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 document. It is prepared and addressed to the directors of the Company pursuant to the requirements of Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants.

[DRAFT]

The Directors
Legend Strategy International Holdings Group Company 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 this document.

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. Pursuant to a group reorganisation as described in Note 1 of Section II headed "Reorganisation" below, which was completed on [●], 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 companies now comprising the Group which are subject to statutory audit requirements were audited by the statutory auditors 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 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 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

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 deposit	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
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 liabilities			
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				
	Share capital	**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 income 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, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. 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.

Notes:

(i) The statutory financial statements of these subsidiaries for 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 they do 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 [●], 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 [●], Mr. Fong transferred his 100% equity interest in Lai Ying to Legend Group (BVI), 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 [●], each of the then shareholders of Triple Leaf transferred to Legend Group (BVI) 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 [●], each of the then shareholders of Legend Strategy other than Legend Group (BVI) transfer its equity interest which represented a totaling of 21% equity interest in Legend Strategy to Legend Group (BVI). 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 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 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.

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 24 (Revised)	Related Party Disclosures	1 April 2011
HKFRS 9	Financial Instruments	1 April 2013
HK(IFRIC) — Int 14	Prepayments of a Minimum Funding Requirement	1 April 2011
HK(IFRIC) — Int 19	Extinguishing Financial Liabilities with Equity Instruments	1 April 2011
Improvements to HKFRS — Amendments to:		
HKFRS 1	First-time Adoption of Hong Kong Financial Reporting Standards	1 April 2011
HKFRS 7	Financial Instruments: Disclosures	1 April 2011
HKAS 1	Presentation of Financial Statements	1 April 2011
HKAS 34	Interim Financial Reporting	1 April 2011
HK(IFRIC) — Int 13	Customer Loyalty Programme	1 April 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 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 and 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 in the combined financial statements to ensure consistency with the policies adopted by the Group.

The Group treats transactions with non-controlling interest as transactions with equity owners of the Group. For purchases of additional interest in subsidiaries from non-controlling interest, 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 interest 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 income statement 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 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 (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.

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, prepayments 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, prepayments and deposits are amounts due from customers for services performed in the ordinary course of business. If collection of trade debtors, prepayments and deposits 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 Share capital

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 including 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/period 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 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.

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 on 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, 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. It has policies in place to ensure that sale of rooms to corporate customers are made to customers with an appropriate credit history. Sales to walk-in customers are made via credit cards 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.

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 and trade receivables; and financial liabilities including trade and other payables and amount due to a director approximate their fair values due to their maturities. The Company'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 are considered to approximate 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 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 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 experiences 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. 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 chief operating decision-maker ("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.

Management assesses the performance of the operating segments based on the measure of operating (loss)/profit.

The sales of hotel memberships are not included in the reportable operating segments as the information is not reviewed by the CODM.

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	Provision of hotel consultancy services	Total
	HK$	*HK$*	*HK$*
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	Provision of hotel consultancy services	Total
	HK$	*HK$*	*HK$*
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	2010
	HK$	*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.

All the non-current assets 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

10 DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

(a) Directors' and senior executives' emoluments

The emoluments of the directors and senior executives for 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 for the years ended 31 December 2009 and 2010. Their emoluments 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

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:

	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 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 schedule specified in the agreement. 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 these trade debtors is as follows:

	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)*	**Capital 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)
Loss and 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)
Profit and 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 share of the carrying value of net assets of the subsidiary is recorded in the capital reserve.

Note (iii): On 31 December 2010, Mr. Fong has 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 analyzed as follows:

	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 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 HK$	As at 31 December 2010 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 HK$	As at 31 December 2010 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 deposit	851,076
Trade debtors and deposits	327,851
Cash and cash equivalents	212,110
	1,391,037

	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 deposit	934,358
Trade debtors and deposits	1,736,700
Cash and cash equivalents	263,590
	2,934,648

	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 amounts 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 [●].

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 has 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