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**VXL CAPITAL LIMITED**  
卓越金融有限公司

*(incorporated in Hong Kong with limited liability)*

*(Stock Code: 727)*

**MAJOR AND CONNECTED TRANSACTION  
IN RELATION TO THE ASSET SWAP AGREEMENT**

**THE ASSET SWAP AGREEMENT**

The Board is pleased to announce that after the trading hours of the Stock Exchange on 4 July 2013, the Company, UIHK and FSG entered into the Asset Swap Agreement pursuant to which the Company conditionally agreed to acquire, and FSG conditionally agreed to dispose of, the UIHHL Shares. The consideration payable for the UIHHL Shares will be satisfied by way of transfer of the Xi'an Shares from UIHK to FSG.

Upon Completion, all members of the UIHHL Group (excluding U Inns Xi'an) will become wholly-owned subsidiaries of the Company. The Company will cease to hold any interest in U Inns Xi'an and U Inns Xi'an will cease to be a subsidiary of the Company.

**LISTING RULES IMPLICATIONS**

As the applicable percentage ratios (as defined in the Listing Rules) in respect of the Transaction exceeds 25% but is less than 100%, the Transaction constitutes a major transaction for the Company and is subject to the Shareholders' approval requirements under Chapter 14 of the Listing Rules.

Since FSG is a substantial shareholder of UIHHL, a non-wholly owned subsidiary of the Company, FSG is a connected person of the Company and the Transaction constitutes a connected transaction for the Company which is subject to the independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As at the date of the Asset Swap Agreement, FSG did not hold any Shares or other securities in the Company. To the best of the Directors' knowledge, none of the Shareholders has a material interest in the Transaction and is required to abstain from voting at a general

meeting to approve the Transaction. VXLCP, which is beneficially interested in 1,069,308,000 Shares (representing approximately 69.9% of the issued share capital of the Company as at the date hereof), has given written consent to the Transaction. The written consent from VXLCP is accepted in lieu of holding a general meeting to approve the Transaction pursuant to Rule 14.44 of the Listing Rules.

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Alan Howard Smith, J.P., Mr. David Yu Hon To and Mr. Soo Ying Pooi, has been constituted to give a recommendation to the Shareholders on the terms of the Asset Swap Agreement. An independent financial adviser will be appointed to advise the Independent Board Committee in this regard.

A circular containing, among other things, (i) details of the Asset Swap Agreement; (ii) financial information of the Group and the UIHHL Group; (iii) valuation report of the Hotel Properties; (iv) the recommendation of the Independent Board Committee; (v) the advice of the independent financial adviser; and (vi) other information required under the Listing Rules will be despatched to the Shareholders on or before 25 July 2013.

The Board is pleased to announce that after the trading hours of the Stock Exchange on 4 July 2013, the Company, UIHK and FSG entered into the Asset Swap Agreement pursuant to which the Company conditionally agreed to acquire, and FSG conditionally agreed to dispose of, the UIHHL Shares. The consideration payable for the UIHHL Shares will be satisfied by way of transfer of the Xi'an Shares from UIHK to FSG.

Details of the Asset swap Agreement are set out below.

## **THE ASSET SWAP AGREEMENT**

### **Date**

4 July 2013

### **Parties**

- (i) the Company;
- (ii) UIHK; and
- (iii) FSG.

UIHK is a company incorporated in Hong Kong with limited liability and is wholly owned by UIHHL. UIHHL is a company incorporated in the British Virgin Islands with limited liability and is owned as to 74.1% by the Company and 25.9% by FSG. The principal business activity of UIHHL and its subsidiaries is hotel investments in the PRC.

FSG is a company incorporated in the British Virgin Islands with limited liability and its principal business activity is investment holding. FSG is a substantial shareholder of UIHHL and is therefore a connected person of the Company under the Listing Rules. As at the date hereof, FSG did not hold any Shares or other securities in the Company.

### **Subject matters**

The Company conditionally agreed to acquire, and FSG conditionally agreed to dispose of, the UIHHL Shares. The UIHHL Shares represent 25.9% equity interest in UIHHL. The consideration payable for the UIHHL Shares will be satisfied by way of transfer of the Xi'an Shares by UIHK to FSG. The Xi'an Shares represent 100% equity interest in U Inns Xi'an. There is no cash payment from UIHK to FSG or vice versa.

Pursuant to the Asset Swap Agreement, UIHK also agreed to increase the registered capital of U Inns Xi'an in order to enable U Inns Xi'an to repay the inter-company loans owed by U Inns Xi'an to the subsidiaries of UIHK as at 31 May 2013 in the aggregate principal amount of approximately RMB10.7 million (equivalent to approximately HK\$13.2 million) before Completion.

The consideration payable for the UIHHL Shares was determined after arm's length negotiations between the Company and FSG with reference to (i) the net asset value of the UIHHL Group (excluding U Inns Xi'an) as at 31 March 2013 attributable to the UIHHL Shares; (ii) the preliminary valuation of the Hotel Properties as at 31 May 2013 as indicated by an independent professional valuer; and (iii) the net asset value of U Inns Xi'an as at 31 March 2013 attributable to the 74.1% effective interest in U Inns Xi'an held by the Group (assuming completion of the increase in registered capital and repayment of inter-company loans).

## **Conditions precedent**

Completion is subject to the fulfillment or waiver (as the case may be) of the following conditions:

- (i) the granting of all regulatory and other necessary approvals and consents required by the Company to give effect to the Transaction, including the approval of the Transaction by the Shareholders in a general meeting;
- (ii) there having been no material breach of the representations, warranties and undertakings given by FSG to the Company from the date of the Asset Swap Agreement up to the date of Completion;
- (iii) the decision-making authority of UIHK having approved the Equity Transfer;
- (iv) U Inns Xi'an having received all consents, authorisations and approvals required for or in connection with the Equity Transfer from its shareholders and/or board of directors and relevant governmental authorities, including in particular the Ministry of Commerce or its local branches in Xi'an City;
- (v) the Xi'an Administration for Industry and Commerce and any other competent authority in charge of corporate registration in the PRC having registered the Equity Transfer and issued a new business license for U Inns Xi'an; and
- (vi) FSG having been registered on the shareholders register of U Inns Xi'an as a 100% shareholder.

FSG may waive any of the conditions referred to in (iii), (iv), (v) or (vi) above. If any of the aforesaid conditions has not been fulfilled or waived on or before the 90<sup>th</sup> day after the date of the Asset Swap Agreement, the Company, UIHK and FSG may discuss and agree in writing to postpone Completion to another date as the parties may agree, or terminate the Asset Swap Agreement without prejudice to each party's accrued rights and remedies under the Asset Swap Agreement.

## **Completion**

Completion shall take place on the fifth Business Day after all of the conditions precedent have been fulfilled or waived.

Upon Completion, all members of the UIHHL Group (excluding U Inns Xi'an) will become wholly-owned subsidiaries of the Company. The Company will cease to hold any interest in U Inns Xi'an and U Inns Xi'an will cease to be a subsidiary of the Company.

## **INFORMATION ON THE UIHHL GROUP AND U INNS XI'AN**

The UIHHL Group is principally engaged in investments in the budget hotel chain with the brand name of "U" Inn in the PRC. As at the date of this announcement, the UIHHL Group has a portfolio of 12 Hotel Properties (including the Xi'an Hotel Property) situated in various locations in the PRC, namely Yingkou, Wuhan, Jinggangshan, Ninghai, Weifang, Tonghua, Xi'an, Wafangdian, Tulufan, Xiangfan, Buerjin and Chongqing. The aggregate gross floor area of the Hotel Properties is approximately 99,408 square metres. As at the date of this announcement, the UIHHL Group had entered into several agreements to dispose of its investments in or terminate the acquisition of five Hotel Properties located in Wafangdian, Tulufan, Xiangfan, Buerjin and Chongqing, the PRC but such disposals/termination have not yet been completed. Details of the aforesaid disposals or termination are set out in the announcements of the Company dated 24 October 2012, 8 February 2013, 31 May 2013 and 6 June 2013 respectively. Set out below is a summary of the financial information of the UIHHL Group based on its unaudited consolidated accounts included in the audited consolidated accounts of the Group:

	<b>For the year ended 31 March</b>	
	<b>2012</b>	<b>2013</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net loss before tax	17,131	15,201
Net loss after tax	17,476	20,373
		<b>As at 31 March 2013</b>
		<i>HK\$'000</i>
Net asset value		343,080

Taking into account the preliminary valuation of the Hotel Properties as at 31 May 2013 of RMB492.0 million (equivalent to approximately HK\$609.2 million) as indicated by an independent professional valuer, the revalued net asset value of the UIHHL Group amounted to approximately HK\$483.3 million. The revalued net asset value of the UIHHL Group as at 31 March 2013 attributable to the UIHHL Shares amounted to approximately HK\$125.2 million.

U Inns Xi'an is principally engaged in hotel investments in the PRC and its principal asset is the Xi'an Hotel Property located in Xi'an City, Shaanxi Province, the PRC. The Xi'an Hotel Property has a gross floor area of 14,171 square metres and has suspended operation. Set out below is a summary of the financial information of U Inns Xi'an based on its unaudited accounts included in the audited consolidated accounts of the Group:

	<b>For the year ended 31 March</b>	
	<b>2012</b>	<b>2013</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net loss (both before and after tax)	2,876	3,740
		<b>As at 31 March 2013</b>
		<i>HK\$'000</i>
Net asset value		71,637

Assuming completion of the increase in registered capital and repayment of all inter-company loans pursuant to the terms of the Asset Swap Agreement and taking into account the preliminary valuation of the Xi'an Hotel Property as at 31 May 2013 of RMB116.2 million (equivalent to approximately HK\$143.9 million) as indicated by an independent professional valuer, the revalued net asset value of U Inns Xi'an as at 31 March 2013 amounted to approximately HK\$125.3 million.

## **POSSIBLE FINANCIAL EFFECTS OF THE TRANSACTION**

Based on the unaudited consolidated accounts of the UIHHL Group and the unaudited accounts of U Inns Xi'an included in the consolidated accounts of the Group as at 31 March 2013 and the preliminary valuation of the Hotel Properties as indicated by the independent professional valuer, it is estimated that the Group will realise a gain (before expenses and taxes) as a result of the Transaction of approximately HK\$30.2 million, being the difference between the fair value of the consideration for the Equity Transfer (being the revalued net asset value of the UIHHL Group (excluding U Inns Xi'an) as at 31 March 2013 attributable to the UIHHL Shares) and the carrying value of U Inns Xi'an as at 31 March 2013 attributable to the 74.1% effective interest in U Inns Xi'an held by the Group (assuming completion of the increase in registered capital and repayment of inter-company loans). On the other hand, the Group is expected to record a debit to the capital reserve account in the amount of approximately HK\$25.8 million, being the difference between the fair value of U Inns Xi'an attributable to the 74.1% effective interest in U Inns Xi'an held by the Group and the carrying value of the UIHHL Group (excluding U Inns Xi'an) as at 31 March 2013

attributable to the UIHHL Shares. As a result, the net asset value attributable to equity holders of the Company is expected to increase by approximately HK\$4.4 million upon Completion. The actual amount of the gain or loss and the debit to the capital reserve account resulting from the Transaction would depend on the carrying value and fair value of the UIHHL Group and U Inns Xi'an as at the date of Completion and are subject to final audit to be performed by the Company's auditors.

## **REASONS FOR AND BENEFITS OF THE TRANSACTION**

The Group is engaged in hotel investment and management, property investment, securities trading and investment. Its hotel investment and management business is carried out through the UIHHL Group.

With a view to optimising its hotel investment business, the UIHHL Group has been restructuring its hotel property portfolio by disposing of its interests in or terminating the acquisition of certain Hotel Properties which have not yet commenced operations, and retaining those Hotel Properties that have better potential to generate more promising contribution and returns to the Group. As at the date of this announcement, the UIHHL Group has entered into several agreements to dispose of its investments in or terminate the acquisition of five Hotel Properties but such disposals/termination have not yet been completed. The Transaction is in line with the restructuring plan of the UIHHL Group as mentioned above and allows the Company to consolidate its interests in the UIHHL Group which will hold a portfolio of Hotel Properties, on a wholly-owned basis, with better prospects and investment returns. After Completion and completion of all the disposals/termination as mentioned above, the UIHHL Group will own a total of six Hotel Properties located in Yingkou, Wuhan, Jinggangshan, Ninghai, Weifang and Tonghua, the PRC. The Transaction is in effect an asset swap and does not involve any cashflow for the Group.

Taking into account the above and the financial effects as explained in the paragraph headed "Possible Financial Effects of the Transaction" above, the Directors (excluding the independent non-executive Directors who will form their view after receiving the advice from the independent financial adviser) consider that the Transaction is on normal commercial terms and fair and reasonable, and the Transaction is in the interests of the Company and the Shareholders as a whole.

## **LISTING RULES IMPLICATIONS**

As the applicable percentage ratios (as defined in the Listing Rules) in respect of the Transaction exceeds 25% but is less than 100%, the Transaction constitutes a major transaction for the Company and is subject to the Shareholders' approval requirements under Chapter 14 of the Listing Rules.

Since FSG is a substantial shareholder of UIHHL, a non-wholly owned subsidiary of the Company, FSG is a connected person and the Transaction constitutes a connected transaction for the Company and is subject to the independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As at the date of the Asset Swap Agreement, FSG did not hold any Shares or other securities in the Company. To the best of the Directors' knowledge, none of the Shareholders has a material interest in the Transaction and is required to abstain from voting at a general meeting to approve the Transaction. VXLCP, which is beneficially interested in 1,069,308,000 Shares (representing approximately 69.9% of the issued share capital of the Company as at the date hereof), has given written consent to the Transaction. The written consent from VXLCP is accepted in lieu of holding a general meeting to approve the Transaction pursuant to Rule 14.44 of the Listing Rules.

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Alan Howard Smith, J.P., Mr. David Yu Hon To and Mr. Soo Ying Pooi, has been constituted to give a recommendation to the Shareholders on the terms of the Asset Swap Agreement. An independent financial adviser will be appointed to advise the Independent Board Committee in this regard.

A circular containing, among other things, (i) details of the Asset Swap Agreement; (ii) financial information of the Group and the UIHHL Group; (iii) valuation report of the Hotel Properties; (iv) the recommendation of the Independent Board Committee; (v) the advice of the independent financial adviser; and (vi) other information required under the Listing Rules will be despatched to the Shareholders on or before 25 July 2013.



## DEFINITIONS

In this announcement, unless the context requires otherwise, the following terms have the meanings as set out below:

“Asset Swap Agreement”	the agreement dated 4 July 2013 entered into between the Company, UIHK and FSG in respect of the Transaction
“Board”	the board of Directors
“Business Day”	any day other than a Saturday, Sunday or public holiday in Hong Kong
“Company”	VXL Capital Limited, a company incorporated in Hong Kong with limited liability, the issued Shares of which are listed on the Main Board of the Stock Exchange (stock code: 727)
“Completion”	completion of the Asset Swap Agreement
“Director(s)”	director(s) of the Company
“Equity Transfer”	the transfer of the Xi’an Shares by UIHK to FSG to settle the consideration for the acquisition of the UIHHL Shares pursuant to the Asset Swap Agreement
“FSG”	Fortune Sea Group Limited, a company incorporated in the British Virgin Islands with limited liability
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hotel Properties”	the hotel properties held by the UIHHL Group
“Independent Board Committee”	the independent committee of the Board comprising all the independent non-executive Directors, which has been established to give recommendation to the Shareholders on the Asset Swap Agreement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	The People’s Republic of China which, for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region and Taiwan

“Share(s)”	ordinary share(s) of the Company of HK\$0.01 each
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Transaction”	the acquisition of the UIHHL Shares by the Company from FSG and the Equity Transfer
“UIHHL”	“U” Inns and Hotels Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and a 74.1%-owned subsidiary of the Company prior to Completion
“UIHHL Group”	UIHHL and its subsidiaries
“UIHHL Shares”	the 25.9% equity interest in UIHHL to be disposed of by FSG to the Company pursuant to the terms and conditions of the Asset Swap Agreement
“UIHK”	“U” Inns and Hotels Investment Limited (你的客棧酒店有限公司), a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of UIHHL
“U Inns Xi’an”	你的客棧 (西安) 酒店管理有限公司 (“U” Inns & Hotels (Xi’an) Hotel Management Company Limited*), a company incorporated under the laws of the PRC with limited liability and a wholly-owned subsidiary of UIHK as at the date of the Asset Swap Agreement
“VXLCPL”	VXL Capital Partners Corporation Limited, a company wholly and beneficially owned by Datuk Lim Chee Wah, the chairman of the Board and an executive Director
“Xi’an Hotel Property”	the hotel property located in Xi’an City, Shaanxi Province, the PRC held by U Inns Xi’an
“Xi’an Shares”	the 100% equity interest in U Inns Xi’an to be transferred by UIHK to FSG pursuant to the terms and conditions of the Asset Swap Agreement
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC

By order of the Board  
**VXL Capital Limited**  
Datuk LIM Chee Wah  
*Chairman*

4 July 2013

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

*Executive Directors:*

Datuk LIM Chee Wah  
Mr. XIAO Huan Wei

*Independent non-executive Directors:*

Mr. Alan Howard SMITH, J.P.  
Mr. David YU Hon To  
Mr. SOO Ying Pooi

*Throughout this announcement, amounts in RMB have been translated, for illustration only, into HK\$ at the exchange rate of RMB1 = HK\$1.238237. No representation is made that any amounts in RMB or HK\$ have been, could have been or could be converted at the above rate or at any other rates or at all.*

*\* for identification purpose only*