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

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2013

The board (the "Board") of directors (the "Directors") of Legend Strategy International Holdings Group Company Limited (the "Company") is pleased to announce the consolidated annual results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2013 (the "Year") prepared in accordance with the Hong Kong Financial Reporting Standards, together with comparative figures for the year ended 31 December 2012 as follows:

RESULTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2013

	Note	**2013** *HK$*	2012 *HK$*
Revenue	*3*	**57,968,906**	91,155,199
Operating lease expenses		**(14,822,036)**	(11,584,821)
Depreciation of property, plant and equipment		**(7,389,933)**	(7,959,800)
Employee benefit expenses		**(16,827,186)**	(9,845,335)
Utilities		**(1,799,710)**	(1,893,741)
Other operating expenses	*4*	**(17,863,871)**	(15,122,826)
Other income		**1,980,524**	—
Operating profit		**1,246,694**	44,748,676
Finance income		**74,298**	76,231
Finance cost		**(848,630)**	(1,077,099)
Finance cost — net	*5*	**(774,332)**	(1,000,868)
Share of results of joint ventures		**(3,765,796)**	(20,870)
(Loss)/profit before income tax		**(3,293,434)**	43,726,938
Income tax expense	*6*	**(3,960,343)**	(10,855,270)
(Loss)/profit for the year		**(7,253,777)**	32,871,668
Other comprehensive income:			
Items that may be reclassified to profit or loss			
Currency translation differences		**2,296,761**	249,923
Fair value changes on available-for-sale financial assets		**(178,000)**	178,000
Total comprehensive (loss)/income for the year		**(5,135,016)**	33,299,591
(Loss)/profit attributable to:			
Owners of the Company		**(7,253,777)**	32,871,668
Total comprehensive (loss)/income attributable to:			
Owners of the Company		**(5,135,016)**	33,299,591
(Loss)/earnings per share for (loss)/profit attributable to the owners of the Company during the year			
— Basic (Hong Kong cents)	*7*	**(3.99)**	18.26
— Diluted (Hong Kong cents)	*7*	**(3.99)**	17.97

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	Note	2013 HK$	2012 HK$
ASSETS			
Non-current assets			
Property, plant and equipment		**53,340,427**	36,746,467
Prepayments and deposits	9	**59,969,169**	24,450,000
Rental deposits	9	**1,425,273**	1,497,017
Prepaid operating lease		**10,529,348**	10,998,264
Interests in joint ventures		**25,432,735**	19,492,931
Deferred income tax assets		**1,284,573**	1,452,223
		151,981,525	94,636,902
Current assets			
Trade and other receivables	9	**13,038,625**	52,481,410
Amounts due from joint ventures		**1,024,454**	—
Available-for-sale financial assets		**—**	1,162,000
Cash and cash equivalents		**19,585,536**	27,880,476
		33,648,615	81,523,886
Total assets		**185,630,140**	176,160,788
EQUITY			
Capital and reserves attributable to the owners of the Company			
Share capital		**2,165,001**	1,800,001
Reserves		**148,304,988**	117,265,004
Total equity		**150,469,989**	119,065,005
LIABILITIES			
Non-current liabilities			
Provision for asset retirement		**1,440,769**	3,457,087
Finance lease liabilities		**516,251**	889,153
Convertible notes — debt component	10	**—**	29,405,000
		1,957,020	33,751,240
Current liabilities			
Provision for asset retirement		**2,299,176**	—
Trade and other payables	11	**16,625,205**	9,064,789
Current income tax liabilities		**13,936,056**	13,035,449
Finance lease liabilities		**342,694**	412,305
Financial derivatives	10	**—**	832,000
		33,203,131	23,344,543
Total liabilities		**35,160,151**	57,095,783
Total equity and liabilities		**185,630,140**	176,160,788
Net current assets		**445,484**	58,179,343
Total assets less current liabilities		**152,427,009**	152,816,245

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

	Attributable to owners of the Company			
	Share capital *HK$*	Share premium *HK$*	Reserves *HK$*	Total *HK$*
Balance at 1 January 2012	1,800,001	38,030,244	45,711,169	85,541,414
Profit for the year	—	—	32,871,668	32,871,668
Other comprehensive income:				
Currency translation differences	—	—	249,923	249,923
Fair value changes on available-for-sale financial assets	—	—	178,000	178,000
Total comprehensive income for the year	—	—	33,299,591	33,299,591
Total contributions by and distributions to owners of the Company recognised directly in equity				
Employee share option benefit	—	—	224,000	224,000
Balance at 31 December 2012	1,800,001	38,030,244	79,234,760	119,065,005
Balance at 1 January 2013	**1,800,001**	**38,030,244**	**79,234,760**	**119,065,005**
Loss for the year	**—**	**—**	**(7,253,777)**	**(7,253,777)**
Other comprehensive income:				
Currency translation differences	**—**	**—**	**2,296,761**	**2,296,761**
Fair value changes on available-for-sale financial assets	**—**	**—**	**(178,000)**	**(178,000)**
Total comprehensive loss for the year	**—**	**—**	**(5,135,016)**	**(5,135,016)**
Total contributions by and distributions to owners of the Company recognised directly in equity				
Conversion of convertible notes	**360,000**	**32,377,000**	**—**	**32,737,000**
Employee share option benefit	**—**	**—**	**2,892,000**	**2,892,000**
Exercise of share options by employee	**5,000**	**1,086,750**	**(180,750)**	**911,000**
Balance at 31 December 2013	**2,165,001**	**71,493,994**	**76,810,994**	**150,469,989**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

The Group is principally engaged in the budget hotel operations and provision of hotel consultancy and management services in the People's Republic of China (the "PRC").

The 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's shares were listed on the Growth Enterprise Market ("GEM") of the Stock Exchange of Hong Kong Limited on 15 July 2011. On 21 August 2013, the Company transferred the listing of its shares from GEM to the Main Board of the Stock Exchange of Hong Kong Limited ("HKEx").

These consolidated financial statements are presented in Hong Kong dollars ("HK$"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 28 March 2014.

2. BASIS OF PREPARATION

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial derivatives, which are carried at fair value.

The preparation of the consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

2.1 Going concern

During the year ended 31 December 2013, the Group incurred a net loss of approximately HK$7,254,000 (2012: net profit of HK$32,872,000). As at 31 December 2013, the Group's net current assets and cash and cash equivalents balance were approximately HK$445,000 (2012: HK$58,179,000) and HK$19,586,000 (2012: HK$27,880,000) respectively. The decrease was mainly attributable to payments for construction costs made for new budget hotels planned to be opened in the future. In addition, as at 31 December 2013, the Group has total operating lease and capital commitments of approximately HK$168,228,000, out of which approximately HK$25,733,000 would require cash outflows in the coming year.

In order to improve the Group's operating performance and alleviate its liquidity risk, management is implementing measures to control costs and contain capital expenditures. Further investments in hotel operations will be made only when the Group has sufficient financial resources after meeting its day-to-day working capital and other capital commitment requirements. Moreover, in March 2014, the Group has obtained a 15-month loan facility amounting to HK$45,000,000 from a financial institution. Up to the approval date of these consolidated financial statements, the Group has drawn down HK$20,000,000 from this loan facility to finance its working capital. Such borrowings bear an interest rate of 12% per annum; and will be repayable in June 2015. Moreover, the borrowings are unsecured notwithstanding the fact that the lender can request for collaterals as it thinks fit from time to time. With the availability of additional funding from the loan facility and the anticipated positive cash flows from the hotel operations, the directors expect that these will improve the Group's cash flows and financial position in the coming twelve months.

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

2.2 Change in accounting policy and disclosures

(a) New, revised and amended standards effective in 2013

The Group has adopted the following new, revised and amended standards that have been issued and are effective for the financial periods commencing on 1 January 2013:

Amendment to HKAS 1	Financial statements presentation regarding other comprehensive income
Amendment to HKAS 19	Employee benefits
HKAS 27 (revised 2011)	Separate financial statements
HKAS 28 (revised 2011)	Associates and joint ventures
Amendment to HKFRS 1	First time adoption on government loans
Amendment to HKFRS 7	Financial instruments: Disclosures on asset and liability offsetting
HKFRS 10	Consolidated financial statements
HKFRS 11	Joint arrangements
HKFRS 12	Disclosure of interests in other entities
HKFRS 13	Fair value measurement
Amendment to HKFRSs 10, 11 and 12	Transition guidance
HK(IFRIC) — Int 20	Stripping costs in the production phase of a surface mine
Annual improvements 2011	Annual improvements in the 2009-2011 financial reporting cycle

The adoption of the amended standards did not have material effect on how the results and financial positions for the current or prior accounting periods have been prepared and presented.

(b) New, revised and amended standards and interpretations to existing standards that have been published but are not yet effective

The following new, revised and amended standards and interpretations to existing standards have been published and are mandatory for the financial periods beginning on or after 1 January 2014, but the Group has not early adopted them:

HKAS 32 (Amendment)	Financial instruments: Presentation on asset and liability offsetting[1]
HKAS 36 (Amendment)	Impairment of assets on recoverable amount disclosures[1]
HKAS 39 (Amendment)	Financial instruments: Recognition and measurement-novation of derivatives[1]
HKFRS 9	Financial instruments[5]
HKFRS 10, HKFRS 12 and HKAS 27 (Amendment)	Consolidation for investment entities[1]
HKFRS 14	Regulatory deferral accounts[4]
Annual improvements 2012	Annual improvements to HKFRS 2010-2012 cycle[2]
Annual improvements 2013	Annual improvements to HKFRS 2011-2013 cycle[2]
HK(IFRIC) — Int 2	Members' shares in co-operative entities and similar instruments[3]
HK(IFRIC) — Int 4	Determining whether an arrangement contains a lease[4]
HK(IFRIC) — Int 21	Levies[1]

Note:

[1] Effective for financial periods beginning on or after 1 January 2014
[2] Effective for financial periods beginning on or after 1 July 2014
[3] Effective for financial periods beginning on or after 1 January 2015
[4] Effective for financial periods beginning on or after 1 January 2016
[5] Effective date to be determined

The Group will apply these new, revised and amended standards and interpretations to existing standards in the period of initial application. The Group is currently assessing the impact of the adoption of these new, revised and amended standards and interpretations to existing standards and is not yet in a position to state whether they would have a significant impact on the Group's results of operations and financial position.

There are no other HKFRSs or HK(IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the Group.

3. 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. The sales of hotel membership cards, hotel management services income and rental income on a sub-leased premise are included in the hotel operation segment.

Management assesses the performance of the operating segments based on the measure of operating profit but exclude certain unallocated corporate income and expenses.

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

	Hotel operations	**Provision of hotel consultancy services**	**Total**
	HK$	*HK$*	*HK$*
For the year ended 31 December 2013			
Segment revenue	**33,412,313**	**24,556,593**	**57,968,906**
Segment results	**(5,029,275)**	**16,493,842**	**11,464,567**
Depreciation of property, plant and equipment	**6,524,174**	**865,759**	**7,389,933**
Amortisation of prepaid operating lease	**864,587**	**—**	**864,587**
Provision/(reversal of provision) for impairment of trade debtors	**913,154**	**(1,500,000)**	**(586,846)**
For the year ended 31 December 2012			
Segment revenue	32,969,007	58,186,192	91,155,199
Segment results	1,427,400	47,197,843	48,625,243
Depreciation of property, plant and equipment	7,073,876	885,924	7,959,800
Amortisation of prepaid operating lease	850,590	—	850,590
Provision for impairment of trade debtors	—	1,500,000	1,500,000

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

	2013	2012
	HK$	*HK$*
Segment results	**11,464,567**	48,625,243
Unallocated corporate expenses, net *(Note)*	**(10,217,873)**	(3,876,567)
Finance income	**74,298**	76,231
Finance cost	**(848,630)**	(1,077,099)
Share of results of joint ventures	**(3,765,796)**	(20,870)
(Loss)/profit before income tax	**(3,293,434)**	43,726,938

Note:

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

All revenue was derived from external customers in the PRC and Hong Kong during the years ended 31 December 2013 and 2012. Revenue of HK$21,382,489 (2012: HK$57,203,556) is derived from two (2012: five) external customers for the year ended 31 December 2013. The revenue is attributable to the provision of hotel consultancy services.

The total of non-current assets other than deferred tax assets located in Hong Kong and the PRC were HK$2,953,656 (2012: HK$13,956,495) and HK$147,743,296 (2012: HK$79,228,184), respectively.

Breakdown of revenue from all activities is as follows:

	2013	2012
	HK$	*HK$*
Hotel consultancy services	**24,556,593**	58,186,192
Sales from hotel operations — hotel room rental, hotel management services income and conference room rental	**28,328,788**	28,463,775
Management fee income	**2,335,769**	1,709,628
Rental income on a sub-leased premise	**2,501,438**	2,456,044
Sales of hotel membership cards	**246,318**	339,560
	57,968,906	91,155,199

In 2012, corporate expenses were allocated between reported segments based on the proportion of revenue contributed from each reported segment to the Group. During the year ended 31 December 2013, management considered certain expenses should be presented as unallocated corporate expenses to better reflect the performance of each reported segment. Accordingly, the comparative segment information has been updated to conform with the current year presentation.

4. OTHER OPERATING EXPENSES

Other operating expenses consisted of the following:

	2013	2012
	HK$	*HK$*
Marketing and promotion	**497,080**	1,931,143
(Reversal of)/provision for impairment of trade debtors	**(586,846)**	1,500,000
Auditor's remuneration	**2,129,000**	1,320,000
Consumables and laundries	**1,085,506**	1,131,943
Entertainment	**608,512**	961,446
Sales commission	**701,599**	633,210
Property management fee	**496,993**	597,914
Telephone and communication	**434,387**	436,330
Repairs and maintenance	**524,848**	248,804
Bank charges	**125,313**	147,069
Office supplies	**162,304**	137,231
Loss on disposal of property, plant, and equipment *(Note)*	**2,276,985**	—
Legal and professional fee	**3,171,849**	1,172,567
Other taxes and surcharges	**2,980,604**	3,123,894
Others	**3,255,737**	1,781,275
	17,863,871	15,122,826

Note:

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

5. FINANCE COST — NET

	2013	2012
	HK$	*HK$*
Finance income:		
— Interest income on non-current rental deposits carried at amortised cost	**73,667**	72,518
— Bank interest income	**631**	3,713
	74,298	76,231
Finance cost:		
— Finance cost on asset retirement obligations	**(173,407)**	(160,421)
— Finance cost on finance lease liabilities	**(53,962)**	(81,002)
— Finance cost on convertible notes	**(3,971,164)**	(890,000)
	(4,198,533)	(1,131,423)
Less: amount capitalized as construction in progress	**3,349,903**	54,324
	(848,630)	(1,077,099)
Finance cost — net	**(774,332)**	(1,000,868)

6. INCOME TAX EXPENSE

	2013	2012
	HK$	*HK$*
Current income tax		
— Hong Kong profits tax	**1,352,468**	5,963,117
— PRC corporate income tax	**2,388,118**	4,545,651
Deferred income tax	**219,757**	346,502
	3,960,343	10,855,270

The Group is not subject to taxation in the Cayman Islands and British Virgin Islands.

Hong Kong profits tax has been provided at the rate of 16.5% (2012: 16.5%) on the estimated assessable profits of the year.

The PRC corporate income tax is provided at the rate of 25% (2012: 25%) for the year.

7. EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit/loss attributable to the owners of the Company by the weighted average number of ordinary shares in issue during the year.

	2013	2012
(Loss)/profit attributable to the owners of the Company	**(7,253,777)**	32,871,668
Weighted average number of ordinary shares in issue	**181,579,453**	180,000,001
Basic (loss)/earnings per share (Hong Kong cents)	**(3.99)**	18.26

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: convertible notes and share options. The convertible notes are assumed to have been converted into ordinary shares, and the net profit is adjusted to eliminate the interest expenses less the tax effect. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

Dilutive loss per share for the year ended 31 December 2013 is the same as the basic loss earnings per share as the conversion of potential dilutive ordinary shares in relation to the share options and convertible notes would have an anti-dilutive effect to the basic loss per share.

	2012
Earnings	
Profit attributable to the owners of the Company	32,871,668
Interest expenses on convertible notes	890,000
Profit used to determine diluted earnings per share	33,761,668
Weighted average number of ordinary shares in issue	180,000,001
Adjustments for:	
— Assumed conversion of convertible notes	7,890,411
Weighted average number of ordinary shares for diluted earnings per share	187,890,412
Diluted earnings per share (HK cents per share)	17.97

There was no dilutive effect arose from share options on earnings per share for the year ended 31 December 2012 since all outstanding share options were anti-dilutive.

8. DIVIDENDS

No dividends had been paid or declared by the Company during the year (2012: Nil).

9. TRADE AND OTHER RECEIVABLES

	2013	2012
	HK$	*HK$*
Trade debtors	**10,929,589**	49,776,139
Less:		
Provision for impairment of trade receivables	**(634,115)**	(1,500,000)
	10,295,474	48,276,139
Prepayments, deposits and other receivables	**74,666,941**	41,150,552
	84,962,415	89,426,691
Less:		
Rental deposits	**(1,425,273)**	(1,497,017)
Prepayment for property, plant and equipment	**(59,969,169)**	(14,450,000)
Deposit for an acquisition	**—**	(10,000,000)
Prepaid operating lease — non-current portion	**(10,529,348)**	(10,998,264)
Current portion	**13,038,625**	52,481,410

Prepayments, deposits and other receivables are analysed as follows:

	2013	2012
	HK$	*HK$*
Deposits		
Rental deposits	**1,425,273**	1,497,017
Deposit for an acquisition *(Note a)*	**—**	10,000,000
	1,425,273	11,497,017
Prepayments		
Property, plant and equipment *(Note b)*	**59,969,169**	14,450,000
Prepaid operating lease	**11,393,935**	11,848,854
Others	**981,418**	918,684
Total prepayments	**72,344,522**	27,217,538
Other receivables	**897,146**	2,435,997
Total prepayments, deposits and other receivables	**74,666,941**	41,150,552

Note a: In October 2012, the Company entered into a non-legally binding memorandum of understanding ("MOU") for acquiring 100% of the issued share capital of a target company, which is principally engaged in the business of interior decoration and design. The consideration for this possible acquisition is approximately HK$60 million. According to the MOU, the Group paid HK$10 million deposit to the target company. Pursuant to the board meeting held on 21 February 2013, the Group decided not to proceed with the acquisition and the deposit has been collected by the Group in March 2013.

Note b: These represented payments for construction costs for new office premise and budget hotels planned to be opened in the future.

The majority of the Group's revenue from hotel operations are made via credit cards or cash. Hotel rooms are rented to corporate customers with an appropriate credit history on credit terms of 30 days. For hotel consultancy services, the Group offers credit terms to external customers of 60 days upon acceptance of services by the customers. As at 31 December 2013, the Group has made provision for impairment of trade receivables of HK$634,115 (2012: HK$1,500,000). Trade receivables of HK$10,185,469 (2012: HK$47,257,408) were past due but not impaired. Management considered that no recoverability problem on these trade balances as a result of subsequent settlement received up to the date of this report and the agreement of the revised repayment schedule with certain trade debtors. The aging analysis of these trade debtors is as follows:

	2013	2012
	HK$	*HK$*
Neither past due nor impaired	**110,005**	1,018,731
0-30 days past due	**673,981**	6,457,730
31-60 days past due	**237,934**	6,961,124
61-90 days past due	**481,524**	4,505,744
Over 90 days past due	**8,792,030**	29,332,810
Past due but not impaired	**10,185,469**	47,257,408
	10,295,474	48,276,139

The credit quality of trade debtors that are neither past due nor impaired can be assessed by reference to historical information about counterparties' settlement pattern.

The maximum exposure to credit risk 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 and other receivables are denominated in the following currencies:

	2013	2012
	HK$	*HK$*
RMB	**56,367,348**	53,146,209
HK$	**28,595,067**	36,280,482
	84,962,415	89,426,691

Movements on the provision for impairment of trade debtors are as follows:

	2013	2012
	HK$	*HK$*
At 1 January	**1,500,000**	—
Provision for impairment of trade receivable	**913,154**	1,500,000
Receivables written off during the year as uncollectible	**(279,039)**	—
Reversal of provision for impairment of trade receivable	**(1,500,000)**	—
At 31 December	**634,115**	1,500,000

The reversal of provision for impaired debtors has been included in "other operating expenses" in the notes to the consolidated financial statement (note 4).

The other classes within trade and other receivables do not contain impaired assets.

10. CONVERTIBLE NOTES

	2013	2012
	HK$	*HK$*
Convertible notes — debt component	—	29,405,000
Financial derivatives	—	832,000
	—	30,237,000

The Company issued 36,000,000 5.0% convertible notes at a consideration of HK$30.6 million on 12 October 2012. The convertible notes will mature two years from the issue date at 112% of the outstanding principal or can be converted into shares at the holder's option anytime at a conversion price of HK$0.85 per share. In addition, the convertible notes can be early redeemed by the Company anytime. Early redemption price is the price payable by the Company at redemption which will make the annualized yield of the convertible notes at 11% (including accrued interest to be paid up to date of redemption).

The fair value of the financial derivative includes the Company's right to redeem and the holder's right to convert. In December 2013, the holders of the convertible notes issued notice to convert and the Company determined not to exercise its right to redeem. Accordingly, all convertible notes are converted into 36 million of shares in December 2013 and the carrying value of the convertible notes is transferred to share capital and share premium.

The convertible notes recognised in the statement of financial position is calculated as follows:

	HK$
Face value of convertible notes issued on 12 October 2012	30,600,000
Financial derivatives	(832,000)
Less: transactions cost	(918,000)
Debt component on initial recognition at 12 October 2012	28,850,000
Interest expense	890,000
Interest paid/payable	(335,000)
Debt component at 31 December 2012 and 1 January 2013	29,405,000
Interest expense	3,971,164
Interest paid/payable	(1,471,164)
Conversion	(31,905,000)
Debt component at 31 December 2013	—

The debt component has an effective interest rate of 14%.

11. TRADE AND OTHER PAYABLES

	2013	2012
	HK$	*HK$*
Trade payables	**3,072,392**	2,762,001
Accruals and other payables	**13,552,813**	6,302,788
	16,625,205	9,064,789

Accruals and other payables are analysed as follows:

	2013	2012
	HK$	*HK$*
Accruals		
— Accrued staff costs	**1,811,239**	706,385
— Accrued audit and professional fee	**2,910,200**	1,520,000
— Effective rental payable	**2,678,463**	103,415
	7,399,902	2,329,800
Other payables		
— Other tax payables	**3,635,256**	2,086,182
— Interest payable	**1,471,164**	—
— Deferred revenue — membership fee	**191,242**	277,480
— Deferred revenue — customer loyalty programme	**166,163**	110,453
— Receipt in advance	**191,708**	611,322
— Others	**497,378**	887,551
Other payables	**6,152,911**	3,972,988
Total accruals and other payables	**13,552,813**	6,302,788

The carrying amounts of the Group's trade and other payables approximate their fair value.

The aging analysis of trade payables is as follows:

	2013	2012
	HK$	*HK$*
0-30 days	**1,151,344**	940,788
31-60 days	**706,732**	702,292
61-90 days	**588,059**	542,906
Over 90 days	**626,257**	576,015
	3,072,392	2,762,001

The carrying amounts of the Group's trade and other payables are denominated in the following currencies:

	2013	2012
	HK$	*HK$*
RMB	**10,662,137**	6,316,205
HK$	**5,963,068**	2,748,584
	16,625,205	9,064,789

12. OPERATING LEASE COMMITMENTS

The Group leases various hotel premise under non-cancellable operating lease agreements. The lease terms of the tenancy agreements are 8 to 10 years. The leases have escalation clauses and renewal rights. The future aggregate minimum lease payments are as follows:

	2013	2012
	HK$	*HK$*
No later than 1 year	**13,179,879**	16,363,076
Later than 1 year and no later than 5 years	**40,631,817**	54,452,348
Over 5 years	**76,191,099**	77,699,150
	130,002,795	148,514,574

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND OPERATIONAL REVIEW

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

Hotel Operation

For the financial year ended 31 December 2013, the Group has four leased-and-operated hotels and three managed hotels under operation. The Group closed down a hotel in Caitian in the PRC due to an early termination of a lease contract by the landlord and recorded a compensation of early termination from the landlord in 2013. During the whole year of 2013, the Group has three new hotels under constructions; there are another two new hotels starting development in 2014, all of these hotels are expected to commence operation in 2014.

The Group continues to focus its strategy 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 hotel through leasing part of existing commercial buildings and converting them into hotel accommodations.

Future Development and Outlook for Hotel Operation

In August 2012, the Group confirmed a location in the North of Xiachong Fairground, Daya Bay district, Huizhou City, Guangdong Province, the PRC, to develop a new leased-and-operated hotel (the "Xiachong Hotel"). The leasing period is ten years which started from September 2012. The renovation work for Xiachong Hotel has started in the fourth quarter of 2012. The Xiachong Hotel was expected to finish refurbishment in 2013 but due to the changing of the construction and floor plan. The commencement of operation will be delayed until the second half of 2014.

In July 2012, the Group confirmed a location in the Huicheng district, Huizhou City, Guangdong Province, the PRC, to develop a leased-and-operated hotel (the "Huizhou Hotel"). The renovation work for Huizhou Binjiang Hotel started in December 2012 and is expected that the Huizhou Binjiang Hotel can commence operation in the second half of 2014.

In March 2012, the Group had identified two locations in Meilin, Futian district and Shekou, Nanshan district respectively in Shenzhen City, Guangdong Province, the PRC to develop two leased-and-operated hotels (the "Meilin Hotel" and the "Shekou Hotel" respectively). However during the starting of construction and renovation, the Group discovered that these two premises may not be the best locations to operate the hotel business so the Group had changed the location from Meilin and Futian district to Changan (長安鎮), Dongguan. The renovation work of both hotels in Changan are expected to be completed in the fourth quarter of 2014.

In December 2012, the Group confirmed a location in Changping district, Dongguan City, Guangdong Province, the PRC to develop a leased-and-operated hotel (the "Changping Hotel"). The Group expects refurbishment work to be completed in June 2014 and the Changping Hotel to commence operation within third quarter of 2014.

On 27 January 2014, the Company entered into a memorandum of understanding ("MOU") with Vanli Holdings Company Limited (萬力控股有限公司) (the "Developer"), a property developer in the PRC in relation to a proposed business cooperation (the "Proposed Business Cooperation") in developing or operating not less than 50 budget hotels in the wholesale markets, multi-functional commercial complexes and shopping malls which are currently developed by the Developer in the PRC.

The Group plans to continue to expand its network in the PRC, in particular, the Guangdong Province in the next two to three years. The Directors believe that the continuous growth of the demand of budget boutique hotels in the PRC will provide business opportunities to the Group to expand its businesses across these cities.

Hotel Consultancy Services

For the financial year ended 31 December 2013, the Group had entered into 7 hotel consultancy agreements with 2 investors for the provision of hotel consultancy services. These investors are independent third parties who are not connected with the Group other than entering into the hotel consultancy agreements with the Group.

Outlook for Hotel Consultancy Services

The Group is currently implementing a branding strategy to refresh and streamline its brand to better appeal to its target market segments and to serve as a platform for its expansion into the consultancy business. The Directors believe that the successful track record of the Group's hotels is one of the reasons that attract hotel investors.

FINANCIAL REVIEW

The Group has recorded a net loss attributable to owners for the year ended 31 December 2013 of the Company approximately HK$7.3 million, representing a year-on-year decrease of approximately HK$40.2 million or 122.9% compared to approximately HK$32.9 million for year ended 31 December 2012 (the "Last Year").

The net loss for the year was mainly due to the decrease of revenues generated from the provision of hotel consultancy services in second half of year 2013.

The economic slowdown in the PRC causes the investors to be more conservative in the hotel accommodation sector and affected the revenue of the Group's hotel consultancy services.

Revenue

The Group reported a total revenue of approximately HK$58.0 million (2012: approximately HK$91.2 million) and recorded a year-on-year decrease of approximately HK$33.2 million or 36% from the Last Year. Revenue mainly came from the hotel consultancy services of approximately HK$24.6 million, representing approximately 42% of total revenue. It decreased approximately 58% or HK$33.6 million from approximately HK$58.2 million in the last year. The following table shows the key information of each of the Group's leased-and-operated hotels for the years ended 31 December 2013 and 2012:

	Year ended 31 December		
	2013	2012	% change
Total			
Total available room nights	**136,315**	146,749	(7.11%)
Occupancy	**88.7%**	83.0%	6.87%
ARR (RMB)*	**183.7**	185.2	(0.81%)
RevPAR (RMB) Æ	**162.9**	153.7	5.99%

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

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

Operating Costs

The total operating costs increased by HK$12.3 million, or approximately 26.5%, from HK$46.4 million for the last year to HK$58.7 million for the year ended 31 December 2013. The following table shows the total operating costs for the years ended 31 December 2013 and 2012:

	Year ended 31 December		
	2013	2012	% change
	HK$	*HK$*	
Operating lease expenses	**14,822,036**	11,584,821	27.94%
Depreciation of property, plant and equipment	**7,389,933**	7,959,800	(7.16%)
Employee benefit expenses	**16,827,186**	9,845,335	70.92%
Utilities	**1,799,710**	1,893,741	(4.97%)
Other operating expenses	**17,863,871**	15,122,826	18.13%
	58,702,736	46,406,523	26.50%

Liquidity, Financial Resources and Capital Structure

The Group generally finances its daily operations from internally generated cash flows. As at 31 December 2013, the Group had bank balances and cash of approximately HK$19.6 million (2012: approximately HK$27.9 million). Gearing ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including "current and non-current borrowings" as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as "equity" as shown in the consolidated statement of financial position plus net debt. The gearing ratio for the year ended 31 December 2013 is nil (2012: 2.3%). The Group was in net cash position as at 31 December 2013.

Significant Changes to Financial Position

The debtors' turnover days for the financial year ended 31 December 2013 was 69 days (2012: 199 days). It decreased by 130 days as a result of faster collection of trade debtor balance for the consultancy services in 2013.

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

For hotel consultancy services, the trade debtors balance was HK$7.6 million as of 31 December 2013. Approximately HK$1.3 million of the outstanding trade debtor balance for the consultancy services as at 31 December 2013 were settled in the first quarter of 2014 subsequently. The trade debtors balance is expected to be fully settled in 2014 based on the repayment schedule as agreed with the customer.

For hotel management services, the payment term is quarterly settlement after the end of every quarter. Approximately HK$0.6 million of the outstanding trade debtors balance for the management services as at 31 December 2013 were settled in the first quarter of 2014 subsequently. The Directors were confident on the recoverability of the remaining outstanding trade debtors balances.

Capital Structure

In 2013, the Company has issued and allotted a total of 36,000,000 new ordinary shares as conversion shares at conversion price of HK$0.85 each. Save for the issue of new ordinary shares by conversion of convertible notes, there was no material change in the capital structure of the Group during the year ended 31 December 2013. The total number of the issued shares of the Company was 216,500,001 as at 31 December 2013.

Foreign Exchange Exposure

Majority of the assets and liabilities of the Group were denominated in Renminbi and Hong Kong dollars. As at 31 December 2013, the Group had no significant exposure under foreign exchange contracts, interest, currency swaps or other financial derivatives.

Significant Investment

For the year ended 31 December 2013, other than those investment in construction of new hotels and joint ventures, there was no significant investment made by the Group (2012: nil).

Material Acquisitions or Disposals

For the year ended 31 December 2013, there were no material acquisitions or disposal of subsidiaries and affiliated companies by the Group.

Charges on Assets

As at 31 December 2013, the Group did not have any charges on its assets.

Capital Commitments and Contingent Liabilities

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

Operating Lease Commitments

As at 31 December 2013, the Group had total operating lease commitments of approximately HK$130 million (2012: HK$148.5 million). The operating lease commitments are mainly related to the rental of hotels premises for hotel operation.

Employees and Remuneration Policies

The Group had 128 employees (2012: 128) as at 31 December 2013. The Group's remuneration practices are in line with the prevailing market practice and are determined on the basis of performance, qualification and experience of individual employee.

Dividends

The Directors do not recommend payment of any dividend in respect of the year ended 31 December 2013.

OUTLOOK

In the future, the Group shall continue to expand the number of leased-and-operated hotels, and is also actively seeking for investment and engaging in asset-light and cost effective business opportunities in providing hotel consultancy services, as well as providing hotel management services with a view to grow its brand recognition and revenues to create value for the shareholders.

The Group will also seek for more business opportunities in different segments to diversify the risk and cooperate with different parties to expand our hotel network in the coming years.

CORPORATE GOVERNANCE

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

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

Mr. Fong Man Kelvin as a Chairman of the Group, plays a leading role and is responsible for effective running of the Board and responsibility of overall management, business development and implementation of the Group's strategy determined by the Board in achieving its overall commercial objectives. During the year ended 31 December 2013, the Company did not have an officer with the title of chief executive officer ("CEO"). The CEO's duties have been undertaken by the members of the Board. The Company is in process of identifying suitable candidate with appropriate experience as its chief executive officer. The Board considers that this structure will not impair the balance of power and authority of the Board. It currently comprises two Executive

Directors, one Non-executive Director (the "NED") and four Independent Non-executive Directors (The "INED(s)"), with INEDs representing 57% of the Board. Such a high percentage of INEDs in the Board could ensure their views carry significant weight and it reflects a strong independent element in the composition of the Board. At present, the Board also believe that under the leadership of Mr. Fong Man Kelvin as the Chairman, the Board's decision could be made effectively and it is beneficial to the management and development of the Group's businesses.

Further information on the Company's corporate governance practices will be set out in the Corporate Governance Report contained in the Company's annual report for the year ended 31 December 2013, which will be sent to the shareholders in due course.

MODEL CODE FOR SECURITIES TRANSACTIONS

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

Having made specific enquiry with all the directors and all the directors of the Company had confirmed compliance with the required standard of dealings and the code of conduct for directors' securities transactions during the year ended 31 December 2013.

PURCHASE, SALE OR REDEMPTION OF SHARES

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

AUDIT COMMITTEE REVIEW

Pursuant to the requirements of the Code and the Listing Rules, the Group has established an audit committee (the "Audit Committee") which comprises four Independent Non-executive Directors. Mr. Wong Sui Chi Frankie is the chairman of the Audit Committee. The consolidated financial statements for the year ended 31 December 2013 have been reviewed by the Audit Committee of the Company.

COMPETING BUSINESS

For the year ended 31 December 2013, the Directors are not aware of any business or interest of the Directors, the management of the Company and their respective associates (as defined under the Listing Rules) that compete or may compete with the business of the Group and any other conflict of interest which any such person has or may have with the Group.

APPRECIATION

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

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

Hong Kong, 28 March 2014

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

Executive Directors:	Mr. Fong Man Kelvin *(Chairman)* Ms. Fong Nga Peggy
Non-executive Director:	Lord De Weyer of Cold Highham, Daniel Joannes Ludovicus
Independent Non-Executive Directors:	Dr. Wong Hak Kun Jerry Mr. Wong Sui Chi Frankie Mr. Liu Cheng Zhong Mr. Frostick Stephen William