# FINANCIAL INFORMATION

*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 (the "**Accountant's Report**") included as Appendix I to this document. 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 document 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 0.8% of its revenue from the sales of hotel membership cards. For the year ended 31 December 2010, the Group generated 73.2% of its revenue from the hotel operations, 25.8% of its revenue from the provision of hotel consultancy services and the remaining 1.0% of its revenue from the sales of hotel membership cards. In the future, the Group expects the portion of its revenue attributable to the hotel operations to increase due to the commencement of operation of new leased-and-operated hotels and the number of hotel consultancy projects to be constant each year.

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, the occupancy of the Group's hotels remained low, ranging from 40.6% to 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 [●] for the four months ended 30 April 2011. Otherwise, the total expenses of the Group for the four months ended 31 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 Group was in a loss position for the four months ended 30 April 2011. Excluding the non-recurring expenses in relation to [●], 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 the 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 approximately HK$9.6 million 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 services 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 services 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 services and hotel management services 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 document.

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 document, 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 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 [●]" under the section headed "Risk factors" of this document.

**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 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 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 Licence of Special Trade issued by the provincial public security authority and to comply with licence requirements and laws and regulations with respect to construction permits, fire prevention, public area hygiene, food 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 document.

## 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 document. 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 value 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 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. 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 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 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.

*Impairment of property, plant and equipment*

Property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may be not recoverable. The recoverable amounts have been determined based on fair value less costs 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 experiences 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. Moveover, 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:

| | Note | For the year ended 31 December 2009 (HK$) | For the year ended 31 December 2010 (HK$) |
|---|---|---|---|
| **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 document 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 in 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 *(%)* | 69.7% | 92.8% |
| ARR *(RMB)* | 178.9 | 179.4 |
| RevPAR *(RMB)* | 124.7 | 166.6 |

The Group's revenue increased by HK$17,771,970, or 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. The 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;

- As a result of the increase in occupancy, the RevPAR of Welcome Inn Caitian, Welcome Inn Nanshan, Welcome Inn Baoan and Welcome Inn Luohu increased by approximately 24.6%, 32.6%, 29.1% and 141.7%, respectively for the year ended 31 December 2010; and

- The increased occupancy was 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 services agreements with Independent Third Party hotel investors of 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$* | *% of total* | *HK$* | *% 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 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 leaking 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 1.1% for the year ended 31 December 2010.

*Employee benefit expenses*

The employee benefit expenses increased by HK$557,368, or 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 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$* | *% of total* | *HK$* | *% 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 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 customers 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, the occupancy of the Group's hotels remained low, ranging from 40.6% to 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 an increase by 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 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 are recorded in a subsidiary incorporated in the BVI which are 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*

| | Net book amount of property, plant and equipment As at 31 December | | | |
|---|---|---|---|---|
| | **2009** | | **2010** | |
| | *HK$* | *% of total* | *HK$* | *% of total* |
| 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 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$41.7 million as at 31 December 2009. The net current liabilities position was substantially reduced to HK$8.7 million 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 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 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.

**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 document, 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*

| | **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 desposits | 968,810 | 3,631,886 |

The Group's trade debtors, prepayments and deposits increased by HK$4,073,324, or 333.0%, from HK$1,223,252 as at 31 December 2009 to HK$5,296,576 as at 31 December 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 by HK$1,339,708, from HK$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 Gorup due to their respective liquidity conditions. The Directors considered the collectibility risk for these corporate customers were low since the outstanding trade 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 an 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 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 for 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*

| | **2009** | **2010** |
|---|---|---|
| | *HK$* | *HK$* |
| *Accruals* | | |
| Accured 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 | 563,686 | 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 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 land lord of Welcome Inn Nanshan and the proactive settlement of operating lease expenses for the year ended 31 December 2010. 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$950,616 or approximately 45.6% 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 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 accrual 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 funded its operations principally through cash generated from its operations and contribution from the Directors. Its cash requirements relate primarily to operating activities, 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, Bank of Beijing granted a credit line to the Group 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 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 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 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 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 [●], 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 document.

**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$2 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 document.

**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.

**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 and equity funding.

*Credit risk*

The Group's credit risk is primarily attributable to cash and cash equivalents, trade debtors, prepayments 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 an 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 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 [●], 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.