Current status of hotel consultancy services	Hotel construction status *(Note 3)*	Commencement date of operation *(Note 3)*
Da Mei Sha Hotel	Dameisha, Shenzhen, the PRC	These hotel investors are Independent Third Parties who are not connected with the Group other than entering into the hotel consultancy agreements with the Group. These hotel investors are not engaged in other hotel development and operation business.	17 December 2009	Pursuant to each of the hotel consultancy agreements, the Group provides to the hotel investors, among other things, the following services: (i) site selection via detailed studies on the traffic flow etc.; (ii) site assessment and feasibility analysis; (iii) hotel interior design; (iv) preparing ISO 9001:2008 operating procedures and quality manual; and (v) construction contractor selection.	76	Completed on 6 April 2010	Under construction	Expected to be July 2011
WBT Hotel *(Note 1)*	Creative City, Foshan, the PRC		1 August 2010		150	Completed on 2 December 2010	Under construction	Expected to be in the second half of 2011
Gaomiao Hotel *(Note 1)*	Creative City, Foshan, the PRC		1 August 2010		80	Completed on 2 December 2010	Under construction	Expected to be in the second half of 2011
Zhongxin Hotel *(Note 1)*	Creative City, Foshan, the PRC		1 August 2010		50	Completed on 2 December 2010	Under construction	Expected to be in the second half of 2011
South China Hotel	N/A *(Note 2)*		18 March 2011		N/A *(Note 2)*	In the process of site selection *(Note 2)*	N/A *(Note 2)*	N/A *(Note 2)*

Notes:

1. These agreements were entered into with the same hotel investor.

2. The Company is in the process of site selection for South China Hotel and therefore the location, the construction status, the commencement date of operation, the number of rooms available and the expected completion date are unavailable.

3. Pursuant to the hotel consultancy agreement, the Group is not required to oversee the construction of the hotel. The Group's obligations under the hotel consultancy agreements will be completed upon the construction contractors being identified. As such, the Company does not keep track of the construction status of each of Da Mei Sha Hotel, WBT Hotel, Gaomiao Hotel and Zhongxin Hotel. To the Company's understanding, Da Mei Sha Hotel is expected to commence operation in July 2011 and WBT Hotel, Gaomiao Hotel and Zhongxin Hotel are expected to commence operation in the second half of 2011.

Recognition of revenue from provision of hotel consultancy services

The revenue recognition policy in relation to provision of hotel consultancy services is as follow:

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction shall be recognised by reference to the stage of completion of the transaction at the end of the reporting period. The outcome of a transaction can be estimated reliably when (i) the amount of revenue can be measured reliably; (ii) it is probable that the economic benefits associated with the transaction will flow to the entity; (iii) the stage of completion of the transaction at the balance sheet date can be measured reliably; and (iv) the costs incurred for the transaction and the costs to complete the transaction can be measured.

In practice, the Group has developed a policy that the stage of completion of each transaction is determined based on the proportion of time cost incurred at the end of the reporting period compared to the estimated total time costs of the transaction. To facilitate this, the Group has developed an internal budgeting system for each specific consultancy service project, only those time costs that reflect work performed are included in costs incurred to date. The staff who works on the individual project is required to fill in the time sheet monthly and the time sheet is reviewed and approved by the finance manager of the Group. The charge out rate for time incurred by the project team and the time cost incurred to date are also reviewed by the Directors at the quarter-end. The Directors will review and, when necessary, revise the estimates of contract revenue and contract costs if there is a change of the arrangement (e.g. charge additional consultancy fee) as the contract progresses. The Directors consider that it is appropriate to perform those reviews at the quarter-end since the contract duration is short (ie. normally completed within five months), it is unlikely to have overrun for these contracts and this is in line with the timing of the Group's internal management reporting. Also, the investors are required to provide a written acknowledgment to the Group upon the completion of each phase specified in the hotel consultancy agreements and the receipts of the related deliverables. Since the hotel consultancy services for Da Mei Sha Hotel, WBT Hotel, Gaomiao Hotel and Zhongxin Hotel have been completed before 31 December 2010, the revenue in relation to provision of these hotel consultancy services was recorded in full in the year ended 31 December 2010. During the year ended 31 December 2010, no additional consultancy fee is recognised since there is no significant change to the actual number of guest rooms of the hotels pursuant to the finalised hotel interior design packages from the number of guest rooms estimated at the signing of the hotel consultancy agreements. The revenue contribution from each of the hotel consultancy agreements for Da Mei Sha Hotel, WBT Hotel, Gaomiao Hotel and Zhongxin Hotel for the year ended 31 December 2010 ranges between about HK$2.2 million and HK$2.6 million. There is yet to be any revenue recognised from the hotel consultancy agreement for South China Hotel up to 30 April 2011.

The timing of revenue recognition in relation to the provision of hotel consultancy services is different from the billing schedule. When the Group collects money from the customer for revenue not yet recognised, the amount collected would be recorded as customer deposit until the revenue is recognised.

Site selection

The hotel investors will discuss with the Group's business development team on the choice of location of the hotels. The Group's business development team will recommend suitable sites to the hotel investors for hotel development based on the result of detailed site analysis and feasibility study. As part of the site analysis to assess the demand and competition environment of the proposed location, the Group will conduct customer analysis such as assessing the traffic flow of the location, proximity to landmarks and transportation hub, and buying habits, lifestyle preferences and perception of budget hotels of the residents of the area. The Group will also conduct competitor analysis such as ascertaining the number of hotels in the proximity. In conducting the site analysis, the Group will also take into consideration whether any of its leased-and-operated hotels are located in the proximity of the proposed site to avoid competition. Further, the management of the Group will discuss with the potential hotel investors before entering into the hotel consultancy agreements regarding the regions in which the hotels are expected to be located (i.e. the province or the city) and would not enter into the hotel consultancy agreements should the hotel investors insist that the hotels be set up in regions which the Company considers will compete with the Group's existing or proposed leased-and-operated hotels. The actual locations of the hotels are determined after completion of the site selection process under the hotel consultancy agreements. As advised by the Company's PRC legal advisers, there would not be conflicts between the Group's leased-and-operated hotel business and hotel consultancy business which will lead to a breach of the terms of hotel consultancy agreement and/or contravention of relevant PRC laws and regulations.

Once the sites have been approved by the hotel investors, the Group will negotiate with the relevant property/land owner for lease or purchase of the property/land. The business development team will discuss the proposed design of the hotels with the hotel investors and develop the hotel interior design package for them. The Group will assist the hotel investors in inviting qualified construction contractors to submit competitive bids for the construction, conversion and related work. The decision to award a contract is made after taking into consideration the bidder's capability to satisfy contract requirements, and its reputation for quality and price.

STRATEGIC COOPERATION WITH STRATEGIC PARTNERS

During the course of identifying the sites for WBT Hotel, Gaomiao Hotel and Zhongxin Hotel at the Creative City, management of the Company and 1506 CC, the developer and operator of the Creative City, came to know each other. After the completion of site selection for the aforesaid hotels, the Company and 1506 CC agreed to establish a long term strategic cooperation partnership. In November 2010, the Group entered into the 1506 CC Strategic Agreement with 1506 CC for a term of three years. Pursuant to the 1506 CC Strategic Agreement, during its term, 1506 CC will give priority to the Group as the hotel service provider in its creative industry parks in the PRC. Upon the expiry of the agreement, the Group may renew the agreement subject to negotiation with 1506 CC. In November 2010, Mr. Qiu, the legal representative of 1506 CC, became a shareholder of Legend Strategy interested in 8% of the issued share capital of Legend Strategy. This only arose in November 2010 when 1506 CC and the Company wanted to have strategic cooperation along with the 1506 CC Strategic Agreement.

As at the Latest Practicable Date, 1506 CC had developed a theme park, the Creative City, which is located at Foshan and within the centre of the Pearl River Delta of the PRC. To the best knowledge of the Directors, WBT Hotel, Gaomiao Hotel and Zhongxin Hotel are the only hotels which will be developed in the Creative City. Since the 1506 CC Strategic Agreement was entered into after the determination of the sites for WBT Hotel, Gaomiao Hotel and Zhongxin Hotel, such hotels were not developed pursuant to the 1506 CC Strategic Agreement. The investor of WBT Hotel, Gaomiao Hotel and Zhongxin Hotel is independent of and not connected with 1506 CC or its affiliates. According to the website of the Creative City, the development of the Creative City is supported by the local government and it is funded and operated by private enterprises. The Creative City was converted from several old factories and has a total constructed area of approximately

380,000 sq.m.. The Creative City offers a platform for the promotion of intellectual property and the development of the creativity industry. Since its opening in 2007, there have been many large-scaled cultural promotion programmes conducted in the Creative City, and about 800 private enterprises, including ceramic shops, antique shops, home furniture shops and designer products shops, have setup their offices or even headquarters within the Creative City. According to the development plan of the Creative City, it is expected that there will be about 1,000 private enterprises located in the Creative City by the end of 2011.

To the understanding of the Company, 1506 CC has no intention to develop other new hotels in the Creative City and/or to develop other creative industry parks in the PRC as at the Latest Practicable Date, therefore no negotiation on the provision of hotel services has started between the Company and 1506 CC.

In March 2011, the Group also entered into the Shu Yong Consultancy Agreement with Mr. Shu Yong, an international contemporary artist who was awarded the Life Achievement Award in the Florence Biennale of Contemporary Art 2009. Pursuant to the Shu Yong Consultancy Agreement, Mr. Shu Yong shall provide advice to the Group on the decoration of the Group's hotels, design or produce masterpieces for these hotels or advise the Group on sourcing of masterpieces. Mr. Shu Yong shall act as an organiser in producing and sourcing work of art which suites the Group's hotels. The fees to be payable under the Shu Yong Consultancy Agreement will be set out under separate agreements to be entered into between the Group and Mr. Shu Yong.

The Directors believe that the strategic partnership arrangements are mutually beneficial to the strategic partners and the Group. The Directors consider that 1506 CC can leverage on the Group's experience in developing hotels in its creative industry parks and the Group can benefit from the well-equipped facilities in the creative industry parks to further its hotel business. Further, the Directors consider that the work of art introduced by Mr. Shu Yong into the Group's hotels will help enhance the artistic image of the Group's hotels while it will offer a place for Mr. Shu Yong to promote his art work.

CUSTOMERS

The Group's customers can be categorised into two types, namely hotel guests and hotel investors under the hotel consultancy agreements who are Independent Third Parties. Hotel rooms are available for three hours per section, daily and monthly rental. For each of the two years ended 31 December 2010, the Group's five largest customers in aggregate accounted for approximately 3.0% and approximately 29.6% of the Group's revenue respectively. For the two years ended 31 December 2010, the Group's largest customer accounted for approximately 0.8% and approximately 19.1% of the Group's revenue respectively. None of the Directors, their respective associates, or any Shareholder who, to the knowledge of the Directors, owns more than 5% of the issued capital of the Company, has any interest in any of the Group's five largest customers during the Track Record Period.

Hotel guests can be categorised into three types, namely corporate customers with contractual arrangements, customers who have joined loyalty programme and individual guests. Individual guests accounted for the majority of occupancy of the Group's leased-and-operated hotels.

The hotel investors under the hotel consultancy agreements are Independent Third Parties who are not connected with the Group other than entering into the hotel consultancy agreements with the Group. These hotel investors are not engaged in other hotel development and operation business.

Guests with contractual arrangements

Guests with contractual arrangements include (i) guests under commercial sales agreements; (ii) guests under intermediaries sales agreements and (iii) guests under long term sales agreements.

Guests under commercial sales agreements

Guests under commercial sales agreements consist of corporate customers. Under the commercial sales agreements, the Group agrees to provide the employees of the corporate customers accommodation at discounted prices during the term of the agreement. The commercial sales agreements do not require the guests to guarantee staying for a minimum number of room nights. The duration of the commercial sales agreements generally range from three months to one year. The rates and discounts under these agreements will normally be reviewed at the end of each year. The discounts offered to each guest under commercial sales agreements are generally the same. The discounted room rates vary from hotel to hotel. The aim of entering into these commercial sales agreements is to build a recurrent customer base.

In general, there are two ways to settle the hotel rental payments. The guests under commercial sales agreements may settle the hotel rental payments on a monthly basis or over the front desk counter at the Group's hotels upon check-in. The guests under commercial sales agreements may settle the invoice by way of cash, cheque or telegraphic transfer to the Group's designated bank account.

For the two years ended 31 December 2010, the revenue generated from guests under commercial sales agreements accounted for approximately 14.1% and approximately 10.7% of the Group's total revenue for each of the respective years. The guests under commercial sales agreements include, among others, enterprises engaging in information technology, airlines and apparels industries.

Guests under intermediaries sales agreements

Guests under intermediaries sales agreements consist of internet and hotline intermediaries. Under the intermediaries sales agreements, the Group agrees to provide the intermediaries accommodation at discounted prices during the term of the agreement. The intermediaries sales agreements do not require the intermediaries to guarantee staying for a minimum number of room nights. The duration of the intermediaries sales agreements generally range from three months to one year. The rates and discounts under these agreements will normally be reviewed at the end of each year. The discounts offered to each guest under intermediaries sales agreements are generally the same. The discounted room rates vary from hotel to hotel. The Group will pay commission to the intermediaries on the actual stay of the referred guests. The customers who make reservations through the intermediaries may settle payments at the Group's hotels upon check-in by way of cash, debit cards or cheque.

The discounts offered to guests under intermediaries sales agreements are smaller than those offered to guests under commercial sales agreements.

As at the Latest Practicable Date, the Group had signed 32 intermediaries sale agreements with 32 internet intermediaries. Those contracts are normally for a term of one year and the Group intends to renew the contracts with the internet intermediates on an annual basis at reasonable rates. The revenue from the guests under intermediaries sales agreements during the Track Record Period accounted for approximately 1.8% and approximately 4.4% of the Group's total revenue for the two years ended 31 December 2009 and 2010 respectively.

As at the Latest Practicable Date, the Group had signed two intermediaries sale agreements with two hotline intermediaries. These contracts are normally for a term of one year. The Group will renew the intermediaries sales agreements on an annual basis.

Guests under long term sales agreements

Under the long term sales agreements, the guests are offered discounted room rates but are required to stay for a minimum number of room nights of not less than 30 consecutive days. Guests are required to pay not more than one month's rental payment as security deposit upon check-in. The guests under long term sales agreements may settle payments by way of cash, debit cards, cheque or telegraphic transfer to the Group's designated bank account.

For the two years ended 31 December 2010, the revenue generated from guests under long term sales agreements accounted for approximately 3.2% and approximately 3.3% of the Group's total revenue for each of the respective years.

Loyalty programme

In 2008, the Group established a loyalty programme, which serves as a platform to communicate with the hotel guests and promote customer loyalty, and a medium to promote sales of the Group's hotel rooms to the existing guests and potential guests. The Group invites the customers to join the loyalty programme with a membership fee ranging from RMB40 to RMB200. There are two types of membership cards, namely Black Card and Green Card, of which the holders are entitled to discounts on room rates and benefits, such as membership points accumulation and early check-in. These two types of membership cards differ in the level of room rate discounts. This membership programme generates business from repeated guests by rewarding membership points which can be used to redeem free hotel nights and other rewards. The revenue from the guests who have joined the loyalty programme accounted for approximately 14.8% and approximately 9.7% for the two years ended 31 December 2009 and 2010 respectively. Further, the Group's marketing team sends information with respect to the Group's latest promotions and news to the members from time to time. The Directors believe that this marketing campaign helps to raise the profile of the Group among potential customers and enhance the possibility of recommendations by the existing members, thereby expanding the Group's customer base.

SALES AND MARKETING

Sales

The Group's sales activities are mainly conducted by a dedicated sales manager who is responsible for maintaining the Group's relationship with the existing guests under commercial sales agreements and looking for such potential customers. The branch manager of each leased-and-operated hotel will also perform the sales function. The front desk employees of the Group's leased-and-operated hotels receive room bookings through the reservation hotlines and are encouraged to promote sales of the hotel rooms.

The sales manager of the Group meets with the branch manager of each leased-and-operated hotel on a monthly basis in order to understand occupancy statistics of each hotel so as to determine the sales strategy in the following months. The sales manager of the Group also visits the guests under commercial sales agreements from time to time to maintain good customer relationships. The sales manager of the Group prepares an annual sales plan with annual sales targets for the branch managers of the leased-and-operated hotels.

Room reservation

Hotel room reservations can be made through two channels, namely internet websites and hotel reservation hotlines.

Internet websites

The internet has become an increasingly important sales channel for the Group. On-line room reservation can be made both through the Group's own hotel website, **www.welcomeinn.com.cn**, and through internet intermediaries.

For bookings made through websites of the internet intermediaries, the internet intermediaries will reserve the hotel rooms at the requested hotel of the Group in advance by sending facsimile to the hotel for confirmation of availability of the hotel rooms. The relevant personnel of each hotel will manually input the bookings received from the internet intermediaries instantly and the information technology personnel will from time to time update the reservation system of each of the Group's hotels to ensure they share the same database. The reservation system can only be accessed by those hotel staff with authority.

Hotel reservation hotlines

Customers may also make hotel room reservations through the reservation hotlines of the Group as well as reservation hotlines provided by hotline intermediaries.

MARKETING

The Group's marketing team is responsible for planning and developing marketing strategies and coordinating all marketing activities of the Group's hotels.

The total amount of expenses attributable to marketing activities (excluding staff costs) during the Track Record Period accounted for approximately 0.8% and approximately 1.0% of the Group's total operating costs respectively.

During the Track Record Period, the following marketing and promotion activities have been carried out:

(i) distribution of free privilege cards with discounted room rate for the first night of stay and free enrollment to the Group's membership programme;

(ii) certain free services such as free laundry services offered to guests who stay at the Group's hotel for five consecutive days;

(iii) celebrating the anniversary of the establishment of the Group's hotels with discounted room rates for all guests;

(iv) "trial price" for the first night of stay offered to the new members of the Group's membership programme;

(v) sale of packages of coupons providing discounted room rates redeemable within three months; and

(vi) celebrating the National Day with discounted room rates offered to the Group's members whose identity cards with "60" as the last two digits or whose birthday falls on a specific period of time.

The Group values comments from its hotel guests as they can serve as an indicator for the Group to formulate strategies and enhance its quality of services. The Group's customer complaint handling procedure complies with the guidelines of ISO 9001:2008. Upon check-in, the hotel front desk staff will encourage the hotel guests to fill out a feedback form. The hotel managers will follow up with the hotel guests to resolve the complaints. The hotel managers will record all feedbacks and summarise them into a monthly report to be provided to the Group's marketing team, which will also follow up with the relevant hotel guests where necessary. The Group's marketing team will also make follow up telephone calls to the hotel guests and conduct surveys to understand their personal experience after staying at the Group's hotels. The Group's marketing team will analyse the feedbacks to design appropriate marketing activities. Most of the complaints the Group received in the past were related to relatively high hotel room price, small size of hotel rooms, poor soundproofing facilities, early check-out time and the lack of digital television. The Group will follow up with the customers to resolve the complaints. As at the Latest Practicable Date, none of the customers' complaints were substantiated into claims or litigation against the Group. The Directors believe that this can make the Group's hotel guests feel that the Group values their comments and cares about their needs.

In order to increase awareness of the Group's hotels, the Group launched a number of sales and marketing channels include launching its own websites, subscribing the website of an Independent Third Party, Baidu.com, and advertising at the Huanggang border.

PROCUREMENT AND SUPPLIERS

The main suppliers of the Group comprise of suppliers of disposable amenities, cleansing products and laundry services. The Group has established business relationships with the major suppliers for about two years. For each of the two years ended 31 December 2010, the Group's five largest suppliers in aggregate accounted for approximately 91.0% and approximately 98.3% of the Group's total purchase respectively. For each of the two years ended 31 December 2010, the Group's largest supplier accounted for approximately 39.8% and approximately 51.1% of the Group's total purchase respectively. None of the Directors, their respective associates, or any Shareholder who, to the knowledge of the Directors, owns more than 5% of the issued share capital of the Company, has any interest in any of the Group's five largest suppliers during the Track Record Period.

The Group has a centralised procurement team, which sources daily supplies such as disposable amenities for the Group's hotels. The Group also keeps a centralised storage room at Welcome Inn Nanshan in order to control the inventory level and make replenishment. The Group procures daily supplies from local suppliers only.

The Group's procurement team usually places orders for the disposable amenities, such as slippers, soap, shampoo and shaver, from a fixed supplier. The term of a procurement contract with the supplier is one year. The supplier will deliver the disposable amenities within 20 days upon orders being placed. The supplier offers the Group a payment term of two months after receipt of goods. The Group will assess the service quality of the supplier and renew the purchase contract annually. The Directors believe that, through this bulk-purchasing policy, the Group has bargaining power to secure purchase with favourable terms in terms of costs, payment term, delivery and after sales services, which in turn enables the Group to manage and control its operating costs efficiently. Sourcing from a fixed supplier enables the Group to ensure the standardised quality of the disposable amenities provided to the guests across hotels operated by the Group. The Group can easily secure daily supplies since the suppliers are readily replaceable. Generally, the Group maintains an inventory level for one-month operation to maintain its flexibility in satisfying customers demand.

The Group believes that the established guidelines with respect to the procurement procedure can avoid the accumulation of excess inventory and wastage and thus ensure better quality control and compliance with ISO 9001:2008.

MAINTENANCE AND REFURBISHMENT

The Group will carry out regular preventive maintenance, essential repairs and replacement of major equipment. All routine maintenance and repair work is carried out by the Group's maintenance team. In addition to the ongoing routine maintenance on the interior decoration of the hotels, the Group plans to refurbish the leased-and-operated hotels in approximately every six to nine years depending on the then conditions to maintain a comfortable accommodation to the guests. The Directors believe that the combination of attention to details of design and appropriate use of materials is the major factor for the improvement of the durability of the hotels and thus reduce the maintenance and depreciation expenses of the hotels.

QUALITY CONTROL

The Group was awarded ISO 9001:2008 by SGS for the Group's compliance with the quality management systems standard for provision of hotel services (excluding restaurant services). The standards and operating procedures of the Group's quality management system include, but not limited to, the following principles:

Management responsibilities

To realise the commitment to continual improvement, the Group clearly defined the quality policy and objectives, implemented quality planning and established the requirements of its quality management system. These include defining quality policy and measurable quality objectives, implementing quality planning, reviewing system effectiveness, identifying opportunities for continual improvement, providing sufficient resources, strengthening internal communication to ensure all employees are aware of the importance of satisfying customer needs and expectation and to provide quality hotel services.

Resources management

In order to establish, implement and improve the quality management system, the Group retains trained, qualified and competent staff. The Group does not only provide on-the-job training, but also review the effectiveness of training, and ensure that the staff is competent and continuously improves in performance.

Service realisation

To enhance guest confidence, the Group defines the quality system requirements based on guest needs and expectation. The level of guest satisfaction will be measured and the analysis results will be used to re-define the needs, expectations and requirements of the guests. The Group will adjust the quality system requirement based on the analysis results and improve the quality of the hotel services.

Measurement, analysis and improvement

The Group measures the effectiveness of the quality system, which includes the level of guest satisfaction, as well as the quality of the hotel services. The Group analyses the results from time to time, so that corrective, preventive and remedial actions can be implemented.

The adoption of standardised management policies could enable the Group to form a unity of purpose and direction to enable the hotel staff to work towards the Group's goals and objectives. Further, the standards and operating procedures can also ensure a consistent approach to improve the Group's performance.

The Directors believe that the employment of the ISO 9001 : 2008 standard can provide an established framework for the Group in adopting a systematic approach to manage the hotel operations so that the Group can provide consistent quality services across its hotels. The Group also conducts regular quality assessment to ensure that the requirements under the quality management system are being met. The ISO 9001 : 2008 certification is subject to satisfactory surveillance audits to be carried out annually by SGS. The Group's management team has continuously monitored the hotel operation to ensure that the Group complies with all applicable laws and regulations, ISO standard and the Group's internal policies.

In addition, the Group has adopted measures to manage the risks of prohibited activities (such as illegal drug use, gambling, violence or prostitution by guests), accidents or injuries taking place in the Group's hotels. The Group hires security guards at all of its hotels to conduct 24-hour surveillance. The Group also complies with the 廣東省旅館業治安管理規則 (The Public Security Management Regulations of the Guangdong Province*) including maintaining proper records of hotel guests and other visitors, reporting hotel guests information to the public security department and placing surveillance cameras at appropriate places of the hotels. Further, the Group takes into account the requirement of safety in the design of the hotels in order to minimise the risk of accidents and injuries, such as avoiding the use of glass in certain places and placing caution signs at prominent positions.

COMPETITION

According to the 2011 first quarter PRC chain budget hotel industry report issued by Inntie, the total number of budget hotels and budget hotel rooms in the PRC in the first quarter of 2011 amounted to 5,513 and 582,022 respectively. The top 10 budget hotel chains accounted for approximately 66.85% of the total number of budget hotel rooms in the PRC in the first quarter of 2011; while the largest budget hotel chain, Home Inns, accounted for about 16.58% of the total number of budget hotel rooms in the PRC. The top 10 budget hotel chains include Home Inns, Jin Jiang, Motel 168, 7 Days Inns, Hanting Inns, GreenTree Inn, Super 8, ibis, Vienna and Holiday Inn Express.

The hotel industry is highly competitive in the PRC. The competition to attract hotel guests is primarily based on the location of the hotel, price, property size, quality of rooms, amenities and facilities, hotel guest brand recognition and loyalty, geographic coverage, quality of services provided, and relationships with travel agents and third party wholesalers. The Group's competitors include operators of single guesthouses and hotels located in the vicinity of the Group's hotels, local hotel chains with multiple hotels, established property developers who have entered into the hotel industry, and large international hotel chains operating multiple hotels under a variety of brand names. The Group also competes with one/two star-rated hotels. In addition, the Group faces rigorous competition from new entrants in the budget hotel industry in the PRC since it does not require significant capital commitments or human resources to develop or convert budget hotel(s). This relatively low entry barrier potentially allows new and existing competitors to enter or expand in the budget hotel markets rapidly.

In addition to the leased-and-operated hotel operations, such budget hotel chain corporations provide hotel management services to hotel investors which include, but not limited to, hotel planning, hotel design, staff recruitment, training, management advisory, quality control, operational manual advisory, cost control advisory and information technology consultancy. The hotel planning, hotel design and operational manual advisory services provided by other budget hotel market players compete with the hotel consultancy services provided by the Group in terms of price, brand awareness, scope and quality of service.

The Group is positioned as a budget hip hotel service provider. As a relatively new market player in the budget hotel industry, in order to compete with other well-established competitors in the industry to attract new customers, the Group has maintained a low ARR compared with the ARR of the budget hotels in major cities in the PRC. For the year ended 31 December 2010, the ARR of Welcome Inn Caitian, Welcome Inn Nanshan, Welcome Inn Baoan and Welcome Inn Luohu were approximately RMB188.1, RMB194.3, RMB123.7 and RMB175.6 respectively. The table below shows the ARR of budget hotels in major cities in the PRC in the first quarter of 2011:

	Nanjing	**Guangzhou**	**Hangzhou**	**Shenzhen**	**Beijing**	**Shanghai**
ARR *(RMB)*	193.88	221.40	214.74	213.77	244.09	232.50

Source: Inntie

INSURANCE

As at the Latest Practicable Date, the Group maintained property insurance (which covers damage to building, furniture, fixture, neon sign, etc.), public liability insurance (which indemnifies the Group against any claims for which the Group is liable to pay for the independent third party's property damage and/or bodily injury occurred in connection with the business of the Group), money insurance (which covers the loss of cash in premises of hotels and cash in the custody) and also insurance for the Group's vehicles. The Group does not maintain insurance policies covering losses relating to the information system of the Group and the Group does not have business interruption insurance.

All these insurance policies are valid for 365 days and renewable annually. The Directors believe that the insurance coverage is consistent with the industry practice and the Group will continue to assess its risk and make necessary modifications to its current insurance policies.

ENVIRONMENTAL MATTERS

The operation of the Group's hotels is subject to various environmental laws. The Group has been in compliance with applicable environmental laws and regulations, including those relating to water pollution control, drainage control and noise control. The Group has not been required to pay any annual cost for compliance with applicable rules and regulations regarding environmental matters during the Track Record Period and is not expected to incur any amount for compliance going forward under the current laws and regulations. There was no penalty or fine in connection with the breach of any environmental laws or regulations imposed to the Group since its incorporation and up to the Latest Practicable Date. The Company's PRC legal advisers confirmed that the Group complied with all relevant rules and regulations during the Track Record Period and up to the Latest Practicable Date.

The hotel managers and the administrative manager of the Group are responsible for implementing and ensuring compliance with the environmental laws and regulations imposed on the hotels of the Group.

For further information in relation to the environmental laws applicable to the Group, please refer to the paragraph headed "Principal laws and regulations related to environmental protection" under the section headed "The PRC regulatory framework" of this prospectus.

PROPERTIES

As at the Latest Practicable Date, the Group had leased four sites, which are parts of various commercial buildings as leased-and-operated hotels, one commercial building floor as office, and six sites as staff quarters in the Louhu District, Baoan District, Nanshan District and Futian District, Shenzhen, the PRC. The details of the properties leased by the Group in the PRC are set out below:

	Location	Use	GFA (sq.m.) (approximate)	Lease term
1.	中華人民共和國深圳市福田區彩田路3030號橄欖鵬苑裙樓二、三層 (2–3/F and a portion of 1/F, Ganlan Peng Garden Podium Building, No. 3030 Caitian Road, Futian District, Shenzhen, the PRC*)	Hotel	2,116	20 November 2005 to 19 November 2015

	Location	Use	GFA (sq.m.) (approximate)	Lease term
2.	中華人民共和國深圳市羅湖區深南路南嘉賓花園裙樓三層 (3/F, Jiabin Garden Podium Building, Shennan Road South, Luohu District, Shenzhen, the PRC*)	Hotel	2,277.14	1 February 2008 to 31 January 2018 with right of first refusal to enter into a new tenancy upon expiry of the existing lease and to purchase the premises
3.	中華人民共和國深圳市南山區南山大道2009號億利達精英綜合樓三至六層及一層部份 (3–6/F and a portion of 1/F, Yilida Jingying Complex Building, No. 2009 Nanshan Main Road, Nanshan District, Shenzhen, the PRC*)	Hotel	7,079	1 January 2007 to 31 December 2014 with right of first refusal to enter into a new tenancy upon expiry of the existing lease and to purchase the premises
4.	中華人民共和國深圳市寶安五區新安二路二十三號商業樓 (Building 23, Xinan Second Road, Baoan District 5, Shenzhen, the PRC*)	Hotel	1,700	1 January 2011 to 30 December 2017 with right of first refusal to enter into a new tenancy upon expiry of the existing lease and to purchase the premises
5.	中華人民共和國深圳市南山區商業文化中心區海岸大廈西座1309 (Room 1309, West Building, Haian Towers, Commercial and Cultural Centre, Nanshan District, Shenzhen, the PRC*)	Office	130.55	1 October 2010 to 30 September 2012 with right of first refusal to enter into a new tenancy upon expiry of the existing lease and to purchase the premises
6.	中華人民共和國深圳市羅湖區和平路1191號海關三院2棟402房 (Room 402, Block 2, Haiguan San Court, No. 1191 Heping Road, Luohu District, Shenzhen, the PRC*)	Staff quarter	132	1 September 2010 to 31 August 2011 with right of first refusal to enter into a new tenancy upon expiry of the existing lease
7.	中華人民共和國深圳市南山區常興路怡苑閣36棟2單元701室 (Room 701, Unit 2, Block 36, Yiyuange, Changxing Road, Nanshan District, Shenzhen, the PRC*)	Staff quarter	120	1 November 2010 to 31 October 2011 with right of first refusal to enter into a new tenancy upon expiry of the existing lease and to purchase the premises

	Location	Use	GFA (sq.m.) (approximate)	Lease term
8.	中華人民共和國深圳市福田區蓮花一村9棟503單位 (Unit 503, Block 9, Lianhua Yi Cun, Futian District, Shenzhen, the PRC*)	Staff quarter	86	1 September 2010 to 31 August 2011with right of first refusal to enter into a new tenancy upon expiry of the existing lease and to purchase the premises
9.	中華人民共和國深圳市寶安區西部開發區翠湖花園七棟602 (Unit 602, Block 7, Cuihu Garden, Xibu Development Zone, Baoan District, Shenzhen, the PRC*)	Staff quarter	50.2	10 March 2011 to 11 March 2012 with right of first refusal to enter into a new tenancy upon expiry of the existing lease
10.	中華人民共和國深圳市南山區海德二道和南山大道交界處南光花園5棟706室 (Room 706, Block 5, Nanguang Garden, located at the intersection of Haide Second Road and Nanshan Main Road, Nanshan District, Shenzhen, the PRC*)	Staff quarter	96.28	16 March 2011 to 15 March 2012
11.	中華人民共和國深圳市福田區華富街道辦彩田路3028號春暉苑乙棟5層01房 (Room 1, 5/F, Yi Block, Chunhui Garden, No. 3028 Caitian Road, Huafu Jiedao Ban, Futian District, Shenzhen, the PRC*)	Staff quarter	42.24	25 March 2010 to 24 March 2011 under the original lease and 26 March 2011 to 18 October 2011 under the supplementary lease

As at the Latest Practicable Date, the Group had leased one commercial building unit as office in Hong Kong from an Independent Third Party with details set out below:

	Location	Use	GFA (sq.ft.) (approximately)	Lease term
1.	Unit 1303, 13th Floor, Tai Tung Building, No. 8 Fleming Road, Wanchai, Hong Kong	Office	1,218	15 April 2011 to 14 April 2013 with the tenant's option to renew for a further term of 24 months at the then prevailing market rent

On 18 March 2011, Yuelai Inn Tourists entered into a lease (the "**Welcome Inn Caitian Lease**") with 深圳市億民興物業管理有限公司 (Shenzhen Yiminxing Property Management Co., Ltd.*) (the "**Caitian Lessor**") in respect of premises located at 2–3/F and a portion of 1/F, Ganlan Peng Garden Podium Building, No. 3030 Caitian Road, Futian District, Shenzhen, the PRC of an aggregate GFA of 2,116 sq.m.. The Welcome Inn Caitian Lease has a term from 20 November 2005 to 19 November 2015. The Company is advised by its PRC legal advisers that the retrospective effect from 20 November 2005 is legal, valid and enforceable under the PRC laws.

The Caitian Property belongs to the PAPF and 中國人民武裝警察部隊後勤部基建營房部 (Logistic Department and Infrastructure and Housing Department of People's Armed Police Force of China*) issued 中國人民武裝警察部隊房地產租賃許可證 (Real Estate Title Certificate of the People's Armed Police Force of China*) on 25 December 2008 confirming that the Caitian Lessor has the right to use the Caitian Property. Such permit had expired on 31 December 2009. To the best knowledge of the Directors, the application for a new Lease Permit is under progress. Up to the Latest Practicable Date, no objections have been made by any party against the use of the Caitian Property by the Group.

The legal advisers of the Company as to PRC laws have advised as follows:

(i) the Caitian Property belongs to PAPF;

(ii) the Welcome Inn Caitian Lease is legally binding and enforceable against the parties thereto;

(iii) Welcome Inn Caitian Hotel has been occupying the Caitian Property for operating hotel business for five years and during the period, no objections have been made by any third party, including the relevant PRC authorities, against the parties to the Welcome Inn Caitian Lease; and

(iv) in conclusion, there is no evidence to prove that the Caitian Lessor does not have the right to sub-lease the Caitian Property to the Group and the Group cannot occupy the Caitian Property in accordance with the Welcome Inn Caitian Lease and under the laws of the PRC.

Approximately 26% and 17% of the Group's total revenue during the Track Record Period were contributed by Welcome Inn Caitian. Welcome Inn Caitian recorded operating profit of approximately HK$0.5 million compared to the Group's total operating loss of approximately HK$3.3 million for the year ended 31 December 2009. Approximately 11% of the Group's total operating profit for the year ended 31 December 2010 was contributed by Welcome Inn Caitian. It is noted that the contribution of Welcome Inn Caitian to the Group's revenue and profit has decreased in 2010 mainly due to the commencement of the hotel consultancy business in December 2009 which offers a new revenue source. As discussed in the section headed "Strategies and business objectives" in this section, the Group plans to continue to expand its leased-and-operated hotel portfolio. The Fujian Hotel is expected to commence operation in early 2012 and the Heyuan Hotel is expected to commence operation in the second half of 2012. In addition, the Group plans to continue to expand the hotel consultancy business and commence the hotel management business in the second half of 2011 which is expected to further diversify the Group's sources of revenue. In view of the above, it is expected that the contribution of Welcome Inn Caitian to the Group's revenue and profit will further decrease in the future.

In the event that the Group is requested to vacate the Caitian Property, it is expected that the Group will incur a loss of approximately HK$3.6 million, based on the carrying amount of Welcome Inn Caitian (including all immovable assets such as leasehold improvements) as at 31 December 2010. The PRC legal advisers of the Company advised that the Group may choose to claim against the Caitian Lessor who will be liable to compensate the Group for the carrying value of Welcome Inn Caitian under applicable laws. Based on the Group's experience and available information and after consultation with the Company's PRC legal advisers, the Directors are of the view that the defective title of the Caitian Property is unlikely to cause any interruption to or termination of the Welcome Inn Caitian Lease or to have a material effect on the carrying amount of the related leasehold improvements. Moreover, the Controlling Shareholder has agreed to keep the Group indemnified for any losses that the Group may suffer from any failure of the Group's subsidiary in obtaining licence or permit to use the Caitian Property. Accordingly, no impairment for such leasehold improvement is considered necessary to be made according to the Group's accounting policies.

In the event that the Group is requested by the PAPF to vacate the Caitian Property, the Group will transfer the hotel bookings and relocate the hotel guests to other hotels of the Group in Shenzhen where there are rooms available subject to the consent of the concerned hotel guests. The Group will return the deposit received (if any) from hotel guests who do not wish to be relocated. As at 31 December 2009 and 2010, the amount of deposit received from hotel guests of Welcome Inn Caitian was approximately HK$78,896 and HK$121,536 respectively. Further, the fixtures and supplies of Welcome Inn Caitian shall be transferred to other hotels of the Group for use or stored for use at future hotels of the Group.

Further, the landlord of a staff quarter (property number 11 in the above table of the Group's leased properties in the PRC) is unable to produce evidence of ownership in the property, and the validity of such lease agreement may be challenged. If the lease agreement is found to be invalid by the competent authorities or if the landlord turn out does not possess valid title, the Group may have to relocate the staff quarter and in such circumstance, the Group would have to incur additional relocation costs.

In addition, the lease agreements of Caitian Property and Welcome Inn Nanshan and all the six lease agreements of staff quarters have not been registered according to the relevant PRC rules and regulations. The Company's PRC legal advisers have advised that the relevant members of the Group as the lessee may be liable for a fine but non-registration of the said leases will not affect their respective legality.

To ensure the smooth renewal of the lease agreements of the Group's hotels, the Group will negotiate with the landlords in relation to the renewal around one year prior to the expiry of each lease agreement with reference to the then prevailing market rates. Also, all the lease agreements of the Group's hotels, save for the lease agreement of the Caitian Property, offer first priority to the Group to renew the respective lease agreements. Since the Group will negotiate to renew the lease agreements in advance, there will be sufficient time for the Group to arrange for the closing of a hotel, vacating the property and to plan for the starting up of new hotels in other locations in the event that the Group is unable to renew any of the lease agreements.

Indemnity

The Controlling Shareholder has agreed to keep the Group indemnified for any losses that the Group may suffer from any failure of any member of the Group in leasing or obtaining licence or permit to use any property interests owned or leased or otherwise used or occupied by the Group, or to obtain any property certificate in respect of such properties.

Rental expense

Rental expense is one of the Group's major costs in its business operations. For the two years ended 31 December 2010, total operating lease expenses of the Group's leased properties amounted to approximately HK$8.4 million and approximately HK$7.5 million, representing approximately 36.8% and 31.6% of the operating expenses of the Group respectively.

Further details of the Group's property interest are set out in the valuation report prepared by Norton Appraisals Limited, an independent property valuer, in Appendix III to this prospectus.

INTELLECTUAL PROPERTIES

As at the Latest Practicable Date, the Group had registered one trademark in Hong Kong, namely . The Group also has registered the domain names of **welcomeinn.com.cn** and **legendstrategy.com**. The Group has not been notified that it has infringed any patents, copyrights or other intellectual property rights owned by other parties during the Track Record Period.

The Company considers its brand names being critical to the Group's success in the long term but less critical in the short to medium term since the Group has a limited operating history of four years and has yet to develop a sizeable hotel chain operation under an established brand name. The Company considers that brand recognition among its hotel customers is currently weak. Customer loyalty is built up from the quality of services of the Group's hotels rather than its brand name. The Company considers that a significant portion of its hotel guests are corporate customers who pays more attention on the hotel's quality of services rather than its brand name.

The Group has made applications for the registration of word marks and logo marks containing “悅來客棧”, “悅來”, and “Welcome Inn” as trademarks in the PRC in February and March 2011 which are accepted and being processed by 國家工商行政管理總局商標局 (the Trademark Department of the State Administration of Industry and Commerce*) as at the Latest Practicable Date. It is expected that the registrations will be completed within two years from the respective dates of applications. Certain trademarks containing “悅來客棧” or “悅來” have already been registered by others in the PRC. However, the specific services in respect of which such trademarks were registered for do not include providing accommodation and operation of hotel business. As such, the Company’s PRC legal advisers advised that it is not expected that there would be any infringement from the use of “悅來客棧” or “悅來” by the Group for the operation of hotel business in the PRC prior to registration. 國家工商行政管理總局商標局 (the Trademark Department of the State Administration of Industry and Commerce*) may reject an application for registration of a trademark in any of the following circumstances: (i) if an application has been made to register a trademark that is not in conformity with the trademark law of the PRC or that is identical with or similar to another person’s trademark which has already been registered or given preliminary examination and approval for use on the same kind of commodities or similar commodities; (ii) when two or more trademark registration applications apply for registration of identical or similar trademarks for the same kind of commodities or similar commodities, the trademark whose registration was first applied for shall be given preliminary examination and approval; if the applications are filed on the same day, the trademark which was first used shall be given preliminary examination and approval, and the applications of the others shall be rejected; (iii) any person may file an opposition to a trademark which has been given preliminary examination and approval within three months from the day it was publicly announced; and (iv) if the trademark registration applicant or the registrant has found that there are obvious mistakes in the trademark application documents or registration documents. The Company’s PRC legal advisers advised that they are not aware of any legal impediments for the Group to register the relevant trademarks. The Group’s applications for registration of the trademarks may be rejected by 國家工商行政管理總局商標局 (the Trademark Department of the State Administration of Industry and Commerce*) if it considers the applications conform to any of the above circumstances.

Further details of the Group’s intellectual property rights are set out in the paragraph headed “The Group may not be able to register the existing band names” under the section headed “Risk factors” of this prospectus and the paragraph headed “Intellectual property rights of the Group” under the section headed “Further information about the business of the Group” in Appendix V to this prospectus.

LITIGATION AND LEGAL COMPLIANCE

As at the Latest Practicable Date, there were no litigation or arbitration proceedings pending or threatened against the Group which could have a material adverse effect on the Group's financial condition or results of operations.

Compliance with PRC laws and regulations

The Directors, as advised by the Company's PRC legal advisers, confirm that as at the Latest Practicable Date, save as disclosed otherwise, the Group had complied with all relevant PRC laws and regulations in all material respects in relation to the operations of the Group in the PRC, the conversion of existing commercial buildings into hotel accommodation, and fire prevention, public security and public area hygiene, including obtaining all required permits and licences.

Set out below are the key licences and permits obtained by the Group as a hotel operator required under the relevant PRC laws and regulations:

Hotel	Licence/Permit	Expiry date
Welcome Inn Caitian	Business Licence	11 December 2026
	特種行業許可證 (Licence of Special Trade*)	No expiry
	深圳市污染物排放許可證 (Licence of Pollution Discharge*)	24 January 2012
	城市排水許可證 (Urban Wastewater Discharge Permit*)	27 July 2014
	衛生許可證 (Public Area Hygiene Licence*)	21 December 2012
Welcome Inn Nanshan *(Note 1)*	Business Licence	30 May 2028
	特種行業許可證 (Licence of Special Trade*)	No expiry
	城市排水許可證 (Urban Wastewater Discharge Permit*)	3 March 2016
	衛生許可證 (Public Area Hygiene Licence*)	30 July 2011 *(Note 2)*
Welcome Inn Baoan *(Note 1)*	Business Licence	25 April 2028
	特種行業許可證 (Licence of Special Trade*)	No expiry
	城市排水許可證 (Urban Wastewater Discharge Permit*)	17 March 2012
	衛生許可證 (Public Area Hygiene Licence*)	20 May 2012

Welcome Inn Luohu	Business Licence	26 November 2028
	特種行業許可證 (Licence of Special Trade*)	No expiry
	深圳市污染物排放許可證 (Licence of Pollution Discharge*)	25 May 2015
	城市排水許可證 (Urban Wastewater Discharge Permit*)	24 September 2013
	衛生許可證 (Public Area Hygiene Licence*)	16 January 2013

Notes:

1. As advised by the Company's PRC legal advisers, 深圳市污染物排放許可證 (Licence of Pollution Discharge*) is not required for Welcome Inn Nanshan and Welcome Inn Luohu pursuant to the requirements of the Nanshan District and Luohu District respectively.

2. According to the relevant PRC requirement, 衛生許可證 (Public Area Hygiene Licence*) should be renewed within three months following its expiry date. The Company's legal advisers confirm that there is not expected to be any legal impediment for the renewal of such licence should the Company duly complete the application procedures.

There was no past material incident of (i) delay or failure in the work of contractors; (ii) refurbishment resulting in cost overruns or disruption of hotel operations; (iii) failure to review leases; and (iv) failure to renew various licenses during the Track Record Period.

Non-compliance with the relevant PRC social insurance laws and regulations

Pursuant to the relevant PRC laws and regulations, the Group is required to contribute to the employees' statutory pension fund, medical insurance, unemployment insurance, maternity insurance, work-related injury insurance (together, "**social insurance**") contributions. The Group has contributed social insurance of approximately HK$199,000 and HK$230,000 respectively during the Track Record Period. The basis of the contribution paid was deviated from the contribution calculated based on the PRC laws and regulations. The Group has therefore not fully paid and has not been required by the relevant local authorities to fully pay the social insurance contribution for some of the Group's employees. Pursuant to the advice of the Company's PRC legal advisers, the Group has updated its internal system for calculating social insurance contributions according to the PRC laws and regulations. In addition, as part of its initiative to strengthen its internal control following the Listing, the Company intends to set up an internal audit department after Listing, which shall be responsible for monitoring compliance by the Group, including the compliance of social insurance contribution requirements.

The Group has received confirmation from 深圳市社會保險基金管理局 (the Shenzhen Social Insurance Fund Management Bureau*), the competent authority, confirming each of the subsidiaries in the PRC has no record of any non-compliance with the relevant labour protection laws and regulations, and is not subject to any late payment or fine or penalties since its registration with the bureau and up to 31 December 2010. To ensure strict compliance with the relevant PRC social insurance laws and regulations, the Group has entered into labour contracts with the employees in the PRC and paid for their social insurance contribution. As advised by the Company's PRC legal advisers, if the above arrangements are subsequently overruled by the relevant authorities, according to current applicable PRC social insurance laws, the Group may be ordered to rectify the problem and pay the outstanding social insurance contribution together with a daily surcharge of 0.2% of the total outstanding contribution before a set deadline and the Group's management and other persons with direct responsibilities of the Group may be fined to a maximum of RMB30,000. The maximum amount of overdue penalty that the Group would have to pay would be approximately HK$2,800 per day, being 0.2% of HK$1.4 million, which is the total unpaid social insurance contribution as at 31 December 2010. The Group did not provide for such penalty since the Group has obtained a confirmation from the relevant authorities confirming that the Group's subsidiaries in the PRC have no record of any non-compliance with the regulations for the years ended 31 December 2009 and 2010. The PRC Government has announced that effective on 1 July 2011, the relevant regulation will be amended such that The Shenzhen Social Insurance Fund Management Bureau may order any entity who has not fully paid social insurance contribution to pay the outstanding social insurance contribution together with a daily surcharge of 0.05% of the total outstanding contribution by a stipulated deadline. If payment is not made by the deadline, the entity will be subject to a penalty in a sum ranging from the total outstanding social insurance contribution to three times thereof.

As at the Latest Practicable Date, the Group had not received any order which overrules the above arrangements or notice on payment of social insurance contribution or surcharge from the government authorities. The Group will pay the contribution by the stipulated deadline in case it is ordered to do so. Since the Group has not received any notices from or has not been ordered by the relevant government authorities to pay any outstanding social insurance contribution, the Group was not being held liable for any late payment of social insurance as at the Latest Practicable Date. The Group has made provisions in the amount of approximately HK$0.8 million and approximately HK$1.4 million as at 31 December 2009 and 2010 respectively, for the maximum potential underpayment of social insurance contribution. This amount does not take into account any delinquency payments or fines. Subsequent to the year ended 31 December 2010, the Group has made monthly social insurance contribution in accordance with the PRC laws and regulations.

The Controlling Shareholder has entered into a deed of indemnity with and in favour of the Company in which the Controlling Shareholder has agreed with each member of the Group that he will indemnify and at all times keep all and each of the members of the Group fully indemnified on demand against all losses, costs (including all legal costs), expenses, penalties or other liabilities which any of the members of the Group may incur in connection with or sustain from the under-provision of social insurance to any members of the Group by the relevant shareholders.

Non-compliance with Companies Ordinance

Pursuant to sections 122(1) and 122(2) of the Companies Ordinance, the directors of every Hong Kong company must cause the profit and loss account and balance sheet of the company to be made out and laid before the company at each of its annual general meetings, failing which, each director shall be liable to a fine of HK$300,000 and an imprisonment of 12 months.

Certain subsidiaries of the Group namely Moon Ko, Triple Leaf, Lai Ying and Legend Strategy had failed to prepare the financial statements for the years 2007, 2008 and 2009, which had therefore not been laid before their respective annual general meetings, as required under the Companies Ordinance. The non-compliance with the Companies Ordinance of the subsidiaries of the Group was due to the reasons that the directors of these subsidiaries lacked training regarding legal and compliance matters and they had entrusted the companies' secretaries to deal with and handle the compliance matters, but the company secretaries of these subsidiaries did not inform the directors of the statutory requirements under the Companies Ordinance. In response to this, the directors of Moon Ko, Triple Leaf, Lai Ying and Legend Strategy took steps to appoint Solarmark (HK) C.P.A. Co. Ltd. and PricewaterhouseCoopers to audit the financial statements of the above companies. The audited financial statements for the two years ended 31 December 2007 and 2008 of these companies were issued on 28 February 2011 while the audited financial statements for the year ended 31 December 2009 were issued on 15 March 2011. These audited financial statements were adopted by all the members of the relevant companies by way of written resolutions on 12 April 2011.

On 22 June 2011, the Court of First Instance of the High Court of Hong Kong has granted orders to each of Moon Ko, Triple Leaf, Lai Ying and Legend Strategy, pursuant to which the requirements under sections 122(1) and 122(2) of the Companies Ordinance for laying the financial statements for the years 2007, 2008 and 2009 before the companies' respective general meetings be extended to 12 April 2011 and the shareholders' written resolutions dated 12 April 2011 of each company do satisfy the requirements of the Companies Ordinance. Upon the grant of such orders, Moon Ko, Triple Leaf, Lai Ying and Legend Strategy will no longer be in breach of sections 122(1) and 122(2) of the Companies Ordinance.

Internal control and corporate governance

In order to prevent the recurrence of non-compliance of rules and regulations, the Company has taken measures to enhance its internal control and corporate governance. The Company has engaged a consulting firm to review the internal control system of the Group. The Company has rectified the material deficiencies identified from the review according to the recommendation of the consulting firm. In particular, the review has identified that no audited financial statements were prepared for certain subsidiaries of the Group for the three years ended 31 December 2007, 2008 and 2009. The Group has now appointed the company secretary to closely monitor and schedule annual audit to ensure audited financial statement is available before every annual general meeting. It was also identified that the basis of calculation of the social insurance contribution paid previously has deviated from the contribution calculated based on the PRC laws and regulations. The Group has therefore not fully paid the social insurance contribution for some of the Group's employees. The Company has now updated its system for calculating social insurance contribution according to the PRC laws and regulations. The finance manager will also review and approve the calculation of monthly social benefit contribution. Further, the Group previously has no proper documentation on monthly approved financial statements to monitor the financial position and performance of the Group and there was no financial statement disclosure guideline to ensure information presented in the financial statements is accurate, complete and consistent. The Group has put in place financial statement guidelines to ensure the accuracy, completeness and consistency of financial disclosure and since January 2011, the finance department has properly filed all approved monthly management accounts. In addition, the Company has established an audit committee to oversee the financial reporting system and internal control procedures of the Company. The Company has appointed Mr. Kam Tik Lun, a certified public accountant of the Hong Kong Institute of Certified Public Accountants, as the company secretary of the Company. Mr. Kam oversees the company secretarial functions of the Group and monitors compliance with relevant rules and regulations such as the GEM Listing Rules and the Companies Ordinance. The Company has adopted the Code of Corporate Governance as set out in Appendix 15 of the GEM Listing Rules to ensure good corporate governance. In addition, as part of its initiative to strengthen its internal control following the Listing, the Company intends to set up an internal audit department after Listing, which shall be responsible for monitoring the internal control system of the Group. The Company will procure annual review of the effectiveness of its internal control system.

DIRECTORS

The Board consists of six Directors, including two executive Directors, one non-executive Director and three independent non-executive Directors. The following table sets forth information regarding members of the Board:

Name	Age	Position	Date of Appointment	Principal Responsibilities
Mr. Fong, Man Kelvin	49	Chairman and executive Director	23 February 2011	Responsible for the overall strategic planning and management of the Group
Mr. Wong, William	39	Chief executive officer and executive Director	23 February 2011	Responsible for investor relations and overseeing the corporate development of the Group, and member of the remuneration committee and nomination committee
Mr. De Weyer, Daniel Ludovicus Joannes	55	Non-executive Director	22 June 2011	Member of the remuneration committee and nomination committee
Dr. Wong, Hak Kun Jerry	55	Independent non-executive Director	22 June 2011	Member of the audit committee, remuneration committee and nomination committee
Mr. Tam, Kwok Ming Banny	48	Independent non-executive Director	22 June 2011	Chairman of the audit committee, remuneration committee and nomination committee
Mr. Tsoi, Wing Sum	38	Independent non-executive Director	22 June 2011	Member of the audit committee, remuneration committee and nomination committee

Executive Directors

Mr. Fong, Man Kelvin (方文), aged 49, is the chairman of the Company. He was appointed as an executive Director on 23 February 2011. He is responsible for the daily operation of the Group and overall strategic planning and management of the Group. He is also actively involved in designing hotels (including both the leased-and-operated hotels and hotels under the hotel consultancy agreements) and developing the Group's business. Mr. Fong obtained the degree of bachelor of arts in architecture from the University of Lincoln in the United Kingdom (formerly known as the Humberside College of Higher Education) in July 1985. In February 1989, Mr. Fong obtained the degree of master of science in architecture from the University College London in the United Kingdom. In January 1990, he completed the degree of master of business administration at the University of Sheffield in the United Kingdom. In July 1991, Mr. Fong obtained his postgraduate diploma in architecture from the University College London in the United Kingdom. In 2006, Mr. Fong set up Welcome Inn Caitian and founded the Group's business. Mr. Fong is one of the founding shareholders of China Learning Support Services

Limited, a company which provides learning support programme for children with learning difficulties. Mr. Fong is the spouse of Ms. Wong Pit Lai Vera, the marketing manager of the Group.

Mr. Fong was a director and shareholder holding 50% equity interest of Architerior Limited (formerly known as Universal General Development Limited) ("**Architerior**") , an interior design company incorporated in Hong Kong on 28 March 1995. During Mr. Fong's directorship with Architerior in April 2003, a winding-up petition was filed against Architerior for its failure to repay debts due to financial difficulties amid the burst of the internet bubble in 2000 and the outbreak of the severe acute respiratory syndrome in late 2002 which adversely impacted the general economy. As confirmed by the liquidators of Architerior, the winding-up procedure has been substantially completed and are expected to finalise within this year, and the Official Receiver has already closed his prosecution programme. There was no bankruptcy petition filed against Mr. Fong. Mr. Fong confirmed that there was no wrongful act, fraud or irregularities on his part in leading to the liquidation of Architerior.

Mr. Wong, William (黃樟淏) (formerly named "Mr. Wong, Hiu Fan William (黃曉帆)"), aged 39, is the chief executive officer of the Company. He was appointed as an executive Director on 23 February 2011. Mr. Wong joined the Group and was appointed as a director of Legend Strategy in May 2007. He is responsible for daily operation of the Group, investor relations and overseeing the corporate development of the Group. He also plays an important role in identifying strategic partners and developing the Group's business. He obtained the bachelor of science in finance from the City University of Hong Kong in 1995. Mr. Wong served in the Hong Kong Police Force from July 1995 to March 2006 and was the Senior Inspector of Police before he left the Hong Kong Police Force in March 2006. Since 2009, Mr. Wong started a food and beverage business in relation to the provision of management and operation services for chain snack shops in Hong Kong. He is the sole shareholder of that company conducting food and beverage business. Mr. Wong participates in strategic decision making for the development of that company and periodically reviews the results of that company.

Non-executive Director

Mr. De Weyer, Daniel Ludovicus Joannes (戴偉仁), aged 55, was appointed as a non-executive Director on 22 June 2011. Mr. De Weyer obtained his diploma for the academic degree of licentiate in applied economics at the Universitaire Faculteiten Sint-Ignatius Antwerpen in July 1978. He also obtained the dealing certificate from International Capital Markets Association (formerly known as International Securities Market Association) foundation certificate in 1996. For the period from June 1981 to September 1988, Mr. De Weyer worked as an administrative employee in a bancassurance company which provides banking and insurance products in Belgium named KBC Global Services NV. For the period from October 1988 to March 1991, Mr. De Weyer worked as an education specialist in SWIFT Education EMEA, La Hulpe, Belgium. For the period from April 1991 to October 2000, he worked as a customer training manager in SWIFT Education Asia-Pacific.

Since November 2000, Mr. De Weyer started to work in various positions in SWIFT Asia-Pacific including regional head of sales, market infrastructures and partner relations manager and senior relationship manager for key clients.

Independent non-executive Directors

Dr. Wong, Hak Kun Jerry (黃克勤), aged 55, was appointed as an independent non-executive Director on 22 June 2011. Dr. Wong obtained his master of business administration in international management from Royal Melbourne Institute of Technology in Australia in January 1997 and doctorate in business administration from the Bulacan State University in the Republic of the Philippines in November 2006. Dr. Wong also holds a bachelor's degree in theology from the Alliance Bible Seminary in June 1978 and a master's degree of Christian Ministry from the Alliance Bible Seminary in June 2005. He had been a clergy in the Christian and Missionary Alliance from July 1978 to May 2006. Dr. Wong has also been the chairman of Happy Tree Social Services since September 2003, a charity organisation, which aims at providing social services to the disadvantaged minorities over the world.

Mr. Tam, Kwok Ming Banny (譚國明), aged 48, was appointed as an independent non-executive Director on 22 June 2011. Mr. Tam was awarded the post-experience certificate in accountancy in 1993 from Hong Kong Polytechnic University (formerly known as Hong Kong Polytechnic). Mr. Tam is a practising certified public accountant in Hong Kong and an associate of the Association of Chartered Certified Accountants. Mr. Tam has over 13 years of experience in accounting and has been working in various positions including partner and practising director in various accounting firms during the period from September 1992 to July 2010. Since September 2010, Mr. Tam has been the sole practitioner of YATA, a certified public accounting firm. Mr. Tam is an independent non-executive director of Inner Mongolia Yitai Coal Company Limited, a company listed on the Shanghai Stock Exchange.

Mr. Tsoi, Wing Sum (蔡榮森), aged 38, was appointed as an independent non-executive Director on 22 June 2011. Mr. Tsoi obtained his bachelor's degree in pharmacy from the University of the State of New York in 1996. He also obtained a master's degree in business administration from the University of London in 2008. Since 2000, he joined AstraZeneca Hong Kong Limited, a multi-national pharmaceutical company and now serves as an associate sales manager.

Details of the Directors' emoluments (whether covered by service contracts and letters of appointment or not), the basis of determining the Directors' emoluments and the proposed length of service as stated in the service contracts are set out under the paragraph headed "Particulars of service contracts" in Appendix V to this prospectus.

Save as disclosed in this prospectus, each of the Directors confirms that he (i) did not hold any directorships in the last three years prior to the Latest Practicable Date in public companies the securities of which are listed on any securities market in Hong Kong or overseas; (ii) does not hold any other positions with the Company or other members of the

Group and (iii) does not have any relationship with any Directors, senior management or substantial or Controlling Shareholders of the Company nor any interest in the Shares within the meaning of Part XV of the SFO.

Save as disclosed in this prospectus, there is no other matter concerning all the Directors' appointments that needs to be brought to the attention of the Shareholders and the Stock Exchange and there is no other matter which shall be disclosed pursuant to Rule 17.50(2) of the GEM Listing Rules.

SENIOR MANAGEMENT

Ms. He An Ying (何岸英), aged 42, is the administrative manager and human resources manager of the Group. Ms. He joined the Group in December 2005 and is responsible for overseeing the application of various licences required for the operation of the Group, liaising with the relevant government authorities for inspection, purchasing of materials for the operation of the Group's hotels. Ms. He has worked in various positions within the Group, including the manager of the development department, and the manager of the administrative department in-charge of administration, procurement and development as well as assisting the marketing manager of the Group. Ms. He completed the ISO 9001:2000 Internal Quality Auditor Course organised by 康達信管理顧問有限公司 (Kaugdaxin Management Consulting Company Limited*) in August 2008. Prior to joining the Group, Ms. He was an administrative officer in 深圳春風畢打奧飲食娛樂有限公司 (Shenzhen Chunfeng Bidaao Restaurant and Entertainment Company Limited*) between August 2003 and March 2005. Ms. He has over seven years of experience in administration and procurement.

Mr. Zhang Guo Xing (張國星), aged 32, is the finance manager of the Group. Mr. Zhang joined the Group in July 2007 and is responsible for overseeing the finance department of the Group. Prior to joining the Group, Mr. Zhang worked as an accountant in Chan, Wong, Chung Consultant Services (Shenzhen) Co., Ltd. from February 2001 to April 2003. He worked in Wah Heng Toys (Shenzhen) Co., Ltd. from May 2003 to September 2004 with his last position being an audit supervisor in the internal audit department. He has then worked as an auditor in Namtai Electronic (Shenzhen) Co., Ltd. from September 2004 to December 2004, and as a finance manager in 港粵國際遊艇有限公司 (Hong Kong and Guangdong International Yacht Company Limited*) from January 2005 to July 2007. Mr. Zhang studied industrial management and obtained a bachelor's degree in engineering from Hunan University in the PRC in September 2001. He also obtained a qualification certificate of Speciality and Technology in Accounting of intermediate level issued by 中華人民共和國人事部 (Ministry of Personnel*) in May 2004. He has over nine years of experience in accounting.

Ms. Li Yu Zhen (李玉珍), aged 48, is a senior district manager of the Group. Ms. Li joined the Group in January 2006 and is responsible for supervision of hotel operation, hotel room sales and customer relations. Ms. Li has worked in various positions within the Group, including hotel manager since August 2008 and district senior manager since April 2009. Prior to joining the Group, Ms. Li worked in 深圳晶都企業有限公司 (Shenzhen Oriental Regent Enterprise Limited*), a company engaged in hotel business in Shenzhen, from April 1988 to May 1996. Ms. Li then worked in 深圳國旅酒店有限公司 (Shenzhen CITS Hotel Company Limited*) from May 1996 to October 2005. Ms. Li obtained several awards in the hotel industry, including the Advanced Worker Award (先進工作者) by the aforesaid companies, for her outstanding performance. Ms. Li has over 23 years of experience in hotel management and operation.

Ms. Wong Pit Lai Vera (黃勺庭), aged 40, was appointed as the marketing manager of the Group in June 2011. Ms. Wong joined the Group since February 2011 as the director of Yuelai Inn. Ms. Wong obtained her bachelor degree in clothing from Hong Kong Polytechnic University in 1992 and her master of science degree in management (business) from Hong Kong Polytechnic University in 2000. She worked in a garment company named New Kids Company Limited as office manager from 1992 to 1996. She then joined Architerior in 1996 as its marketing manager until 2001. Ms. Wong has been the presidential director of Nu Skin Enterprises Hong Kong, Inc. since 2003. She is the spouse of Mr. Fong.

COMPANY SECRETARY

Mr. Kam, Tik Lun (金迪倫), aged 35, was appointed as the company secretary of the Company on 14 March 2011. Mr. Kam is responsible for the company secretarial functions of the Group. Mr. Kam was admitted as a certified public accountant of the Hong Kong Institute of Certified Public Accountants in February 2009, a member of The Association of Chartered Certified Accountants in August 2008 and a member of The Canadian Institute of Mining, Metallurgy and Petroleum in June 2010. Mr. Kam obtained a bachelor's degree in commerce from the Concordia University, Montreal, Quebec, Canada in October 2001, a postgraduate diploma in international corporate and financial law from the University of Wolverhampton, United Kingdom in July 2010 and a master of laws in international corporate and financial law from the University of Wolverhampton, United Kingdom in October 2010. For the period from December 2004 to December 2005, Mr. Kam worked as a financial analyst in IBM China/Hong Kong Limited. Mr. Kam then worked as a senior consultant in BMI Consultants Limited from December 2005 to February 2007. Since 2008, Mr. Kam has been serving as a director in ASK Consultants Limited. Mr. Kam is an independent non-executive director of China 3D Digital Entertainment Limited, a company listed on GEM.

COMPLIANCE OFFICER

The compliance officer of the Company is Mr. Wong, William. Please refer to the sub-section headed "Directors" under this section for the biography of Mr. Wong.

EMPLOYEES

As at the Latest Practicable Date, the Group had 118 employees. The Directors are of the opinion that staff of the Group is one of the most valuable assets and has contributed to the success of the Group. As at the Latest Practicable Date, the employees of the Group were categorised as follows:

Functions	**Number of employees**
Hotel operations	100
Business development	5
Accounting and finance	7
Sales and marketing	3
Human resources	2
Company secretarial	1
	118

Leveraging on their experience and expertise on hotel operations, there are 12 persons in various business functions engaging in the provision of hotel consultancy services. The entire business development team is responsible for overseeing the various stages of provision of hotel consultancy services, including negotiating with prospective customers of hotel consultancy services, selecting potential hotel sites and negotiating with land/property owners, conducting market research and feasibility analysis, drafting operating procedures and quality manual, designing the hotel and selecting construction contractors. The business development team is led by Mr. Fong and Mr. Wong together, consisting Ms. He, a designer, and an administrative assistant. Mr. Fong and Mr. Wong are mainly responsible for negotiating with potential hotel investors, site selection and negotiating with property/land owners. Mr. Fong, together with the designer are responsible for designing the hotel interior. Ms. He is mainly responsible for negotiating with property/land owners, coordinating the feasibility analysis and the preparation of the operating procedures and quality manual. Please refer to the sub-sections headed "Directors" and "Senior Management" in this section for the biographies of Mr. Fong, Mr. Wong and Ms. He. Five hotel branch managers from the hotel operation team will assist in the drafting of the operating procedures and quality manual. Further, the finance manager from the accounting and finance team will assist in performing the financial feasibility analysis. A construction manager from the hotel operation team will assist in selecting the construction contractors.

Management holds daily briefing with individual employee to review his/her performance and also has regular monthly meetings with all employees to review their performance as a whole to ensure the Group's quality of services remains up to the standard.

For the two years ended 31 December 2010, the Group incurred employee costs of HK$3,482,436 and HK$4,039,804 respectively, representing approximately 15.2% and approximately 17.0% of the Group's operating costs respectively.

Training and development

The Group puts heavy weight on the training and development of its employees. The Group has implemented in-house training before commencement of operation of each hotel and also provided on-the-job training programmes to its employees in accordance with ISO 9001:2008 manual to ensure the maintenance of the quality of hotel services. Newcomers are normally given on-the-job training by experienced employee(s) to ensure that the newcomers are equipped with all necessary skills to perform their duties.

THE GROUP'S RELATIONSHIP WITH STAFF

The Directors believe that the Group maintains a good working relationship with its employees. As at the Latest Practicable Date, the Group had not experienced any significant turnover of middle to senior level staff nor any disruption to its business operations due to labour disputes.

EMPLOYEE BENEFITS

The Group participates in the retirement schemes as required under the relevant PRC laws and regulations. In addition, the Group maintains medical and work related insurance schemes for its employees. Apart from the foregoing, the Group also provides staff quarters or housing allowance to its employees.

As required by the PRC laws and regulations, the Group contributed approximately 11.7% to approximately 19.4% of its employees' basic salaries to the statutory pension fund during the Track Record Period. The Group's contribution to the statutory pension fund are charged to the consolidated statements of comprehensive income as and when incurred. The Group also provides its employees with medical insurance, work-related injury insurance, maternity insurance, and unemployment insurance, each as required by PRC laws and regulations. For the two years ended 31 December 2010, the Group's total expenses under the social insurance contribution were approximately HK$602,553 and approximately HK$776,092 respectively.

The Group has received confirmation from the local governmental authorities indicating that the Group has made all requisite contribution to the aforesaid social insurance contribution in a timely manner according to local laws and regulations and there was no record of any non-compliance with the local regulations. Notwithstanding, during the Track Record Period, the Group has not fully paid and has not been required by the relevant local authorities to fully pay the social insurance contribution. The basis of the contribution paid deviated from the contribution calculated based on the PRC laws and regulations. The Group has therefore not fully paid and has not been required by the relevant local authorities to fully pay the social insurance contribution for some of the Group's employees. Further details of the Group's social insurance contribution are set out in the sub-section headed "Litigation and legal compliance" under the section headed "Business" of this prospectus.

REMUNERATION POLICY

The Directors and senior management receive compensation in the form of salaries, benefits in kind and discretionary bonuses with reference to salaries paid by comparable companies, time commitment and the performance of the Group. The Group also reimburses them for expenses which are necessarily and reasonably incurred for the provision of services to the Group or executing their functions in relation to the operations of the Group. The Group regularly reviews and determines the remuneration and compensation packages of the Directors and senior management, by reference to, among other things, the respective responsibilities of the Directors and the senior management and the performance of the Group.

After the Listing, the Directors and senior management may also receive options to be granted under the Share Option Scheme.

BOARD COMMITTEES

Audit committee

The Company established an audit committee pursuant to a resolution of the Directors passed on 22 June 2011 with written terms of reference in compliance with Rule 5.28 and Rule 5.29 of the GEM Listing Rules. The written terms of reference of the audit committee was adopted in compliance with paragraph C3.3 of the Code on Corporate Governance Practices as set out in Appendix 15 to the GEM Listing Rules. The primary duties of the audit committee, among other things, are to make recommendation to the Board on the appointment, reappointment and removal of external auditor; review the financial statements; and oversee the financial reporting system and internal control procedures of the Company. At present, the audit committee of the Company consists of three members, namely Mr. Tam, Kwok Ming Banny, Dr. Wong, Hak Kun Jerry and Mr. Tsoi, Wing Sum. Mr. Tam, Kwok Ming Banny is the chairman of the audit committee.

Remuneration committee

The Company established a remuneration committee pursuant to a resolution of the Directors passed on 22 June 2011 with written terms of reference in compliance with paragraph B1.1 and paragraph B1.3 of the Code on Corporate Governance Practices as set out in Appendix 15 to the GEM Listing Rules. The primary duties of the remuneration committee are to make recommendation to the Board on the overall remuneration policy and structure relating to all Directors and senior management of the Group; review performance based remuneration, and ensure none of the Directors determine their own remuneration. The remuneration committee consists of five members, namely Mr. Tam, Kwok Ming Banny, Dr. Wong, Hak Kun Jerry, Mr. Tsoi, Wing Sum, Mr. Wong and Mr. De Weyer. Mr. Tam, Kwok Ming Banny is the chairman of the remuneration committee.

Nomination committee

The Company established a nomination committee pursuant to a resolution of the Directors passed on 22 June 2011. Written terms of reference in compliance with paragraph A4.5 of the Code on Corporate Governance Practices as set out in Appendix 15 to the GEM

Listing Rules have been adopted. The primary function of the nomination committee is to make recommendations to the Board regarding appointment of Directors and candidates to fill vacancies on the Board. The nomination committee consists of five members, namely Mr. Tam, Kwok Ming Banny, Dr. Wong, Hak Kun Jerry, Mr. Tsoi, Wing Sum, Mr. Wong and Mr. De Weyer. Mr. Tam, Kwok Ming Banny is the chairman of the nomination committee.

COMPLIANCE ADVISER

In accordance with Rule 6A.19 of the GEM Listing Rules, the Company has appointed Quam Capital to be the compliance adviser, who will have access to the Company's authorised representatives, Directors and other officers at all times. The compliance adviser will advise the Company on on-going compliance requirements and other issues under the GEM Listing Rules and other applicable laws and regulations in Hong Kong after Listing. The material terms of the compliance adviser's agreement entered into between the Company and its compliance adviser are as follows:

(i) the compliance adviser's appointment for a period commencing on the Listing Date and ending on the date on which the Company complies with Rule 18.03 of the GEM Listing Rules in respect of its financial results for the second full financial year commencing after the Listing Date, i.e. 31 December 2013, subject to early termination;

(ii) the compliance adviser shall provide the Company with guidance and advice as to compliance with the requirements under the GEM Listing Rules and applicable laws, rules, codes and guidelines;

(iii) the Company agrees to indemnify and hold the compliance adviser (for itself and on trust for the compliance adviser's affiliates, its and their respective director, officers, agents and employees and each other person, if any, controlling the compliance adviser or any of its affiliates) harmless from and against any and all losses, claims, damages or liabilities, incurred by the compliance adviser in relation to the services provided to the Company pursuant to the agreement, save to the extent that any such loss, claim, damage or liability arises as a direct result of the willful default or negligence of the compliance adviser; and

(iv) the Company shall have the right, without compensation to terminate the appointment of the compliance adviser under the agreement only if the compliance adviser's work is of an unacceptable standard or if there is a material dispute (which cannot be resolved within thirty (30) days) over fees payable by the Company to the compliance adviser as permitted by Rule 6A.26 of the GEM Listing Rules. The compliance adviser shall have the right to resign or terminate its appointment as a compliance adviser under the agreement at any time without compensation being payable to the Company by giving not less than thirty (30) days written notice to the Company.

CONTROLLING AND SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, immediately following completion of the Placing assuming 45,000,000 Placing Shares are successfully placed but without taking into account any Shares which may be allotted and issued pursuant to the exercise of options which may be granted under the Share Option Scheme, the following persons will have an interest or short position in the shares or 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, will be directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name	**Capacity/Nature of interest**	**Number of Shares**	**Approximate percentage of shareholding**
Mr. Fong	Beneficial owner	99,759,466	55.4%
Ms. Wong Pit Lai Vera *(Note 1)*	Interest of spouse	99,759,466	55.4%
Mr. Qiu	Beneficial owner	10,800,000	6.0%
Ms. Cheng Xiaomin *(Note 2)*	Interest of spouse	10,800,000	6.0%
Mr. De Weyer	Beneficial owner	10,523,655	5.8%
Ms. Makoto Nishimura *(Note 3)*	Interest of spouse	10,523,655	5.8%

Notes:

1. Ms. Wong Pit Lai Vera is the spouse of Mr. Fong. Therefore, Ms. Wong Pit Lai Vera is deemed to be interested in the Shares in which Mr. Fong is interested for the purpose of the SFO.

2. Ms. Cheng Xiaomin is the spouse of Mr. Qiu. Therefore, Ms. Cheng Xiaomin is deemed to be interested in the Shares in which Mr. Qiu is interested for the purpose of the SFO.

3. Ms. Makoto Nishimura is the spouse of Mr. De Weyer. Therefore, Ms. Makoto Nishimura is deemed to be interested in the Shares in which Mr. De Weyer is interested for the purpose of the SFO.

Save as disclosed herein, the Directors are not aware of any person who will, immediately following the Placing have an interest or short position in the shares or underlying shares of the Company which would be required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be 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.

SIGNIFICANT SHAREHOLDERS

So far as the Directors are aware, save for the persons disclosed under the paragraphs headed "Controlling and Substantial Shareholders" in this section, no persons individually and/or collectively will, immediately following completion of the Placing but without taking into account any Shares which may be allotted and issued pursuant to the exercise of options which may be granted under the Share Option Scheme, be directly or indirectly interested in 5% or more of the voting power at the general meetings of the Company and are therefore regarded as a significant Shareholder under the GEM Listing Rules.

UNDERTAKINGS

Each of the Company, Mr. Fong and Mr. Wong has given certain undertakings in respect of the Shares to the Company, the Sponsor, the Joint Lead Managers and the Co-lead Manager, details of which are set out under the paragraph headed "Undertakings pursuant to the Placing Agreement" in the section headed "Structure and conditions of the Placing" of this prospectus.

NON-COMPETITION UNDERTAKING

On 25 June 2011, the Company (for themselves and as trustee for and on behalf of its subsidiaries and associated companies) entered into the Deed of Non-competition Undertaking with Mr. Fong (the "**Covenantor**"). Pursuant to the Deed of Non-competition Undertaking, the Covenantor irrevocably and unconditionally covenants and undertakes with the Company (for itself and as trustee for and on behalf of each of its subsidiaries and associated companies) that, during the period from the Listing Date and up to the date on which the Covenantor and/or his associates cease to beneficially own (i) more than 30% of the issued share capital of the Company or (ii) any interests in the direct or indirect corporate shareholders of the Company which in turn beneficially own more than 30% of the issued share capital of the Company, the Covenantor shall not, and shall procure that none of his associates shall, directly or indirectly, establish, invest, involve in, manage, operate or otherwise hold any right or interest, directly or indirectly, in the business of operating and entering into consultancy and management agreements in respect of hotels in the PRC, and such other business conducted or carried on by the Group from time to time (the "**Restricted Business**") within the PRC and such other places as the Group may conduct or carry on business from time to time.

Notwithstanding aforesaid, the non-competition undertaking as set out above shall not prevent the Covenantor and his associates from (i) holding the Shares or other securities issued by the Company or any member of the Group; and (ii) acquiring a direct or indirect shareholding interest of not more than 5% in a company listed on a recognised stock exchange approved by the Board anywhere in the world and engaged in any Restricted Business.

CONTROLLING SHAREHOLDERS

As at the date of this prospectus, Mr. Fong is the registered holder of 99,759,466 Shares, representing approximately 55.4% of the total issued share capital of the Company immediately after completion of the Placing but without taking into account any Shares which may be allotted and issued pursuant to the exercise of options which may be granted under the Share Option Scheme. Please refer to the section headed "History and corporate structure" of this prospectus for further details.

INDEPENDENCE FROM THE CONTROLLING SHAREHOLDERS

The Directors believe that the Group is capable of carrying on its business independently of the Controlling Shareholder and his associates after the Listing Date for the following reasons:

Management independence

The management and investment decisions are made by the Board in a collective manner and the Board comprises two executive Directors, one non-executive Director and three independent non-executive Directors. The Group has established the (i) audit committee, (ii) remuneration committee; and (iii) nomination committee. Each committee consists of a majority of independent non-executive Directors to monitor the operation of the Group.

Operational independence

The Group has established a set of organisational structure made up of individual departments, each with specific areas of responsibilities. The Group has independent access to suppliers and customers for the business.

Customers of the Group

For each of the two years ended 31 December 2010, the Group's five largest customers in aggregate accounted for approximately 3.0% and approximately 29.6% of the Group's revenue respectively. None of the Directors, their respective associates, or any Shareholder who, to the knowledge of the Directors, owns more than 5% of the issued capital of the Company, has any interest in any of the Group's five largest customers during the Track Record Period. The Group has its own access to its customers independently.

Procurement of daily hotels supplies

For each of the two years ended 31 December 2010, the Group's five largest suppliers in aggregate accounted for approximately 91.0% and approximately 98.3% of the Group's operating costs respectively. None of the Directors, their respective associates, or any Shareholder who, to the knowledge of the Directors, owns more than 5% of the issued share capital of the Company, has any interest in any of the Group's five largest suppliers during the Track Record Period. The Group has its own access to its suppliers independently.

Financial independence

The Group has independent financial and accounting systems and the Group makes financial decisions according to the Group's own business needs. The Directors are of the view that the Group does not rely on advances from its ultimate Shareholder and related parties for its business operations. As such, the Directors consider that the Group can operate independently from the Controlling Shareholder from the financial perspective.

In view of the above facts, the Group is considered independent from the Controlling Shareholder in terms of management, financial and operations in all material aspects.

CORPORATE GOVERNANCE MEASURES

The Company will adopt the following measures to manage the conflict of interests arising from the competing business and to safeguard the interests of the Shareholders:

(i) the independent non-executive Directors will review, on an annual basis, the compliance with the non-competition undertaking by the Controlling Shareholder under the Deed of Non-competition Undertaking;

(ii) the Controlling Shareholder undertakes to provide all information requested by the Company which is necessary for the annual review by the independent non-executive Directors and the enforcement of the Deed of Non-competition Undertaking;

(iii) the Company will disclose decisions on matters reviewed by the independent non-executive Directors relating to compliance and enforcement of the non-competition undertaking of the Controlling Shareholder under the Deed of Non-competition Undertaking in the annual reports of the Company; and

(iv) the Controlling Shareholder will make an annual declaration on compliance with his undertaking under the Deed of Non-competition Undertaking in the annual reports of the Company.

SHARE CAPITAL

Authorised share capital:		*HK$*
780,000,000	Shares of HK$0.01 each	7,800,000
Issued and to be issued, full paid or credited as fully paid:		
		HK$
135,000,000	Shares in issue as at the date of this prospectus	1,350,000
45,000,000	Shares to be issued under the Placing	450,000
180,000,000	Shares	1,800,000

ASSUMPTIONS

The above table assumes the Placing becomes unconditional and the issue of Shares pursuant thereto is made as described herein. It does not take into account any Shares which may be allotted and issued pursuant to the exercise of the options which may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandate given to the Directors to allot and issue or repurchase Shares referred to in the paragraph headed "General mandate to issue Shares" or the paragraph headed "General mandate to repurchase Shares" below, as the case may be.

MINIMUM PUBLIC FLOAT

Pursuant to Rule 11.23(7) of the GEM Listing Rules, at the time of the Listing and at all times thereafter, the Company must maintain the "minimum prescribed percentage" of 25% of the total issued share capital of the Company in the hands of the public (as defined in the GEM Listing Rules).

RANKING

The Placing Shares are ordinary shares in the share capital of the Company and will rank equally in all respects with all Shares in issue or to be issued as set out in the table above, and will qualify and rank equally for all dividends or other distributions declared, made or paid after the date of this prospectus.

THE SHARE OPTION SCHEME

The Company has conditionally adopted the Share Option Scheme. The principal terms of the Share Option Scheme are summarised in the section headed "Share Option Scheme" in Appendix V to this prospectus.

GENERAL MANDATE TO ISSUE SHARES

Subject to the Placing becoming unconditional, the Directors have been granted a general unconditional mandate to allot, issue and deal with the Shares with an aggregate nominal value of not more than the sum of:

(i) 20% of the aggregate nominal amount of the share capital of the Company in issue immediately following completion of the Placing (not including Shares which may be allotted and issued pursuant to the exercise of options granted or may be granted under the Share Option Scheme); and

(ii) the aggregate nominal value of share capital of the Company repurchased by the Company (if any) under the general mandate to repurchase Shares set out below.

This mandate will expire at the earliest of:

(i) the conclusion of the Company's next annual general meeting;

(ii) the expiration of the period within which the Company is required by any applicable law or the Articles of Association to hold its next annual general meeting; or

(iii) the time when such mandate is varied, revoked or renewed by an ordinary resolution of the Shareholders in a general meeting.

For further details of this general mandate, please refer to the paragraph headed "Written resolutions of all the Shareholders passed on 22 June 2011" in Appendix V to this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

Subject to the Placing becoming unconditional, the Directors have been granted a general unconditional mandate to exercise all the powers of the Company to repurchase such number of Shares with an aggregate nominal value of not exceeding 10% of the aggregate nominal amount of the share capital of the Company in issue or immediately following completion of the Placing (not including Shares which may be allotted and issued pursuant to the exercise of the options that were granted or may be granted under the Share Option Scheme).

This mandate only relates to repurchases made on the Stock Exchange, or any other approved stock exchange(s) on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and which are made in accordance with all applicable laws and/or requirements of the GEM Listing Rules. A summary of the relevant GEM Listing Rules requirements is set out under the paragraph headed "Repurchase by the Company of own securities" in Appendix V to this prospectus.

This mandate will expire at the earliest of:

(i) the conclusion of the Company's next annual general meeting;

(ii) the expiration of the period within which the Company is required by any applicable law or the Articles of Association to hold its next annual general meeting; or

(iii) the time when such mandate is varied, revoked or renewed by an ordinary resolution of the Shareholders in a general meeting.

For further details of this repurchase mandate, please refer to the paragraph headed "Written resolutions of all the Shareholders passed on 22 June 2011" in Appendix V to this prospectus.

*You should read the following discussion and analysis in conjunction with the Group's audited combined financial statements together with the accompanying notes, set forth in the Accountant's Report included as Appendix I to this prospectus. The Group's audited combined financial statements are prepared in conformity with Hong Kong Financial Reporting Standards ("**HKFRS**"), which may differ in certain material aspects from generally accepted accounting principles in other jurisdictions, including the United States. You should read the Accountant's Report included as Appendix I to this prospectus in its entirety and not rely merely on the information contained in this section.*

For the purpose of this section, unless the context otherwise requires, references to 2009 and 2010 refer to the financial year ended 31 December of such year. Unless the context otherwise requires, financial information described in this section is described on a combined basis.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

Overview

The Group is an operator and consultant of budget hip hotels in the PRC. The Group focuses on delivering values to budget conscious hotel guests, such values included stylish design, cleanliness, comfort, friendly service, geographical convenience and safety. The Group develops its hotels through leasing of part of existing commercial buildings and converting them into hotel accommodations. The Group also provides hotel consultancy services to Independent Third Parties hotel investors.

In December 2006, Mr. Fong incorporated Yuelai Inn Tourists to operate Welcome Inn Caitian which commenced operation on 11 December 2006. In 2007, the Group started the conversions of Welcome Inn Nanshan and Welcome Inn Baoan which commenced operation on 30 May 2008 and 25 April 2008 respectively. On 26 November 2008, Welcome Inn Luohu commenced operation under Yuelai Inn, a Sino-foreign joint venture. For further description of the Group's corporate history, please refer to the section headed "History and Corporate Structure".

The Group currently wholly-owns and operates four hotels as mentioned, all strategically located in Shenzhen, the PRC. The four hotels provide a total of 418 guest rooms.

Leveraging on the expertise and valuable experience built up over the years in operating budget hip hotels, the Group has also started to provide hotel consultancy services to Independent Third Parties hotel investors in 2009. The Group's ability to establish low cost yet stylish hotels with competitive room rates appeals to hotel investors. The hotel consultancy services provided by the Group include site selection through site analysis on location, traffic and people flow, questionnaires and environmental analysis, feasibility study, hotel interior design, preparing operating procedures and quality manual that complies with ISO 9001:2008 requirements and providing assistance in selecting contractors for building work. Up to the Latest Practicable Date, the Group had entered into five hotel consultancy agreements with three hotel investors for the provision of hotel consultancy services for Da Mei Sha Hotel, WBT Hotel, Gaomiao Hotel, Zhongxin Hotel and South China Hotel. These hotel investors are Independent Third Parties who do not have any relationship with the Group other than entering into the hotel consultancy agreements with the Group. These hotel investors do not have hotel business experience and therefore engage the Group to provide the hotel consultancy services. The provision of hotel consultancy services for Da Mei Sha Hotel, WBT Hotel, Gaomiao Hotel and Zhongxin Hotel had been completed in 2010. The Company is in the process of site selection for South China Hotel.

The Group has three natures of revenue, namely the hotel room and conference room rental, provision of hotel consultancy services and sales of hotel membership cards.

For the year ended 31 December 2009, the Group generated 99.2% of its revenue from the hotel operations and the remaining approximately 0.8% of its revenue from the sales of hotel membership cards. For the year ended 31 December 2010, the Group generated approximately 73.2% of its revenue from the hotel operations, approximately 25.8% of its revenue from the provision of hotel consultancy services and the remaining approximately 1.0% of its revenue from the sales of hotel membership cards.

For the two years ended 31 December 2010, the Group revenue was HK$19,545,963 and HK$37,317,933 respectively. The Group recorded a loss of HK$3,476,819 for the year ended 31 December 2009 and a profit of HK$9,549,531 for the year ended 31 December 2010. The net loss for the year ended 31 December 2009 was mainly due to under-utilisation of the Group's hotel and the high fixed costs in hotel operations. In 2009, occupancy of the Group's hotels remained low, ranging from approximately 40.6% to approximately 78.8%, since three out of four of its hotels, namely Welcome Inn Baoan, Welcome Inn Nanshan and Welcome Inn Luohu were established in 2008 and their customer base and goodwill required time to build up. The Group's financial result improved in the year ended 31 December 2010 mainly due to the new source of revenue generated from the hotel consultancy business and increased profit margin from the hotel operations as occupancy improved.

The financial performance of the Group for the four months ended 30 April 2011

Based on the unaudited management accounts of the Group, the revenue generated from the Group's hotel operation for the four months ended 30 April 2011 represented a slight increase compared to the same period last year. The Group has not recognised any revenue from the provision of hotel consultancy services for the four months ended 30 April 2011. Comparatively, for the same period last year, the Group recorded revenue generated from the provision of services under the hotel consultancy agreement for Da Mei Sha Hotel. The Group recorded non-recurring expenses in relation to the Listing of approximately HK$2.1 million for the four months ended 30 April 2011. Otherwise, the total expenses of the Group for the four months ended 30 April 2011 is comparable to the same period last year. Given no revenue from the hotel consultancy business was recognised and the Group incurring expenses in relation to the Listing, the Group was in a loss position for the four months ended 30 April 2011. Excluding the non-recurring expenses in relation to the Listing, the Group recorded an immaterial loss for the four months ended 30 April 2011.

The overall Total Available Room Nights for the four leased-and-operated hotels of the Group remained stable at 50,160 and 49,353 for the four months ended 30 April 2010 and 2011 respectively. The overall occupancy for the four leased-and-operated hotels of the Group was approximately 86.7% and approximately 80.6% for the four months ended 30 April 2010 and 2011 respectively. The slight decrease in occupancy for the four months ended 30 April 2011 was mainly due to competition from a new budget hotel nearby Nanshan Hotel which opened in late 2010. The overall ARR for the four leased-and-operated hotels of the Group was approximately RMB167.4 and approximately RMB181.3 for the four months ended 30 April 2010 and 2011 respectively. The increase of the ARR for the four months ended 30 April 2011 was mainly due to the increase in ARR of Luohu Hotel as a result of its increased popularity benefited from its prominent location. The overall RevPAR for the four leased-and-operated hotels of the Group remained stable at approximately RMB145.2 and approximately RMB146.1 for the four months ended 30 April 2010 and 2011 respectively.

The Group has completed providing services under four hotel consultancy agreements in the year ended 31 December 2010 which contributed total revenue of HK$9,632,486 for the year, representing approximately 25.8% of the total revenue of the Group. The Group has entered into one hotel consultancy agreement (i.e. South China Hotel) in 2011 which has yet to contribute any revenue to the Group up to 30 April 2011. The Group is in the process of site selection for South China Hotel. The Group targets to enter into four new hotel consultancy agreements and two new hotel management agreements during the period from the Latest Practicable Date to 31 December 2011. The Company is currently identifying potential target customers and is in discussion with some potential hotel investors for the Group's hotel consultancy and management businesses. However, no specific term has been agreed and the Directors cannot guarantee that the Group will be able to enter into new hotel consultancy agreements or hotel management agreements with hotel investors in the future. The revenue generated from the hotel consultancy business may be subject to fluctuation depending on the success of the Group in entering into new hotel consultancy agreements. Further, since the Group has no experience in engaging in the hotel management business, the Directors cannot guarantee that it will be successful in generating sufficient revenue to make this business profitable. As such, the financial result of the Group for the second half of 2011 may or may not improve depending on, among other things, whether the Group will be able to enter into the new hotel consultancy agreements and hotel management agreements. Further details of the risks relating to the Group's hotel consultancy and hotel management businesses are set out in the paragraphs headed "The Group has a limited operating history in hotel consultancy business and consultancy fee is paid on a project basis" and "The Group lacks experience in engaging in the hotel management business" under the section headed "Risk factors" of this prospectus.

The financial results of the Group for the year ending 31 December 2011 will also be affected by the non-recurring expenses in relation to the Listing. The estimated expenses in relation to the Listing are approximately HK$17.8 million (based on the maximum Placing of HK$1.20 per Placing Share), of which approximately HK$15.5 million is directly attributable to the issue of new Shares to the public and is to be accounted for as a deduction from equity. The remaining estimated listing expenses of approximately HK$2.3 million are charged to profit or loss of the Group for the year ending 31 December 2011, of which approximately HK$2.1 million has been recognised during the four months ended 30 April 2011. Such expenses in relation to the Listing have not been incurred during the Track Record Period. The Directors would like to emphasise that such cost is a current estimate for reference only and the final amount to be recognised to the profit or loss of the Group for the year ending 31 December 2011 is subject to adjustment based on audit and the then changes in variables and assumptions.

Accordingly, the financial results of the Group for the year ending 31 December 2011 are expected to be materially and adversely affected by the estimated expenses in relation to the Listing.

It should be noted that the above unaudited financial results for the four months ended 30 April 2011 may not be indicative of the full year results for 2011. As set out in the section headed "Risk factors" of this prospectus, the Group's business and financial performance may be affected by a number of factors, including, among other things, the risk factors headed "The Group may experience an increase in labour costs", "The Group's financial position and operating results could be materially and adversely affected by its concentration of suppliers", "The Group has an increasing concentration of and reliance on major customers and the loss of any of such customers could materially and adversely affect the Group's business and financial position", "The seasonality of the hotel industry could have a material adverse effect on the Group's revenue and financial condition" and "The financial results of the Group are expected to be affected by the expenses in relation to the Listing" under the section headed "Risk factors" of this prospectus.

No material adverse change

The Directors confirm that, save as disclosed in the paragraph headed "The financial performance of the Group for the four months ended 30 April 2011" of this section, there has not been any material adverse change in the financial or trading position of the Group since 31 December 2010, being the date of the Group's last audited accounts, up to the Latest Practicable Date.

Basis of presentation

During the Track Record Period, all the companies now comprising the Group are controlled by Mr. Fong. For the purposes of this report, the combined financial statements of the Company and its subsidiaries ("Financial Information") of the Group has been prepared on a basis in accordance with the principles of the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants. The combined statements of financial position, combined statements of comprehensive income, combined statements of cash flows and combined statements of changes in equity of the Group for the Track Record Period have been prepared using the financial information of the companies now comprising the Group for the Track Record Period as if the current group structure had been in existence throughout the Track Record Period, except that the financial information of those companies newly set up or acquired by the Group during the Track Record Period is included in the financial information from their respective dates of incorporation and acquisition respectively.

Factors affecting the Group's results of operations

Changes in the Group's results of operations can be explained by the following four performance indicators that are commonly used in the hotel industry:

- Total Available Room Nights;
- occupancy;
- ARR; and
- RevPAR.

The Group's business, financial position and results of operations and the period-to-period comparability have been, and expected to be, affected by a number of factors in the future, including:

Economic conditions in the PRC and the Guangdong Province, the PRC

Welcome Inn Caitian, Welcome Inn Nanshan, Welcome Inn Baoan and Welcome Inn Luohu are located in Shenzhen, the PRC. The Group's results of operation are heavily dependent on local economic conditions in the Guangdong Province. An economic downturn in the PRC or in the Guangdong Province would have an adverse impact on the Group's results of operations, whereas continued strong economic growth will likely have a positive impact.

Supply of hotel rooms

The number of hotel rooms has been rapidly increasing in the PRC in recent years. If the increase in the supply of hotel rooms outpaces the increase in the demand for hotel rooms in the PRC, the ARR, occupancy and RevPAR would decrease and the Group's result of operations would be negatively impacted.

PRC government policies and regulations

The Group's business and results of operations will be significantly affected by the PRC government policies and regulations, such as licensing and zoning. Hotels in the PRC are required to obtain a 特種行業許可證 (Licence of Special Trade*) issued by the provincial public security authority and to comply with licence requirements and laws and regulations with respect to fire prevention, public area hygiene, public safety and environmental protection. Any changes to existing laws and regulations in the future may increase the Group's compliance efforts at significant costs.

For details of the risks relating to the PRC, please refer to the section headed "Risk factors" of this prospectus.

Critical accounting policies

The Group has identified certain accounting policies that are significant to the preparation of the Group's financial statements. The Group's significant accounting policies, which are important for an understanding of the Group's financial condition and results of operations, are set forth in detail in Note 2 to the Accountant's Report of the Group included in Appendix I to this prospectus. Some of the Group's accounting policies involve subjective assumptions and estimates, as well as judgements relating to accounting items such as revenue recognition, cost or expense allocation and liability provisioning. In each case, the determination of these items requires management's judgement based on information and financial data that may change in future periods. When reviewing the Group's financial information, you should consider: (i) the Group's selection of critical accounting policies; (ii) the judgement and other uncertainties affecting the application of such policies; and (iii) the sensitivity of reported results to changes in conditions and assumptions. The accounting policies involve the most significant estimates and judgements used in the preparation of the Group's financial information are illustrated below.

Property, plant and equipment

Property, plant and equipment are stated in the combined statements of financial position at cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the carrying amount of an item of property, plant and equipment or recognised as a separate item of property, plant and equipment, 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. The carrying amount of the replaced part is derecognised. All other costs, such as repairs and maintenance and overhaul costs, are recognised in the combined statements of comprehensive income as an expense in the period in which they are incurred.

Depreciation on property, plant and equipment is calculated to write off the cost of items of property, plant and equipment using the straight line method to their residual values over their estimated useful lives as follows:

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

The property, plant and equipment's residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

The property, plant and equipment's carrying amount is written down immediately to its recoverable amount if the property, plant and equipment's carrying amount is greater than its estimated recoverable amount.

Leases

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

Financial assets

The Group classifies its financial assets as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "trade debtors, prepayment and deposits", "rental deposit" and "cash and cash equivalents" in the combined statements of financial position.

Loans and receivables are recognised initially at fair value and subsequently carried at amortised cost using the effective interest method, less provision for impairment.

Employee benefits

(a) Pension obligations

Pursuant to the relevant local regulations in the PRC, the PRC subsidiaries of the Group participate in government defined contribution retirement benefit schemes and are required to contribute to the scheme to fund the retirement benefits of the eligible employees. Contribution made to the schemes are calculated based on certain percentages of the applicable payroll costs or fixed sums for each employee with reference to a salary scale, as stipulated under the requirements in the PRC. The Group has no further obligation beyond the required contribution. All contributions made to the Schemes are not refundable or forfeitable. The contributions under the schemes are expensed in the combined statements of comprehensive income as incurred.

(b) Other employee benefits

Salaries, paid annual leave and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. The amount recognised as a liability and an expense should be measured at the cost of providing the benefits.

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of services in the ordinary course of the Group's activities. Revenue is shown net of business tax and discounts. Revenue is recognised as follows:

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below.

(a) Hotel operations

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

(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 in the proportion of time cost incurred at the end of the reporting period compared to the estimated total time costs of the transaction. The outcome of a transaction can be estimated reliably when (i) the amount of revenue can be measured reliably; (ii) it is probable that the economic benefits associated with the transaction will flow to the entity; (iii) the stage of completion of the transaction at the balance sheet date can be measured reliably; and (iv) the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

(c) 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.

(d) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables are recognised using the original effective interest rate.

Critical accounting estimates and judgements

Useful lives of property, plant and equipment

The Group has significant investments in property, plant and equipment. The Group is required to estimate the useful lives of property, plant and equipment in order to ascertain the amount of depreciation charges for each reporting period. Useful lives are estimated at the time of purchase of these assets after considering business developments and the Group's strategies. The Group performs annual review to assess the appropriateness of the estimated useful lives. Such review takes into account any unexpected adverse changes in circumstances or events, including declines in projected operating results and negative industry or economic trends. The Group extends or shortens the useful lives and/or makes impairment provisions according to the results of the review.

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 not be recoverable. The recoverable amounts have been determined based on fair value less costs to sell 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 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 to sell 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.

Leasehold improvements on leased premises

The Group operates hotels on leased premises in the PRC and incurs construction or renovation expenditures for these hotels. A landlord named in the corresponding lease agreements has been unable to produce proper building ownership certificates, valid lease permits or other necessary permissions. However, based on the Group's experience and available information and after consultation with the legal advisers of the Company as to PRC law, the Directors are of the view that such problem is unlikely to cause any interruption or termination of this lease or to have a material effect on the carrying amounts of the related leasehold improvements of HK$3,667,836 and HK$2,661,905 as at 31 December 2009 and 2010, respectively. Moreover, a Director has agreed to keep the Group indemnified for any loses that the Group may suffer from any failure of the Group's subsidiary in obtaining licence or permit to use the related property. Accordingly, no impairment for such leasehold improvements is considered necessary to be made according to the Group's accounting policies.

Income tax

The Group is subject to current income tax in Hong Kong and the PRC. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred income tax provision 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.

Description of certain items of statements of comprehensive income

Revenue

The Group generates revenue from the hotel operations, the provision of hotel consultancy services and the sales of hotel membership cards which are stated after business tax.

The table below illustrates the breakdown of the Group's revenue during the Track Record Period:

		Year ended 31 December	
		2009	**2010**
	Note	*HK$*	*HK$*
Hotel operations			
— Provision of hotel accommodation services to corporate customers with contractual arrangements			
— Guests under commercial sales agreements	(a)	2,751,745	3,975,643
— Guests under intermediaries sales agreements	(b)	349,401	1,658,509
— Guests under long term sales agreement	(c)	620,656	1,216,581
— Provision of hotel accommodation services to customers who have joined the loyalty programme	(b)	2,889,486	3,614,002
— Provision of hotel accommodation services to individual guests	(b)	12,226,915	16,206,090
— Conference room rental	(b)	549,011	652,896
— Sale of hotel membership cards	(d)	158,749	361,726
Hotel consultancy services	(e)	—	9,632,486
Total		**19,545,963**	**37,317,933**

Notes:

(a) The sales to these customers are on credit terms of 30 days.

(b) The sales to these customers are due immediately upon check-out.

(c) These customers have to pay deposits equivalent to one month rental in advance. If the deposit is insufficient to cover the respective hotel room rental and other fees, the customer has to pay for the difference at the end of the month or upon check-out, whichever is earlier.

(d) The sales to these customers are due immediately upon the application of membership cards. The hotel membership is to be renewed every three years.

(e) The sales to these customers are settled by instalments in accordance with the repayment schedule listed in the sub-section headed "Principal terms of the hotel consultancy agreements" under the section headed "Business" of this prospectus except for one customer which the settlement date for an amount of HK$564,454 was extended to on or before 30 June 2011 pursuant to the supplementary agreement dated 25 October 2010.

The following table sets out the Group's revenue for the periods indicated:

	Year ended 31 December	
	2009	**2010**
	HK$	*HK$*
Sales from hotel operations — hotel room and conference room rental	19,387,214	27,323,721
Hotel consultancy services	—	9,632,486
Sales of hotel membership cards	158,749	361,726
	19,545,963	37,317,933

The following table shows information on the revenue from hotel operation, Total Available Room Nights, occupancy, ARR, and RevPAR of each of the Group's leased-and-operated hotels for the Track Record Period:

	Year ended 31 December	
	2009	**2010**
Welcome Inn Caitian		
Revenue *(HK$ million)*	5.0	6.2
Total Available Room Nights	31,133	31,425
Occupancy *(%)*	78.8%	96.1%
ARR *(RMB)*	183.9	188.1
RevPAR *(RMB)*	145.0	180.7
Welcome Inn Nanshan		
Revenue *(HK$ million)*	10.1	13.2
Total Available Room Nights	64,711	67,337
Occupancy *(%)*	67.2%	87.7%
ARR *(RMB)*	191.2	194.3
RevPAR *(RMB)*	128.5	170.4
Welcome Inn Baoan		
Revenue *(HK$ million)*	2.1	2.5
Total Available Room Nights	19,355	21,535
Occupancy *(%)*	63.7%	89.2%
ARR *(RMB)*	134.3	123.7
RevPAR *(RMB)*	85.5	110.4
Welcome Inn Luohu		
Revenue *(HK$ million)*	2.2	5.4
Total Available Room Nights	25,011	28,812
Occupancy *(%)*	40.6%	95.6%
ARR *(RMB)*	171.3	175.6
RevPAR *(RMB)*	69.5	168.0
Total		
Revenue *(HK$ million)*	19.4	27.3
Total Available Room Nights	140,210	149,109
Occupancy *(%)*	64.0%	91.2%
ARR *(RMB)*	178.9	179.4
RevPAR *(RMB)*	114.6	163.6

The Group's revenue increased by HK$17,771,970, or approximately 90.9%, from HK$19,545,963 for the year ended 31 December 2009 to HK$37,317,933 for the year ended 31 December 2010, primarily due to the increase in revenue from the hotel operations and the provision of hotel consultancy services.

Revenue from the hotel operations

The increase in revenue from the hotel operations was resulted mainly from:

- the significant increase in occupancy from the leased-and-operated hotels of the Group. Occupancy of Welcome Inn Caitian, Welcome Inn Nanshan, Welcome Inn Baoan and Welcome Inn Luohu increased by approximately 17.3%, 20.5%, 25.5% and 55.0% respectively for the year ended 31 December 2010; and
- the increase in RevPAR of Welcome Inn Caitian, Welcome Inn Nanshan, Welcome Inn Baoan and Welcome Inn Luohu by approximately 24.6%, 32.6%, 29.1% and 141.7% respectively for the year ended 31 December 2010.

The increased occupancy was mainly due to (i) the ongoing marketing efforts of the Group; (ii) the provision of satisfactory service to hotel customers; and (iii) the strengthening of brand awareness of the Group as a result of the visits of increasing number of customers during the Track Record Period.

Revenue from the provision of hotel consultancy services

The Group entered into hotel consultancy agreements with Independent Third Party hotel investors for Da Mei Sha Hotel in December 2009 and WBT Hotel, Gaomiao Hotel and Zhongxin Hotel in August 2010 by reference to the stage of completion of the transaction at the end of the reporting period. When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction shall be recognised by reference to the stage of completion of the transaction at the balance sheet date end of the reporting period. The outcome of a transaction can be estimated reliably when (i) the amount of revenue can be measured reliably; (ii) it is probable that the economic benefits associated with the transaction will flow to the entity; (iii) the stage of completion of the transaction at the balance sheet date can be measured reliably; and (iv) the costs incurred for the transaction and the costs to complete the transaction can be measured reliably. The provision of hotel consultancy services for Da Mei Sha Hotel, WBT Hotel, Gaomiao Hotel and Zhongxin Hotel were completed and contributed a revenue of HK$9,632,486 for the year ended 31 December 2010.

Operating costs

	Year ended 31 December			
	2009		**2010**	
	HK$	*Approximate % of total*	*HK$*	*Approximate % of total*
Operating lease expenses	8,420,635	36.9%	7,492,727	31.6%
Depreciation of property, plant and equipment	6,296,756	27.6%	6,368,671	26.9%
Employee benefit expenses	3,482,436	15.2%	4,039,804	17.0%
Utilities	1,330,644	5.8%	1,429,882	6.0%
Other operating expenses	3,322,780	14.5%	4,380,740	18.5%
Total	22,853,251	100.0%	23,711,824	100.0%

Operating lease expenses

The operating lease expenses decreased by HK$927,908, or approximately 11.0%, from HK$8,420,635 for the year ended 31 December 2009 to HK$7,492,727 for the year ended 31 December 2010, which was attributable to a rental waiver from the landlord of Welcome Inn Nanshan.

The landlord of Welcome Inn Nanshan has delayed registration for commercial use of the hotel premises which caused the Group delayed in obtaining the business license for Welcome Inn Nanshan. Welcome Inn Nanshan commenced operation after obtaining the business licence in May 2008. Moreover, the management of the Group complained to the landlord on the leakage and noise problem. Consequently, on 9 December 2010, a subsidiary of the Group has entered into an agreement with the landlord to waive the operating lease expenses of HK$987,351 as compensation to the Group.

Depreciation

As no significant property, plant and equipment was acquired in the year ended 31 December 2010, the depreciation expense of the Group slightly increased by approximately 1.1% for the year ended 31 December 2010.

Employee benefit expenses

The employee benefit expenses increased by HK$557,368, or approximately 16.0%, from HK$3,482,436 for the year ended 31 December 2009 to HK$4,039,804 for the year ended 31 December 2010. The increased employee benefit expenses were due to the increased number of employees and salary for the year ended 31 December 2010.

Utilities

The utilities increased by HK$99,238, or approximately 7.5%, from HK$1,330,644 for the year ended 31 December 2009 to HK$1,429,882 for the year ended 31 December 2010, which was in line with the growth in the revenue.

Other operating expenses

	Year ended 31 December			
	2009		**2010**	
	HK$	*Approximate % of total*	*HK$*	*Approximate % of total*
Auditor's remuneration	500,000	15.0%	500,000	11.4%
Property management fee	514,236	15.5%	508,646	11.6%
Consumables and laundries	932,637	28.1%	1,329,871	30.4%
Marketing and promotion	182,029	5.5%	202,309	4.6%
Telephone and communication	248,299	7.5%	282,426	6.4%
Repairs and maintenance	171,066	5.1%	248,813	5.7%
Office supplies	117,413	3.5%	165,400	3.8%
Sales commission	36,264	1.1%	360,904	8.2%
Others	620,836	18.7%	782,371	17.9%
Total	3,322,780	100.0%	4,380,740	100.0%

The total other operating expenses increased by HK$1,057,960, or approximately 31.8%, from HK$3,322,780 for the year ended 31 December 2009 to HK$4,380,740 for the year ended 31 December 2010, attributable primarily to the increase in consumables and laundries utilised by increased number of hotel guests and the increase in sales commission resulting from the increase in sales of hotel room through travel agent for the year ended 31 December 2010.

Operating (loss)/profit

	Year ended 31 December	
	2009	**2010**
	HK$	*HK$*
Operating (loss)/profit	(3,307,288)	13,606,109

The Group's operating profit increased by HK$16,913,397 from an operating loss of HK$3,307,288 for the year ended 31 December 2009 to an operating profit of HK$13,606,109 for the year ended 31 December 2010, primarily due to the increased revenue contributed by the provision of hotel consultancy services and the increased profit margin from the hotel operations as described above.

The revenue from the hotel operations segment increased by HK$8,139,484, or approximately 41.6%, from HK$19,545,963 for the year ended 31 December 2009 to HK$27,685,447 for the year ended 31 December 2010. In the meantime, the operating expenses of the hotel operations segment decreased from HK$22,853,251 for the year ended 31 December 2009 to HK$21,469,135 for the year ended 31 December 2010. The operating expenses of the hotel operations segment are insensitive to the increase in revenue from the hotel operations segment as the majority of the costs, including operating lease expenses, depreciation of property, plant and equipment and the employee benefit expenses were fixed. In 2009, occupancy of the Group's hotels remained low, ranging from approximately 40.6% to approximately 78.8%, since Welcome Inn Baoan, Welcome Inn Nanshan and Welcome Inn Luohu were established in 2008 and their customer base and goodwill required time to build up. The Group incurred an operating loss of HK$3,307,288 for the year ended 31 December 2009 as a result of the under-utilisation of the Group's hotels and the high fixed costs in hotel operations.

Finance cost — net

The Group's finance income remained stable with a slight increase of approximately 3.9% from HK$50,425 for the year ended 31 December 2009 to HK$52,402 for the year ended 31 December 2010. The finance income was mainly attributable to the interest income on non-current rental deposits carried at amortised cost. The Group's finance cost increased by approximately 5.7% from HK$128,476 for the year ended 31 December 2009 to HK$135,844 for the year ended 31 December 2010. The finance expense was attributable to the finance cost on asset retirement obligations.

Loss/profit before income tax

The Group's profit before income tax increased by HK$16,908,006 from a loss before income tax of HK$3,385,339 for the year ended 31 December 2009 to a profit before income tax of HK$13,522,667 for the year ended 31 December 2010, as a result of increased revenue contributed by the provision of hotel consultancy services and the increased profit margin from the hotel operations as described above.

Income tax expense

Income tax expense was HK$91,480 for the year ended 31 December 2009, as compared to an income tax expense of HK$3,973,136 for the year ended 31 December 2010 as a result of an increase in taxable profit. The expenses not deductible for tax purposes of HK$629,890 and HK$707,400 for the year ended 31 December 2009 and 31 December 2010 respectively mainly represented the depreciation charges of certain property, plant and equipment which were recorded in a subsidiary incorporated in the BVI that were not eligible for tax deductions.

The hotel consultancy services were performed by the Group's subsidiaries in Hong Kong and in the PRC. For the portion of the service performed by the Group's subsidiary in Hong Kong, the profit earned was subject to Hong Kong profits tax at a rate of 16.5%. For the portion of the service performed by the Group's subsidiary in the PRC, the profit earned was subject to the PRC corporate income tax at a rate of 25%.

Loss/profit for the year

As a result of the under-utilisation of the Group's hotels and high fixed costs in hotel operations, the Group incurred a loss of HK$3,476,819 for the year ended 31 December 2009. The Group recorded a profit of HK$9,549,531 for the year ended 31 December 2010 due to the increased revenue contributed by the provision of hotel consultancy services and increased profit margin from the hotel operations. The Group recorded a profit margin of approximately 25.6% for the year ended 31 December 2010.

Other comprehensive income arising from currency translation differences

The other comprehensive income arising from currency translation differences was HK$97,079 for the year ended 31 December 2009, as compared to HK$548,765 for the year ended 31 December 2010 as a result of the appreciation of RMB for the year ended 31 December 2010.

Loss/profit attributable to non-controlling interest

The Group recorded a loss attributable to non-controlling interest of HK$288,923 for the year ended 31 December 2009 and a profit attributable to non-controlling interest of HK$364,329 for the year ended 31 December 2010 due to the improved operation results contributed by the Welcome Inn Luohu for the year ended 31 December 2010.

Loss/profit attributable to equity holders of the Company

The Group recorded a loss attributable to equity holders of the Company of HK$3,187,896 for the year ended 31 December 2009 and a profit attributable to equity holders of HK$9,185,202 for the year ended 31 December 2010.

Description of certain items of statements of financial position

Property, plant and equipment

	As at 31 December			
	2009		**2010**	
	HK$	*Approximate % of total*	*HK$*	*Approximate % of total*
Net book amount of property, plant and equipment				
Leasehold improvements	24,862,448	84.1%	20,969,127	86.6%
Furniture and fixtures	4,117,166	13.9%	2,786,303	11.5%
Office equipment	573,160	2.0%	457,206	1.9%
Total	29,552,774	100.0%	24,212,636	100.0%

The Group's total net book amount of the property, plant and equipment decreased by HK$5,340,138, or approximately 18.1%, from HK$29,552,774 as at 31 December 2009 to HK$24,212,636 as at 31 December 2010. The addition for the Group's property, plant and equipment for the year ended 31 December 2010 was HK$171,694. There was no disposal of property, plant and equipment during the year ended 31 December 2010. The decrease in the Group's net book amount of property, plant and equipment was attributable to depreciation.

Net current (liabilities)/assets

Details to the current assets and liabilities of the Group as at the end of the respective reporting periods are as follows:

	As at 31 December 2009	**As at 31 December 2010**	**As at 30 April 2011**
	HK$	*HK$*	*HK$* (unaudited)
Current assets			
Trade debtors, prepayments and deposits	372,176	4,362,218	4,489,409
Cash and cash equivalents	212,110	263,590	6,268,440
	584,286	4,625,808	10,757,849
Current liabilities			
Trade and other payables	9,790,040	7,650,611	5,939,608
Amount due to a director	32,171,180	1,338,103	164,922
Current income tax liabilities	301,469	4,313,779	4,085,449
	42,262,689	13,302,493	10,189,979
Net current (liabilities)/assets	(41,678,403)	(8,676,685)	567,870

The net current liabilities position of the Group was HK$41,678,403 as at 31 December 2009. The net current liabilities position was substantially reduced to HK$8,676,685 as at 31 December 2010. This was mainly attributable to the increase in trade debtors, prepayments and deposits due to increase in consultancy fee receivables and professional fee prepayments being made as well as decrease in amount due to a director due to waiver of the balance due from a director and repayment of the payable balance during the year.

The net current liabilities position improved and became net current assets position of HK$567,870 as at 30 April 2011 based on unaudited management accounts. This was mainly attributable to the increase of cash and cash equivalents due to capital injection into Legend Strategy by the existing shareholders in proportion to their existing shareholdings and decrease in trade and other payable and amount due to a director due to settlement of the payables during the period.

The Directors confirm that there has been no material change in the net current asset position of the Group since 30 April 2011 up to the Latest Practicable Date.

Following completion of the Placing, the Directors believe that the Group will have sufficient cash resources to satisfy its working capital and capital expenditure requirements with a combination of the net proceeds from the Placing, cash generated from the Group's operating activities and bank financing. On 7 March 2011, the Group was granted a banking facility of RMB10 million for one year. Such banking facility has not been utilised as at the Latest Practicable Date. The Sponsor has reviewed the working capital forecast of the Company and based on the Group's current and anticipated growth levels of operations after taking into account factors including the expected business growth resulting from the anticipated economic growth in the PRC and the continued expansion of the Group's hotel portfolio, the expected profits generated from operation, the expected net proceeds from the Placing, the unutilised banking facility available to the Group and the fact that the Group recorded positive cash flow during the Track Record Period, concurs with the Directors' view that the Group will have sufficient working capital for its present working capital requirements for at least 12 months from the date of this prospectus. The Directors will monitor on a regular basis the liquidity requirements of the Group to ensure that sufficient resources of cash and cash equivalent are maintained.

Indebtedness

As at the close of business on 30 April 2011, being the latest practicable date for the purpose of ascertaining the indebtedness of the Group prior to the printing of this prospectus, the Group had no outstanding borrowings.

Trade debtors, prepayments and deposits

The details of the Group's trade debtors, prepayments and deposits as at 31 December 2009 and 31 December 2010 are as follows:

	As at 31 December	
	2009	**2010**
	HK$	*HK$*
Trade debtors	254,442	1,664,690
Prepayments and deposits	968,810	3,631,886
	1,223,252	5,296,576

	For the year ended 31 December	
	2009	**2010**
Debtors turnover days	3.5	9.4

Prepayments and deposits

	As at 31 December	
	2009	**2010**
	HK$	*HK$*
Deposits		
Rental deposits	851,076	934,358
Prepayments		
Prepaid professional fee	—	2,625,518
Others	117,734	72,010
	117,734	2,697,528
Total prepayments and deposits	968,810	3,631,886

The Group's trade debtors, prepayments and deposits increased by HK$4,073,324, or approximately 333.0%, from HK$1,223,252 as at 31 December 2009 to HK$5,296,576 as at 31 December 2010. As the Group started the preparation for Placing in the year 2010, the Group prepaid professional fees of HK$2,625,518 which was the major cause for the significant increase in prepayments and deposits as at 31 December 2010. Also, the increase in consultancy fee receivable of HK$1,339,708, from nil as at 31 December 2009 to HK$1,339,708 as at 31 December 2010 has caused the debtors turnover days to increase from approximately 3.5 days for the year ended 31 December 2009 to approximately 9.4 days for the year ended 31 December 2010. The past due trade debtors for the two years ended 31 December 2009 and 2010 were due from corporate customers whose payments were granted on credit by the Group. The settlement by such customers exceeded the credit period allowed by the Group due to their respective liquidity conditions. The Directors considered the collectibility risk for these corporate customers were low since the outstanding receivables as at 31 December 2010 were fully settled subsequently. The

Group maintains a well-defined credit policy to ensure that the sales on provision of hotel accommodation services are made to corporate customers with appropriate credit history. As at the Latest Practicable Date, the trade debtors balance of HK$1,664,690 as at 31 December 2010 was fully settled.

Aging analysis of trade debtors

	As at 31 December	
	2009	**2010**
	HK$	*HK$*
Neither past due not impaired	60,974	1,510,929
0–30 days past due	80,194	134,184
31–60 days past due	47,601	1,116
61–90 days past due	13,557	—
Over 90 days past due	52,116	18,461
Past due but not impaired	193,468	153,761
	254,442	1,664,690

The Group's trade debtors increased by HK$1,410,248, or approximately 554.3%, from HK$254,442 as at 31 December 2009 to HK$1,664,690 as at 31 December 2010. The increase was attributable to (i) the growth of the hotel operations and more customers were allowed to pay by credit and (ii) the commencement of provision of hotel consultancy services in the year ended 31 December 2010. As at 31 December 2010, the trade debtor due from the customers of hotel consultancy services amounted to HK$1,339,708.

Trade and other payables

	As at 31 December	
	2009	**2010**
	HK$	*HK$*
Trade payables	5,961,171	2,086,059
Accruals and other payables	3,828,869	5,564,552
Total	9,790,040	7,650,611

	For the year ended 31 December	
	2009	**2010**
Creditors turnover days	177.3	166.5

Accruals and other payables

	As at 31 December	
	2009	**2010**
	HK$	*HK$*
Accruals		
Accrued staff cost	942,227	1,573,072
Accrued professional fee	1,620,000	1,156,000
Others	42,659	14,923
	2,604,886	2,743,995
Other payables		
Other tax payable	563,696	1,616,500
Deferred revenue — membership fee	285,892	545,623
Deferred revenue — customer loyalty programme	—	266,596
Others	374,395	391,838
	1,223,983	2,820,557
	3,828,869	5,564,552

The trade payables decreased by HK$3,875,112, or approximately 65.0% from HK$5,961,171 as at 31 December 2009 to HK$2,086,059 as at 31 December 2010. The Group maintained a lower rental payables balance as at 31 December 2010 as compared with such balance as at 31 December 2009 due to a rental waiver granted by the landlord of Welcome Inn Nanshan and the proactive settlement of operating lease expenses for the year ended 31 December 2010 by the Group. Accordingly, the creditors turnover days also decreased from approximately 177.3 days for the year ended 31 December 2009 to approximately 166.5 days for the year ended 31 December 2010. The accrued operating lease expenses of HK$1,123,819 as at 31 December 2010 incurred during the rent-free period will be settled gradually throughout the lease term of the hotels. As at the Latest Practicable Date, HK$910,093 or approximately 43.6% of the trade payables balance as at 31 December 2010 was subsequently settled.

The aging analysis of trade payables based on the invoice date was as follows:

	As at 31 December	
	2009	**2010**
	HK$	*HK$*
0–30 days	1,853,948	1,594,482
31–60 days	621,110	251,823
61–90 days	571,836	97,367
Over 90 days	2,914,277	142,387
Total	5,961,171	2,086,059

The Group's accruals and other payables increased by HK$1,735,683, or approximately 45.3% from HK$3,828,869 as at 31 December 2009 to HK$5,564,552 as at 31 December 2010 which was mainly attributable to the increase in other taxes payable of HK$1,052,804, income in deferred revenue of HK$526,327 and the increase in accrued staff cost of HK$630,845, offset by the decrease in professional fees payables of HK$464,000 as at 31 December 2010. Up to the Latest Practicable Date, the other taxes payables were settled in full.

The Group operates a loyalty programme where customers accumulate points to exchange a free night staying in the hotels operated by the Group. As at 31 December 2009 and 2010, the deferred revenue resulting from the customer loyalty programme amounted to nil and HK$266,596 respectively.

Liquidity and financial resources

The Group has been funding its operations principally through cash generated from its operations and contribution from the Directors. Its cash requirements relate primarily to operating activities, and hotel investment and development.

The Group had cash and cash equivalents of HK$212,110 as at 31 December 2009 and HK$263,590 as at 31 December 2010.

The Group had no bank loan as at 31 December 2010. On 7 March 2011, the Group was granted a credit line of RMB10,000,000. As at the Latest Practicable Date, no fund was drawn from such credit line.

Cash Flows

The following table presents selected cash flow data from the Group's consolidated cash flow statements for the years indicated.

	Year ended 31 December	
	2009	**2010**
	HK$	*HK$*
Net cash generated from operating activities	7,580,732	15,055,682
Net cash used in investing activities	(564,433)	(171,645)
Net cash used in financing activities	(6,889,056)	(14,838,859)
Net increase in cash and cash equivalents	127,243	45,178

Operating activities

Net cash generated from operating activities for the year ended 31 December 2010 was HK$15,055,682, an increase of approximately 98.6%, from HK$7,580,732 for the year ended 31 December 2009. The increase was mainly attributable to the combined effect of (i) the significant improvement in the operating results of the Group for the year ended 31 December 2010; offset by (ii) an increase in trade debtors as a result of entering into the provision of hotel consultancy services and the amount due from the respective customers amounted to HK$1,339,708 as at 31 December 2010 and the prepayment of professional fees of HK$2,625,518 for the preparation of the Listing in the year 2010; (iii) an increase in an amount due to a Director of HK$1,338,013; and (iv) a decrease in trade and other payables of HK$2,448,806 due to the proactive settlement of operating lease expenses by the Group and a rental waiver granted by the landlord of Welcome Inn Nanshan for the year ended 31 December 2010.

Investing activities

Net cash used in investing activities was HK$171,645 for the year ended 31 December 2010 and HK$564,433 for the year ended 31 December 2009, which was attributable to the decrease of HK$392,739 in the addition of property, plant and equipment.

Financing activities

Net cash used in financing activities increased by HK$7,949,803 from HK$6,889,056 for the year ended 31 December 2009 to HK$14,838,859 for the year ended 31 December 2010. The increase in net cash used in financing activities was attributable to the increase in repayment of an amount due to a Director of HK$5,549,803 and the consideration paid for acquiring the equity interest in Moon Ko from a non-controlling shareholder of HK$2,400,000.

Working Capital

The Directors believe that after taking into account the financial resources available to the Group, including the available banking facilities, internally generated funds and the estimated net proceeds from the Placing, there will be sufficient working capital for the Group's present working capital requirements for at least the next 12 months from the date of this prospectus.

Capital expenditures

The Group incurred capital expenditure in relation to the addition of property, plant and equipment of HK$171,694 for the year ended 31 December 2010 and HK$564,433 for the year ended 31 December 2009.

The Directors intend to incur HK$13 million capital expenditures for the year ending 31 December 2011 of which (i) HK$1 million towards capital expenditure on the renovation of a new management office; and (ii) approximately HK$11 million towards capital expenditure on the decoration and leasehold improvement for Fujian Hotel.

Commitments

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

	As at 31 December	
	2009	**2010**
	HK$	*HK$*
No later than 1 year	8,169,460	8,595,814
Later than 1 year and no later than 5 years	33,799,945	30,484,373
Over 5 years	10,137,956	5,569,014
	52,107,361	44,649,201

Distributable Reserves

The Company was incorporated on 23 February 2011. As at 31 December 2010, there were no reserves available for distribution to the Group's equity holders.

Dividend and Dividend Policy

The Group did not declare nor pay any dividends to shareholders of the Group during the Track Record Period.

The payment and the amount of any dividends, if paid, will depend on the results of operations, cash flows, financial condition, statutory and regulatory restrictions on the payment of dividends by the Group, future prospects and other factors that the Directors may consider relevant. Holders of the Shares will be entitled to receive such dividends pro rata according to the amounts paid up or credited as paid up on the Shares. The declaration of payment and amount of dividends will be subject to the Directors' discretion.

Dividends may be paid only out of the Group's distributable profits as permitted under the relevant laws. To the extent profits are distributed as dividends, such portion of profits will not be able to be reinvested in the Group's operations. There can be no assurance that the Directors will be able to declare or distribute any dividend in the amount set out in any plan of the Board or at all. The dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by the Group in the future.

Property interest and property valuation

Norton Appraisals Limited, an independent property valuer, has valued the Group's property interest as at 31 December 2010 and is of the opinion that the value of the Group's property interests is of no commercial value. The full text of the letter, summary of values and valuation certificates with regard to such property interests are set out in Appendix III to this prospectus.

Indebtedness

Contingent liabilities

The Group did not have any outstanding loan capital issued and outstanding or agreed to be issued term loans, bank overdrafts, other borrowing or other similar indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance leases or hire purchase commitments, guarantees or other material contingent liabilities as at the Latest Practicable Date.

The Directors confirm that, up to the Latest Practicable Date, there have been no material changes in the Group's indebtedness, capital commitments and contingent liabilities of the Group from 30 April 2011.

Disclosure under Chapter 17 of the GEM Listing Rules

The Directors have confirmed that there were no circumstances which would give rise to a disclosure under Rules 17.15 to 17.21 of the GEM Listing Rules as at the Latest Practicable Date.

Unaudited pro forma adjusted net tangible assets

The following is an illustrative unaudited pro forma statement of adjusted net tangible assets of the Group prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Placing on the net tangible assets of the Group attributable to the equity holders of the Company as at 31 December 2010 as if the Placing had taken place on 31 December 2010.

This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the combined net tangible assets of the Group as at 31 December 2010 or at any future dates following the Placing.

	Unadjusted audited combined net tangible assets of the Group attributable to the equity holders of the Company as at 31 December 2010	**Estimated net proceeds from the Placing**	**Unaudited pro forma adjusted net tangible assets of the Group attributable to the equity holders of the Company**	**Unaudited pro forma adjusted net tangible assets per share**
	HK$	*HK$*	*HK$*	*HK$*
Based on an Placing Price of HK$0.8 per Placing Share	15,285,116	18,637,690	33,922,806	0.19
Based on an Placing Price of HK$1.2 per Placing Share	15,285,116	36,187,690	51,472,806	0.29

Notes:

(1) The unadjusted audited combined net tangible assets attributable to the equity holders of the Company as at 31 December 2010 is extracted from the Accountant's Report set out in Appendix I to this prospectus, which is based on the audited combined net assets of the Group attributable to the equity holders of the Company of HK$15,285,116.

(2) The estimated net proceeds from the Placing are based on the indicative Placing Prices of HK$0.8 and HK$1.2 per Placing Share respectively after deduction of estimated Placing commission and other related fees and expenses.

(3) The unaudited pro forma net tangible assets per Share is arrived at after the adjustments referred to in Note 2 above and on the basis that 180,000,000 Shares to be in issue immediately upon the completion of the Placing but takes no account of any Shares which may be issued upon the exercise of the options which may be granted under the Share Option Scheme.

(4) No adjustment has been made to reflect any trading result or other transaction of the Group entered into subsequent to 31 December 2010.

Quantitative and qualitative information about market risks

Liquidity risk

To manage the liquidity risk, management monitors rolling forecasts of cash and cash equivalents on the basis of expected cash flow. The Group expects to fund its future cash flow needs through internally generated cash flows from operations, bank financing and equity funding.

Credit risk

The Group's credit risk is primarily attributable to cash and cash equivalents, trade debtors and deposits. Management has policies in place and exposures to these credit risks are monitored on an ongoing basis. The Group has no concentration of credit risk in view of its large number of customers. The Group has policies in place to ensure that sale on provision of hotel accommodation services to corporate customers are made to customers with appropriate credit history. Sales to customers without contractual arrangements are made via credit cards and cash. Further, the Group carries out customer credit checks prior to entering into hotel consultancy agreements and requests progress payments from customers in accordance with the milestones of the hotel consultancy agreements. Cash and bank deposits are mainly placed in major domestic banks with credit ratings between Ba2 and A1. Rental deposits are paid to four domestic private entities who are currently leasing the hotel premises to the Group.

Foreign exchange risk

The Group operates mainly in the PRC and majority of its transactions, assets and liabilities are denominated in RMB. The Directors consider the foreign exchange risk is minimal.

Subsequent to the Placing, a depreciation of RMB would adversely affect the value of any dividends the Group pays to the offshore shareholders. The Group currently does not plan to enter into any hedging arrangements, such as forward exchange contracts and foreign currency option contracts, to reduce the effect of the Group's foreign currency exchange risk exposure. In the event that the Group decides to enter into any such hedging activities in the future, the Group cannot assure you that the Group would be able to effectively manage the Group's foreign currency exchange risk exposure.

Please refer to the sub-section headed "Strategies and business objectives" in the section headed "Business" of this prospectus for a detailed description of the Group's business objectives and strategies.

IMPLEMENTATION PLAN

Investors should note that the implementation plan is drawn up based on the current economic status and the assumptions as set out in the paragraph headed "Bases and assumptions" below which are inherently subject to uncertainties and unpredictable factors, in particular the risk factors as set out under the section headed "Risk factors" of this prospectus. Therefore, there is no assurance that the Group's business will materialise in accordance with the estimated time frame and that the Group's future plans will be accomplished at all.

For the period from the Latest Practicable Date to 31 December 2011

Continue to expand the Group's leased-and-operated hotel portfolio with focus on the Southern PRC	Continue to expand the hotel consultancy business	Expand the business by offering hotel management services	Continue to enhance the awareness of the brand name
Identifying location for Heyuan Hotel	Entering into four hotel consultancy agreements	Entering into two hotel management agreements	Promoting the membership programme
Refurbishing Fujian Hotel	Recruiting a designer and a technical staff for the provision of hotel consultancy services	Opening a management office	Improving design quality
Recruiting a development director to oversee the Group's hotel development	Participating in tradeshows, exhibitions and special public relation activities to identify potential hotel investors		
Recruiting an operation director to oversee day-to-day hotel operation, staff recruitment, training and team building			

For the period from 1 January 2012 to 30 June 2012

Continue to expand the Group's leased-and-operated hotel portfolio with focus on the Southern PRC	Continue to expand the hotel consultancy business	Expand the business by offering hotel management services	Continue to enhance the awareness of the brand name
Commencing conversion of the Heyuan Hotel	Entering into two hotel consultancy agreements	Entering into two hotel management agreements	Launching marketing campaign
Commencing operation of the Fujian Hotel	Participating in tradeshows, exhibitions and special public relation activities to identify potential hotel investors		Upgrading the internet booking system and the front desk booking system
			Promoting the membership programme
			Improving design quality

For the period from 1 July 2012 to 31 December 2012

Continue to expand the Group's leased-and-operated hotel portfolio with focus on the Southern PRC	Continue to expand the hotel consultancy business	Expand the business by offering hotel management services	Continue to enhance the awareness of the brand name
Commencing operation of Heyuan Hotel	Entering into two hotel consultancy agreements	—	Launching marketing campaign
	Participating in tradeshows, exhibitions and special public relation activities to identify potential hotel investors		Upgrading the internet booking system and the front desk booking system
			Promoting the membership programme
			Improving design quality

For the period from 1 January 2013 to 30 June 2013

Continue to expand the Group's leased-and-operated hotel portfolio with focus on the Southern PRC	Continue to expand the hotel consultancy business	Expand the business by offering hotel management services	Continue to enhance the awareness of the brand name
—	Entering into two hotel consultancy agreements Participating in tradeshows, exhibitions and special public relation activities to identify potential hotel investors	Entering into two management hotel agreements	Launching marketing campaign Promoting the membership programme Improving design quality

For the period from 1 July 2013 to 31 December 2013

Continue to expand the Group's leased-and-operated hotel portfolio with focus on the Southern PRC	Continue to expand the hotel consultancy business	Expand the business by offering hotel management services	Continue to enhance the awareness of the brand name
—	Entering into two hotel consultancy agreements Participating in tradeshows, exhibitions and special public relation activities to identify potential hotel investors	—	Launching marketing campaign Promoting the membership programme Improving design quality

BASES AND ASSUMPTIONS

The business objectives set out by the Directors are based on the following bases and assumptions:

(i) there will be no material changes in the existing political, legal, fiscal, market or economic conditions in the PRC, Hong Kong or any other countries or territories in which the Group currently operates or which are otherwise material to the Group's business;

(ii) there will be no changes in legislation, regulations or rules in the PRC, Hong Kong or any other countries or territories in which the Group operates or with which the Group has arrangements or agreements, which may materially and adversely affect the Group's business or operations;

(iii) there will be no material changes in the landscape of the industries in which the Company and the Group operate in and the conditions of the markets in which the Company and the Group provide its services;

(iv) there will be no material delay to the operation plans of the Company and the Group as set out in this prospectus;

(v) operating activities of the Company and the Group will not be adversely affected by critical shortage in labour and disputes, or any other factors outside the control of its management such as government act;

(vi) there will be no material changes in inflation rates, interest rates, or foreign exchange rates from those currently prevailing in the context of the Group's operations;

(vii) there will be no material changes in the taxation system and relevant tax bases or tax rates or duties applied to the Company and the Group in the PRC, Hong Kong or any of the countries or territories in which the Company and the Group operate;

(viii) there will be no change in the effectiveness of the licences and permits obtained by the Group;

(ix) the operations of the Company and the Group will not be materially affected or interrupted by any force majeure events or unforeseeable factors or any unforeseeable reasons that are beyond the control of the Directors;

(x) it is assumed that the forecasts have been prepared taking into account of the Directors' and key senior management's continued involvement in the operations of the Group. In addition, it is assumed that the Group will be able to retain its key management and personnel during the period covered by the forecasts; and

(xi) the Group will not be materially and adversely affected by the risk factors as set out under the section headed "Risk factors" of this prospectus.

PROPOSED USE OF NET PROCEEDS FROM THE PLACING

On the basis that the Placing Price ranges from HK$0.8 to HK$1.2, the Directors estimate that the net proceeds payable to the Group from the Placing (after deducting placing commission and estimated expenses payable by the Group in connection with the Placing) will range from approximately HK$18.6 million to HK$36.2 million. On the basis that the Placing Price is HK$1.0 (being the mid-point of the indicative range of the Placing Price), the Directors intend that the net proceeds payable to the Group from the Placing will be applied for the period from the Latest Practicable Date to 31 December 2012 as follows:

	From the Latest Practicable Date to 31 December 2011	**For the six months ending 30 June 2012**	**31 December 2012**	**Total**
	(HK$ thousand)	*(HK$ thousand)*	*(HK$ thousand)*	*(HK$ thousand)*
Continue to expand the Group's leased-and-operated hotel portfolio with focus on the Southern PRC				
Capital expenditures and expenses on Fujian Hotel	11,050	1,542	1,542	14,134
Capital expenditures and expenses on Heyuan Hotel	—	10,360	1,602	11,962
Continue to expand the hotel consultancy business				
Expenses on participating in tradeshows, exhibitions and special public relation activities	—	30	30	60
Expand the business by offering hotel management services				
Capital expenditures and expenses on a new management office	1,000	—	—	1,000
Continue to enhance the awareness of the brand names				
Capital expenditures on internet booking system and front desk booking system upgrade	—	90	90	180
Marketing and advertising expenses	—	30	30	60
Total	**12,050**	**12,052**	**3,294**	**27,396**

The expenses in relation to the Group's future plan to recruit a development director and an operation director of approximately RMB1.2 million from the Latest Practicable Date to 31 December 2013 will be funded by internal resources. The Company will employ a designer and a design technical staff for the expansion of the hotel consultancy business whose salaries of approximately RMB0.3 million from the Latest Practicable Date to 31 December 2013 will be funded by internal resources. No proceeds from the Placing is expected to be applied to the implementation of the Group's business plans from 1 January 2013 to 31 December 2013. The expected expenses for launching marketing campaign, promoting the membership programme and improving design quality for the year ending 31 December 2013 is approximately HK$1 million which will be financed by the Group's internally generated cashflows and other financing.

If the Placing Price is finally determined to be less than HK$1.0 (being the mid-point of the indicative range of the Placing Price), the Group will reduce the proposed use of net proceeds on a pro rata basis. If the Placing Price is finally determined to be more than HK$1.0, the Group will increase the above proposed usage on a pro rata basis. The Group will finance such shortfall by internal cash resources and/or other financing, as and when appropriate. To the extent that the net proceeds of the Placing are not immediately applied to the above purposes, it is the Directors' present intention that such net proceeds will be deposited into interest-bearing bank accounts with licensed banks and/or financial institutions in Hong Kong. The same will be disclosed in the relevant annual report.

The Directors consider that the net proceeds from the Placing together with the Group's internal resources will be sufficient to finance the implementation of the Group's business plans as set forth in the paragraphs under "Implementation plan" in this section. Investors should be aware that any part of the Group's business plans may not proceed according to the time frame as described under the above due to various factors. Under such circumstances, the Directors will evaluate carefully the situations and will hold the funds as short-term deposits until the relevant business plan materialises.

SOLE BOOKRUNNER

SBI E2-Capital (HK) Limited

PLACING AGENTS

Joint Lead Managers

Quam Securities Company Limited

SBI E2-Capital (HK) Limited

Co-lead Manager

SBI E2-Capital Financial Services Limited

PLACING ARRANGEMENTS AND EXPENSES

The Placing Agreement

Pursuant to the Placing Agreement, the Company is offering the Placing Shares at the Placing Price for placing to professional, institutional or other investors. Subject to, among other matters, the Stock Exchange granting the listing of, and permission to deal in the Shares in issue or to be issued as mentioned in this prospectus including the exercise of any option which may be granted under the Share Option Scheme, and to the satisfaction of certain other conditions set out in Placing Agreement, the Placing Agents have agreed, on a best efforts basis, to procure subscribers for the Placing Shares, subject to the terms and conditions of the Placing Agreement.

Grounds for termination

The obligations of the Placing Agents to procure subscribers for the Placing Shares may be terminated under the Placing Agreement upon the occurrence of any of the following events by notice in writing to the Company given by either of the Joint Lead Managers (for themselves and on behalf of the Co-lead Manager) at any time prior to 8:00 a.m. on the Listing Date (the "**Termination Time**"), if any of the following events shall occur prior to the Termination Time:

(A) there comes to the notice of the Sponsor, any of the Joint Lead Managers or the Co-lead Manager:

(1) any matter or event showing any of the representations, warranties, or undertakings (the "**Warranties**") given by the Company, Mr. Fong and/or Mr. Wong (the "**Warrantors**") in the Placing Agreement to be untrue, inaccurate or misleading in any material respect when given or repeated or there has been a breach of any of the Warranties or any other provisions of the Placing Agreement by any party thereto other than the Sponsor, the Joint

Lead Managers and the Co-lead Manager which, in any such cases, is considered, in the reasonable opinion of any Joint Lead Manager, to be material in the context of the Placing; or

(2) any statement contained in this prospectus, the formal notice issued by the Company in respect of the Placing, any submission, document or information provided to the Sponsor, any of the Joint Lead Managers and/or the Co-lead Manager, any announcement or document issued by the Company in connection with the Placing (including any supplement or amendment thereto) (the "**Relevant Documents**") has become or been discovered to be untrue, incorrect, or misleading in any material respect; or

(3) any event, series of events, matters or circumstances occurs or arises on or after the date of the Placing Agreement and before the Termination Time, being events, matters or circumstances which, if it had occurred before the date of the Placing Agreement, would have rendered any of the Warranties untrue, incorrect, or misleading in any material respect, and which is considered, in the reasonable opinion of any Joint Lead Manager, to be material in the context of the Placing; or

(4) any matter which, had it arisen or been discovered immediately before the date of this prospectus and not having been disclosed in this prospectus, would have constituted, in the reasonable opinion of any Joint Lead Manager, a material omission in the context of the Placing; or

(5) any event, act or omission which gives or is likely to give rise to any liability of the Warrantors arising out of or in connection with the breach of any of the Warranties; or

(6) any breach by any party to the Placing Agreement other than the Sponsor, the Joint Lead Managers and the Co-lead Manager of any provision of the Placing Agreement which, in the reasonable opinion of any Joint Lead Manager, is material; or

(7) approval by the Stock Exchange of the listing of, and permission to deal in, the Shares is refused or not granted before the Listing Date, other than subject to customary conditions, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or

(8) the Company withdraws any of the Relevant Documents (and/or any other documents used in connection with the contemplated subscription of the Placing Shares); or

(9) any person (other than the Sponsor, the Joint Lead Managers and the Co-lead Manager) has withdrawn or sought to withdraw its consent to the issue of any of the Relevant Documents with the inclusion of its reports, letters,

summaries of valuations and/or legal opinions (as the case may be) and references to its name in the form and context in which it respectively appears; or

(B) there shall have developed, occurred, existed or come into effect any event or series of events, matter or circumstances whether occurring or continuing before, on and/or after the date of the Placing Agreement and including an event or change in relation to or a development of an existing state of affairs concerning or relating to any of the following:

(1) any new law or regulation or any change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority in the Cayman Islands, BVI, Hong Kong, the PRC or any of the jurisdictions in which the Group operates or has or is deemed by any applicable law to have a presence (by whatever name called) or any other jurisdiction relevant to the business of the Group which is material to the conditions, business affairs, profits, losses or the financial or trading position of any member of the Group or otherwise material in the context of the Placing; or

(2) any change in, or any event or series of events or development resulting or likely to result in any change in local, regional or international financial, currency, political, military, industrial, economic, stock market or other market conditions or prospects; or

(3) any change in the conditions of Hong Kong, the PRC, the US or international equity securities or other financial markets; or

(4) the imposition of any moratorium, suspension or restriction on trading in securities generally on any of the markets operated by the Stock Exchange due to exceptional financial circumstances or otherwise; or

(5) any change or development involving a prospective change in all forms of taxation or exchange control (or the implementation of any exchange control) in the Cayman Islands, BVI, Hong Kong, the PRC or any of the jurisdictions in which the Group operates or has or is deemed by any applicable law to have a presence (by whatever name called) or other jurisdiction relevant to the business of the Group; or

(6) the imposition of economic sanction or withdrawal of trading privileges, in whatever form, by the US, the European Union (or any member thereof) or any of the jurisdictions in which the Group conducts business on Hong Kong or any of the jurisdictions in which the Group operates or has or is deemed by any applicable law to have a presence (by whatever name called) or other jurisdiction relevant to the business of the Group which is material to the conditions, business affairs, profits, losses or the financial or trading position of any member of the Group or otherwise material in the context of the Placing; or

(7) a general moratorium on commercial banking activities in Hong Kong or the PRC declared by the relevant authorities; or

(8) any event of force majeure including, without limiting the generality thereof, any act of God, military action, riot, public disorder, civil commotion, fire, flood, tsunami, explosion, epidemic, terrorism, strike, or lock-out,

which, in the reasonable opinion of the Joint Lead Managers (for themselves and on behalf of the Co-lead Manger):

(a) is or will be or is likely to be, adverse, in any material respect, to the business, financial or other conditions or prospects of the Group taken as a whole; or

(b) has or will have or is likely to have a material adverse effect on the success of the Placing or the level of the Placing Shares being applied for or accepted, the distribution of the Placing Shares or the demand or the market price of the Shares following the Listing; or

(c) for any other reason makes it inappropriate, impracticable, inadvisable, or inexpedient for the Joint Lead Managers (for themselves and on behalf of the Co-lead Manager) to proceed with or market the Placing or the delivery of the Placing Shares on the terms and in the manner contemplated by any of this prospectus and the placing letters in respect of the Placing.

For the above purpose:

(a) a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the US or a devaluation of the RMB against any foreign currencies shall be taken as an event resulting in a change in currency conditions; and

(b) any normal fluctuations in Hong Kong, the PRC, the US or international equity securities or other financial markets shall not be construed as events or series of events affecting market conditions referred to above.

UNDERTAKINGS PURSUANT TO THE PLACING AGREEMENT

Pursuant to the Placing Agreement, Mr. Fong has undertaken to and covenanted with the Company, the Sponsor, the Joint Lead Managers and the Co-lead Manager that he shall not and shall procure that the relevant registered holder(s) shall not:

(a) save as provided in Rule 13.18 of the GEM Listing Rules, in the period commencing on the date of this prospectus and ending on the date which is six months from the Listing Date (the "**First Six-Month Period**"), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which he is shown by this prospectus to be the beneficial owner (the "**Relevant Securities**"); and

(b) save as provided in Rule 13.18 of the GEM Listing Rules, during the six-month period commencing on the expiry date of the First Six-Months Period, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Relevant Securities if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he would cease to be the Controlling Shareholder of the Company.

Pursuant to the Placing Agreement, Mr. Fong has also undertaken to and covenanted with the Company, the Sponsor, the Joint Lead Managers and the Co-lead Manager that during the period specified in paragraphs (a) and (b) above:

(a) in the event of any such sale, transfer, or disposal of the Relevant Securities or any such interest referred to in paragraphs (a) and (b) above, all reasonable steps shall be taken to ensure that such sale, transfer or disposal shall be effected in such a manner so as not to create a disorderly or false market for the Shares.

(b) if and when he or the registered owner pledges or charges any direct or indirect interest in the Relevant Securities under Rule 13.18(1) of the GEM Listing Rules or pursuant to any right or waiver granted by the Stock Exchange pursuant to Rule 13.18(4) of the GEM Listing Rules, he must immediately inform the Company, the Sponsor and the Joint Lead Managers (for themselves and on behalf of the Co-lead Manager) in writing of such pledge and charge, the number of the Relevant Securities so being pledged or charged and other details as required by Rule 17.43(1) to (4) of the GEM Listing Rules; and

(c) having pledged or charged any interest in the Relevant Securities, if and when he becomes aware that any pledgee or chargee thereof has disposed of or intends to dispose of such interest in the Relevant Securities, immediately inform the Company, the Sponsor and the Joint Lead Managers (for themselves and on behalf of the Co-lead Manager) in writing of such disposal or such intention of disposal and the number of the Relevant Securities affected.

Pursuant to the Placing Agreement, the Company has irrevocably and unconditionally undertaken to and covenanted with the Sponsor, the Joint Lead Managers and the Co-lead Manager, and each of Mr. Fong and Mr. Wong has irrevocably and unconditionally, and jointly and severally, undertaken to and covenanted with the Sponsor, the Joint Lead Managers and the Co-lead Manager to procure that, save with the prior written consent of the Joint Lead Managers (for themselves and on behalf of the Co-lead Manager), or save pursuant to the Placing, the grant of any option under the Share Option Scheme or the exercise of any option which may be granted under the Share Option Scheme or any capitalisation issue, capital reduction or consolidation or sub-division of Shares, neither the Company nor any of its subsidiaries from time to time shall:

(a) allot and issue or agree to allot and issue any share or securities in the Company or any of its subsidiaries from time to time or grant or agree to grant any option, warrant or other right carrying the right to subscribe for or otherwise acquire any share or securities of the Company or any of its subsidiaries from time to time during the First Six-Month Period;

(b) issue any share or securities in the Company or grant or agree to grant any option, warrant or other right carrying the right to subscribe for or otherwise convert into or exchange for shares or securities in the Company or enter into any swap, derivative or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any such shares or securities during the six-month period commencing on the expiry date of the First Six-Month Period so as to result in Mr. Fong ceasing to be the Controlling Shareholder of the Company or the Company ceasing to hold a controlling interest of 30% or more in any major subsidiary (which shall have the same meaning as in Rule 17.27(2) of the GEM Listing Rules) of the Group;

(c) during the First Six-Month Period purchase any share or securities of the Company; or

(d) offer to or agree to do any of the foregoing or announce any intention to do so.

COMMISSION AND EXPENSES

The Joint Lead Managers will receive a placing commission of 2.5% of all the Placing Shares successfully placed by them, out of which they will, in accordance with the terms of the Placing Agreement, pay any sub-placing commission. The Sponsor will also receive a sponsor fee for acting as sponsor of the Placing. The aggregate fees, together with the placing commission, listing fees, legal, and other professional fees, printing, translation, and other fees and expenses relating to the Placing, are estimated to be approximately HK$17.6 million (based on the Placing Price of HK$1.0 per Placing Share, being the mid-point of the indicative range of the Placing Price and assuming 45,000,000 Placing Shares are successfully placed) which will be payable by the Company.

INTEREST OF THE SPONSOR, THE JOINT LEAD MANAGERS AND THE CO-LEAD MANAGER

The Sponsor will receive a sponsor fee for acting as sponsor of the Placing. The Joint Lead Managers and the Co-lead Manager will or are expected to receive a placing commission. Particulars of these placing commission and expenses are set forth under the paragraph headed "Commission and expenses" above.

The Company has appointed Quam Capital as its compliance adviser pursuant to Rule 6A.19 of the GEM Listing Rules for the period commencing on the Listing Date and ending on the date on which the Company complies with Rule 18.03 of the GEM Listing Rules in respect of its financial results for the year ending 31 December 2013 and Quam Capital will receive a compliance adviser fee.

Save as disclosed above, none of the Sponsor, the Joint Lead Managers and the Co-lead Manager is interested legally or beneficially in shares of any members of the Group or has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase securities in any members of the Group nor any interest in the Placing.

The Sponsor satisfies the independence criteria applicable to sponsors set forth in Rule 6A.07 of the GEM Listing Rules.

PRICE PAYABLE ON SUBSCRIPTION

The Placing Price plus 1% brokerage fee, a 0.003% SFC transaction levy and a 0.005% Stock Exchange trading fee make up the total price payable in cash on subscription.

CONDITIONS OF THE PLACING

The Placing will be conditional upon, among others:

(i) the Listing Division granting the listing of, and permission to deal in, the Shares in issue and the Shares to be issued as described in this prospectus; and

(ii) the obligations of the Placing Agents under the Placing Agreement becoming unconditional (including the waiver of any condition(s) by the Joint Lead Managers (for themselves and on behalf of the Co-lead Manager) and not being terminated in accordance with the terms of that agreement or otherwise),

in each case, on or before the dates and times specified in the Placing Agreement and in any event not later than the date which is 30 days after the date of this prospectus.

If such conditions have not been fulfilled or waived prior to the times and dates specified in the Placing Agreement, the Placing will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Placing will be published by the Company on the GEM Website at www.hkgem.com and the Company's website at www.legendstrategy.com on the next Business Day following such lapse.

THE PLACING

45,000,000 Placing Shares are being offered pursuant to the Placing, representing in aggregate 25% of the enlarged issued share capital of the Company.

The Placing is managed by the Joint Lead Managers on a best-efforts basis and is not underwritten. Should the amount of gross proceeds raised under the Placing be less than HK$36 million (being 45 million Placing Shares times the lowest Placing Price of HK$0.8 per Placing Share) (or such amount as agreed between the Company and the Joint Lead Managers (for themselves and on behalf of the Co-lead Manager)) or the relevant total Placing Price is not received by the Joint Lead Managers at or before the Price Determination Time, the Placing will not proceed. The Co-lead Manager only participates in sub-placing arrangements under the lead management of the Joint Lead Managers. Pursuant to the Placing, it is expected that the Joint Lead Managers or selling agents nominated by them will conditionally place the Placing Shares at the Placing Price payable by the investors subscribing for the Placing Shares plus 1% brokerage, 0.003% SFC transaction levy and 0.005% Stock Exchange trading fee. The Placing Shares will be placed with selected professional, institutional or other investors. The Placing Shares may also be placed with individual investors in Hong Kong. Professional and institutional investors generally include brokers, dealers, high net worth individuals and companies (including fund managers) whose ordinary business involves dealings in shares and other securities and corporate entitles which regularly invest in shares and other securities.

BASIS OF ALLOCATION

Allocation of the Placing Shares to selected individual, professional and institutional investors will be based on a number of factors, including the level and timing of demand and whether or not it is expected that the relevant investors are likely to purchase further Shares or hold or sell their Shares after the Listing. Such allocation is intended to result in a distribution of the Placing Shares which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of the Company and the Shareholders as a whole. In particular, the Placing Shares will be allocated pursuant to Rule 11.23(8) of the GEM Listing Rules, that not more than 50% of the Shares in public hands at the time of Listing will be owned by the three largest public Shareholders. There will not be any preferential treatment in the allocation of the Placing Shares to any persons.

No allocations will be permitted to nominee companies unless the name of the ultimate beneficiary is disclosed, without the prior written consent of the Stock Exchange. Details of the Placing will be announced in accordance with Rules 10.12(4), 16.08 and 16.16 of the GEM Listing Rules.

PLACING PRICE

The Placing Price will not be more than HK$1.20 per Placing Share and expected to be not less than HK$0.80 per Placing Share. Investors, when subscribing for the Placing Shares, shall pay the Placing Price plus 1% brokerage, 0.005% Stock Exchange trading fee and 0.003% SFC transaction levy. Assuming the Placing Price of HK$1.20 or HK$0.80 per Placing Share (being the highest and lowest prices of the indicative Placing Price range respectively), investors shall pay HK$3,636.29 or HK$2,424.19 for every board lot of 3,000 Shares respectively. The Placing Price will be fixed by an agreement expected to be entered into between the Company and the Joint Lead Managers (for themselves and on behalf of the Co-lead Manager) on the Price Determination Time which is scheduled at or before 5:00 p.m. on 11 July 2011 or such later date as agreed between the Company and the Joint Lead Managers (for themselves and on behalf of the Co-lead Manager). If the Company and the Joint Lead Managers (for themselves and on behalf of the Co-lead Manager) are unable to reach an agreement on the Placing Price by the Price Determination Time, the Placing will not become unconditional and will lapse. Prospective investors of the Placing Shares should be aware that the Placing Price to be determined at or before the Price Determination Time may be, but is currently not expected to be, lower than the indicative range of the Placing Price stated in this prospectus.

If, the Joint Lead Managers (for themselves and on behalf of the Co-lead Manager), with the consent of the Company, consider it appropriate (for instance, if the level of interest is below of the indicative Placing Price range), the indicative Placing Price range may be reduced below that stated in this prospectus at any time prior to the Price Determination Time. In such a case, the Company shall, as soon as practicable following the decision to make such reduction, cause to be published on the GEM Website at www.hkgem.com and the Company's website at www.legendstrategy.com notice of the reduction of the indicative Placing Price range.

The level of indications of interests in the Placing and the basis of allocations of the Placing Shares will be announced on the GEM Website at www.hkgem.com and the Company's website at www.legendstrategy.com at or before 8:30 a.m., on 14 July 2011.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Listing Division grants the listing of, and permission to deal in, the Shares on GEM and the Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or on any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements have been made for the Shares to be admitted into CCASS.

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on GEM are expected to commence at 9:00 a.m. on 15 July 2011. Shares will be traded in board lots of 3,000 Shares each and are fully transferable.

The following is the text of a report received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to the directors of the Company and to the Sponsor pursuant to the requirements of Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong

30 June 2011

The Directors
Legend Strategy International Holdings Group Company Limited

Quam Capital Limited

Dear Sirs,

We report on the financial information of Legend Strategy International Holdings Group Company Limited (the "Company") and its subsidiaries (together, the "Group"), which comprises the combined statements of financial position as at 31 December 2009 and 2010, and the combined statements of comprehensive income, the combined statements of changes in equity and the combined statements of cash flows for each of the years ended 31 December 2009 and 2010 (the "Track Record Period"), and a summary of significant accounting policies and other explanatory information. This financial information has been prepared by the directors of the Company and is set out in Sections I to IV below for inclusion in Appendix I to the prospectus of the Company dated 30 June 2011 (the "Prospectus") in connection with the initial listing of shares of the Company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

The Company was incorporated in the Cayman Islands on 23 February 2011 as an exempted company with limited liability under the Companies Law Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands the ("Companies Law"). Pursuant to a group reorganisation as described in Note 1 of Section II headed "Reorganisation" below, which was completed on 24 June 2011, the Company became the holding company of the subsidiaries now comprising the Group (the "Reorganisation").

As at the date of this report, the Company has direct and indirect interests in the subsidiaries as set out in Note 1 of Section II below. All of these companies are private companies or, if incorporated or established outside Hong Kong, have substantially the same characteristics as a Hong Kong incorporated private company.

No audited financial statements have been prepared by the Company as it is newly incorporated and has not involved in any significant business transactions since its date of incorporation, other than the Reorganisation. The audited financial statements of the other companies now comprising the Group as at the date of this report for which there are statutory audit requirements have been prepared in accordance with the relevant accounting principles generally accepted in their place of incorporation. The details of the statutory auditors of these companies as set out in Note 1 of Section II below.

The directors of the Company have prepared the combined financial statements of the Company and its subsidiaries now comprising the Group for the Track Record Period, in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (the "Underlying Financial Statements"). We have audited the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing (the "HKSA") issued by the HKICPA pursuant to separate terms of engagement with the Company.

The directors of the Company are responsible for the preparation of the Underlying Financial Statements that gives a true and fair view in accordance with HKFRSs.

The financial information has been prepared based on the Underlying Financial Statements, with no adjustment made thereon, and on the basis set out in Note 2.1 of Section II below.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL INFORMATION

The directors of the Company are responsible for the preparation of the financial information that gives a true and fair view in accordance with the basis of presentation set out in Note 2.1 of Section II below and in accordance with HKFRSs, and for such internal control as the directors determine is necessary to enable the preparation of financial information that is free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANT'S RESPONSIBILITY

Our responsibility is to express an opinion on the financial information and to report our opinion to you. We carried out our procedures in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

OPINION

In our opinion, the financial information gives, for purposes of this report and presented on the basis set out in Note 2.1 of Section II below, a true and fair view of the combined state of affairs of the Group as at 31 December 2009 and 2010 and of the Group's combined results and cash flows for each of the Track Record Period then ended.

I. FINANCIAL INFORMATION OF THE GROUP

The following is the financial information of the Group prepared by the directors of the Company as at 31 December 2009 and 2010 and for each of the years ended 31 December 2009 and 2010, presented on the basis set out in Note 2.1 of Section II below:

COMBINED STATEMENTS OF COMPREHENSIVE INCOME

		Year ended 31 December	
		2009	**2010**
	Note	*HK$*	*HK$*
Revenue	5	19,545,963	37,317,933
Operating lease expenses		(8,420,635)	(7,492,727)
Depreciation of property, plant and equipment	12	(6,296,756)	(6,368,671)
Employee benefit expenses	7	(3,482,436)	(4,039,804)
Utilities		(1,330,644)	(1,429,882)
Other operating expenses	6	(3,322,780)	(4,380,740)
Operating (loss)/profit		(3,307,288)	13,606,109
Finance income		50,425	52,402
Finance cost		(128,476)	(135,844)
Finance cost — net	8	(78,051)	(83,442)
(Loss)/profit before income tax		(3,385,339)	13,522,667
Income tax expense	9	(91,480)	(3,973,136)
(Loss)/profit for the year		(3,476,819)	9,549,531
Other comprehensive income:			
Currency translation differences		97,079	548,765
Total comprehensive (loss)/income for the year		(3,379,740)	10,098,296
(Loss)/profit attributable to:			
Equity holders of the Company		(3,187,896)	9,185,202
Non-controlling interest		(288,923)	364,329
		(3,476,819)	9,549,531
Total comprehensive (loss)/income attributable to:			
Equity holders of the Company		(3,087,951)	9,680,370
Non-controlling interest		(291,789)	417,926
		(3,379,740)	10,098,296
Earnings per Share	11	N/A	N/A
Dividends		—	—

COMBINED STATEMENTS OF FINANCIAL POSITION

		As at 31 December	
		2009	**2010**
	Note	*HK$*	*HK$*
ASSETS			
Non-current assets			
Property, plant and equipment	12	29,552,774	24,212,636
Rental deposits	13	851,076	934,358
Prepaid operating lease	14	349,028	295,577
Deferred income tax assets	20	1,535,976	1,529,620
		32,288,854	26,972,191
Current assets			
Trade debtors, prepayments and deposits	13	372,176	4,362,218
Cash and cash equivalents	15	212,110	263,590
		584,286	4,625,808
Total assets		32,873,140	31,597,999
(DEFICIT)/EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Issued equity	16	10,000	10,000
Reserves	17	(14,567,729)	15,275,116
		(14,557,729)	15,285,116
Non-controlling interest		2,393,525	—
Total (deficit)/equity		(12,164,204)	15,285,116
LIABILITIES			
Non-current liability			
Provision for asset retirement	18	2,774,655	3,010,390
		2,774,655	3,010,390
Current liabilities			
Trade and other payables	19	9,790,040	7,650,611
Amount due to a director	25	32,171,180	1,338,103
Current income tax liabilities		301,469	4,313,779
		42,262,689	13,302,493
Total liabilities		45,037,344	16,312,883
Total equity and liabilities		32,873,140	31,597,999
Net current liabilities		(41,678,403)	(8,676,685)
Total assets less current liabilities		(9,389,549)	18,295,506

COMBINED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company				
	Issued equity	Reserves	Total	Non-controlling interest	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Balance at 1 January 2009	10,000	(11,479,778)	(11,469,778)	2,685,314	(8,784,464)
Loss for the year	—	(3,187,896)	(3,187,896)	(288,923)	(3,476,819)
Other comprehensive income:					
Currency translation differences	—	99,945	99,945	(2,866)	97,079
Total comprehensive loss for the year	—	(3,087,951)	(3,087,951)	(291,789)	(3,379,740)
Balance at 31 December 2009	10,000	(14,567,729)	(14,557,729)	2,393,525	(12,164,204)
Balance at 1 January 2010	10,000	(14,567,729)	(14,557,729)	2,393,525	(12,164,204)
Profit for the year	—	9,185,202	9,185,202	364,329	9,549,531
Other comprehensive income:					
Currency translation differences	—	495,168	495,168	53,597	548,765
Total comprehensive income for the year	—	9,680,370	9,680,370	417,926	10,098,296
Equity acquired from a non-controlling shareholder	—	(588,549)	(588,549)	(2,811,451)	(3,400,000)
Shareholder's contribution *(note 25(b))*	—	20,751,024	20,751,024	—	20,751,024
Balance at 31 December 2010	10,000	15,275,116	15,285,116	—	15,285,116

COMBINED STATEMENTS OF CASH FLOWS

		Year ended 31 December	
		2009	**2010**
	Note	*HK$*	*HK$*
Cash flows from operating activities			
Cash generated from operations	22	7,580,732	15,055,682
Income tax paid		—	—
Net cash generated from operating activities		7,580,732	15,055,682
Cash flows from investing activities			
Purchase of property, plant and equipment		(564,433)	(171,694)
Interest received		—	49
Net cash used in investing activities		(564,433)	(171,645)
Cash flows from financing activities			
Decrease in amount due to a director		(6,889,056)	(12,438,859)
Consideration paid for acquiring the equity of a subsidiary from a non-controlling shareholder		—	(2,400,000)
Net cash used in financing activities		(6,889,056)	(14,838,859)
Net increase in cash and cash equivalents		127,243	45,178
Cash and cash equivalents at beginning of the year		84,132	212,110
Exchange gains on cash and cash equivalents		735	6,302
Cash and cash equivalents at end of the year	15	212,110	263,590

II NOTES TO THE FINANCIAL INFORMATION

1 GENERAL INFORMATION AND REORGANISATION

1.1 General information

The Company was incorporated in the Cayman Islands on 23 February 2011 as an exempted company with limited liability under the Companies Law. The address of the Company's registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company is an investment holding company and its subsidiaries are principally engaged in the budget hotel operations and provision of hotel consultancy services in the People's Republic of China (the "PRC").

Upon Completion of the Reorganisation and as at the date of this report, the Company had direct and indirect interests in the following subsidiaries:

Name of company	Place of incorporation/ establishment	Date of incorporation/ establishment	Issued and fully paid share capital/registered capital	Attributable equity interest 2009/2010	Principal activities	Note
Legend Strategy International Limited ("Legend Strategy International")	British Virgin Islands ("BVI")	15 December 2010	1 ordinary share of US$1 each	100% (direct)	Investment holding	(iv)
Lai Ying International Limited ("Lai Ying")	Hong Kong	13 April 2007	10,000 ordinary shares of HK$1 each	100% (indirect)	Investment holding	(i)
Triple Leaf Limited ("Triple Leaf")	Hong Kong	15 March 2007	1,000 ordinary shares of HK$1 each	100% (indirect)	Investment holding	(i)
Legend Strategy Limited ("Legend Strategy")	Hong Kong	28 May 2007	10,000* ordinary shares of HK$1 each	100% (indirect)	Investment holding and provision of hotel consultancy services	(i)
Ablewise Trading Limited ("Ablewise")	BVI	20 September 2005	1 ordinary share of US$1	100% (indirect)	Dormant	(iv)
Moon Ko Development International Limited ("Moon Ko")	Hong Kong	1 March 2007	8,750,000 ordinary shares of HK$1 each	60%/100% (indirect)	Investment holding	(i), (iii)
Shenzhen Yuelai Inn Tourists Co., Ltd. 深圳悅來客棧旅業有限公司 ("Yuelai Inn Tourists")**	The PRC	11 December 2006	HK$8,000,000	100% (indirect)	Hotel operations	(ii)
Shenzhen Yingde Tourists Co., Ltd. 深圳盈的旅業有限公司 ("Yingde Tourists")**	The PRC	30 May 2008	HK$8,000,000	100% (indirect)	Hotel operations	(ii)
Shenzhen Modern Tourists Management Co., Ltd. 深圳摩登旅業管理有限公司 ("Modern Tourists")**	The PRC	25 April 2008	HK$1,000,000	100% (indirect)	Hotel operations and provision of hotel consultancy services	(ii)
Shenzhen Yuelai Inn Co., Ltd. 深圳悅來客棧有限公司 ("Yuelai Inn")**	The PRC	26 November 2008	HK$5,000,000	66%/100% (indirect)	Hotel operations	(ii), (iii)

* Subsequent to year ended 31 December 2010, Legend Strategy issued and allotted 9,990,000 ordinary shares of HK$1 each and the issued and fully paid share capital increased to HK$10,000,000.

** The English name of these subsidiaries represented the best effort by management of the Company in translating their Chinese names as they do not have official English names.

Notes:

(i) The statutory financial statements of these subsidiaries for each of the years ended 31 December 2009 and 2010 were prepared in accordance with HKFRSs and audited by PricewaterhouseCoopers.

(ii) The statutory financial statements of these subsidiaries for each of the years ended 31 December 2009 and 2010 were audited by 深圳西河會計師事務所 (Shenzhen Xihe Certified Public Accountants). All these audited financial statements were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises in the PRC. The English name of the auditor represented the best effort by management of the Company in translating its Chinese name as it does not have official English name.

(iii) On 22 December 2010, the Group acquired the remaining 40% equity interest in Moon Ko at a cash consideration of HK$3,400,000 from a non-controlling shareholder. The effective interest in Yuelai Inn, a subsidiary of Moon Ko, changed from 66% to 100% after the acquisition.

(iv) No audited financial statements have been prepared as these companies are incorporated in jurisdictions which do not have any statutory audit requirements.

1.2 Reorganisation

During the Track Record Period, the companies involved in the business of the Group are controlled by Mr. Fong Man ("Mr. Fong").

In preparation for the listing of the Company's shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, a reorganisation was carried out to transfer the ownership in aforementioned companies to the Company. The steps of the Reorganisation are summarised below:

a. On 22 December 2010, Mr. Fong transferred his 60% equity interest in Moon Ko to Legend Strategy at a consideration of HK$1.

b. On 24 March 2011, Mr. Fong transferred his 100% equity interest in Lai Ying to Legend Group International, a wholly owned subsidiary directly held by the Company. At the date of transfer, Lai Ying held 65% equity interest in Legend Strategy. In return, the Company issued and allotted 87,750,000 new shares of HK$0.01 each to Mr. Fong as consideration.

c. On 27 April 2011, each of the then shareholders of Triple Leaf transferred to Legend Group International its equity interest and shareholders' loan to Triple Leaf. At the date of transfer, Triple Leaf held 14% equity interest in Legend Strategy. In return, the Company issued and allotted a total of 18,900,000 new shares of HK$0.01 each to the then shareholders of Triple Leaf as consideration.

d. On 19 June 2011, each of the then shareholders of Legend Strategy other than Legend Group International transfer its equity interest which represented a totaling of 21% equity interest in Legend Strategy to Legend Group International. In return, the Company issued and allotted a total of 27,150,000 new shares of HK$0.01 each to these shareholders as consideration.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the combined financial statements of the Company and its subsidiaries (the "Financial Information") are set out below. These policies have been consistently applied during the Track Record Period, unless otherwise stated.

2.1 Basis of presentation

During the Track Record Period, all the companies now comprising the Group are controlled by Mr. Fong. For the purposes of this report, the Financial Information of the Group has been prepared on a basis in accordance with the principles of the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA. The combined statements of financial position, combined statements of comprehensive income, combined statements of cash flows and combined statements of changes in equity of the Group for the Track Record Period have been prepared using the financial information of the companies now comprising the Group for the Track Record Period as if the current group structure had been in existence throughout the Track Record Period, except that the financial information of those companies newly set up or acquired by the Group during the Track Record Period is included in the Financial Information from their respective dates of incorporation and acquisition, respectively.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated on combination.

2.2 Basis of preparation

The Financial Information set out in this report has been prepared in accordance with the HKFRSs under the historical cost convention.

The preparation of Financial Information in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information are disclosed in Note 4.

As at 31 December 2009 and 2010, the Group has net current liabilities of HK$41,678,000 and HK$8,677,000, respectively. Subsequent to 31 December 2010, shareholders of a Group's subsidiary have injected HK$9,990,000 as paid up capital to the Group. In addition, the directors believe that the Group will have sufficient cash resources to satisfy its future working capital and other financing requirements from its operating cash flows and available bank financing. Therefore, the directors consider that it is appropriate that the Financial Information is prepared on a going concern basis.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group.

The following new or revised standards, amendments and interpretations to existing standards have been published but are not yet effective and which the Group has not early adopted:

		Effective for accounting periods beginning on or after
HKAS 12 (Amendment)	Deferred tax: recovery of underlying assets	1 January 2012
HKAS 24 (Revised)	Related party disclosures	1 January 2011
HKAS 32 (Amendment)	Classification of right issues	1 February 2010
HKFRS 7 (Amendment)	Disclosure — transfer of financial assets	1 July 2011
HKFRS 9	Financial instruments	1 January 2013
HK(IFRIC) — Int 14	Prepayments of a minimum funding requirement	1 January 2011
HK(IFRIC) — Int 19	Extinguishing financial liabilities with equity instruments	1 July 2010
Improvements to HKFRS — Amendments to:		
HKAS 1	Presentation of financial statements	1 January 2011
HKAS 27	Consolidated and separate financial statements	1 July 2010
HKAS 34	Interim financial reporting	1 January 2011
HKFRS 1	First-time adoption of Hong Kong financial reporting standards	1 January 2011
HKFRS 3	Business combinations	1 July 2010
HKFRS 7	Financial instruments: disclosures	1 January 2011
HK(IFRIC) — Int 13	Customer loyalty programmes	1 January 2011

The Group will apply these new standards and new interpretations in the period of initial application. The Group is currently assessing the impact of the adoption of the above new and revised standards, amendments and interpretations to existing standards, but not yet in a position to state whether they would have a significant impact to the Group's results of operations and its financial position.

2.3 Consolidation

The combined financial statements include the financial statements of the Company and all its subsidiaries made up to the respective year end dates during the Track Record Period. Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Other than the Reorganisation described in Note 1.2, the acquisition method of accounting is used to account for business combination by the Group. The consideration for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity instruments issued. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. When a business combination achieved in stages, the acquirer should remeasure its previously held interest in the acquiree at its fair value at the date of whom control is obtained, recognising the fair value changes in profit or loss.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases of additional interest in subsidiaries from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals of partial interest in subsidiaries to non-controlling interests are also recorded in equity.

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (the "CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Group's executive directors who make strategic decisions.

2.5 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 functional currency of the Company is Renminbi ("RMB") while the Financial Information is presented in Hong Kong dollars ("HK$") for the convenience of the financial statements users.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign exchange gains and losses that relate to cash and cash equivalents, trade debtors, prepayments and deposits, trade and other payables and amount due to a director are presented in the combined statements of comprehensive income.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

Translation differences arising on translation of non-monetary assets and liabilities, such as financial assets at fair value through profit or loss, are reported as part of the fair value gain or loss in the combined statements of comprehensive income.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

— 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;

— income and expenses for each statement of comprehensive income 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 dates of the transactions); and

— all resulting exchange differences are recognised as a separate component of equity.

2.6 Property, plant and equipment

Property, plant and equipment are stated in the combined statements of financial position at cost less accumulated depreciation and impairment losses (see note 2.7). Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the carrying amount of an item of property, plant and equipment or recognised as a separate item of property, plant and equipment, 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. The carrying amount of the replaced part is derecognised. All other costs, such as repairs and maintenance and overhaul costs, are recognised in the combined statements of comprehensive income as an expense in the period in which they are incurred.

Depreciation on property, plant and equipment is calculated to write off the cost of items of property, plant and equipment using the straight line method to their residual values over their estimated useful lives as follows:

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

The property, plant and equipment's residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

The property, plant and equipment's carrying amount is written down immediately to its recoverable amount if the property, plant and equipment's carrying amount is greater than its estimated recoverable amount (see note 2.7).

2.7 Impairment of investment in subsidiaries and non-financial assets

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

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

2.8 Financial assets

The Group classifies its financial assets as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade debtors and deposits', 'rental deposit' and 'cash and cash equivalents' in the combined statements of financial position (see notes 2.10 and 2.11).

Loans and receivables are recognised initially at fair value and subsequently carried at amortised cost using the effective interest method, less provision for impairment.

2.9 Impairment of financial assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is an objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is an objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is an objective evidence of an impairment loss include:

— significant financial difficulty of the issuer or obligor;

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

— the Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;

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

— the disappearance of an active market for that financial asset because of financial difficulties; or

— observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

(a) adverse changes in the payment status of borrowers in the portfolio;

(b) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognised in profit or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

2.10 Trade debtors, prepayments and deposits

Trade debtors are amounts due from customers for services performed in the ordinary course of business. If collection of trade debtors is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade debtors, prepayments and deposits are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.11 Cash and cash equivalents

Cash and cash equivalents include cash on hand and deposits held at call with banks.

2.12 Issued equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

2.13 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables and amount due to a director are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.14 Current and deferred income tax

The tax expense for the year comprises current and deferred income tax. Income tax is recognised in the profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the income tax is recognised in other comprehensive income or directly in equity, respectively.

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

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

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

Deferred income tax is provided on temporary differences arising on interests in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

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

2.15 Employee benefits

(a) Pension obligations

Pursuant to the relevant local regulations in the PRC, the PRC subsidiaries of the Group participate in government defined contribution retirement benefit schemes and are required to contribute to the scheme to fund the retirement benefits of the eligible employees. Contributions made to the schemes are calculated based on certain percentages of the applicable payroll costs or fixed sums for each employee with reference to a salary scale, as stipulated under the requirements in the PRC. The Group has no further obligation beyond the required contributions. All contributions made to the schemes are not refundable or forfeitable. The contributions under the schemes are expensed in the combined statements of comprehensive income as incurred.

(b) Other employee benefits

Salaries, paid annual leave and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. The amount recognised as a liability and an expense should be measured at the cost of providing the benefits.

2.16 Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.17 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of services in the ordinary course of the Group's activities. Revenue is shown net of business tax and discounts.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below.

(a) Hotel operations

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

(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 in the proportion of time cost incurred at the end of the reporting period compared to the estimated total time 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 entity; (c) the stage of completion of the transaction at the balance sheet 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) 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.

(d) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables are recognised using the original effective interest rate.

2.18 Customer loyalty programmes

The Group operates a loyalty programme where customers accumulate points to exchange a free night 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 (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. 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.

2.19 Leases

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

2.20 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and Company's financial statements in the period in which the dividend is approved by the Company's shareholders.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: credit risk, liquidity risk, foreign exchange 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) Credit risk

The Group's credit risk is primarily attributable to cash and cash equivalents, trade debtors and deposits. Management has policies in place and exposures to these credit risks are monitored on an ongoing basis.

The Group has no concentration of credit risk in view of its large number of customers. It has policies in place to ensure that sales 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. Further, the Group carries out customer credit checks prior to entering into hotel consultancy agreements and requests progress payments from customers in accordance with the milestones of the hotel consultancy agreements. Cash and bank deposits are mainly placed in major domestic banks with credit ratings between Ba2 and A1. Rental deposits are paid to four domestic private entities who are currently leasing the hotel premises to the Group.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the combined statements of financial position.

(b) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents and the availability of funding through committed advances from shareholders. Management believes that liquidity risk has been mitigated as i) the Group generated operating cash inflow of HK$7,580,732 and HK$15,055,682 during the years ended 31 December 2009 and 2010, respectively. Management expects the Group will continue to generate operating cash inflow in the upcoming years; ii) subsequent to 31 December 2010, shareholders of a Group's subsidiary have injected HK$9,990,000 as paid-up capital and iii) the Group has entered into committed banking facilities of RMB10,000,000 to fund its operations subsequent to 31 December 2010.

To manage the liquidity risk, management monitors rolling forecasts of cash and cash equivalents on the basis of expected cash flow. The Group expects to fund its future cash flow needs through internally generated cash flows from operations and equity funding.

The following table details the remaining contractual maturities at the year end dates during the Track Record Period of the Group's non-derivative financial liabilities, which is based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the year end dates during the Track Record Period) and the earliest date the Group can be required to pay:

	Within 1 year or on demand	**Between 1 and 2 years**	**Between 2 and 5 years**	**More than 5 years**	**Total**
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
At 31 December 2009					
Trade and other payables	7,989,385	—	—	—	7,989,385
Amount due to a director	32,171,180	—	—	—	32,171,180
Total	40,160,565	—	—	—	40,160,565
At 31 December 2010					
Trade and other payables	3,670,675	—	—	—	3,670,675
Amount due to a director	1,338,103	—	—	—	1,338,103
Total	5,008,778	—	—	—	5,008,778

(c) Foreign exchange risk

The Group operates in the PRC and majority of its transactions, assets and liabilities are denominated in Renminbi. Management considers the foreign exchange risk is minimal.

(d) Interest rate risk

The Group has no significant interest-bearing assets and liabilities. The Group's income and operating cash flows are substantially independent of changes in market interest rates. Management considers the interest rate risk is minimal.

3.2 Capital risk management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders, to support the Group's stability and growth; to earn a margin commensurate with the level of business and market risks in the Group's operation and to maintain a net cash position.

The Group's management considers capital comprises issued capital and reserves. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

3.3 Fair value estimation

The carrying amounts of the Group's financial assets including cash and cash equivalents, trade receivables and deposits; and financial liabilities including trade and other payables and amount due to a director approximate their fair values due to their short maturities. The Group's non-current financial asset, rental deposits, is carried at amortised cost, using the The People's Bank of China's best lending rates and as such is considered to approximate its fair value.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Useful lives of property, plant and equipment

The Group has significant investments in property, plant and equipment. The Group is required to estimate the useful lives of property, plant and equipment in order to ascertain the amount of depreciation charges for each reporting period.

Useful lives are estimated at the time of purchase of these assets after considering business developments and the Group's strategies. The Group performs annual reviews to assess the appropriateness of the estimated useful lives. Such review takes into account any unexpected adverse changes in circumstances or events, including declines in projected operating results and negative industry or economic trends. The Group extends or shortens the useful lives and/or makes impairment provisions according to the results of the review.

(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 not be recoverable. The recoverable amounts have been determined based on fair value less costs to sell 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 to sell 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) Asset retirement obligations

The Group evaluates and recognises, on a regular basis, the fair value of the obligations which arise from future reinstatement of leased hotel premises upon end of lease terms. To establish the fair values 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. The discount rate used is referenced to the The People's Bank of China's best lending rates.

(d) Leasehold improvements on leased premises

The Group operates hotels on leased premises in the PRC and incurs construction or renovation expenditures for these hotels. A landlord named in the corresponding lease agreement have been unable to produce proper building ownership certificate or to provide valid lease permit or other necessary permissions. However, based on the Group's experience and available information and after consultation with the legal adviser, the Directors are of the view that such problem is unlikely to cause any interruption or termination of this lease or to have a material effect on the carrying amounts of the related leasehold improvements of HK$3,667,836 and HK$2,661,905 as at 31 December 2009 and 2010, respectively. Moreover, the controlling shareholder of the Company has agreed to keep the Group indemnified for any losses that the Group may suffer from any failure of the Group's subsidiary in obtaining licence or permit to use the related property. Accordingly, no impairment for such leasehold improvements is considered necessary to be made according to the Group's accounting policies.

(e) Income tax

The Group is subject to current income tax in Hong Kong and the PRC. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred income tax provision 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.

5 SEGMENT INFORMATION

The CODM has been identified collectively as the executive directors of the Company. The executive directors review the Group's internal reporting in order to assess performance and allocate resources. The CODM has determined the operating segments based on these reports.

Management regularly reviews the operating results from a service category perspective. The reportable operating segments derive their revenue primarily from the hotel operations and provision of hotel consultancy services. The sales of hotel membership cards are included in the hotel operating segment.

Management assesses the performance of the operating segments based on the measure of operating (loss)/profit.

The segment information provided to the CODM for the reportable segments for the years ended 31 December 2009 and 2010 is as follows:

	Hotel operations HK$	Provision of hotel consultancy services HK$	Total HK$
For the year ended 31 December 2009			
Segment revenue	19,545,963	—	19,545,963
Segment results	(3,307,288)	—	(3,307,288)
Depreciation of property, plant and equipment	(6,296,756)	—	(6,296,756)

	Hotel operations HK$	Provision of hotel consultancy services HK$	Total HK$
For the year ended 31 December 2010			
Segment revenue	27,685,447	9,632,486	37,317,933
Segment results	6,216,312	7,389,797	13,606,109
Depreciation of property, plant and equipment	6,215,217	153,454	6,368,671

A reconciliation of segment results to (loss)/profit before income tax is provided as follows:

	Year ended 31 December	
	2009 HK$	2010 HK$
Segment results	(3,307,288)	13,606,109
Finance income	50,425	52,402
Finance cost	(128,476)	(135,844)
(Loss)/profit before income tax	(3,385,339)	13,522,667

All revenue was derived from external customers in the PRC for the year ended 31 December 2009, 86% and 14% of the revenue were derived from external customers in the PRC and in Hong Kong, respectively for the year ended 31 December 2010. There was no revenue from transactions with external customers which accounted for 10% or more of the Group during the Track Record Period except for revenue of approximately HK$7,111,000 (2009: nil) is derived from a single external customer for the year ended 31 December 2010. The revenue is attributable to the provision of hotel consultancy services.

Most of the assets and liabilities of the Group are located in the PRC as at 31 December 2009 and 2010.

Breakdown of revenue from all activities is as follows:

	Year ended 31 December	
	2009	2010
	HK$	*HK$*
Sales from hotel operations — hotel room and conference room rental	19,387,214	27,323,721
Hotel consultancy services	—	9,632,486
Sales of hotel membership cards	158,749	361,726
	19,545,963	37,317,933

6 OTHER OPERATING EXPENSES

Other operating expenses consisted of the following:

	Year ended 31 December	
	2009	2010
	HK$	*HK$*
Auditor's remuneration	500,000	500,000
Property management fee	514,236	508,646
Consumables and laundries	932,637	1,329,871
Marketing and promotion	182,029	202,309
Telephone and communication	248,299	282,426
Repairs and maintenance	171,066	248,813
Office supplies	117,413	165,400
Sales commission	36,264	360,904
Others	620,836	782,371
	3,322,780	4,380,740

7 EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' EMOLUMENTS)

	Year ended 31 December	
	2009	2010
	HK$	*HK$*
Salaries, wages and allowances	2,449,048	2,828,846
Pension obligations	602,553	776,092
Other benefits	430,835	434,866
	3,482,436	4,039,804

8 FINANCE COST — NET

	Year ended 31 December	
	2009	2010
	HK$	*HK$*
Finance cost:		
— Finance cost on asset retirement obligations	(128,476)	(135,844)
Finance income:		
— Interest income on non-current rental deposits carried at amortised cost	50,425	52,353
— Bank interest income	—	49
Finance cost — net	(78,051)	(83,442)

9 INCOME TAX EXPENSE

	Year ended 31 December	
	2009	2010
	HK$	*HK$*
Current income tax		
— Hong Kong profits tax	—	794,439
— PRC corporate income tax	311,857	3,172,509
Deferred income tax *(Note 20)*	(220,377)	6,188
	91,480	3,973,136

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits for each of the years ended 31 December 2009 and 2010.

The PRC corporate income tax is provided at the rate of 25% for the years ended 31 December 2009 and 2010.

The income tax on the Group's (loss)/profit before income tax differs from the theoretical amount that would arise using the enacted tax rate of the home country of the companies comprising the Group as follows:

	Year ended 31 December	
	2009	2010
	HK$	*HK$*
(Loss)/profit before income tax	(3,385,339)	13,522,667
Tax calculated at domestic tax rates applicable to profits in the respective countries	(538,410)	3,265,736
Expenses not deductible for tax purposes	629,890	707,400
Income tax expense	91,480	3,973,136

The effective tax rate increased from -2.7% in 2009 to 29.4% in 2010 since certain subsidiaries of the Group had assessable profits for the year ended 31 December 2010 while some of these subsidiaries had assessable losses for the year ended 31 December 2009.

10 DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

(a) Directors' and senior executives' emoluments

The emoluments of the directors and senior executives during the Track Record Period are set out below:

	Fee	Salaries, allowances and benefits in kind	Bonuses	Retirement benefit contributions	Others	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
Year ended 31 December 2009						
Directors						
Fong Man, Kelvin	—	100,000	—	5,000	—	105,000
Wong William	—	100,000	—	5,000	—	105,000
	—	200,000	—	10,000	—	210,000
Senior executives						
He Anying	—	100,383	—	18,786	—	119,169
Li Yuzhen	—	96,695	—	17,660	—	114,355
Zhang Guoxing	—	74,260	—	14,631	—	88,891
	—	271,338	—	51,077	—	322,415
Year ended 31 December 2010						
Directors						
Fong Man, Kelvin	—	100,000	—	5,000	—	105,000
Wong William	—	100,000	—	5,000	—	105,000
	—	200,000	—	10,000	—	210,000
Senior executives						
He Anying	—	102,762	—	20,974	—	123,736
Li Yuzhen	—	130,080	—	24,799	—	154,879
Zhang Guoxing	—	82,609	—	18,153	—	100,762
	—	315,451	—	63,926	—	379,377

During the Track Record Period, no director received any emolument from the Group as an inducement to join or leave the Group or compensation for loss of office, no director waived or has agreed to waive any emoluments.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group during the Track Record Period include two directors and three senior executives. The emoluments of the two directors are reflected in the analysis presented above.

The three senior executives' emoluments fell within the following bands:

	Year ended 31 December	
	2009	**2010**
HK$Nil to HK$1,000,000	3	3

During the Track Record Period, the above senior executives did not receive any emolument from the Group as an inducement to join or leave the Group or compensation for loss of office.

11 EARNINGS PER SHARE

Earnings per share information is not presented as its inclusion, for the purpose of this Financial Information, is not considered meaningful due to the presentation of the results for the years ended 31 December 2009 and 2010 on a combined basis as disclosed in Note 2.1.

12 PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements	Furniture and fixtures	Office equipment	Total
	HK$	*HK$*	*HK$*	*HK$*
At 1 January 2009				
Cost	32,887,817	6,958,629	711,594	40,558,040
Accumulated depreciation	(3,794,565)	(1,675,864)	(73,463)	(5,543,892)
Net book amount	29,093,252	5,282,765	638,131	35,014,148
Year ended 31 December 2009				
Opening net book amount	29,093,252	5,282,765	638,131	35,014,148
Additions	239,082	236,988	88,363	564,433
Depreciation charge	(4,695,311)	(1,443,141)	(158,304)	(6,296,756)
Exchange differences	225,425	40,554	4,970	270,949
Closing net book amount	24,862,448	4,117,166	573,160	29,552,774
At 31 December 2009				
Cost	33,382,861	7,250,781	805,659	41,439,301
Accumulated depreciation	(8,520,413)	(3,133,615)	(232,499)	(11,886,527)
Net book amount	24,862,448	4,117,166	573,160	29,552,774
Year ended 31 December 2010				
Opening net book amount	24,862,448	4,117,166	573,160	29,552,774
Additions	111,346	27,571	32,777	171,694
Depreciation charge	(4,741,326)	(1,462,323)	(165,022)	(6,368,671)
Exchange differences	736,659	103,889	16,291	856,839
Closing net book amount	20,969,127	2,786,303	457,206	24,212,636
At 31 December 2010				
Cost	34,654,779	7,530,521	867,260	43,052,560
Accumulated depreciation	(13,685,652)	(4,744,218)	(410,054)	(18,839,924)
	20,969,127	2,786,303	457,206	24,212,636

13 TRADE DEBTORS, PREPAYMENTS AND DEPOSITS

	As at 31 December	
	2009	**2010**
	HK$	*HK$*
Trade debtors	254,442	1,664,690
Prepayments and deposits	968,810	3,631,886
	1,223,252	5,296,576
Less: non-current portion of deposits	(851,076)	(934,358)
Current portion	372,176	4,362,218

Prepayments and deposits are analysed as follows:

	As at 31 December	
	2009	**2010**
	HK$	*HK$*
Deposits		
Rental deposits	851,076	934,358
Prepayments		
Prepaid professional fee	—	2,625,518
Others	117,734	72,010
	117,734	2,697,528
Total prepayments and deposits	968,810	3,631,886

The carrying amounts of the Group's trade debtors, prepayments and deposits approximate their fair values.

The majority of the Group's sales are cash sales. Sales of rooms are also made to corporate customers with an appropriate credit history on credit terms of 30 days. Sales from hotel consultancy services are settled by instalments in accordance with the payment schedules specified in the agreements. As at 31 December 2009 and 2010, trade receivables of HK$193,468 and HK$153,761 were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The aging analysis of the trade debtors is as follow:

	As at 31 December	
	2009	**2010**
	HK$	*HK$*
Neither past due nor impaired	60,974	1,510,929
0–30 days past due	80,194	134,184
31–60 days past due	47,601	1,116
61–90 days past due	13,557	—
Over 90 days past due	52,116	18,461
Past due but not impaired	193,468	153,761
	254,442	1,664,690

The credit quality of trade debtors that are neither past due nor impaired can be assessed by reference to historical information about counterparty default rates. All debtors are existing customers (more than 6 months) with no defaults in the past.

Trade debtors that were past due but not impaired relate to customers that have a good track record with the Group or a sound credit quality. Based on past experience and regular credit risk assessment performed on all significant outstanding trade receivables, management believes that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The maximum exposure to credit risk at the reporting date during the Track Record Period is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral over these balances.

The carrying amounts of the Group's trade debtors, prepayments and deposits are denominated in the following currencies:

	As at 31 December	
	2009	**2010**
	HK$	*HK$*
Renminbi	1,223,252	3,146,576
Hong Kong dollar	—	2,150,000
	1,223,252	5,296,576

14 PREPAID OPERATING LEASE

Prepaid operating lease is recognised initially based on the difference between the fair value of rental deposits and the actual consideration paid for the rental deposits on the inception date of each lease agreement. Amortisation of the prepaid operating lease is calculated on a straight-line basis over the period of the lease.

15 CASH AND CASH EQUIVALENTS

	As at 31 December	
	2009	**2010**
	HK$	*HK$*
Cash at bank	194,382	251,293
Cash on hand	17,728	12,297
	212,110	263,590

The carrying amounts of the Group's cash on hand and cash at bank are denominated in the following currencies:

	As at 31 December	
	2009	**2010**
	HK$	*HK$*
Renminbi	207,291	180,900
Hong Kong dollar	4,819	82,690
	212,110	263,590

As at 31 December 2009 and 2010, the Group has cash at bank amounting to HK$189,563 and HK$168,603, respectively, which are denominated in Renminbi and held in the PRC. The conversion of Renminbi denominated balances into foreign currencies and the remittance of such foreign currencies denominated bank balances and cash out of the PRC are subject to relevant rules and regulations of foreign exchange control promulgated by the PRC government.

16 ISSUED EQUITY

	As at 31 December	
	2009	**2010**
	HK$	*HK$*
Issued equity	10,000	10,000

As at 31 December 2010, the Company has not been incorporated and hence, the issued equity of Legend Strategy is now presented. Legend Strategy has authorised and issued 10,000 ordinary shares of HK$1 each at par value as at 31 December 2009 and 2010. On 23 February 2011, the Company was incorporated with an initial authorised share capital of HK$390,000 divided into 390,000,000 shares with par value of HK$0.01 each. On the date of the incorporation, 1 ordinary share was issued to Mr. Fong.

17 RESERVES

	Exchange reserve	**Statutory reserve** *(Note i)*	**Other reserve**	**Shareholder's contributions**	**Accumulated losses**	**Total**
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
At 1 January 2009	532,867	—	—	—	(12,012,645)	(11,479,778)
Total comprehensive loss for the year	99,945	—	—	—	(3,187,896)	(3,087,951)
At 31 December 2009	632,812	—	—	—	(15,200,541)	(14,567,729)
At 1 January 2010	632,812	—	—	—	(15,200,541)	(14,567,729)
Total comprehensive income for the year	495,168	—	—	—	9,185,202	9,680,370
Equity acquired from a non-controlling shareholder *(Note ii)*	—	—	(588,549)	—	—	(588,549)
Shareholder's contributions *(Note iii)*	—	—	—	20,751,024	—	20,751,024
Transfer to statutory reserve	—	182,452	—	—	(182,452)	—
At 31 December 2010	1,127,980	182,452	(588,549)	20,751,024	(6,197,791)	15,275,116

Note (i): In accordance with the relevant regulations and the Article of association, the Group's subsidiaries incorporated in the PRC are required to allocate at least 10% of the after-tax profit according to the PRC accounting standard and regulations to general statutory reserve until such reserve has reached 50% of registered capital. This reserve can only be used for specific purposes and is not distributable or transferable to the loans, advances, cash dividends. Appropriation to the general statutory reserve for the year ended 31 December 2010 amounted to HK$182,452.

Note (ii): On 22 December 2010, the Group has acquired the remaining 40% equity interest in a subsidiary namely Moon Ko at a cash consideration of HK$3,400,000 from a non-controlling shareholder. The difference between the consideration paid and the additional share of the carrying value of net assets of the subsidiary is recorded in the other reserve.

Note (iii): On 31 December 2010, Mr. Fong waived the amounts due to him by the Group's subsidiaries with the sum of HK$20,751,024. These amounts were recorded as shareholder's contributions to the Group during the year ended 31 December 2010.

18 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:

	As at 31 December	
	2009	**2010**
	HK$	*HK$*
At 1 January	2,625,330	2,774,655
Finance cost on asset retirement obligations *(Note 8)*	128,476	135,844
Exchange differences	20,849	99,891
At 31 December	2,774,655	3,010,390

19 TRADE AND OTHER PAYABLES

	As at 31 December	
	2009	**2010**
	HK$	*HK$*
Trade payables	5,961,171	2,086,059
Accruals and other payables	3,828,869	5,564,552
	9,790,040	7,650,611

Accruals and other payables are analysed as follows:

	As at 31 December	
	2009	**2010**
	HK$	*HK$*
Accruals		
Accrued staff costs	942,227	1,573,072
Accrued professional fee	1,620,000	1,156,000
Others	42,659	14,923
	2,604,886	2,743,995
Other payables		
Other tax payable	563,696	1,616,500
Deferred revenue — membership fee	285,892	545,623
Deferred revenue — customer loyalty programme	—	266,596
Others	374,395	391,838
	1,223,983	2,820,557
Total accruals and other payables	3,828,869	5,564,552

The carrying amounts of the Group's trade and other payables approximate their fair values.

The aging analysis of trade payables based on the invoice date were as follows:

	As at 31 December	
	2009	**2010**
	HK$	*HK$*
0–30 days	1,853,948	1,594,482
31–60 days	621,110	251,823
61–90 days	571,836	97,367
Over 90 days	2,914,277	142,387
	5,961,171	2,086,059

The Group leases various hotel premises under non-cancellable operating lease agreements.

During the year ended 31 December 2010, the landlord of a hotel premise waived certain rental expenses incurred by a subsidiary of the Group for the year ended 31 December 2009 of HK$987,351. The amount is credited to the statement of comprehensive income under "operating lease expenses".

The carrying amounts of the Group's trade and other payables are denominated in the following currencies:

	As at 31 December	
	2009	**2010**
	HK$	*HK$*
Renminbi	8,170,040	6,494,611
Hong Kong dollar	1,620,000	1,156,000
	9,790,040	7,650,611

20 DEFERRED INCOME TAX

The analysis of deferred tax assets is as follows:

	As at 31 December	
	2009	**2010**
	HK$	*HK$*
Deferred income tax assets:		
— Deferred income tax assets to be recovered after more than 12 months	1,008,030	1,529,620
— Deferred income tax assets to be recovered within 12 months	527,946	—
	1,535,976	1,529,620

The following are the deferred tax assets movements thereon during the Track Record Period:

	Accelerated tax depreciation *HK$*	Tax losses *HK$*	Provisions *HK$*	Total *HK$*
At 1 January 2009	58,497	728,082	528,809	1,315,388
Credited/(charged) to combined statements of comprehensive income	70,393	(199,945)	349,929	220,377
Exchange differences	67	(191)	335	211
At 31 December 2009	128,957	527,946	879,073	1,535,976
Credited/(charged) to combined statements of comprehensive income	74,955	(514,020)	432,877	(6,188)
Exchange differences	2,031	(13,926)	11,727	(168)
At 31 December 2010	205,943	—	1,323,677	1,529,620

Deferred income tax assets are recognised for tax loss carry-forward to the extent that the realisation of the related tax benefit through future taxable profits is probable.

There were no deferred tax liabilities arising from withholding tax on undistributed earnings as at 31 December 2009 and 31 December 2010 since most of the PRC subsidiaries have accumulated losses as at 31 December 2009 and 31 December 2010.

21 FINANCIAL INSTRUMENTS BY CATEGORY

	Loans and receivables *HK$*
As at 31 December 2009	
Assets as per combined statement of financial position	
Rental deposits	851,076
Trade debtors and deposits	254,442
Cash and cash equivalents	212,110
	1,317,628

	Other financial liabilities at amortised cost *HK$*
Liabilities as per combined statement of financial position	
Trade and other payables	7,989,385
Amount due to a director	32,171,180
	40,160,565

	Loans and receivables
	HK$
As at 31 December 2010	
Assets as per combined statement of financial position	
Rental deposits	934,358
Trade debtors and deposits	1,664,690
Cash and cash equivalents	263,590
	2,862,638

	Other financial liabilities at amortised cost
	HK$
Liabilities as per combined statement of financial position	
Trade and other payables	3,670,675
Amount due to a director	1,338,103
	5,008,778

22 CASH GENERATED FROM OPERATIONS

	Year ended 31 December	
	2009	2010
	HK$	*HK$*
(Loss)/profit before income tax	(3,385,339)	13,522,667
Adjustments for:		
— Depreciation	6,296,756	6,368,671
— Finance cost, net	78,051	83,442
Operating cash flow before changes in working capital	2,989,468	19,974,780
Changes in working capital:		
— Increase in trade debtors, prepayments and deposits	(86,020)	(3,808,395)
— Increase/(decrease) in trade and other payables	4,677,284	(2,448,806)
— Increase in amount due to a director	—	1,338,103
Cash generated from operations	7,580,732	15,055,682

Non-cash transactions

The major non-cash transactions are i) the waiver of amount due to a director by the Group's subsidiaries with the sum of HK$20,751,024; and ii) the consideration of acquiring the equity from a non-controlling shareholder of HK$1,000,000 which was paid by Mr. Fong on behalf of the Group.

23 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 18. The leases have escalation clauses and renewal rights. The future aggregate minimum lease payments are as follows:

	As at 31 December	
	2009	**2010**
	HK$	*HK$*
No later than 1 year	8,169,460	8,595,814
Later than 1 year and no later than 5 years	33,799,945	30,484,373
Over 5 years	10,137,956	5,569,014
	52,107,361	44,649,201

24 CONTINGENT LIABILITIES

The Group had no significant contingent liabilities at 31 December 2009 and 2010.

25 RELATED PARTY TRANSACTIONS

As at 31 December 2010, the Group has confirmed that it will fully settle the amount due to a director before Listing.

Transactions between the companies comprising the Group have been eliminated on combination and are not disclosed. Details of transactions between the Group and the related party are disclosed below.

(a) The Group had the following significant transactions with the related party during the Track Record Period:

	Year ended 31 December	
	2009	**2010**
	HK$	*HK$*
Expenses paid by a director on behalf of the Group		
— Mr. Fong	421,987	1,806,476

(b) Year-end balances with related party

	As at 31 December	
	2009	**2010**
	HK$	*HK$*
Amount due to a director		
— Mr. Fong	32,171,180	1,338,103

Payable to a director is unsecured, interest free and repayable on demand. Amount due to a director is denominated in RMB.

During the year ended 31 December 2010, the Group repaid an amount of HK$12,438,859 to Mr. Fong. On 31 December 2010, Mr. Fong waived the amounts due to him by the Group's subsidiaries with the sum of HK$20,751,024. This amount was recorded as shareholder's contributions to the Group during the year ended 31 December 2010.

(c) On 22 December 2010, Mr. Fong acquired 40% of the equity interest in Moon Ko from a non-controlling shareholder at a consideration of HK$3,400,000, of which, HK$1,000,000 was paid by Mr. Fong while the remaining balance of HK$2,400,000 was paid by Legend Strategy on behalf of Mr. Fong. The said 40% interest was then transferred to Legend Strategy at a consideration of HK$1. The carrying amount of the non-controlling interest in Moon Ko at the date of acquisition was HK$2,811,000. The Group has recognised the excess of non-controlling interest acquired over the acquisition cost of HK$589,000 against equity. On 22 December 2010, Legend Strategy acquired the 60% equity interest in Moon Ko from Mr. Fong at a consideration of HK$1.

(d) Key management compensation

The emoluments of the directors and senior executives (representing key management personnel) during the Track Record Period are set out in Note 10.

26 SUBSEQUENT EVENTS

Subsequent to 31 December 2010, the shareholders of Legend Strategy have injected share capital of HK$9,990,000 as paid-up capital and the issued capital of Legend Strategy increased from HK$10,000 to HK$10,000,000.

III FINANCIAL INFORMATION OF THE COMPANY

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 23 February 2011 with an initial authorised share capital of HK$390,000 divided into 39,000,000 ordinary shares with par value of HK$0.01 each. On the date of incorporation, 1 ordinary share was issued to Mr. Fong.

IV SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 December 2010. No dividend has been declared, made or paid by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 December 2010.

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

The information set forth in this Appendix does not form part of the Accountant's Report from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, the reporting accountant of the Company, as set forth in Appendix I to this prospectus, and is included herein for information only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" of this prospectus and the Accountant's Report set forth in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative unaudited pro forma statement of adjusted net tangible assets of the Group prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Placing on the net tangible assets of the Group attributable to the equity holders of the Company as at 31 December 2010 as if the Placing had taken place on 31 December 2010.

This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the combined net tangible assets of the Group as at 31 December 2010 or at any future dates following the Placing.

	Unadjusted audited combined net tangible assets of the Group attributable to the equity holders of the Company as at 31 December 2010	**Estimated net proceeds from the Placing**	**Unaudited pro forma adjusted net tangible assets of the Group attributable to the equity holders of the Company**	**Unaudited pro forma adjusted net tangible assets per share**
	HK$	*HK$*	*HK$*	*HK$*
Based on an Offer Price of HK$0.80 per Share	15,285,116	18,637,690	33,922,806	0.19
Based on an Offer Price of HK$1.20 per Share	15,285,116	36,187,690	51,472,806	0.29

Notes:

(1) The unadjusted audited combined net tangible assets attributable to the equity holders of the Company as at 31 December 2010 is extracted from the Accountant's Report set out in Appendix I to this prospectus, which is based on the audited combined net assets of the Group attributable to the equity holders of the Company of HK$15,285,116.

(2) The estimated net proceeds from the Placing are based on the indicative Placing Prices of HK$0.8 and HK$1.2 per Share respectively after deduction of the estimated placing commission and other related fees and expenses.

(3) The unaudited pro forma net tangible assets per Share is arrived at after the adjustments referred to in Note 2 above and on the basis that 180,000,000 Shares to be in issue immediately upon the completion of the Placing but takes no account of any Shares which may be issued upon the exercise of the options which may be granted under the Share Option Scheme.

(4) No adjustment has been made to reflect any trading result or other transaction of the Group entered into subsequent to 31 December 2010.

B. UNAUDITED PRO FORMA EARNINGS PER SHARE

The following unaudited pro forma earnings per Share has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Placing as if it had been taken place on 1 January 2010. This unaudited pro forma earnings per Share has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of earnings per Share of the Group for the year ended 31 December 2010 or any future period.

Combined profit attributable to equity holders of the Company for the year ended 31 December 2010 *(Note 1)*	HK$9,185,202
Unaudited pro forma basic earnings per Share *(Note 2)*	HK$0.051

Notes:

(1) The combined profit attributable to equity holders of the Company for the year ended 31 December 2010 is extracted from the Accountant's Report set out in Appendix I to this prospectus.

(2) The unaudited pro forma earnings per Share is calculated by dividing the combined profit attributable to the equity holders of the Company for the year ended 31 December 2010, by a total of 180,000,000 shares to be in issue immediately upon completion of the Placing were issued and outstanding during the entire year assuming that the Company had been listed since 1 January 2010. The calculation assumes that the options which may be granted under the Share Option Scheme will not be exercised.

C. LETTER FROM REPORTING ACCOUNTANT

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong

ACCOUNTANT'S REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

TO THE DIRECTORS OF LEGEND STRATEGY INTERNATIONAL HOLDINGS GROUP COMPANY LIMITED

We report on the unaudited pro forma financial information of Legend Strategy International Holdings Group Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages II-1 to II-2 under the headings of "Unaudited Pro Forma Adjusted Net Tangible Assets" and "Unaudited Pro Forma Earnings Per Share" (the "Unaudited Pro Forma Financial Information") in Appendix II of the Company's prospectus dated 30 June 2011 (the "Prospectus"), in connection with the proposed placing of the shares of the Company. The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the proposed placing might have affected the relevant financial information of the Group. The basis of preparation of the Unaudited Pro Forma Financial Information is set out on pages II-1 to II-2 of the Prospectus.

Respective Responsibilities of Directors of the Company and the Reporting Accountant

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 7.31 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 7.31(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the audited combined net assets of the Group as at 31 December 2010 and the audited combined profit attributable to equity holders of the Company for the year ended 31 December 2010 with the accountant's report as set out in Appendix I of the Prospectus, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 7.31(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

— the adjusted net tangible assets of the Group as at 31 December 2010 or any future date, or

— the earnings per Share of the Group for the year ended 31 December 2010 or any future periods.

Opinion

In our opinion:

a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

b) such basis is consistent with the accounting policies of the Group; and

c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 7.31(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 30 June 2011

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this prospectus received from Norton Appraisals Limited, an independent valuer, in connection with its valuation as at 31 May 2011 of the property interests of the Group.

Norton Appraisals
Registered Professional Surveyors, Valuers & Property Advisers

Unit 01, 21/F, Emperor Group Centre
288 Hennessy Road
Wan Chai Hong Kong
Tel: (852) 2810 7337 Fax: (852) 2810 6337

30 June 2011

The Directors
Legend Strategy International Holdings Group Company Limited
Unit 1303, 13/F
Tai Tung Building
8 Fleming Road
Wan Chai
Hong Kong

Dear Sirs,

In accordance with your instructions for us to value the property interests leased by Legend Strategy International Holdings Group Company Limited (hereinafter referred to as the "Company") and its subsidiaries (hereinafter together referred to as the "Group") in the Hong Kong Special Administrative Region (hereinafter referred to as "Hong Kong") and the People's Republic of China (hereinafter referred to as "the PRC") (details of the properties are more particular listed in the Summary of Values attached herewith), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for providing you with our opinion of values of such property interests as at 31 May 2011 (hereinafter referred to as the "date of valuation").

Our valuation is our opinion of the market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

For the property interests which are leased by the Group in Hong Kong and the PRC, we are of the opinion that no commercial value is attributable to the Group due mainly to the short term nature or the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rents.

Our valuations have been made on the assumption that the owner sells the property interests on the open market in their existing states without the benefit of deferred terms contracts, leasebacks, joint ventures, management agreements or any similar arrangements which could serve to affect the values of the property interests. In addition, no forced sale situation in any manner is assumed in our valuations.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the property interests or for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interests are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

For the property located in Hong Kong, we have caused title searches to be made at the relevant Land Registry and have not made any title search for rented properties which are located in the PRC. We have not, however, searched original documents to verify ownership or to determine the existence of any lease amendments which do not appear on the copies handed to us.

We have been provided by the Company with extract copies of documents in relation to the titles for the property interests. We have not examined the original documents to verify the ownership and to ascertain the existence of any amendments that may not appear on the copies handed to us. In the course of our valuations, we have relied on the advice given by the Company and the legal opinions prepared by Jingtian & Gongcheng, the Company's legal adviser on the PRC law (hereinafter referred to as the "PRC Legal Adviser"), regarding the titles for the property interests.

We have inspected the exterior and, where possible the interior of the property interests. In the course of our inspections, we did not note any serious defects. However, no structural survey has been made and we are therefore unable to report whether the property interests are free from rot, infestation or any other defects. No tests were carried out on any of the services.

We have not carried out on-site measurements to verify the correctness of the floor areas of the property interests but have assumed that the floor areas shown on the documents and floor plans available to us are correct. Dimensions, measurements and areas included in the attached valuation certificates are based on information contained in the documents provided to us and are, therefore, only approximations.

We have relied to a considerable extent on the information provided by the Company and have accepted advice on such matters as planning approvals, statutory notices, easements, tenures, floor areas and all other relevant materials regarding the property interests.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Company. We were also advised by the Company that no material facts have been omitted from the information provided. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

In valuing the properties, we have complied with all the requirements contained in Chapter 8 of the Rules Governing the Listing of Securities on the Growth Enterprise Market issued by The Stock Exchange of Hong Kong Limited; the HKIS Valuation Standards on Properties (First Edition 2005) published by The Hong Kong Institute of Surveyors effective from 1 January 2005.

Unless otherwise stated, all monetary amounts stated in our valuation certificates are in Renminbi.

We hereby confirm that we have neither present nor prospective interests in the Group, the properties or the values reported herein.

Our Summary of Values and the Valuation Certificates are enclosed herewith.

Yours faithfully,
For and on behalf of
Norton Appraisals Limited
Paul M. K. Wong *MRICS, MHKIS, RPS (G.P.)*
Director

Note: Mr. Paul M. K. Wong is a Registered Professional Surveyor who has more than 19 years' experience in valuation of properties in Hong Kong and in the PRC.

SUMMARY OF VALUES

	Property	Market Value in existing state as at 31 May 2011 *(RMB)*
Group I — Property interest leased and occupied by the Group in Hong Kong		
1	Unit 1303, 13/F, Tai Tung Building, No. 8 Fleming Road, Wanchai, Hong Kong	No Commercial Value
	Sub-total:	Nil
Group II — Property interests leased and occupied by the Group in the PRC		
2	中華人民共和國 深圳市南山區 南山大道2009號 億利達精英綜合樓三至六層及一層部分 (3–6/F and a portion of 1/F, Yilida Jingying Complex Building, No. 2009 Nanshan Main Road, Nanshan District, Shenzhen, the PRC)	No Commercial Value
3	中華人民共和國 深圳市福田區 彩田路3030號 橄欖鵬苑裙樓二、三層及一層部分 (2–3/F and a portion of 1/F, Ganlan Peng Garden Podium Building, No. 3030 Caitian Road, Futian District, Shenzhen, the PRC)	No Commercial Value
4	中華人民共和國 深圳市寶安五區 新安二路二十三號商業樓 (Building 23, Xinan Second Road, Baoan District 5, Shenzhen, the PRC)	No Commercial Value

	Property	Market Value in existing state as at 31 May 2011 *(RMB)*
5	中華人民共和國 深圳市羅湖區 深南路南嘉賓花園裙樓三層 (3/F, Jiabin Garden Podium Building, Shennan Road South, Luohu District, Shenzhen, the PRC)	No Commercial Value
6	中華人民共和國 深圳市南山區 商業文化中心區 海岸大廈西坐1309 (Room 1309, West Building, Haian Towers, Commercial and Cultural Centre, Nanshan District, Shenzhen, the PRC)	No Commercial Value
7	中華人民共和國 深圳市南山區 常興路怡苑閣 36棟2單元701室 (Room 701, Unit 2, Block 36, Yiyuange, Changxing Road, Nanshan District, Shenzhen, the PRC)	No Commercial Value
8	中華人民共和國 深圳市福田區 華富街道辦彩田路3028號 春暉苑乙棟5層01房 (Room 1, 5/F, Yi Block, Chunhui Garden, No. 3028 Caitian Road, Huafu Jiedao Ban, Futian District, Shenzhen, the PRC)	No Commercial Value

	Property	Market Value in existing state as at 31 May 2011 *(RMB)*
9	中華人民共和國 深圳市福田區 蓮花一村 9棟503單位 (Unit 503, Block 9, Lianhua Yi Cun, Futian District, Shenzhen, the PRC)	No Commercial Value
10	中華人民共和國 深圳市羅湖區 和平路1191號 海關三院 2棟402房 (Room 402, Block 2, Haiguan San Court No. 1191 Heping Road, Luohu District, Shenzhen, the PRC)	No Commercial Value
11	中華人民共和國 深圳市寶安區西部開發區 翠湖花園七棟602 (Unit 602, Block 7, Cuihu Garden, Xibu Development Zone, Baoan District, Shenzhen, the PRC)	No Commercial Value
12	中華人民共和國 深圳市南山區 海德二道和南山大道交界處 南光花園5棟706 (Room 706, Block 5, Nanguang Garden, located at the intersection of Haide Second Road and Nanshan Main Road, Nanshan District, Shenzhen, the PRC)	No Commercial Value
	Sub-total:	Nil
	Grand-total:	Nil

VALUATION CERTIFICATE

Group I — Property interest leased and occupied by the Group in Hong Kong

	Property	Description and Occupancy	Market value in its existing state as at 31 May 2011
1	Unit 1303, 13/F, Tai Tung Building, No. 8 Fleming Road, Wanchai, Hong Kong Inland Lot No. 8844	Tai Tung Building comprises a 28-storey office building, completed around 2004. The property comprises a unit on the 13th Floor of Tai Tung Building with a gross area of approximately 1,218 sq.ft. (113.16 sq.m.) and is currently occupied by the Company for office use.	No Commercial Value

Notes:

i) According to the tenancy agreement dated 18 April 2011 entered into between Tak Shing Investment Co., Ltd. (the "Landlord") and Legend Strategy Ltd. (the "Tenant"), the Landlord agreed to let the property to the Tenant for a term of 3 years, for a free rental period from 15 April 2011 to 14 May 2011 and a monthly rental thereafter of HK$36,540 from 15 May 2011 to 14 April 2013 (exclusive of management fees and rates).

VALUATION CERTIFICATE

Group II — Property interests leased and occupied by the Group in the PRC

	Property	Description and Occupancy	Market value in its existing state as at 31 May 2011
2	中華人民共和國深圳市南山區南山大道2009號億利達精英綜合樓三至六層及一層部分 (3–6/F and a portion of 1/F, Yilida Jingying Complex Building, No. 2009 Nanshan Main Road, Nanshan District, Shenzhen, the PRC)	億利達精英綜合樓 (Yilida Jingying Complex Building) (the "Building") comprises a 6-storey composite commercial/residential building completed around 2006. The property comprises the 3rd to 6th Floor of the Building and a portion of the 1st Floor, with a total gross floor area of approximately 7,079 sq.m. The property is currently occupied by the Group for hotel use.	No Commercial Value

Notes:

i) According to the tenancy agreement and supplementary notes dated 1 January 2007 entered into between 深圳創華合作有限公司 (Sentron Huatuchang Enterprise (Shenzhen) Ltd.) (the "Landlord") and 方文 (Fong Man, Kelvin) (the "Tenant"), the Chairman of the Company, the Landlord agreed to let the property to the Tenant from 1 January 2007 to 31 December 2014.

The progressive monthly rentals for the property are stipulated as follows:

	Monthly rental *(RMB)*
Year 1 to Year 3	289,656
Year 4 to Year 5	349,063
Year 6 to Year 8	According to market rent as at the 4th quarter of Year 5

ii) We have been provided with a legal opinion on the property prepared by the PRC Legal Adviser, which confirms the following information:

a) In March 2011, the Landlord, the Tenant and Shenzhen Yingde Tourists Co., Ltd. confirmed that the tenant of the tenancy agreement is changed from the Tenant to Shenzhen Yingde Tourists Co., Ltd; and

b) The tenancy agreement is legally valid and binding on both signed parties.

VALUATION CERTIFICATE

	Property	Description and Occupancy	Market value in its existing state as at 31 May 2011
3	中華人民共和國深圳市福田區彩田路3030號橄欖鵬苑裙樓二、三層及一層部分 (2–3/F and a portion of 1/F, Ganlan Peng Garden Podium Building, No. 3030 Caitian Road, Futian District, Shenzhen, the PRC)	橄欖鵬苑 (Ganlan Peng Garden) (the "Building") comprises a 27-storey residential building erected over a 3-storey commercial podium, completed around 2005. The property comprises the 2nd and 3rd Floors of the Building and a portion of the 1st Floor, with a total gross floor area of approximately 2,116 sq.m. Details of the gross floor area are listed as follows:	No Commercial Value

	Approximate Gross Floor Area (sq.m.)
2nd and 3rd Floors	1,936
1st Floor portion	180
Total:	**2,116**

The property is currently occupied by the Group for hotel use.

Notes:

i) According to the terminated tenancy agreement dated 25 November 2005 entered into between深圳市億民興物業管理有限公司 (Shenzhen City Yiminxing Property Management Co., Ltd.) (the "Landlord") and 方文 (Fong Man, Kelvin), the Chairman of the Company, the Landlord agreed to let the property to Fong Man, Kelvin from 20 November 2005 to 19 November 2015. The progressive monthly rentals inclusive of management fees are stipulated as follows:

	Monthly rental *(RMB)*
Years 1 to 2	134,000
Years 3 to 5	155,000
Years 6 to 8	162,000
Years 9 to 10	175,000

ii) According to the current tenancy agreement, which supercedes the terminated tenancy agreement, dated 18 March 2011 entered into between the Landlord and 深圳悦來客棧旅業有限公司 (Shenzhen Yuelai Inn Tourists Co., Ltd.) the Landlord agreed to let the property to Shenzhen Yuelai Inn Tourists Co., Ltd. as the tenant, with the same terms described in the terminated tenancy agreement as stated above.

iii) We have been provided with a legal opinion on the property prepared by the PRC Legal Adviser, which confirms the following information:

a) There is no evidence to prove that the Group cannot use the property in accordance with the current tenancy agreement and PRC law. However, should the Landlord be unable to obtain certificates for the leasing of the property, there will be a risk to the legal validity of the current tenancy agreement and Shenzhen Yuelai Inn Tourists Co., Ltd. may be required to move from the premises; and

b) The current tenancy agreement is legally valid and binding on both signed parties.

VALUATION CERTIFICATE

	Property	Description and Occupancy	Market value in its existing state as at 31 May 2011
4	中華人民共和國深圳市寶安五區新安二路二十三號商業樓 (Commercial Building 23, Xinan Second Road, Baoan District 5, Shenzhen, the PRC)	The property comprises a 4-storey commercial building, with a total gross floor area of approximately 1,700 sq.m., completed around 1992. The property is currently occupied by the Group for hotel use.	No Commercial Value

Notes:

i) According to the tenancy agreement and supplementary notes dated 1 March 2011 entered into between 深圳市匯盛源貿易有限公司 (Shenzhen City Huishengyuan Trading Co., Ltd.) (the "Landlord") and 深圳摩登旅業管理有限公司 (Shenzhen Modern Tourists Management Co., Ltd.) (the "Tenant"), the Landlord agreed to let the property to the Tenant from 1 January 2011 to 30 December 2017. The progressive monthly rentals for the property are stipulated as follows:

	Monthly rental *(RMB)*
Year 1 to Year 2	65,000
Year 3 to Year 4	68,000
Year 5 to Year 6	72,000
Year 7	76,000

ii) We have been provided with a legal opinion on the property prepared by the PRC Legal Adviser, which confirms that the tenancy agreement is legally valid and binding on both signed parties.

VALUATION CERTIFICATE

	Property	Description and Occupancy	Market value in its existing state as at 31 May 2011
5	中華人民共和國深圳市羅湖區深南路南嘉賓花園裙樓三層 (3/F, Jiabin Garden Podium Building, Shennan Road South, Luohu District, Shenzhen, the PRC)	嘉賓花園 (Jiabin Garden) (the "Building") comprises three 21-storey residential blocks erected over a 4-storey commercial podium, completed around 1999. The property comprises the whole of the 3rd Floor of the Building, with a total gross floor area of approximately 2,277.14 sq.m. The property is currently occupied by the Group for hotel use.	No Commercial Value

Notes:

i) According to the terminated tenancy agreement and supplementary notes dated 15 January 2008 entered into between 愉天石村(深圳)有限公司 (Yutian Stone (Shenzhen) Co., Ltd.) (the "Landlord") and 方文 (Fong Man, Kelvin), the Chairman of the Company, the Landlord agreed to let the property to Fong Man, Kelvin at an annual rental of RMB88,808.46 from 1 February 2008 to 31 January 2018.

ii) According to the current tenancy agreement and supplementary notes, which supercede the terminated tenancy agreement, dated 17 March 2011 entered into between 愉天石村(深圳)有限公司 (Yutian Stone (Shenzhen) Co., Ltd.) (the "Landlord") and 深圳悦來客棧有限公司 (Shenzhen Yuelai Inn Co., Ltd.), the Landlord agreed to let the property to Shenzhen Yuelai Inn Co., Ltd. as the tenant, at a progressive monthly rental of RMB88,808.46 for year 1, and a 5% increase in monthly rental for each year thereafter, from 1 February 2008 to 31 January 2018.

iii) We have been provided with a legal opinion on the property prepared by the PRC Legal Adviser, which confirms that the current tenancy agreement is legally valid and binding on both signed parties.

VALUATION CERTIFICATE

	Property	Description and Occupancy	Market value in its existing state as at 31 May 2011
6	中華人民共和國深圳市南山區商業文化中心區海岸大廈西坐1309 (Room 1309, West Building, Haian Towers, Commercial and Cultural Centre, Nanshan District, Shenzhen, the PRC)	The property comprises a unit on the 13th Floor of a 30-storey office building, completed in about 2008. The total gross floor area of the property is approximately 130.55 sq.m. The property is currently occupied by the Group for office use.	No Commercial Value

Notes:

i) According to the tenancy agreement dated 12 August 2010 entered into between 葉穗香 (Ye Suixiang) (the "Landlord") and 深圳悅來客棧旅業有限公司 (Shenzhen Yuelai Inn Tourists Co., Ltd.) (the "Tenant"), a subsidiary of the Group, the Landlord agreed to let the property to the Tenant at a monthly rental of RMB10,835 from 1 October 2010 to 30 September 2012.

ii) We have been provided with a legal opinion on the property prepared by the PRC Legal Adviser, which confirms that the tenancy agreement is legally valid and binding on both signed parties.

VALUATION CERTIFICATE

	Property	Description and Occupancy	Market value in its existing state as at 31 May 2011
7	中華人民共和國深圳市南山區常興路怡苑閣36棟2單元701室 (Room 701, Unit 2, Block 36, Yiyuange, Changxing Road, Nanshan District, Shenzhen, the PRC)	The property comprises a unit on the 7th Floor of an 8-storey residential building, completed around 1996. The gross floor area of the property is approximately 120 sq.m. The property is currently occupied by the Group for staff quarters.	No Commercial Value

Notes:

i) According to the tenancy agreement dated at 28 October 2010 entered into between 杜蘭珊 (Du Lanshan) (the "Landlord") and 深圳盈的旅業有限公司 (Shenzhen Yingde Tourists Co., Ltd.) (the "Tenant"), a subsidiary of the Group, the Landlord agreed to let the property to the Tenant at a monthly rental of RMB3,000 from 1 November 2010 to 31 October 2011.

ii) We have been provided with a legal opinion on the property prepared by the PRC Legal Adviser, which confirms that the tenancy agreement is legally valid and binding on both signed parties.

VALUATION CERTIFICATE

	Property	Description and Occupancy	Market value in its existing state as at 31 May 2011
8	中華人民共和國深圳市福田區華富街道辦彩田路3028號春暉苑乙棟5層01房 (Room 1, 5/F, Yi Block, Chunhui Garden, No. 3028 Caitian Road, Huafu Jiedao Ban, Futian District, Shenzhen, the PRC)	The property comprises a unit on the 5th Floor of a 22-storey residential building, completed around 2003. The area of the property is approximately 42.24 sq.m. and is currently occupied by the Group for staff quarters.	No Commercial Value

Notes:

i) According to the tenancy agreement dated 25 March 2010 entered into between 深圳市騰越物業管理有限公司 (Shenzhen City Tengyue Property Management Co., Ltd.) (the "Landlord") and 深圳悅來客棧旅業有限公司 (Shenzhen Yuelai Inn Tourists Co., Ltd.) (the "Tenant"), a subsidiary of the Group, the Landlord agreed to let the property to the Tenant at a monthly rental of RMB2,000 from 25 March 2010 to 24 March 2011.

ii) According to the supplementary tenancy agreement entered into between the Landlord and the Tenant, the Landlord agreed to continue the lease of the property to the Tenant from 26 March 2011 to 18 October 2011 at a monthly rental of RMB2,100.

iii) We have been provided with a legal opinion on the property prepared by the PRC Legal Adviser, which confirms that since the Landlord has not provided a proper Building Ownership Certificate, the occupants (i.e. the staff of Shenzhen Yuelai Inn Tourists Co., Ltd.) may be required to move out from the property.

VALUATION CERTIFICATE

	Property	Description and Occupancy	Market value in its existing state as at 31 May 2011
9	中華人民共和國深圳市福田區蓮花一村9棟503 單位 (Unit 503, Block 9, Lianhua Yi Cun, Futian District, Shenzhen, the PRC)	The property comprises a unit on the 5th Floor of a 7-storey residential building, completed around 2000. The gross floor area of the property is approximately 86 sq.m. and is currently occupied by the Group for staff quarters.	No Commercial Value

Notes:

i) According to the tenancy agreement dated August 2010 entered into between 張朝貞 (Zhang Chaozhen) (the "Landlord") and 深圳悅來客棧旅業有限公司 (Shenzhen Yuelai Inn Tourists Co., Ltd.) (the "Tenant"), a subsidiary of the Group, the Landlord agreed to let the property to the Tenant at a monthly rental of RMB3,100 from 1 September 2010 to 31 August 2011.

ii) We have been provided with a legal opinion on the property prepared by the PRC Legal Adviser, which confirms that the tenancy agreement is legally valid and binding on both signed parties.

VALUATION CERTIFICATE

	Property	Description and Occupancy	Market value in its existing state as at 31 May 2011
10	中華人民共和國 深圳市羅湖區 和平路1191號 海關三院 2棟402房 (Room 402, Block 2, Haiguan San Court No. 1191 Heping Road, Luohu District, Shenzhen, the PRC)	The property comprises a unit on the 4th Floor of a 6-storey residential building, completed around 1990. The gross floor area of the property is approximately 132 sq.m. and is currently occupied by the Group for staff quarters.	No Commercial Value

Notes:

i) According to the tenancy agreement dated August 2010 entered into between 朱石英 (Zhu Shiying) (the "Landlord") and 深圳悦來客棧有限公司 (Shenzhen Yuelai Inn Co., Ltd.) (the "Tenant"), a subsidiary of the Group, the Landlord agreed to let the property to the Tenant at a monthly rental of RMB3,800 from 1 September 2010 to 31 August 2011.

ii) We have been provided with a legal opinion on the property prepared by the PRC Legal Adviser, which confirms that the tenancy agreement is legally valid and binding on both signed parties.

VALUATION CERTIFICATE

	Property	Description and Occupancy	Market value in its existing state as at 31 May 2011
11	中華人民共和國深圳市寶安區西部開發區翠湖花園七棟602 (Unit 602, Block 7, Cuihu Garden, Xibu Development Zone, Baoan District, Shenzhen, the PRC)	The property comprises a unit on the 6th Floor of a 7-storey residential building, completed around 1997. The gross floor area of the property is approximately 50.2 sq.m. and is currently occupied by the Group for staff quarters.	No Commercial Value

Notes:

i) According to the tenancy agreement dated March 2011 entered into between 鄭錦炎 (Zheng Jinyan) (the "Landlord") and 深圳摩登旅業管理有限公司 (Shenzhen Modern Tourists Management Co., Ltd.) (the "Tenant"), a subsidiary of the Group, the Landlord agreed to let the property to the Tenant at a monthly rental of RMB2,000 from 10 March 2011 to 11 March 2012.

ii) We have been provided with a legal opinion on the property prepared by the PRC Legal Adviser, which confirms that the tenancy agreement is legally valid and binding on both signed parties.

VALUATION CERTIFICATE

	Property	Description and Occupancy	Market value in its existing state as at 31 May 2011
12	中華人民共和國深圳市南山區海德二道和南山大道交界處南光花園5棟706 (Room 706, Block 5, Nanguang Garden, located at the intersection of Haide Second Road and Nanshan Main Road,Nanshan District, Shenzhen,the PRC)	The property comprises a unit on the 7th Floor of a 7-storey residential building, completed around 1992. The gross floor area of the property is approximately 96.28 sq.m. and is currently occupied by the Group for staff quarters.	No Commercial Value

Notes:

i) According to the tenancy agreement dated 16 March 2011 entered into between 汪小紅 (Wang Xiaohong) (the "Landlord") and 黃梅 (Huang Mei) (the "Tenant"), the Landlord agreed to let the property to the Tenant at a monthly rental of RMB3,200 from 16 March 2011 to 15 March 2012.

ii) We have been provided with a legal opinion on the property prepared by the PRC Legal Adviser, which confirms the following information:

a) As confirmed by the Tenant and Shenzhen Yingde Tourists Co., Ltd., all rentals will be paid by Shenzhen Yingde Tourists Co., Ltd. for staff quarters; and

b) The tenancy agreement is legally valid and binding on both signed parties.

Set out below is a summary of certain provisions of the Memorandum and Articles and of certain aspects of Cayman Islands company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 23 February, 2011 under the Companies Law. The Memorandum and the Articles comprise its constitution.

1. MEMORANDUM OF ASSOCIATION

(a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.

(b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on 22 June 2011 to take effect on the Listing Date. The following is a summary of certain provisions of the Articles:

(a) Directors

(i) Power to allot and issue shares and warrants

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) Power to dispose of the assets of the Company or any subsidiary

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iii) Compensation or payments for loss of office

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) Loans and provision of security for loans to Directors

There are provisions in the Articles prohibiting the making of loans to Directors.

(v) Disclosure of interests in contracts with the Company or any of its subsidiaries

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters, namely:

(aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;

(bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

(cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub underwriting of the offer;

(dd) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company;

(ee) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder or in which the Director and any of his associates are not in aggregate beneficially interested in 5 percent. or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest or that of any of his associates is derived); or

(ff) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s) as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(vi) Remuneration

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) Retirement, appointment and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated:

(aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board;

(bb) becomes of unsound mind or dies;

(cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;

(dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;

(ee) if he is prohibited from being a director by law;

(ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(viii) Borrowing powers

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of the Company.

(ix) Proceedings of the Board

The board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(x) Register of Directors and Officers

The Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(b) Alterations to constitutional documents

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(c) Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

(i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;

(ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;

(iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;

(iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares; or

(v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(d) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(e) Special resolution majority required

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than twenty-one (21) clear days and not less than ten (10) clear business days specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that if permitted by the Designated Stock Exchange (as defined in the Articles), except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five per cent. (95%) in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which notice of less than twenty-one (21) clear days and less than ten (10) clear business days has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

(f) Voting rights

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)).

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

(h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub paragraph (e) above) be called by notice of at least twenty-one (21) clear days and not less than ten (10) clear business days. All other extraordinary general meetings shall be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above if permitted by the rules of the Designated Stock Exchange, it shall be deemed to have been duly called if it is so agreed:

(i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and

(ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five per cent (95%) in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

(aa) the declaration and sanctioning of dividends;

(bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;

(cc) the election of directors in place of those retiring;

(dd) the appointment of auditors and other officers;

(ee) the fixing of the remuneration of the directors and of the auditors;

(ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and

(gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

(j) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(k) Power for the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

(l) Power for any subsidiary of the Company to own shares in the Company and financial assistance to purchase shares of the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

Subject to compliance with the rules and regulations of the Designated Stock Exchange (as defined in the Articles) and any other relevant regulatory authority, the Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in the Company.

(m) Dividends and other methods of distribution

Subject to the Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(o) Call on shares and forfeiture of shares

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or instalments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

(p) Inspection of register of members

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours on every business day by members without charge, or by any other person upon a maximum payment of HK$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

(q) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarised in paragraph 3(f) of this Appendix.

(s) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three (3) months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since the date of such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the "Court"), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) Financial assistance to purchase shares of a company or its holding company

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company shall be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company shall not be treated as a member for any purpose and shall not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share shall not be voted, directly or indirectly, at any meeting of the company and shall not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Law. Further, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

With the exception of section 34 of the Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m) above for further details).

(f) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company themselves and, in the case of a purchase by the company themselves, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Management

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

(1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and

(2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 15 March 2011.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of the Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. A branch register shall be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

(n) Winding up

A company may be wound up compulsorily by order of the Court; voluntarily; or, under supervision of the Court. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or articles expires, or the event occurs on the occurrence of which the memorandum or articles provides that the company is to be dissolved, or, the company does not commence business for a year from its incorporation (or suspends its business for a year), or, the company is unable to pay its debts. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Court may appoint to such office such qualified person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court. A person shall be qualified to accept an appointment as an official liquidator if he is duly qualified in terms of the Insolvency Practitioners Regulations. A foreign practitioner may be appointed to act jointly with a qualified insolvency practitioner.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets. A declaration of solvency must be signed by all the directors of a company being voluntarily wound up within twenty-eight (28) days of the commencement of the liquidation, failing which, its liquidator must apply to Court for an order that the liquidation continue under the supervision of the Court.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (*pari passu* if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. At least twenty-one (21) days before the final meeting, the liquidator shall send a notice specifying the time, place and object of the meeting to each contributory in any manner authorised by the company's articles of association and published in the Gazette in the Cayman Islands.

(o) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(p) Compulsory acquisition

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(q) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix VI. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT THE COMPANY

1. Incorporation of the Company and registration of the Company under Part XI of the Companies Ordinance

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 23 February 2011. The Company has established a principal place of business in Hong Kong at Unit 1303, 13th Floor, Tai Tung Building, 8 Fleming Road, Wanchai, Hong Kong and has been registered as a non-Hong Kong company in Hong Kong under Part XI of the Companies Ordinance on 22 June 2011. Mr. Fong has been appointed as the authorised representative of the Company for the acceptance of service of process and notices on behalf of the Company in Hong Kong. The residential address of Mr. Fong is House 31, Seasons Palace, 157 Kam Sheung Road, Kam Tin, Yuen Long, New Territories, Hong Kong. As the Company was incorporated in the Cayman Islands, it is subject to the Companies Law and its constitution which comprises the Memorandum and the Articles of Association. A summary of various provisions of the Company's constitutional documents and relevant aspects of the Companies Law is set out in Appendix IV to this prospectus.

2. Changes in the share capital

As at the date of incorporation, the authorised share capital of the Company was HK$390,000 divided into 39,000,000 Shares with a nominal value of HK$0.01 each.

Pursuant to the written resolutions of all the Shareholders passed on 23 March 2011, the authorised share capital of the Company was increased from HK$390,000 to HK$7,800,000 by the creation of an additional 741,000,000 Shares.

Assuming that the Placing becomes unconditional and the issue of 45,000,000 Placing Shares pursuant thereto is made but taking no account of any Shares which may be issued upon the exercise of the options which may be granted under the Share Option Scheme, the issued share capital of the Company immediately following the Placing will be HK$1,800,000 divided into 180,000,000 Shares, fully paid or credited as fully paid, with 600,000,000 Shares remaining unissued.

Other than pursuant to the exercise of any options which may be granted under the Share Option Scheme below, the Company does not have any present intention to issue any part of the authorised but unissued share capital of the Company and, without prior approval of the Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of the Company.

Save as aforesaid and as mentioned in the paragraphs headed "Written resolutions of all the Shareholders passed on 22 June 2011" and "Reorganisation" below, there has been no alteration in the share capital of the Company since the date of its incorporation.

3. Written resolutions of all the Shareholders passed on 22 June 2011

On 22 June 2011, written resolutions of all the Shareholders were passed pursuant to which, among other things:

(a) conditional on (i) the Listing Division granting the approval of the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned herein (including any Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme) and (ii) the obligations of the Placing Agents under the Placing Agreement becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) by the Joint Lead Managers acting for themselves and on behalf of the Co-lead Manager) and not being terminated in accordance with the terms of the Placing Agreement or otherwise, in each case on or before such dates as may be specified in the Placing Agreement:

(i) the Placing was approved and the Directors were authorised to effect the same and to allot and issue the Placing Shares; and

(ii) the rules of the Share Option Scheme (the principal terms of which are set out in the paragraph headed "Share Option Scheme" in this Appendix) were approved and adopted and the Directors or any such committee thereof be and are authorised to approve any amendments to the rules of the Share Option Scheme as may be acceptable or not objected to by the Stock Exchange, and the Directors were authorised, at their absolute discretion, to grant options to subscribe for Shares under the Share Option Scheme and to allot, issue and deal with the Shares pursuant thereto and to take all such steps as they consider necessary or desirable to implement the Share Option Scheme;

(b) a general unconditional mandate was given to the Directors to exercise all the powers of the Company to allot, issue and deal with, otherwise than by way of rights issue or an issue of Shares upon the exercise of options which may be granted under the Share Option Scheme or under any option scheme or similar arrangements for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries or any other person of Shares or rights to acquire Shares or any scrip dividend schemes or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles of Association or any issue of Shares upon exercise of rights of subscription or conversion attaching to any securities of the Company (if any) which are convertible into Shares or the Placing or a specific authority granted by the Shareholders in general meeting, Shares with a total nominal value not exceeding the sum of:

(i) 20% of the aggregate nominal value of the share capital of the Company in issue immediately following the completion of the Placing, but excluding any Shares which may be issued upon exercise of any options that may be granted under the Share Option Scheme; and

(ii) the aggregate nominal value of any share capital of the Company repurchased by the Company subsequent to the passing of this resolution up to a maximum equivalent of 10% of the aggregate nominal value of the share capital of the Company in issue immediately following the completion of the Placing, but excluding any Shares which may be issued upon exercise of any options that may be granted under the Share Option Scheme,

such mandate to remain in effect until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association or any applicable laws of the Cayman Islands to be held; or

(iii) the passing of an ordinary resolution of the Shareholders in general meeting revoking, varying or renewing such mandate;

(c) a general unconditional mandate was given to the Directors authorising them to exercise all powers of the Company to repurchase on GEM or on any other stock exchange on which the Shares may be listed and which is recognised by the SFC and the Stock Exchange for this purpose such number of Shares with a total nominal value not exceeding 10% of the aggregate of the total nominal amount of the share capital of the Company in issue immediately following completion of the Placing excluding any Shares which may be issued upon exercise of any options that may be granted under the Share Option Scheme, such mandate to remain in effect until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association or any applicable laws of the Cayman Islands to be held; or

(iii) the passing of an ordinary resolution of the Shareholders in general meeting revoking, varying or renewing such mandate;

(d) the general unconditional mandate mentioned in paragraph (b) above was extended by the addition to the aggregate nominal value of the share capital of the Company which may be allotted or agreed conditionally or unconditionally to be allotted, issued or dealt with by the Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the share capital of the Company repurchased by the Company pursuant to the mandate to repurchase Shares referred to in paragraph (c) above provided that such extended amount shall not exceed 10% of the total nominal value of the share capital of the Company in issue immediately following the completion of the Placing excluding any Shares which may be issued upon exercise of any options that may be granted under the Share Option Scheme; and

(e) the Company approved and adopted the Articles of Association to take effect on the Listing Date.

4. Reorganisation

The companies comprising the Group underwent the Reorganisation to rationalise the Group's structure in preparation for the Listing. The Reorganisation involved the following:

(a) On 15 December 2010, Legend Strategy International was incorporated in BVI with limited liability with an authorised share capital of US$50,000 divided into 50,000 shares with par value of US$1.00 each. On the same day, one share with par value of US$1.00 was allotted and issued as fully paid to Mr. Fong.

(b) On 22 December 2010, Mr. Fong paid a sum of HK$3,400,000 to Dr. Pradit in accordance with an agreement dated 16 September 2010 and Dr. Pradit transferred all his 40% shareholding interests in Moon Ko to Legend Strategy at a consideration of HK$1.00. On the same day, Mr. Fong transferred all his 60% shareholding interests in Moon Ko to Legend Strategy at a consideration of HK$1.00.

(c) On 23 February 2011, the Company was incorporated in the Cayman Islands as an exempted company with limited liability with an authorised share capital of HK$390,000 divided into 39,000,000 shares with par value of HK$0.01. On the same day, one subscriber share with par value of HK$0.01 was transferred to Mr. Fong. On 23 March 2011, the authorised share capital of the Company was increased to HK$7,800,000 divided into 780,000,000 shares of HK$0.01 each.

(d) On 1 March 2011, Legend Strategy increased its authorised share capital from HK$10,000 to HK$15,000,000 and a total of 9,990,000 shares of Legend Strategy were issued and allotted to its then existing shareholders in proportion to their respective percentages of shareholding interests.

(e) On 23 March 2011, Mr. Fong transferred one share representing 100% shareholding interests in Legend Strategy International to the Company at par value.

(f) On 24 March 2011, Legend Strategy International acquired 10,000 shares with par value of HK$1.00 each, representing the entire issued share capital of Lai Ying and all the shareholder's loan from Mr. Fong. In consideration of such acquisition, the Company allotted and issued 87,750,000 Shares, credited as fully paid to Mr. Fong; and in turn, Legend Strategy International allotted and issued one share with par value of US$1.00 credited as fully paid to the Company.

(g) On 27 April 2011, Legend Strategy International acquired 278 shares, 342 shares, 95 shares, 95 shares, 95 shares and 95 shares with par value of HK$1.00 each in the share capital of Triple Leaf (representing approximately 27.8%, 34.2%, 9.5%, 9.5%, 9.5% and 9.5% of its shareholding interests respectively) and all the shareholders' loan due and owed by Triple Leaf from Mr. Fong, Mr. De Weyer, Markus Rall, Jiang Wen, Qiu Wen and Kan Yau Shan respectively. In consideration of such acquisitions, the Company allotted and issued 5,259,465 Shares, 6,473,655 Shares, 1,791,720 Shares, 1,791,720 Shares, 1,791,720 Shares and 1,791,720 Shares to Mr. Fong, Mr. De Weyer, Markus Rall, Jiang Wen, Qiu Wen and Kan Yau Shan respectively; and in turn Legend Strategy International allotted and issued one share with the par value of US$1.00 credited as fully paid to the Company.

(h) On 19 June 2011, Legend Strategy International acquired 500,000 shares, 800,000 shares, 300,000 shares, 200,000 shares, 100,000 shares, 100,000 shares and 100,000 shares with a par value of HK$1.00 each in the share capital of Legend Strategy (representing 5%, 8%, 3%, 2%, 1%, 1% and 1% of its shareholding interests respectively) from Mr. Fong, Mr. Qiu, Mr. De Weyer, Qiu Wen, Tuo Wei Wei, Ho Yin Man, Carmen and Wang Huaner and the shareholders' loan due and owed by Legend Strategy from Mr. Fong, Mr. De Weyer, Qiu Wen, Tuo Wei Wei, Ho Yin Man, Carmen and Wang Huaner respectively. In consideration of such acquisitions, the Company allotted and issued 6,750,000 Shares, 10,800,000 Shares, 4,050,000 Shares, 2,700,000 Shares, 1,350,000 Shares, 1,350,000 Shares and 1,350,000 Shares to Mr. Fong, Mr. Qiu, Mr. De Weyer, Qiu Wen, Tuo Wei Wei, Ho Yin Man, Carmen and Wang Huaner respectively; and in turn Legend Strategy International allotted and issued one share with par value of US$1.00 credited as fully paid to the Company.

(i) On 24 June 2011, Triple Leaf (BVI) acquired 1,791,720 Shares, 1,791,720 Shares and 1,791,720 Shares (representing approximately 1.33%, 1.33% and 1.33% of the shareholding interests in the Company respectively) from Markus Rall, Jiang Wen and Kan Yau Shan respectively. In consideration of such acquisitions, Triple Leaf (BVI) allotted and issued to each of Markus Rall, Jiang Wen and Kan Yau Shan one share with par value of US$1.00 in its share capital.

5. Changes in the share capital of subsidiaries of the Company

The subsidiaries of the Company are listed in the Accountant's Report set out in Appendix I to this prospectus. Save as disclosed below and in the paragraph headed "Reorganisation" of this Appendix, the following alterations in the share capital of the Company's subsidiaries have taken place within the two years immediately preceding the date of this prospectus:

(a) Legend Strategy International

On 15 December 2010, Legend Strategy International was incorporated with limited liability in BVI with an authorised share capital of US$50,000. Upon its incorporation, one share of US$1.00 was allotted and issued as fully paid to Mr. Fong.

(b) Legend Strategy

On 1 March 2011, the authorised share capital of Legend Strategy was increased from HK$10,000 to HK$15,000,000 divided into 15,000,000 shares of par value of HK$1.00 each. On the same date, Legend Strategy allotted and issued an aggregate of 9,990,000 shares of par value of HK$1.00 as fully paid to Mr. Qiu, Lai Ying, Triple Leaf, Qiu Wen, Tuo Wei Wei, Wang Huaner, Ho Yin Man Carmen, Mr. Fong and Mr. De Weyer, as to 799,200 shares, 6,493,500 shares, 1,398,600 shares, 199,800 shares, 99,900 shares, 99,900 shares, 99,900 shares, 499,500 shares and 299,700 shares respectively. After such allotment and issuance of shares, the shareholding structure of Legend Strategy remained unchanged.

Save as disclosed above and in the paragraph headed "Reorganisation" of this Appendix, there has been no alteration in the share capital of the subsidiaries of the Company which took place within the two years immediately preceding the date of this prospectus.

6. Repurchase by the Company of its own securities

This section includes information relating to the repurchase of the Shares, including information required by the Stock Exchange to be included in this prospectus concerning such repurchase.

(a) Relevant legal and regulatory requirements

The GEM Listing Rules permit Shareholders to grant the Directors a general mandate to repurchase the Shares that are listed on the Stock Exchange.

(b) Shareholder's approval

All proposed repurchases of Shares (which must be fully paid up) must be approved in advance by an ordinary resolution of the Shareholders in a general meeting, either by way of general mandate or by specific approval of a particular transaction.

On 22 June 2011, the Directors were granted a general unconditional mandate to repurchase ("**Repurchase Mandate**") up to 10% of the aggregate nominal value of the share capital of the Company in issue immediately following completion of the Placing (excluding any Shares which may be issued pursuant to any Shares which may be issued upon exercise of any options that may be granted under the Share Option Scheme) on GEM or on any other stock exchange on which the securities may be listed and which is recognised by the SFC and the Stock Exchange for this purpose. This mandate will expire at the earliest of (i) the conclusion of the next annual general meeting of the Company; (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association and applicable laws of the Cayman Islands to be held; or (iii) such mandate being revoked, varied or renewed by resolutions of the Shareholders in a general meeting.

(c) Source of funds

The repurchase of the Shares listed on the Stock Exchange must be funded out of funds legally available for such purpose in accordance with the Memorandum and Articles of Association and the applicable laws of the Cayman Islands and any other laws and regulations applicable to the Company. The Company may not repurchase Shares on the Stock Exchange for consideration other than cash or for the settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

(d) Trading restrictions

The Company may repurchase up to 10% of the issued share capital immediately after completion of the Placing (excluding any Shares which may be issued pursuant to any Shares which may be issued upon exercise of any options that may be granted under the Share Option Scheme).

(e) Connected persons

A company is prohibited from knowingly repurchasing securities on the Stock Exchange from a "connected person", that is, a director, chief executive or substantial shareholder of such company or any of its subsidiaries or any of their associates (as defined in the GEM Listing Rules) and a connected person shall not knowingly sell his securities to the Company on the Stock Exchange.

(f) Reasons for repurchases

The Directors believe that it is in the best interest of the Company and the Shareholders for the Directors to have a general authority from the Shareholders to enable the Company to repurchase the Shares in the market. Repurchase will only be made where the Directors believe that such repurchases will benefit the Company and the Shareholders. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value of the Company and/or earnings per Share.

(g) General

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the GEM Listing Rules, the Memorandum, the Articles of Association and any other applicable laws of the Cayman Islands.

There might be a material adverse impact on the working capital or gearing position of the Company (as compared with the position disclosed in this prospectus) in the event that the Repurchase Mandate is exercised in full. However, the Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or on its gearing positions which in the opinion of the Directors are from time to time appropriate for the Company.

If, as a result of any repurchase of the Shares, a Shareholder's proportionate interest in the Company's voting rights is increased, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert (within the meaning of the Takeovers Code) could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code.

None of the Directors nor, to the best of their knowledge, having made all reasonable enquiries, any of their respective associates, has any present intention to sell any Shares to the Company.

No connected person of the Company has notified the Company that he has a present intention to sell his Shares to the Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

B. FURTHER INFORMATION ABOUT THE BUSINESS OF THE GROUP

1. Summary of material contracts

The following contracts (not being contracts in the ordinary course of business of the Group) have been entered into by members of the Group within the two years preceding the date of this prospectus and are or may be material:

(a) bought and sold notes dated 24 November 2009 for the transfer of 500 shares in Legend Strategy by Lai Ying to 8832 Limited for a consideration of HK$500;

(b) bought and sold notes dated 3 February 2010 for the transfer of 100 shares in Legend Strategy by Lai Ying to Qiu Wen for a consideration of HK$100;

(c) bought and sold notes dated 3 February 2010 for the transfer of 100 shares in Legend Strategy by Lai Ying to Tuo Wei Wei for a consideration of HK$100;

(d) bought and sold notes dated 3 February 2010 for the transfer of 100 shares in Legend Strategy by Lai Ying to Ho Yin Man, Carmen for a consideration of HK$100;

(e) bought and sold notes dated 29 March 2010 for the transfer of 100 shares in Legend Strategy by Lai Ying to Qiu Wen for a consideration of HK$100;

(f) bought and sold notes dated 7 May 2010 for the transfer of 100 shares in Legend Strategy by Triple Leaf to Wang Huaner for a consideration of HK$100;

(g) bought and sold notes dated 20 October 2010 for the transfer of 300 shares in Legend Strategy by Lai Ying to Mr. De Weyer for a consideration of HK$300;

(h) a share transfer agreement dated 30 November 2010 entered into between Mr. Fong and Legend Strategy whereby Mr. Fong agreed to transfer the entire registered capital of Yingde Tourists to Legend Strategy at a consideration of HK$8,000,000;

(i) the 1506 CC Strategic Agreement;

(j) a share transfer agreement dated 17 November 2010 entered into among Lai Ying (as vender), Mr. Qiu (as purchaser), Legend Strategy, Triple Leaf, Mr. Wong, Mr. Fong and 佛山創意產業園投資管理有限公司 (Foshan Creative Production Garden Investment Management Company Limited*) where Lai Ying agreed to transfer 8% of the issued share capital of Legend Strategy to Mr. Qiu for a consideration of HK$4,800,000;

(k) bought and sold notes dated 22 December 2010 for the transfer of 3,500,000 shares in Moon Ko by Dr. Pradit to Legend Strategy for a consideration of HK$1.00;

(l) bought and sold notes dated 22 December 2010 for the transfer of 5,250,000 shares in Moon Ko by Mr. Fong to Legend Strategy for a consideration of HK$1.00;

(m) a supplemental share transfer agreement dated 18 March 2011 entered into among Lai Ying (as vender), Mr. Qiu (as purchaser), Legend Strategy, Triple Leaf, Mr. Wong, Mr. Fong and 佛山創意產業園投資管理有限公司 (Foshan Creative Production Garden Investment Management Company Limited*) in respect of the transfer of 8% of the issued share capital of Legend Strategy from Lai Ying to Mr. Qiu for a consideration of HK$4,800,000 to supplement the share transfer agreement dated 17 November 2010 entered into among the same parties (being material contract as mentioned in paragraph (j) above);

(n) the Shu Yong Consultancy Agreement;

(o) a sale and purchase agreement dated 23 March 2011 entered into between Mr. Fong and the Company whereby Mr. Fong agreed to transfer the entire issued share capital of Legend Strategy International to the Company for a consideration of US$1.00;

(p) a sale and purchase agreement dated 24 March 2011 entered into between Mr. Fong and Legend Strategy International whereby Mr. Fong agreed to transfer to Legend Strategy International the entire issued share capital of Lai Ying and all the shareholder's loan owed by Lai Ying to Mr. Fong as at the date of the agreement in consideration of the allotment and issue of 87,750,000 shares to Mr. Fong;

(q) a sale and purchase agreement dated 27 April 2011 entered into between Mr. Fong, Mr. De Weyer, Markus Rall, Jiang Wen, Qiu Wen, Kan Yau Shan and Legend Strategy International whereby Mr. Fong, Mr. De Weyer, Markus Rall, Jiang Wen, Qiu Wen, Kan Yau Shan agreed to transfer to Legend Strategy International approximately 27.8%, 34.2%, 9.5%, 9.5%, 9.5% and 9.5% of the issued share capital of Triple Leaf and all the shareholders' loan owed by Triple Leaf to each of Mr. Fong, Mr. De Weyer, Markus Rall, Jiang Wen, Qiu Wen and Kan Yau Shan as at the date of agreement in consideration of the allotment and issue of 5,259,465 Shares, 6,473,655 Shares, 1,791,720 Shares, 1,791,720 Shares, 1,791,720 Shares, 1,791,720 Shares to Mr. Fong, Mr. De Weyer, Markus Rall, Jiang Wen, Qiu Wen and Kan Yau Shan respectively;

(r) a sale and purchase agreement dated 19 June 2011 entered into between Mr. Fong, Mr. Qiu, Mr. De Weyer, Qiu Wen, Tuo Wei Wei, Ho Yin Man, Carmen, Wan Huaner and Legend Strategy International whereby Mr. Fong, Mr. Qiu, Mr. De Weyer, Qiu Wen, Tuo Wei Wei, Ho Yin Man, Carmen, Wan Huaner agreed to transfer to Legend Strategy International 5%, 8%, 3%, 2%, 1%, 1% and 1% of the issued share capital of Legend Strategy and all the shareholders' loan owed by Legend Strategy to each of Mr. Fong, Mr. De Weyer, Qiu Wen, Tuo Wei Wei, Ho Yin Man, Carmen, Wan Huaner as at the date of agreement in consideration of the allotment and issue of 6,750,000 Shares, 10,800,000 Shares, 4,050,000 Shares, 2,700,000 Shares, 1,350,000 Shares, 1,350,000 Shares and 1,350,000 Shares to Mr. Fong, Mr. Qiu, Mr. De Weyer, Qiu Wen, Tuo Wei Wei, Ho Yin Man, Carmen, Wan Huaner respectively;

(s) a sale and purchase agreement dated 24 June 2011 entered into among Markus Rall, Jiang Wen, Kan Yau Shan and Triple Leaf (BVI) whereby of Markus Rall, Jiang Wen, Kan Yau Shan agreed to transfer 1.33%, 1.33% and 1.33% of the issued share capital of the Company to Triple Leaf (BVI) in consideration of the allotment and issue of one share in Triple Leaf (BVI) to each of these shareholders respectively;

(t) a deed of undertakings dated 27 June 2011 entered into between Mr. Fong and the Company, pursuant to which Mr. Fong provides certain guarantees, warranties and undertakings to the Group;

(u) a deed of indemnity dated 27 June 2011 entered into between the Controlling Shareholder and the Company, pursuant to which the Controlling Shareholder agreed to give certain tax and estate duty indemnities, property indemnity and other indemnities in favour of the Company (for itself and as trustee for and on behalf of its subsidiaries) subject to and in accordance with the terms and conditions set out therein;

(v) the Deed of Non-competition Undertaking; and

(w) the Placing Agreement.

2. Intellectual property rights of the Group

(a) Trademark

(i) As at the Latest Practicable Date, the Group had the following registered trademark in Hong Kong:

Trademark	Registrant	Class *(Note)*	Place of registration	Registration number	Registration date	Expiry date
welcome 悦来客栈 inn	Legend Strategy	43	Hong Kong	301674874	28 July 2010	27 July 2020

Note:

The specific services under class 43 include providing banqueting services; temporary accommodation; hotel services; hotel accommodation; rental of meeting rooms for private parties food and drink; food and drink catering; restaurant services; cafes; bistro services; canteen services; coffee house services; tea house services; self-service café services; self-service restaurant services; take away food services; cocktail lounge services; tavern services; bar services; fast food services; snack bar services; cafeteria services; rental of chairs, tables, table linen, glassware for private parties; food and drink catering for private parties; food cooking services; and preparation of food and drink services.

(ii) As at the Latest Practicable Date, the Group had applied for registration of the following trademarks in the PRC:

Trademark	Applicant	Class *(Note)*	Application number	Application date
悦来客栈	Legend Strategy	43	9126255	17 February 2011
悦来	Legend Strategy	43	9216767	16 March 2011
	Legend Strategy	43	9241872	22 March 2011
welcome 悦来客栈inn	Legend Strategy	43	9216766	16 March 2011

Note:

The specific services under class 43 include accommodation; hotels; hotel services; accommodation (hotels, boarding house) services; coffee shops; motel services; reservations services for temporary accommodation; reservations services for hotel accommodation; bar; and teahouse.

(b) Domain names

As at the Latest Practicable Date, the Group had registered the following domain names:

Domain name	Registrant	Expiry date
www.welcomeinn.com.cn	Yuelai Inn Tourists	17 April 2013
www.legendstrategy.com	Yuelai Inn Tourists	21 June 2012

C. DISCLOSURE OF INTERESTS

1. Directors

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

Immediately following completion of the Placing (assuming 45,000,000 Placing Shares are successfully placed and taking no account of Shares which may be issued pursuant to the exercise of options which may be granted under the Share Option Scheme), the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have taken under such provisions of the SFO) once the Shares are listed, or which will be required to be entered in the register kept by the Company pursuant to section 352 of the SFO, or which, once the Shares are listed, will be required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors are as follows:

(i) Interest in Shares

Name of Director	Capacity/Nature of interest	Long/Short position	Number of Shares held	Approximate percentage of shareholding in the Company
Mr. Fong	Personal	Long	99,759,466	55.4%
Ms. Wong Pit Lai Vera *(Note 1)*	Interest of spouse	Long	99,759,466	55.4%
Mr. De Weyer	Personal	Long	10,523,655	5.8%
Ms. Makoto Nishimura *(Note 2)*	Interest of spouse	Long	10,523,655	5.8%

(ii) Interest in associated corporation of the Company

Name of Director	Name of associated corporation	Capacity/Nature of interest	Number of securities held	Approximate percentage of shareholding
Nil	Nil	Nil	Nil	Nil

Notes:

1. Ms. Wong Pit Lai Vera is the spouse of Mr. Fong, she is therefore deemed to be interested in the Shares in which Mr. Fong is interested for the purpose of the SFO.

2. Ms. Makoto Nishimura is the spouse of Mr. De Weyer, she is therefore deemed to be interested in the Shares in which Mr. De Weyer is interested for the purpose of the SFO.

(b) Particulars of service contracts

Each of the executive Directors and the non-executive Director has entered into a service contract with the Company for a term of three years commencing from the Listing Date which may be terminated by either party giving not less than three months' prior notice in writing and is subject to termination provisions therein and provisions on retirement by rotation of the Directors as set out in the Articles of Association. Particulars of the service contracts of the executive Directors and the non-executive Director are in all material respects the same. Each of the executive Directors and the non-executive Director shall be entitled to the annual fee as follows:

Name of Director	**Annual Director's remuneration** *HK$*
Mr. Fong	480,000
Mr. Wong	240,000
Mr. De Weyer	80,000

Each of the independent non-executive Directors has been appointed pursuant to an appointment letter issued by the Company for a term of three years commencing from the Listing Date which may be terminated by either party by giving not less than three months' prior notice in writing. Pursuant to the letters of appointment between the Company and each of Dr. Wong, Hak Kun Jerry, Mr. Tam, Kwok Ming Banny and Mr. Tsoi, Wing Sum (all of whom are independent non-executive Directors), each of them is entitled to receive a Director's fee of HK$6,666 per month.

Save as disclosed above, none of the Directors has entered or has proposed to enter into any service agreements with the Company or any members of the Group (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

(c) Remuneration of Directors

(i) About HK$210,000 and HK$210,000 were paid to the Directors by the Group as remuneration for each of the two financial years ended 31 December 2010 respectively.

(ii) Save as disclosed in the Accountant's Report in Appendix I to this prospectus, no Directors received any remuneration or benefits in kind from the Group for each of the two financial years ended 31 December 2010 respectively.

(iii) None of the Directors or any past directors of any member of the Group has been paid any sum of money for each of the two years ended 31 December 2010 as (1) an inducement to join or upon joining the Company; or (2) for loss of office as a director of any member of the Group or of any other office in connection with the management of the affairs of any member of the Group.

(iv) Under the arrangement currently in force, conditional upon the Listing, the estimated aggregate remuneration (excluding discretionary bonus, if any) payable by the Group to the Directors for the financial year ending 31 December 2011 is expected to be about HK$625,000.

2. Substantial Shareholders

(a) Interests in the Company

So far as the Directors are aware, immediately following completion of the Placing (assuming 45,000,000 Placing Shares are successfully placed and taking no account of Shares which may be issued pursuant to the exercise of options which may be granted under the Share Option Scheme), the following persons (not being a Director or chief executive of the Company) are expected to have an interest or short position in the shares and 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:

Name of Shareholder	Long/Short position	Capacity/ Nature of interest	Number of Shares held	Approximate percentage of shareholding
Mr. Qiu	Long	Personal	10,800,000	6.0%
Ms. Cheng Xiaomin *(Note)*	Long	Interest of spouse	10,800,000	6.0%

Note: Ms. Cheng Xiaomin is the spouse of Mr. Qiu, she is therefore deemed to be interested in the Shares in which Mr. Qiu is interested for the purpose of the SFO.

(b) Interest in other members of the Group

So far as the Directors are aware, immediately following completion of the Placing, there will not be any persons (not being a Director or chief executive of the Company) who will be directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

3. Related party transactions

Save as disclosed in this prospectus and in the Accountant's Report set out in Appendix I to this prospectus, during the two years immediately preceding the date of this prospectus, the Company had not engaged in any other material connected transactions or related party transactions.

4. Agency fees and commissions received

Save as disclosed in this prospectus, no commissions, discounts, brokerages or other special terms were granted within the two years immediately preceding the date of this prospectus in connection with the issue or sale of any capital of any member of the Group.

D. SHARE OPTION SCHEME

The following is a summary of the principal terms of the Share Option Scheme approved by the resolution of the Shareholders passed on 22 June 2011:

(a) Purpose

The purpose of the Share Option Scheme is for the Group to reward and retain Participants (as defined in paragraph (c) below) and to encourage and motivate Participants to strive for future developments and expansion of the Group in order to enhance the value of the Shares which will benefit the Group and the Shareholders as a whole. The Share Option Scheme shall be an incentive to encourage the Participants to perform their best in achieving the goals of the Group and allow the Participants to enjoy the results of the Company attained through their efforts and contributions.

(b) Conditions

The Share Option Scheme is conditional upon:

(i) the passing of the necessary resolution(s) by Shareholders to approve and adopt the Share Option Scheme;

(ii) the Listing Division granting approval (whether subject to conditions or not) of the Share Option Scheme and any right to subscribe for Shares pursuant to the Share Option Scheme ("**Option(s)**") which may be granted thereunder, and the listing of, and permission to deal in, any Shares which may be issued pursuant to the exercise of the Options;

(iii) the commencement of dealings in the Shares on GEM; and

(iv) the obligations of the Placing Agents under the Placing Agreement referred to in the paragraph headed "Placing Arrangements and Expenses" in the section headed "Structure and Conditions of the Placing" of the prospectus becoming unconditional (including, if relevant, as a result of the waiver of any such conditions) and not being terminated in accordance with the terms of the Placing Agreement or otherwise.

(c) Scope of Participants and eligibility of Participants

The Board may, at its discretion, invite (collectively, the "**Participants**"):

(i) (a) any full-time employee and director (including executive Director, non-executive Director and independent non-executive Director and (b) any part time employee with weekly working hours of 10 hours and above of the Group ("**Employee**");

(ii) (a) any adviser or consultant (in the areas of legal, technical, financial or corporate managerial) to the Group; (b) any provider of goods and/or services to the Group; or (c) any other person who, at the sole determination of the Board, has contributed to the Group (the assessment criterion of which are (i) such person's contribution to the development and performance of the Group; (ii) the quality of work performed by such person for the Group; and (iii) the initiative and commitment of such person in performing his or her duties; and (iv) the length of service or contribution of such person to the Group) ("**Business Associate**"); and

(iii) any trustee of a trust (whether family, discretionary or otherwise) whose beneficiaries or objects include any Employee or Business Associate of the Group.

In determining the basis of eligibility of each Participant, the Board would take into account such factors as the Board may at its absolute discretion consider appropriate.

(d) Acceptance of offer

Offer of an Option shall be deemed to have been accepted by the grantee when the duplicate of the relevant offer letter comprising acceptance of the Option duly signed by the grantee, together with a remittance in favour of the Company of HK$1.00 by way of consideration for the grant thereof, is received by the Company within 28 days from the date of the offer.

(e) Subscription price

The subscription price for the Shares under the Share Option Scheme, subject to any adjustments made pursuant to reorganisation of capital structure shall be a price determined by the Board in its absolute discretion at the time of the grant of the relevant Option and notified to the Participant and shall be no less than the higher of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheets on the date on which the relevant Option is granted, (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five Business Days immediately preceding the date on which the relevant Option is granted; and (iii) the nominal value of a Share.

(f) Maximum number of Shares available for subscription

(i) Subject to (iv) below, the total number of Shares which may be issued upon exercise of all Options to be granted under the Share Option Scheme and any other share option schemes of the Company shall not in aggregate exceed 10% of the total number of the Shares in issue as at the date of completion of the Placing unless the Company obtains an approval from its shareholders pursuant to (ii) below.

(ii) Subject to (iv) below, the Company may seek approval of its shareholders in general meeting to renew the 10% limit set out in (i) above such that the total number of Shares which may be issued upon exercise of all Options to be granted under the Share Option Scheme and any other share option schemes of the Company shall not exceed 10% of the total number of the Shares in issue as at the date of approval of the renewed limit.

(iii) Subject to (iv) below, the Company may seek separate approval from its shareholders in general meeting for granting Options to specified Participant(s) beyond the 10% limit provided the Options granted in excess of such limit are specifically approved by the Shareholders in general meeting and the Participants are specifically identified by the Company before such approval is sought. In such case, the Company shall send a circular to its shareholders containing, amongst other terms, a generic description of the specified Participant(s) whom such Options are to be granted to, the number and terms of the Options to be granted, the purpose of granting Options to the specified Participant(s) and an explanation as to how these Options serve such purpose.

(iv) Notwithstanding any other provisions of the Share Option Scheme, the maximum number of Shares in respect of which Options may be granted under the Share Option Scheme together with any options outstanding and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company in issue shall not exceed 30% (or such higher percentage as may be allowed under the GEM Listing Rules) of the total number of Shares in issue from time to time. No Options may be granted under the Share Option Scheme or any other share option schemes of the Company if this will result in such limit being exceeded.

(g) Conditions, restrictions or limitations on offers of Options

Unless otherwise determined by the Board, there is no minimum period for which an Option must be held before it can be exercised and no performance target needs to be achieved by the grantee before the Options can be exercised. On and subject to the provisions of the GEM Listing Rules and the terms of the Share Option Scheme, the

Board shall be entitled at any time during the life of the Share Option Scheme to make an offer to any Participant as the Board may in its absolute discretion impose any conditions, restrictions or limitations in relation to the Options and select to take up Options in respect of such number of Shares as the Board may think fit (provided the same shall be a board lot for dealing in Shares on the Stock Exchange or an integral multiple thereof) at the subscription price.

(h) Maximum entitlement of Shares of each Participant

(i) Subject to paragraph (ii) below, the total number of Shares issued and to be issued upon exercise of the Options granted to each Participant (including exercised, cancelled and outstanding Options) in any 12-month period shall not exceed 1% of the relevant class of securities of the Company in issue.

(ii) Notwithstanding (i) above, any further grant of Options to a Participant in excess of the 1% limit shall be subject to shareholders' approval with such Participant and his associates abstaining from voting. The number and the terms of the Options to be granted to such Participant shall be fixed before the Shareholders' approval of the grant of such Option and the date of the Board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the subscription price.

(i) Grant of Options to connected persons

(i) Any grant of Options to a Participant who is a director, chief executive or substantial shareholder (each has the meaning as ascribed under the GEM Listing Rules) of the Company or any of their respective associates must be approved by the independent non-executive Directors (excluding independent non-executive Director who is the Participant).

(ii) Where the Board proposes to grant any Option to a Participant who is a substantial Shareholder or an independent non-executive Director or any of their respective associates and such Option which if exercised in full, would result in such Participant becoming entitled to subscribe for such number of Shares, when aggregated with the total number of Shares already issued, and issuable, to him or her pursuant to all Options granted and to be granted (including Options exercised, cancelled and outstanding) to him or her in the 12-month period up to and including the proposed date of offer of such grant (the "**Relevant Date**"):

(1) representing in aggregate more than 0.1% of the relevant class of securities of the Company in issue on the Relevant Date; and

(2) having an aggregate value, based on the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the Relevant Date and if the Relevant Date is not a trading day, the trading day immediately preceding the Relevant Date, in excess of HK$5,000,000,

such proposed grant of Options must be approved by the Shareholders in general meeting and the Company must send a circular to its shareholders containing all those terms as required under the GEM Listing Rules. The Participant concerned and all other connected persons of the Company must abstain from voting (except where any connected person intends to vote against the relevant resolution provided that such intention to do so has been stated in the circular). Any vote taken at the meeting to approve the grant of such Options must be taken on a poll.

(j) Exercise of Options

An Option may be exercised in accordance with the terms of the Share Option Scheme and such other terms and conditions upon which an Option was granted, at any time during the option period after the Option has been granted by the Board but in any event, not more than 10 years commencing on the date of grant. An Option shall lapse automatically (to the extent not already exercised) on the expiry of the option period.

(k) Transferability of Options

An Option shall be personal to the grantee and shall not be assignable and no grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interests in favour of any third party over or in relation to any Option. Any breach of the foregoing by the grantee shall entitle the Company to cancel any option granted to such grantee (to the extent not already exercised).

(l) If a grantee ceased to be a Participant by reason other than death or misconduct

If the grantee ceases to be a Participant for any reason other than, in case of grantee being an Employee on the grantee's death or the termination of the grantee's employment or directorship on one or more of the grounds specified in paragraph (n) below, and, in case of grantee being a Business Associate, on the expiry of the relevant fixed term contract or date of notice of cessation for ground other than those specified in paragraph (n) below the grantee may exercise the Option up to his entitlement at the date of cessation (to the extent he or she is entitled to exercise at the date of cessation but not already exercised) within the period of nine months (or such longer period as the Board may determine) following the date of such cessation.

(m) On the death of a grantee

If the grantee dies before exercising the Option in full and none of the events which would be a ground for termination of the grantee's employment or directorship under paragraph (n) below arises, the personal representative(s) of the grantee shall be entitled to exercise the Option up to the entitlement of such grantee at the date of death (to the extent which has become exercisable and not already exercised) within a period of 12 months or such longer period as the Board may determine from the date of death, failing which it will lapse.

(n) Termination by reason of misconduct

An Option shall lapse automatically (to the extent not already exercised) on the date on which, in case of grantee being an Employee, the grantee ceased to be a Employee by reason of the termination of his employment or directorship on the grounds that he or she has been guilty of misconduct, or appears either to be unable to pay or have no reasonable prospect to be able to pay debts, or has become insolvent, or has made any arrangements or composition with his or her creditors generally, or has been convicted of any criminal offence involving his or her integrity or honesty, or on any other grounds on which the Group would be entitled to summarily terminate his office or employment at common law or pursuant to any applicable laws or under the Grantee's service contract with the Group and in case of grantee being a Business Associate, the contract with the Group is terminated by reason of breach of contract on the part of the Business Associate or such Business Associate appears either to be unable to pay or have no reasonable prospect to be able to pay debts, or has become insolvent, or has made any arrangements or composition with his or her creditors generally, or ceases or threaten to cease to carry on its business, or is wound up, or has an administrator or liquidator being appointed for the whole or any part of its undertaking or assets; or has been convicted of any criminal offence involving integrity or honesty.

(o) Voluntary winding-up of the Company

In the event a notice is given by the Company to its shareholders to convene a Shareholders' meeting for the purpose of considering, and if thought fit, approving a resolution to voluntarily wind-up the Company, the Company shall forthwith give notice thereof to all grantees and the grantee (or his or her legal representative(s)) may by notice in writing to the Company (such notice to be received by the Company not later than four business days prior to the proposed shareholders' meeting) exercise the Option (to the extent not already exercised) either to its full extent or to the extent specified in such notice and the Company shall as soon as possible and in any event no later than the day immediately prior to the date of the proposed Shareholders' meeting, allot and issue such number of Shares to the grantee which falls to be issued on such exercise. Subject to the above, an Option shall lapse automatically (to the extent not already exercised) on the expiry of the period referred to above.

(p) General offer by way of take-over

If a general offer by way of take-over is made to all the Shareholders (or all such holders other than the offeror, any person controlled by the offeror and any person acting in association or concert with the offeror) with the terms of the offer having been approved by the holders of not less than nine-tenths in value of the Shares comprised in the offer within four months from the date of the offer and the offeror thereafter gives a notice to acquire the remaining Shares, the grantee (or where appropriate, his or her legal personal representatives) shall be entitled to exercise the Options in full (to the extent not already exercised) even though the option period has not come into effect during the occurrence of the general offer within 21 days after the date of such notice by the offeror. Subject to the above, an Option shall lapse automatically (to the extent not already exercised) on the expiry of the period referred to above.

(q) Rights on a compromise or arrangement

lf a compromise or arrangement between the Company and its members or creditors is proposed for the purposes of or in connection with a scheme for the reconstruction of the Company or its amalgamation with any other company or companies, the Company shall give notice to the grantee on the same date as it despatches the notice to each member or creditor of the Company summoning the meeting to consider such a compromise or arrangement, and thereupon the grantee (or his or her personal representative(s)) may until the expiry of the period commencing with such date and ending with the earlier of the date two months thereafter and the date on which such compromise or arrangement is sanctioned by the Court, provided that the relevant Options are not subject to a term or condition precedent to them being exercisable which has not been fulfilled, exercise any of his or her Options whether in full or in part, but the exercise of an Option as aforesaid shall be conditional upon such compromise or arrangement being sanctioned by the court and becoming effective. Upon such compromise or arrangement becoming effective, all Options shall lapse except insofar as previously exercised under the Share Option Scheme.

(r) Rank pari passu

The Shares to be allotted and issued upon the exercise of an Option will be subject to all the provisions of the Articles of Association for the time being in force and will rank pari passu with the fully paid Shares in issue as from the date of allotment and in particular will entitle the holders to participate in all dividends or other distributions paid or made on or after the date of allotment other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date thereof shall be before the date of allotment.

(s) Reorganisation of capital structure

In the event of any alteration in the capital structure of the Company whilst any Option remains exercisable, whether by way of capitalisation of profits or reserves, rights issue, open offer, consolidation, sub-division, or reduction of share capital of the Company or otherwise howsoever in accordance with legal requirements and requirements of the Stock Exchange, other than any alteration in the capital structure of the Company as a result of an issue of Shares pursuant to, or in connection with, any share option scheme, share appreciation rights scheme or any arrangement for remunerating or incentivising any employee, consultant or adviser to the Company or any employee, consultant or adviser to the Group or in the event of any distribution of the Company's legal assets to its shareholders on a pro rata basis (whether in cash or in specie) other than dividends paid out of the net profits attributable to its shareholders for each financial year of the Company, such corresponding alterations (if any) shall be made to:

(i) the number or nominal amount of Shares subject to the Option so far as unexercised; or

(ii) the subscription price; or

(iii) the maximum number of Share for which the Options may be granted under the Share Option Scheme,

or any combination thereof, as the Company's auditors or the independent financial adviser shall certify in writing, either generally or as regards any particular grantee, to be in their opinion fair and reasonable, and to have, in their opinion, fairly and reasonably satisfied the requirement that any such adjustment shall be in compliance with the relevant provisions of the GEM Listing Rules or such other guidelines or supplementary guidance as may be issued by the Stock Exchange from time to time, but that no such adjustments shall be made to the extent that a Share would be issued at less than its nominal value.

(t) Duration of the Share Option Scheme

The Share Option Scheme shall remain valid and effective for a period of 10 years commencing on the date on which the Share Option Scheme is adopted, after which period no further Options will be granted but the provisions of the Share Option Scheme shall in all other respects remain in full force and effect and Options which are granted during the life of the Share Option Scheme may continue to be exercisable in accordance with their terms of issue.

(u) Cancellation of Options granted

The Board may at any time at its absolute discretion cancel any Option previously granted to, but not exercised by the grantee. Where the Company cancels Options and offers Options to the same grantee, the offer of such new Options may only be made with available Options to the extent not yet granted (excluding the cancelled Options) within the limit approved by the Shareholders as mentioned in paragraph (f) above. An Option shall lapse automatically (to the extent not already exercised) on the date on which the Option is cancelled by the Board as provided above.

(v) Termination of the Share Option Scheme

The Company may by ordinary resolution in general meeting terminate or the Board may at any time terminate the operation of the Share Option Scheme and in such event no further Options will be offered but in all other respects the provisions of the Share Option Scheme in relation to any outstanding options shall remain in full force and effect. All Options granted prior to such termination but not yet exercised at the time of the termination shall continue to be valid and exercisable in accordance with this Scheme.

(w) Alteration of provisions of the Share Option Scheme

The Share Option Scheme may be altered in any respect by resolution of the Board save that the provisions of the Share Option Scheme relating to matters contained in Rule 23.03 of the GEM Listing Rules shall not be altered to extend the class of person eligible for the grant of Options or to the advantage of grantees or prospective grantees, except with the prior approval of the Shareholders in general meeting. Any alteration to the terms and conditions of the Share Option Scheme, which is of a material nature or any change to the terms of any Option granted must be approved by the Stock Exchange and the Shareholders in general meeting, except where such alterations take effect automatically under the existing terms of the Share Option Scheme. Any amendment or alteration to the terms and conditions of the Share Option Scheme shall comply with Chapter 23 of the GEM Listing Rules. Any change to the authority of the Board or administrators of the Share Option Scheme in relation to any alternation to the terms of the Share Option Scheme must be approved by the Shareholders in general meeting.

(x) Restrictions on the time of grant of Options

An offer must not be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been published pursuant to the requirements of the GEM Listing Rules. In particular, during the period commencing one month immediately preceding the earlier of (i) the date of the Board meeting for the approval of the Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the GEM Listing Rules); and (ii) the deadline for the Company to publish announcement for its results for any year, half-year or quarterly under the GEM Listing Rules, or any other interim period (whether or not required under the GEM Listing Rules) and ending on the date of the results announcement, no Option may be granted. Such period will cover any period of delay in the publication of a results announcement.

As at the date of this prospectus, no option has been granted or agreed to be granted under the Share Option Scheme. On the assumption that 180,000,000 Shares are in issue on the date of commencement of dealings in the Shares on the Stock Exchange, the application to the Listing Division of the Stock Exchange for the listing of, and permission to deal in, the Shares on the Stock Exchange, 18,000,000 Shares may be issued upon the exercise of the Options which may be granted under the Share Option Scheme.

E. OTHER INFORMATION

1. Estate duty and tax indemnity

The Controlling Shareholder (the "**Indemnifier**") has entered into a deed of indemnity with and in favour of the Company (for itself and as trustee for each of its present subsidiaries) (being the material contract (u) referred to under the paragraph headed "Summary of material contracts" in the section headed "Further information about the business of the Group" in this Appendix) to provide indemnities in respect of, among others, any liability for Hong Kong estate duty which might be incurred by any member of the Group and/or its associated companies by reason of any transfer of property (within the meaning of section 35 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong)) to any member of the Group on or before the date on which the Placing becomes unconditional.

Under the deed of indemnity, the Indemnifier has also given indemnities to the Group in relation to taxation which might be payable by any member of the Group in respect of any income, profits or gains earned, accrued or received on or before the date on which the Placing becomes unconditional.

The Directors have been advised that no material liability for estate duty is likely to fall on the Company or any of its subsidiaries in the Cayman Islands, BVI and the PRC.

The deed of indemnity does not cover any claim and the Indemnifier shall be under no liability under the deed of indemnity in respect of any taxation:

(a) to the extent that provision, reserve or allowance has been made for such liability, taxation or taxation claim in the audited accounts (the "**Accounts**") of the Company and its subsidiaries as at and for the two years ended 31 December 2010; or

(b) to the extent that such taxation or liability for such taxation falling on any members of the Group in respect of their accounting periods or any accounting period commencing on or after 1 January 2011 and ending on the Listing Date, where such taxation or liability would not have arisen but for some act or omission of, or transaction voluntarily effected by, the Group or any of its members (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) without the prior written consent or agreement of the Indemnifier other than any such act, omission or transaction:

(i) carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets on or before the Listing Date;

(ii) carried out, made or entered into pursuant to a legally binding commitment created on or before the Listing Date or pursuant to any statement of intention made in this prospectus; or

(iii) consisting of any of the members of the Group ceasing, or being deemed to cease, to be a member of any group of companies or being associated with any other company for the purposes of any matter of taxation;

(c) to the extent that such taxation claim arises or is incurred as a result of the imposition of taxation as a consequence of any retrospective change in the law or the interpretation or practice thereof by the Inland Revenue Department of Hong Kong or any other relevant authority coming into force after the date of the deed of indemnity or to the extent such taxation claim arises or is increased by an increase in rates of taxation after the date of the deed of indemnity with retrospective effect;

(d) to the extent of any provisions or reserve made for taxation in the Accounts which is finally established to be an over-provision or an excessive reserve in which case the Indemnifier's liability (if any) in respect of such taxation shall be reduced by an amount not exceeding such provision or reserve, provided that the amount of any such provision or reserve applied pursuant to this item (d) to reduce the Indemnifier's liability in respect of taxation shall not be available in respect of any such liability arising thereafter; or

(e) to any incomes, profits or gains earned, accrued or received by any member of the Group or any event occurred after the Listing Date.

Under the said deed of indemnity, the Indemnifier has also undertaken to indemnify the Group against any costs, expenses, claims, liabilities, penalties, losses and damages (including, but not limited to, any relocation or destruction cost) incurred or suffered by the Company or any member of the Group arising from or in connection with any failure of the Company, any members of the Group or any parties from whom the Company or any member of the Group purchased, leased or obtained licence or permit to use any property interests owned, leased, licenced or otherwise used or occupied by the Company or any member of the Group (the "**Relevant Property**"), to obtain any property ownership certificate, certificate of title, approval, permit, consent or registration in respect of the Relevant Property.

The Indemnifier has further agreed with each member of the Group that he will indemnify and at all times keep all and each of the members of the Group fully indemnified on demand against all losses, costs (including all legal costs), expenses, penalties or other liabilities which any of the members of the Group may incur in connection with or sustain from (i) the delay in capital contribution to any members of the Group by the relevant shareholders; and (ii) any failure of the Company or any members of the Group to fully pay or as required by the relevant local authorities to fully pay any social insurance contributions to the extent such amounts are not fully and adequately provided in the Accountant's Report as set out in Appendix I to this prospectus.

2. Litigation

As at the Latest Practicable Date, neither the Company nor any other member of the Group was engaged in any litigation or arbitration of material importance and, so far as the Directors are aware, no litigation, arbitration or claim of material importance was pending or threatened against any member of the Group.

3. Sponsor

The Sponsor has made an application on behalf of the Company to the Listing Division for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned herein (including any Shares falling to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme).

4. Preliminary expenses

The preliminary expenses of the Company are estimated to be approximately HK$62,000 and are payable by the Company.

5. Promoter

The promoter of the Company is Mr. Fong. Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus, no cash, securities or other benefit has been paid, allotted or given or is proposed to be paid, allotted or given to the promoter in connection with the Placing or the related transactions described in this prospectus.

6. Qualifications of experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus:

Name	Qualification
Quam Capital	A licenced corporation to carry on type 6 (advising on corporate finance) regulated activity under the SFO
Jingtian & Gongcheng	Legal advisers to the Company as to PRC laws
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
PricewaterhouseCoopers	Certified public accountants
Norton Appraisals Limited	Property valuers

7. Consents of experts

Each of Quam Capital, Jingtian & Gongcheng, Conyers Dill & Pearman, PricewaterhouseCoopers and Norton Appraisals Limited has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its report and/or letter and/or opinion and/or valuation certificate and/or the references to its name included herein in the form and context in which they are respectively included.

8. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance insofar as applicable.

9. Disclaimers

Save as disclosed in this prospectus:

(a) none of the Directors nor any of the parties whose names are listed in the paragraph headed "Consents of experts" under the section headed "Other information" in this Appendix is interested in the promotion of the Company, or in any assets which have been, within the two years immediately preceding the issue of this prospectus, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group;

(b) none of the Directors nor any of the parties whose names are listed in the paragraph headed "Consents of experts" under the section headed "Other information" in this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Group;

(c) none of the experts named in the paragraph headed "Qualifications of experts" under the section headed "Other information" in this Appendix has any shareholding in any member in the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member in the Group; and

(d) none of the Directors is interested in any business apart from the Group's business, which competes or is likely to compete, either directly or indirectly, with the Group's business.

10. Miscellaneous

(a) Save as disclosed in this prospectus:

(i) within the two years preceding the date of this prospectus, no share or loan capital of the Company or any of its subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;

(ii) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

(iii) no founders, management or deferred shares of the Company or any of its subsidiaries have been issued or agreed to be issued; and

(iv) the Directors confirm that since 31 December 2010 (being the date to which the latest audited financial statements of the Group were made up), there has been no material adverse change in the financial or trading position or prospects of the Group.

(b) There has not been any interruption in the business of the Group which may have or has had a material adverse effect on the financial position of the Group in the last 24 months.

(c) None of Quam Capital, Jingtian & Gongcheng, Conyers Dill & Pearman, PricewaterhouseCoopers and Norton Appraisals Limited:

(i) is interested beneficially or non-beneficially in any shares in any member of the Group; or

(ii) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any shares in any member of the Group.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the written consents referred to in the paragraph headed "Consents of experts" under the section headed "Other Information" in Appendix V to this prospectus and copies of the material contracts referred to in the paragraph headed "Summary of material contracts" under the section headed "Further information about the business of the Group" in Appendix V to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Tung & Co. at 19th Floor, 8 Wyndham Street, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

(i) the Memorandum and the Articles;

(ii) the Accountant's Report from PricewaterhouseCoopers, the text of which is set out in Appendix I to this prospectus;

(iii) the audited financial statements of each member of the Group for each of the two financial years ended 31 December 2010 (or for the period since their respective dates of incorporation where it is shorter), if any;

(iv) the report from PricewaterhouseCoopers on the unaudited pro forma financial information, the text of which is set out in Appendix II to this prospectus;

(v) the letters, summary of values and valuation certificates relating to the property interests of the Group prepared by Norton Appraisals Limited, the texts of which are set out in Appendix III to this prospectus;

(vi) the material contracts referred to in the paragraph headed "Summary of material contracts" under the section headed "Further information about the business of the Group" in Appendix V to this prospectus;

(vii) the service contracts with the executive Directors and the non-executive Director and the appointment letters with the independent non-executive Directors referred to in the paragraph headed "Particulars of service contracts" under the section headed "Disclosure of interests" in Appendix V to this prospectus;

(viii) the written consents referred to in the paragraph headed "Consents of experts" under the section headed "Other information" in Appendix V to this prospectus;

(ix) the legal opinions issued by Jingtian & Gongcheng, the legal advisers to the Company as to PRC law, in respect of certain aspects of the Group and the property interests of the Group in the PRC;

(x) the letter of advice prepared by Conyers Dill & Pearman summarising certain aspects of the Companies Law referred to in Appendix IV to this prospectus;

(xi) the rules of the Share Option Scheme; and

(xii) the Companies Law.