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

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2015

The board (the "Board") of directors (the "Directors") of Legend Strategy International Holdings Group Company Limited (the "Company") is pleased to announce the audited consolidated annual results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2015 which are prepared in accordance with the Hong Kong Financial Reporting Standards and have been agreed by the auditor of the Company, together with comparative figures for the year ended 31 December 2014 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2015

	Notes	2015 HK$	2014 HK$
Revenue	3	**19,884,379**	29,700,841
Operating lease expenses		**(17,057,985)**	(17,974,662)
Depreciation of property, plant and equipment		**(4,691,183)**	(7,255,616)
Employee benefit expenses		**(14,050,367)**	(13,153,151)
Utilities		**(2,063,031)**	(1,857,458)
Other operating expenses	6	**(97,020,980)**	(30,219,888)
Other income		**725,051**	159,995
Operating loss		**(114,274,116)**	(40,599,939)
Finance costs	4	**(187,296)**	(448,789)
Impairment of interests in joint ventures		**—**	(6,797,484)
Written off of amounts due from joint ventures		**(2,112,528)**	—
Share of results of joint ventures		**(6,831,600)**	(12,331,951)
Loss before tax		**(123,405,540)**	(60,178,163)
Income tax (expenses)/credit	5	**(430,064)**	8,634,678
Loss for the year attributable to owners of the Company	6	**(123,835,604)**	(51,543,485)
Other comprehensive loss:			
Items that may be reclassified to profit or loss:			
Exchange differences on translating foreign operations		**(771,282)**	(1,098,573)
Share of other comprehensive income of joint ventures		**—**	6,210
Other comprehensive loss for the year, net of tax		**(771,282)**	(1,092,363)
Total comprehensive loss for the year attributable to owners of the Company		**(124,606,886)**	(52,635,848)
Loss per share	7		(Restated)
— Basic (Hong Kong cents)		**(35.41)**	(20.33)
— Diluted (Hong Kong cents)		**(35.41)**	(20.33)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2015

		2015	2014
	Notes	***HK$***	*HK$*
Non-current assets			
Property, plant and equipment		**42,078,650**	77,312,841
Prepayments	*9*	**—**	24,169,069
Rental deposits	*9*	**3,493,002**	2,243,510
Other receivables	*9*	**2,000,000**	—
Prepaid operating leases	*9*	**8,406,356**	9,823,653
Interests in joint ventures		**—**	6,831,600
Other asset		**1,440,000**	—
Deferred income tax assets		**1,186,137**	1,688,384
		58,604,145	122,069,057
Current assets			
Trade receivables	*10*	**262,600**	7,741,933
Prepayments, deposits and other receivables	*9*	**19,180,638**	27,839,907
Amounts due from joint ventures		**—**	2,114,950
Bank and cash balances		**47,612,022**	2,322,143
		67,055,260	40,018,933
Current liabilities			
Provision for asset retirement		**—**	2,422,083
Trade and other payables	*11*	**12,966,339**	21,696,678
Current income tax liabilities		**1,366,219**	1,733,623
Finance lease payables		**—**	419,560
		14,332,558	26,271,944
Net current assets		**52,722,702**	13,746,989
Total assets less current liabilities		**111,326,847**	135,816,046

	Notes	2015 *HK$*	2014 *HK$*
Non-current liabilities			
Provision for asset retirement		**3,959,157**	1,485,747
Finance lease payables		**—**	155,583
		3,959,157	1,641,330
Net assets		**107,367,690**	134,174,716
EQUITY			
Capital and reserves attributable to the owners of the Company			
Share capital	*12*	**3,935,250**	2,617,701
Reserves		**103,432,440**	131,557,015
Total equity		**107,367,690**	134,174,716

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands with limited liability. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The address of its principal place of business is Room 3006-10, 30/F., China Resources Building, 26 Harbour Road, Wanchai, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are relevant to its operations and effective for its accounting year beginning on 1 January 2015. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards; and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current year and prior years.

The Group has not applied the new and revised HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new and revised HKFRSs but is not yet in a position to state whether these new and revised HKFRSs would have a material impact on its results of operations and financial position.

3. OPERATING SEGMENT INFORMATION

The Group has two reportable segments as follows:

- Hotel operations (the sales of hotel membership cards, hotel management services income and rental income on a subleased premise are included in the hotel operation segment); and

- Provision of hotel consultancy services

The Group's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies.

Segment profits or losses do not include interest income, finance costs, auditor's remuneration, legal and professional fee, head office and corporate expenses and shares of results and impairments arising from the interests in joint ventures.

The segment information 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 2015			
Revenue from external customers	**19,884,379**	**—**	**19,884,379**
Segment loss	**(90,145,745)**	**(3,139,860)**	**(93,285,605)**
Depreciation of property, plant and equipment	**4,691,183**	**—**	**4,691,183**
Written off of trade receivables	**4,302,023**	**3,139,860**	**7,441,883**
Written off of property, plant and equipment	**41,509,239**	**—**	**41,509,239**
For the year ended 31 December 2014			
Revenue from external customers	29,700,841	—	29,700,841
Segment loss	(24,706,205)	(3,159,358)	(27,865,563)
Depreciation of property, plant and equipment	7,255,616	—	7,255,616
Provision for impairment of trade receivables	1,263,743	3,159,358	4,423,101
Written off of property, plant and equipment	5,167,969	—	5,167,969

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

	2015	2014
	HK$	*HK$*
Total loss of reportable segments	**(93,285,605)**	(27,865,563)
Unallocated corporate expenses, net	**(21,074,398)**	(12,791,313)
Interest income	**85,887**	56,937
Finance costs	**(187,296)**	(448,789)
Impairment of interests in joint ventures	—	(6,797,484)
Written off of amounts due from joint ventures	**(2,112,528)**	—
Share of results of joint ventures	**(6,831,600)**	(12,331,951)
Loss before tax	**(123,405,540)**	(60,178,163)

Revenue from major customers:

All revenue was derived from external customers in the PRC and Hong Kong during the years ended 31 December 2015 and 2014. No revenue derived from one customer representing 10% or more of the revenue of the Group for each of the years ended 31 December 2015 and 2014.

The total of non-current assets other than deferred tax assets located in Hong Kong and the PRC were HK$7,686,412 (2014: HK$1,032,742) and HK$47,731,596 (2014: HK$119,347,931), respectively.

Breakdown of revenue from all activities is as follows:

	2015	2014
	HK$	*HK$*
Sales from hotel operations — hotel room rental, hotel management services income and conference room rental	**19,629,498**	24,044,532
Management fee income	—	2,806,312
Rental income on a sub-leased premise	—	2,524,776
Sales of hotel membership cards	**254,881**	325,221
	19,884,379	29,700,841

4. FINANCE COSTS

An analysis of finance costs is as follows:

	2015	2014
	HK$	*HK$*
Finance cost on asset retirement obligations	**186,990**	180,912
Finance cost on finance lease liabilities	—	39,033
Interest on overdue payments	**306**	3,844
Interest on other loan wholly repayable within one year	—	900,000
	187,296	1,123,789
Less: amount capitalised as construction in progress	—	(675,000)
	187,296	448,789

5. INCOME TAX EXPENSES/(CREDIT)

	2015	2014
	HK$	*HK$*
Current tax - Hong Kong Profits Tax		
Over-provision in prior year	—	(8,710,909)
Current tax - PRC		
Provision for the year	—	483,881
Deferred income tax	**430,064**	(407,650)
	430,064	(8,634,678)

The Group is not subject to taxation in the Cayman Islands and the British Virgin Islands ("BVI").

No provision for Hong Kong profits tax is required since the Group has no assessable profit for the year. The amount provided for the year ended 31 December 2014 was calculated at 16.5% based on the assessable profit for that year.

No provision for the PRC corporate income tax is required since the Group has no assessable profit for the year. The amount provided for the year ended 31 December 2014 was provided at the rate of 25% for that year.

6. LOSS FOR THE YEAR

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

	2015	2014
	HK$	*HK$*
Provision for impairment of trade receivables	—	4,423,101
Auditor's remuneration	**1,200,000**	1,200,000
Depreciation of property, plant and equipment	**4,691,183**	7,255,616
Impairment on interests in joint ventures	—	6,797,484
Written off of amounts due from joint ventures	**2,112,528**	—
Minimum lease payment under operating lease	**17,057,985**	17,974,662
Net foreign exchange loss/(gain)	**106,855**	(68,012)
Loss on disposal of property, plant, and equipment*	**70,170**	—
Written off of property, plant and equipment *(Note)**	**41,509,239**	5,167,969
Written off of prepaid operating leases*	**618,338**	—
Written off of rental deposits*	**732,364**	—
Written off of prepayments *(Note)**	**23,864,028**	—
Written off of other receivables*	**552,484**	—
Written off of trade receivables*	**7,441,883**	—

Note:

During the year ended 31 December 2015, construction in progress of HK$27,365,278 (2014: HK$4,376,500) and prepayments of HK$20,201,025 (2014: HK$Nil) were written off as a result of the termination of developments of three hotels (2014: two hotels).

* These items are included in "Other operating expenses" of the consolidated statement of profit or loss.

7. LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share attributable to owners of the Company is based on the loss for the year attributable to owners of the Company of HK$123,835,604 (2014: HK$51,543,485) and the weighted average number of ordinary shares of 349,688,342 (2014: 253,508,144 as restated for open offer) in issue during the year.

(b) Diluted loss per share

There was no dilutive potential ordinary shares for the Company's outstanding share options for the years ended 31 December 2015 and 2014. Accordingly, the diluted loss per share is same as basic loss per share for both years.

8. DIVIDEND

The Directors did not recommend the payment of any dividend for the years ended 31 December 2015 and 2014.

9. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Notes	**2015**	2014
		HK$	*HK$*
Prepayments			
Property, plant and equipment	*(a)*	—	24,169,069
Prepaid operating lease	*(b)*	**9,256,945**	10,689,458
Others		**1,521,287**	1,403,949
		10,778,232	36,262,476
Deposits			
Rental deposits		**3,493,002**	2,243,510
Other receivables		**18,808,762**	25,570,153
Total prepayments, deposits and other receivables		**33,079,996**	64,076,139
The amounts of prepayments, deposits and other receivables are analysed as follows:			
Non-current portion			
Prepayments for property, plant and equipment		—	24,169,069
Rental deposits		**3,493,002**	2,243,510
Other receivables	*(c)*	**2,000,000**	—
Prepaid operating lease		**8,406,356**	9,823,653
		13,899,358	36,236,232
Current portion			
Prepayments		**1,521,287**	1,403,949
Prepaid operating lease		**850,589**	865,805
Other receivables	*(c)*	**16,808,762**	25,570,153
		19,180,638	27,839,907
		33,079,996	64,076,139

Notes:

(a) These represented payments for construction costs for budget hotels planned to be opened in the future.

(b) The balance primarily represented the non-current portion of the operating lease payment paid to an independent third party in respect of the rental of a hotel premise in the PRC for a lease term of 15 years till 30 June 2026.

(c) The balances included refund of prepayments for property, plant and equipment of HK$18,700,000 (2014: HK$25,700,000) due to termination of developments of two hotels in 2014.

10. TRADE RECEIVABLES

The majority of the Group's revenue from hotel operations are made via credit cards or cash. Hotel rooms are rented to corporate customers with an appropriate credit history on credit terms of 30 days. For hotel consultancy services, the Group offers credit terms to external customers of 60 days upon acceptance of services by the customers. As at 31 December 2014, the Group has made provision for impairment of trade receivables of HK$4,423,101. Trade receivables of HK$19,624 (2014: HK$7,561,592) 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.

	2015	2014
	HK$	*HK$*
Trade receivables	**262,600**	12,798,345
Impairment	**—**	(5,056,412)
	262,600	7,741,933

The aging analysis of these trade receivables is as follows:

	2015	2014
	HK$	*HK$*
Neither past due nor impaired	**242,976**	180,341
0-30 days past due	**—**	505,878
31-60 days past due	**11,240**	226,905
61-90 days past due	**1,176**	212,248
91-120 days past due	**568**	554,225
121 - 365 days past due	**6,640**	2,415,042
Over 365 days past due	**—**	3,647,294
	19,624	7,561,592
	262,600	7,741,933

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

	2015	2014
	HK$	*HK$*
At 1 January	**5,056,412**	634,115
Exchange realignment	**(77,991)**	(804)
Provision for the year	**—**	4,423,101
Amounts written off	**(4,978,421)**	—
At 31 December	**—**	5,056,412

11. TRADE AND OTHER PAYABLES

	2015	2014
	HK$	*HK$*
Trade payables	**2,124,015**	4,311,517
Accruals and other payables	**10,842,324**	17,385,161
	12,966,339	21,696,678

The aging analysis of trade payables is as follows:

	2015	2014
	HK$	*HK$*
0-30 days	**729,766**	1,595,674
31-60 days	**379,780**	1,336,146
61-90 days	**266,170**	679,726
Over 90 days	**748,299**	699,971
	2,124,015	4,311,517

Accruals and other payables are analysed as follows:

	2015	2014
	HK$	*HK$*
Accruals		
Accrued staff costs	**695,993**	2,609,497
Accrued audit and professional fee	**1,266,000**	2,866,155
Accrued effective rental payable	**3,989,898**	6,080,987
	5,951,891	11,556,639
Other payables		
Other tax payables	**3,321,738**	3,741,755
Payables to hotel constructors	**757,020**	783,520
Receipt in advance	**194,760**	195,113
Others	**616,915**	1,108,134
	4,890,433	5,828,522
Total accruals and other payables	**10,842,324**	17,385,161

12. SHARE CAPITAL

	Note	Number of Shares	Amount
			HK$
Authorised:			
Ordinary shares of HK$0.01 (2014: HK$0.01) each			
At 1 January 2014, 31 December 2014, 1 January 2015 and 31 December 2015		**780,000,000**	7,800,000
Issued and fully paid:			
Ordinary shares of HK$0.01 (2014: HK$0.01) each			
At 1 January 2014		**216,500,001**	2,165,001
Exercise of share options		**1,770,000**	17,700
Issue of shares upon placing	*(a)*	**43,500,000**	435,000
At 31 December 2014 and 1 January 2015		**261,770,001**	2,617,701
Exercise of share options		**750,000**	7,500
Issue of shares upon placing	*(b)*	**52,300,000**	523,000
Issue of shares upon open offer	*(c)*	**78,704,999**	787,049
At 31 December 2015		**393,525,000**	3,935,250

Notes:

(a) On 23 July 2014, the Company and Emperor Securities Limited entered into a placing agreement in respect of the placement of 43,500,000 ordinary shares of HK$0.01 each to independent investors at a price of HK$0.79 per share. The placement was completed on 12 August 2014 and the premium on the issue of shares amounting to HK$33,034,875, net of transaction cost was credited to the Company's share premium account.

(b) On 22 December 2014, the Company and Emperor Securities Limited entered into a placing agreement in respect of the placement of 52,300,000 ordinary shares of HK$0.01 each to independent investors at a price of HK$0.66 per share. The placement was completed on 9 January 2015 and the premium on the issue of shares amounting to HK$33,407,215, net of transaction cost was credited to the Company's share premium account.

(c) On 16 October 2015, the Company issued and allotted 78,704,999 ordinary shares of HK$0.01 each at an issue price of HK$0.8 per ordinary share on the basis of one offer share for every four shares held on 21 September 2015, the record date of the open offer. Net proceeds from such issue amounted to HK$62,503,145, out of which HK$787,049 and HK$61,716,096 were recorded in share capital and share premium, respectively.

13. CAPITAL COMMITMENTS

The Group's capital commitments at the end of the reporting period are as follows:

	2015	2014
	HK$	*HK$*
Contracted but not provided for		
— Property, plant and equipment	—	2,954,960
— Other asset	**1,440,000**	—
	1,440,000	2,954,960

14. OPERATING LEASE COMMITMENTS

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

	2015	2014
	HK$	*HK$*
Within one year	**18,664,303**	11,370,376
In the second to fifth years inclusive	**46,141,030**	42,523,234
After five years	**11,276,410**	54,526,630
	76,081,743	108,420,240

MANAGEMENT DISCUSSION AND ANALYSIS

CHANGE OF CONTROLLING SHAREHOLDERS

On 4 June 2015, China Medical Overseas Limited ("China Medical") and the Company jointly announced that China Medical entered into a share purchase agreement (the "Agreement") with Mr. Fong Man Kelvin to purchase an aggregate of 102,576,466 shares of the Company, representing approximately 32.66% of the then total issued shares of the Company at that time, for a total cash consideration of HK$156,941,992.98 (equivalent to HK$1.53 per share).

Subsequently, following the exercise of 750,000 share options under the share option scheme adopted in 2011 by two option holders in June 2015, the Company placed and issued 750,000 new shares. After that, the 102,576,466 shares previously acquired by China Medical were diluted to approximately 32.58% of the then total issued share capital of the Company at that time.

In June 2015, pursuant to Rule 26.1 of the Takeovers Code, China Medical was required to make a mandatory unconditional cash offer (the "Offer") to acquire all the issued shares of the Company at an offer price of HK$1.53 per offer share.

The Offer was closed in July 2015, whereby China Medical received a total of 58,626,000 offer shares, representing approximately 18.62% of the then entire issued share capital of the Company at that time. Together with the shares previously purchased from Mr. Fong Man Kelvin, China Medical had acquired a total of 161,202,466 shares, representing approximately 51.20% of the then entire issued share capital of the Company at that time.

BUSINESS REVIEW

For the financial year ended 31 December 2015, the Group has 3 leased-and-operated hotels under operation.

Revenue from hotel operations included income from sales of hotel rooms and hotel membership cards. Revenue was HK$19,884,379 for the financial year ended 31 December 2015, representing a decrease of 33.1% as compared with revenue of HK$29,700,841 for the same period of the last financial year. Other than a decrease in income from sales of hotel rooms, decrease in revenue was also due to the cessation of the provision of hotel management services.

For the financial year ended 31 December 2015, the average room revenue ("ARR") of all hotels was RMB174.3 compared with RMB171.9 for the same period of last financial year, representing a very slight increase of approximately 1.41%. But the average occupancy rate of all hotels had decreased from 90.55% for the same period of last financial year to 79.32% for the financial year ended 31 December 2015. At the same time, the revenue per available room ("RevPAR") for the financial year for the year ended 31 December 2015 was RMB138.3 compared to RMB155.7 for last financial year, representing a decrease of 11.18%, mainly due to the slowdown of economic condition and increasing competition in hospitality industry in the PRC.

HOTELS UNDER OPERATION

Nanshan Hotel

As the flagship hotel of the Group, Nanshan Hotel is located at Nanshan road, Shenzhen with 192 rooms. Nanshan Hotel has made significant contributions to the Group in the past. However, due to the impact of construction of railway infrastructure nearby, its revenue has decreased substantially. In respect of the costs, the new lease agreement became effective during the year with the rental up by approximately 40%. Therefore, the expense increased remarkably, leading to an increase in loss.

Luohu Hotel

Luohu Hotel is located at the thriving financial center of Luohu district in Shenzhen, which enjoys convenient transport access (only about 5 minutes' driving distance to Luohu Checkpoint and Convention and Exhibition Center), and occupies the high traffic location in Shenzhen. However, as the revenue of Luohu Hotel is partly generated from domestic travellers making short trips to Hong Kong, the implementation of one-visit-one-week policy by the Hong Kong Government has cast adverse impact on Luohu Hotel, turning from profit into a loss.

Baoan Hotel

Baoan Hotel is located in Baoan district of Shenzhen, which, on a geographical and environmental basis, situates at a less prime location. In recent years, it was significantly impacted by the slowdown of economic condition and increasing competition in hospitality industry in local area. The average occupancy rate decreased significantly as compared with the last financial year, leading to an increase in loss.

JOINT VENTURE HOTELS

Sanya Waterfront Hotel and Sanya Jiuhua Hotel

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

For the past years, both the Sanya Waterfront Hotel and Sanya Jiuhua Hotel recorded net losses. Moreover, the operation of these hotels faced much challenge as the popularity of Sanya in domestic tourists is dropping. Therefore, the management has made full provision for the investment and loans to these two Sanya hotels during the year, and in view of the best interests of the shareholders as a whole, the Group has suspended further investments in them and will consider exiting or selling these joint venture companies.

HOTELS UNDER CONSTRUCTION

Xiachong Hotel and Changping Hotel

The management has decided to cease the investment in Xiachong Hotel (located in Daya Bay district, Huizhou City) and Changping Hotel (located in Changping district, Dongguan City). It was mainly due to the concerns that they would be exposed to enormous risk to invest in new hotels as the surge in supply of budget hotels in the PRC has led to a saturated market, while the demand is depressed due to the slowdown economy. Furthermore, it also requires considerable additional investment to commence the operation of a new hotel. Given that it is not in the best interest of the shareholders to continue investing in these two new hotels, the new management has decided to cease the planning of these hotels and make full provision for the preliminary investment in such hotels, and terminate the leasing agreements with the landlords, so as to reduce the risk exposure of the Group.

Huizhou Hotel and Buji Hotel

The geographical location and environment of Buji Hotel (located in Buji, Longgang district, Shenzhen City) and Huizhou Hotel (located in Huicheng district, Huizhou City) are slightly superior to the said hotels in Xiachong and Changping. The new management is conducting further assessment on their contributions and value to the Group to determine their development direction.

YueXiu Hotel

The Group had decided to develop a budget hotel in major city in the PRC to avoid the effect brought by uncertainty of economy in the local area. Given the uncertainty of the local economic condition and increasing competition in hotel industry, with a view to reduce risk, the Group has terminated the development project of YueXiu Hotel (located in YueXiu district, Guangzhou).

PROVISION OF HOTEL MANAGEMENT SERVICE

Daimeisha Hotel and Fushan Hotel

In prior years, the Group has provided hotel management service to these two hotels. Since the hotels' operation has become stable, hotel management service for these hotels was no longer required during the year.

HOTEL CONSULTANCY SERVICE

For the year ended 31 December 2015, no revenue was generated from the provision of hotel consultancy service. As the hotel consultancy business in the PRC faces a grim prospect, the management has decided that the Group will suspend the business of hotel consultancy service and reallocate the resources to management of existing hotels as well as development of other businesses.

FINANCIAL REVIEW

The Group has recorded a net loss attributable to owners of the Company of approximately HK$123,836,000 for the year ended 31 December 2015, representing a year-on-year increase of approximately HK$72,293,000 or 140.3% compared to the net loss attributable to owners of the Company of approximately HK$51,543,000 for year ended 31 December 2014.

The net loss for the year was mainly due to the decrease of revenues generated from the provision of hotel rooms and management service in 2015. Also, the increase of operating expenses and impairment loss in property, plant and equipment, construction in progress, prepayments and other receivables, trade receivables and share result of joint ventures cause an increase in loss for the year 2015.

The Group reported a total revenue of approximately HK$19,884,000 (2014: approximately HK$29,701,000) and recorded a year-on-year decrease of approximately HK$9,817,000 or 33.1% from the last year. Revenue was mainly generated from hotel operations of approximately HK$19,884,000 (2014: approximately HK$29,701,000), representing 100% (2014: 100%) of total revenue. The following table shows the key information of the Group's leased-and-operated hotels for the years ended 31 December 2015 and 2014:

	Year ended 31 December		
	2015	2014	% change
Total			
Total available room nights	**111,322**	100,006	11.31%
Average occupancy rate	**79.32%**	90.55%	(12.40%)
ARR (RMB)*	**174.3**	171.9	1.41%
RevPAR (RMB)#	**138.3**	155.7	11.18%

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

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

Operating Costs

The total operating costs increased by HK$64,422,771, or approximately 91.4%, from HK$70,460,775 for the last year to HK$134,883,546 for the year ended 31 December 2015. The increase of operating expenses are mainly due to: i) write off of construction in progress due to the termination of development of two hotels for HK$27,365,278; ii) write off of property, plant and equipment of HK$14,143,961; and iii) write off of HK$31,305,911 of trade receivables, prepayments and other receivables, during the year of 2015. The following table shows the total operating costs for the years ended 31 December 2015 and 2014:

	Year ended 31 December		
	2015	2014	% change
Operating lease expenses	**17,057,985**	17,974,662	(5.1%)
Depreciation of property, plant and equipment	**4,691,183**	7,255,616	(35.3%)
Employee benefit expenses	**14,050,367**	13,153,151	6.8%
Utilities	**2,063,031**	1,857,458	11.07%
Other operating expenses	**97,020,980**	30,219,888	221.1%
	134,883,546	70,460,775	91.4%

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2015, the Group had bank balances and cash of approximately HK$47,612,000 (2014: approximately HK$2,322,000). 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 2015 is nil (2014: nil).

The Group was in net cash position as at 31 December 2015.

SIGNIFICANT CHANGES TO FINANCIAL POSITION

The debtors' turnover days for the financial year ended 31 December 2015 was 5 days (2014: 94 days). It decreased by 89 days as a result of writing-off of non-performing trade receivables during the year.

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

CAPITAL STRUCTURE

In January and October 2015, the Company issued and allotted a total of 52,300,000 and 78,704,999 new ordinary shares at placing price of HK$0.66 and HK$0.80 each, respectively. In addition, on 9 June 2015, the company issued 750,000 shares pursuant to exercise of options under the Share Option Scheme adopted on 22 June 2011.

Save for the placement and issue of new ordinary shares, there was no material change in the capital structure of the Group during the year ended 31 December 2015. The total number of the issued shares of the Company was 393,525,000 as at 31 December 2015 (2014: 261,770,001).

FOREIGN EXCHANGE EXPOSURE

Majority of the assets and liabilities of the Group were denominated in Renminbi and Hong Kong dollars. As at 31 December 2015, 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 2015, other than those investments in production of TV drama series, there was no significant investment made by the Group.

MATERIAL ACQUISITIONS OR DISPOSALS

For the year ended 31 December 2015, there were no material acquisitions or disposal of subsidiaries and affiliated companies by the Group.

CHARGES ON ASSETS

As at 31 December 2015, the Group did not have any charges on its assets (2014: nil).

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

As at 31 December 2015, the total capital commitments of the Group were approximately HK$1,440,000, which primarily related to the investment in production of TV drama series (2014: approximately HK$2,950,000, which primarily related to the development and construction of new leased-and-operated hotels in the PRC). As at 31 December 2015, the Group did not have any material contingent liabilities (2014: nil).

OPERATING LEASE COMMITMENTS

As at 31 December 2015, the Group had total operating lease commitments of approximately HK$76,082,000 (2014: HK$108,420,000). The operating lease commitments are mainly related to the rental of hotels premises for hotel operations and head office.

EMPLOYEES AND REMUNERATION POLICIES

The Group had 86 employees (2014: 126) as at 31 December 2015. 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 2015 (2014: nil).

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Save for the placing of shares in early January 2015 (details of which were disclosed in the announcements dated 22 December 2014 and 9 January 2015), the mandatory unconditional cash offers (details of which were disclosed in the joint announcements dated 25 June 2015, 13 July 2015 and 27 July 2015 and the joint composite documents dated 25 June 2015), issuance of new shares due to the exercise of share options (details of which was disclosed in the announcement dated 9 June 2015), and the open offer (details of which were disclosed in the announcements dated 28 August 2015, 7 September 2015, 9 September 2015, 29 September 2015, 15 October 2015 and the prospectus dated 22 September 2015), neither the Company nor any of its subsidiaries had purchased, sold, or redeemed any of the listed securities of the Company during the financial year ended 31 December 2015. Save as disclosed above, neither the Company nor any of its subsidiaries had issued or granted any convertible securities, options, warrants or similar rights or exercised any conversion or subscription rights under any convertible securities, options, warrants or similar rights during the financial year ended 31 December 2015.

USE OF NET PROCEEDS IN FUND RAISING ACTIVITIES

On 22 December 2014, the Company entered into the Placing Agreement with the Emperor Securities Limited (the "Placing Agent"), pursuant to which the Placing Agent has conditionally agreed to procure, on a best effort basis, not less than six independent placees to subscribe in cash for the shares with the placing price at HK$0.66 per share (the "Placing"). The Placing was completed on 9 January 2015. The proceeds raised would be applied as general working capital and repayment of liabilities of the Group.

The following is a summary of the use of proceeds for the amount of HK$33,900,000 after the placing of the shares.

	2015
	HK$
Repayment of liabilities	**7,400,000**
General working capital	**26,500,000**
Total	**33,900,000**

In addition, on 28 August 2015, the Company entered into the underwriting agreement with Sheng Yuan Securities Limited (the"Underwriter"), pursuant to which the Underwriter agreed to underwrite the Offer Shares, being not less than 38,404,383 shares and not more than 39,829,383 shares according to the terms of the underwriting agreement. The underwriting was completed on 16 October 2015 with the subscription price at HK$0.80 per share in cash. The proceeds raised would be applied as investment funds and general working capital of the Group.

The following is a summary of the use of proceeds for the amount of HK$63,000,000 after the placing of the shares.

	2015
	HK$
General working capital	**14,000,000**
Investing activities	**1,440,000**
Cash	**47,560,000**
Total	**63,000,000**

OUTLOOK

Going forward, the Group shall slowdown the size or number of existing leased-and-operated hotels, and balance the risk and reward in hotel investment in the PRC. Moreover, the management will re-evaluate the existing hotels and investments in the future, and thus determine the future strategies of the hotels to reduce further losses. In addition, the Group will focus on minimizing the cost and maximum the profit in hotel operation, in order to diversify the risk and create returns for our shareholders, the Group will also seek for more business opportunities in different segments in the coming years.

UPDATE ON LITIGATION

On 8 January 2016 the Company received a writ of summons endorsed with a statement of claim (the "Statement of Claim") dated 8 January 2016 (the "Writ") issued by Fu Tat Credit Limited (the "Plaintiff") as plaintiff in the High Court of the Court of First Instance of the Hong Kong Special Administrative Region, with Mr. Fong Man Kelvin ("Mr. Fong") named as the 1st defendant and the Company as the 2nd defendant (subsequently becoming the fifth defendant pursuant to an amended Writ of Summons), in respect of an alleged loan arrangement made between the Plaintiff, Mr. Fong and the Company on 6 October 2014. At the relevant time, Mr. Fong was the controlling shareholder (as defined in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules")), the chairman and executive director of the Company. Mr. Fong disposed of all his interest in the Company on or about 29 May 2015 and resigned as the chairman, executive director, authorised representative and compliance officer of the Company on 27 July 2015. Mr. Fong, however, has remained as a director of two joint ventures of the Company.

It was stated in the Statement of Claim that the Plaintiff, as a licensed money lender under the Money Lenders Ordinance (Chapter 163 of the laws of Hong Kong), had entered into a loan agreement with Mr. Fong as the borrower and the Company as the guarantor on 6 October 2014 in respect of a sum of HK$3,500,000 (the "Loan"). Under the Statement of Claim, the Plaintiff claims against Mr. Fong and the Company for: (1) a sum of HK$2,092,871.02; (2) further interest accrued on the outstanding loan principal of HK$1,961,932.21 at the rate of 42% per annum from 6 January 2016 until payment in full; (3) further or other relief; and (4) costs of the proceedings on full indemnity basis.

In respect of the above mentioned lawsuit, the Group has engaged external legal advisor for further legal procedures. The case is in litigation procedure currently. The management will continue to monitor the event and will make further announcements at due time to provide latest updates on the litigation to investors of the Group.

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 Listing Rules throughout the year, except for certain deviations as specified with considered reasons for such deviations as explained below. The Board will keep reviewing and updating such practices from time to time to ensure compliance with legal and commercial standards.

Under code provision 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 roles of Chairman and Chief Executive Officer should be 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.

Subsequent to the resignation from Mr. Fong Man Kelvin as the Chairman of the Board on 27 July 2015 and up to the date hereof, no individual was appointed as the chairman of the Company. The role of the chairman has been performed collectively by all executive Directors of the Company.

The Board considers this arrangement allows contributions from all Directors with different expertise and is beneficial to the continuity and implementation of the Company's policy and strategies and in the interest of the shareholders of the Company as a whole.

Nevertheless, the Company will continue to look for suitable candidates and will make necessary arrangement pursuant to the requirement under and A.2.1 of the CG Code as and when necessary.

According to code provision A.1.3 of the CG Code, notice of at least 14 days should be given of a regular board meeting to give all directors an opportunity to attend. Due to the actual scheduling issues, a shorter reasonable notice was given to the Directors for a certain number of the meetings held in 2015.

Under code provision A.6.7 of the CG Code, it is encouraged that all directors (not just independent non-executive Directors and non-executive Directors) to attend general meetings. At the said meeting, all the independent non-executive Directors were presented to enable the Board to develop a balanced understanding of the views of the shareholders of the Company, except, due to other business commitments, Mr. Frostick Stephen William who was unable to attend the Annual General Meeting and Mr. Huang Yun who was unable to attend several board meetings.

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 2015, 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 had confirmed compliance with the required standard of dealings and the code of conduct for directors' securities transactions during the year ended 31 December 2015.

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 three independent non-executive Directors. Mr. Leung Siu Hong is the chairman of the Audit Committee. The Audit Committee has reviewed with management and auditors, the consolidated financial statements for the year ended 31 December 2015, including the accounting principles and practices adopted by the Group and discussed auditing, internal controls, risks management and financial reporting matters.

ANNUAL GENERAL MEETING

The 2016 annual general meeting of the Company is scheduled to be held on 26 May 2016, Thursday (the "2016 AGM"). A notice convening the 2016 AGM will be issued and disseminated to shareholders of the Company in due course.

COMPETING BUSINESS

For the year ended 31 December 2015, 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
Huang Yun
Executive Director

Hong Kong, 18 March 2016

As at the date of this announcement, the executive Directors are Mr. Huang Yun and Mr. Law Fei Shing; and the independent non-executive Directors are Mr. Leung Siu Hong, Mr. Tso Hon Sai, Bosco and Mr. Chung Wai Man.