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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)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2012

The board of directors (the “Board”) of VXL Capital Limited (the “Company”) presents the unaudited condensed consolidated financial results of the Company and its subsidiaries (the “Group”) for the six months ended 30 September 2012 together with the comparative figures for the six months ended 30 September 2011.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2012

		Unaudited	
		Six months ended 30 September	
		2012	2011
	<i>Note</i>	HK\$'000	HK\$'000
Turnover	2	3,096	2,148
Other gain, net		1,551	6,911
Fair value gain on investment property		245	–
Staff costs		(6,067)	(7,020)
Other operating expenses		<u>(11,955)</u>	<u>(16,296)</u>
Operating loss	3	(13,130)	(14,257)
Finance income		287	58
Finance costs		<u>(24,030)</u>	<u>(24,835)</u>
Loss before taxation		(36,873)	(39,034)
Taxation	4	<u>(86)</u>	<u>(1)</u>
Loss for the period		<u>(36,959)</u>	<u>(39,035)</u>

	Unaudited	
	Six months ended 30 September	
	2012	2011
<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Other comprehensive income:		
Movement in available-for-sale financial assets	–	(844)
Currency translation differences	(2,647)	14,129
Deferred tax on revaluation increase	(4,167)	–
Property revaluation	13,016	–
	<hr/>	<hr/>
Other comprehensive income for the period, net of tax	6,202	13,285
	<hr/>	<hr/>
Total comprehensive loss for the period	<u>(30,757)</u>	<u>(25,750)</u>
Loss for the period attributable to equity holders of the Company	<u>(36,959)</u>	<u>(39,035)</u>
Total comprehensive loss for the period attributable to equity holders of the Company	<u>(30,757)</u>	<u>(25,750)</u>
Basic and diluted loss per ordinary share for loss for the period attributable to equity holders of the Company	5	HK(2.55) cents
	<u>HK(2.42) cents</u>	<u>HK(2.55) cents</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2012

		(Unaudited) 30 September 2012 <i>HK\$'000</i>	(Audited) 31 March 2012 <i>HK\$'000</i>
	<i>Note</i>		
Non-current assets			
Property, plant and equipment	6	281,427	246,217
Land use rights	6	58,209	66,909
Investment property	7	123,013	93,758
Construction in progress		4,967	4,468
Available-for-sale financial assets		1,128	1,128
Receivables, prepayments and deposits	8	7,153	51,097
		<u>475,897</u>	<u>463,577</u>
Current assets			
Receivables, prepayments and deposits	8	4,381	21,409
Bank balances and cash		111,060	125,059
		<u>115,441</u>	<u>146,468</u>
Current liabilities			
Payables and accruals	9	48,973	64,364
Liability component of compound financial instrument	10	26,034	25,635
Borrowings	11	464,561	441,696
		<u>539,568</u>	<u>531,695</u>
Net current liabilities		<u>(424,127)</u>	<u>(385,227)</u>
Total assets less current liabilities		<u>51,770</u>	<u>78,350</u>
Non-current liabilities			
Deferred tax	12	12,634	8,457
		<u>12,634</u>	<u>8,457</u>
Net assets		<u><u>39,136</u></u>	<u><u>69,893</u></u>
EQUITY			
Share capital		15,296	15,296
Reserves		(99,524)	(68,767)
Total shareholders' deficit		(84,228)	(53,471)
Non-controlling interest		123,364	123,364
Total equity		<u><u>39,136</u></u>	<u><u>69,893</u></u>

NOTES:

1 BASIS OF PREPARATION

This unaudited condensed consolidated financial information for the six months ended 30 September 2012 is prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting”.

The unaudited condensed consolidated financial information should be read in conjunction with the financial statements for the year ended 31 March 2012, which had been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

The unaudited condensed consolidated financial information has been prepared under the historical cost convention, except as modified by the revaluation of the available-for-sale financial assets and investment properties.

For the six months ended 30 September 2012, the Group had a loss of HK\$37.0 million (2011: HK\$39.0 million). At 30 September 2012, the Group had net current liabilities of HK\$424.1 million (31 March 2012: HK\$385.2 million) and shareholders’ deficit of HK\$84.2 million (31 March 2012: HK\$53.5 million). Its current liabilities mainly consist of short-term borrowings and the outstanding payments for acquisition of budget hotels. Subsequent to the period end, the management has obtained agreement, on 15 November 2012, from a lender to extend the repayment of certain short-term borrowings totaling HK\$426.4 million to 31 December 2013. Furthermore, the Group has been working for realizing certain assets that the Group considers appropriate and advantageous to dispose of. The management is confident that by executing its plans, the Group is able to meet its obligations. Moreover, the ultimate holding company of the Company, VXL Capital Partners Corporation Limited (“VXLCPL”), has confirmed its intention to provide sufficient financial support to the Group so as to enable the Group to meet all its liabilities and obligations as and when they fall due and to enable the Group to continue its business for the foreseeable future. Accordingly, the directors are of the opinion that it is appropriate to prepare the financial statements on a going concern basis.

The accounting policies used in this unaudited condensed consolidated financial information are consistent with those of the annual financial statements for the year ended 31 March 2012.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

The Group has adopted the following revised HKFRS effective 1 April 2012:

- HKFRS 1 (Amendments) First-Time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
- HKFRS 7 (Amendments) Financial Instruments: Disclosures – Transfer of Financial Assets
- HKAS 12 (Amendments) Deferred Tax: Recovery of Underlying Assets

The adoption of these revised HKFRS has no significant impact on the Group's financial statements.

2 TURNOVER AND SEGMENT INFORMATION

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the chief operating decision maker, namely the executive directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the executive directors are principally engaged in (i) hotel investment and operations and (ii) property investment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the services they provide. Each of the Group's business segments represents a strategic business unit which is subject to risks and returns that are different from those of other business segments. Summarized details of the business segments are as follows:

- (a) the hotel investment and operations segment is engaged in hotel investment and hotel operations;
- (b) the property investment segment is investment in properties; and
- (c) the unallocated segment comprises operations other than those specified in (a) & (b) above and includes that of the corporate office.

Capital expenditures comprise additions to property, plant and equipment (Note 6) and construction in progress. Segment assets consist primarily of property, plant and equipment, land use rights, construction in progress, and receivables. Segment liabilities comprise borrowings and operating liabilities. Unallocated assets and liabilities mainly represent assets and liabilities used by the corporate office, which cannot be allocated on a reasonable basis to any segment. They include items such as corporate borrowings.

The segment results, depreciation and amortization, and capital expenditures for the six months ended 30 September 2012 and 2011 are as follows:

	Property investment <i>HK\$'000</i>	Hotel investment & operations <i>HK\$'000</i>	Total for reportable segments <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	The Group <i>HK\$'000</i>
Six months ended 30 September 2012					
Segment revenue:					
Sales to external customers	<u>1,520</u>	<u>1,576</u>	<u>3,096</u>	<u>-</u>	<u>3,096</u>
Segment results	1,061	(13,630)	(12,569)	(561)	(13,130)
Finance income	4	82	86	201	287
Finance costs	<u>(922)</u>	<u>(9,935)</u>	<u>(10,857)</u>	<u>(13,173)</u>	<u>(24,030)</u>
Loss before taxation	143	(23,483)	(23,340)	(13,533)	(36,873)
Taxation	<u>(84)</u>	<u>(2)</u>	<u>(86)</u>	<u>-</u>	<u>(86)</u>
Loss for the period	<u>59</u>	<u>(23,485)</u>	<u>(23,426)</u>	<u>(13,533)</u>	<u>(36,959)</u>
Other segment information					
Depreciation and amortization	46	3,250	3,296	395	3,691
Fair value gain on investment property	245	-	245	-	245
Provision for impairment of receivables, prepayments and deposits	-	1,408	1,408	-	1,408
Reversal of a general provision	-	-	-	(4,100)	(4,100)
Written back of account payables	-	(1,427)	(1,427)	-	(1,427)
Capital expenditures					
– Property, plant and equipment	-	49,757	49,757	7	49,764
– Construction in progress	<u>499</u>	<u>-</u>	<u>499</u>	<u>-</u>	<u>499</u>

	Property investment <i>HK\$'000</i>	Hotel investment & operations <i>HK\$'000</i>	Total for reportable segments <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	The Group <i>HK\$'000</i>
Six months ended 30 September 2011					
Segment revenue:					
Sales to external customers	<u>–</u>	<u>2,148</u>	<u>2,148</u>	<u>–</u>	<u>2,148</u>
Segment results	(1,681)	(12,968)	(14,649)	–	(14,649)
Gain on disposal of properties, plant and equipment and land use rights	–	5,734	5,734	1,177	6,911
Finance income	–	58	58	–	58
Unallocated income and expenses (net)	–	–	–	(6,519)	(6,519)
Finance costs	<u>–</u>	<u>(12,931)</u>	<u>(12,931)</u>	<u>(11,904)</u>	<u>(24,835)</u>
Loss before taxation	(1,681)	(20,107)	(21,788)	(17,246)	(39,034)
Taxation	<u>–</u>	<u>–</u>	<u>–</u>	<u>(1)</u>	<u>(1)</u>
Loss for the period	<u>(1,681)</u>	<u>(20,107)</u>	<u>(21,788)</u>	<u>(17,247)</u>	<u>(39,035)</u>
Other segment information					
Depreciation and amortization	–	3,510	3,510	392	3,902
Capital expenditures					
– Property, plant and equipment	–	359	359	–	359
– Construction in progress	<u>–</u>	<u>5,373</u>	<u>5,373</u>	<u>–</u>	<u>5,373</u>

The segment assets and liabilities as at 30 September 2012 and 31 March 2012 are as follows:

	Property investment <i>HK\$'000</i>	Hotel investment & operations <i>HK\$'000</i>	Total for reportable segments <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	The Group <i>HK\$'000</i>
At 30 September 2012					
Segment assets	145,801	331,290	477,091	3,187	480,278
Bank balances and cash	<u>5,824</u>	<u>51,639</u>	<u>57,463</u>	<u>53,597</u>	<u>111,060</u>
Total assets	<u>151,625</u>	<u>382,929</u>	<u>534,554</u>	<u>56,784</u>	<u>591,338</u>
Segment liabilities	79,151	5,637	84,788	3,122	87,910
Other loans	–	37,878	37,878	–	37,878
Amount due to ultimate holding company	<u>18,824</u>	<u>138,991</u>	<u>157,815</u>	<u>268,599</u>	<u>426,414</u>
Total liabilities	<u>97,975</u>	<u>182,506</u>	<u>280,481</u>	<u>271,721</u>	<u>552,202</u>
At 31 March 2012					
Segment assets	111,636	369,616	481,252	3,734	484,986
Bank balances and cash	<u>1,776</u>	<u>60,855</u>	<u>62,631</u>	<u>62,428</u>	<u>125,059</u>
Total assets	<u>113,412</u>	<u>430,471</u>	<u>543,883</u>	<u>66,162</u>	<u>610,045</u>
Segment liabilities	26,147	65,470	91,617	7,425	99,042
Other loans	–	35,470	35,470	–	35,470
Amount due to ultimate holding company	<u>7,917</u>	<u>142,172</u>	<u>150,089</u>	<u>255,551</u>	<u>405,640</u>
Total liabilities	<u>34,064</u>	<u>243,112</u>	<u>277,176</u>	<u>262,976</u>	<u>540,152</u>

Additional disclosures on segment information by geographical location are shown below:

The Group's businesses operate in Hong Kong and the PRC. The segment revenue for the six months ended 30 September 2012 and 2011 and non-current assets as at 30 September 2012 and 31 March 2012 based on geographical area are as follows:

	Six months ended 30 September	
	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue		
Hong Kong	–	–
PRC	<u>3,096</u>	<u>2,148</u>
	<u>3,096</u>	<u>2,148</u>
	30 September	31 March
	2012	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets		
Hong Kong	605	1,008
PRC	<u>475,292</u>	<u>462,569</u>
	<u>475,897</u>	<u>463,577</u>

Revenue is categorized based on the jurisdiction in which the customers are located, non-current assets are categorized based on where the assets are located.

3 OPERATING LOSS

	Six months ended 30 September	
	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Operating loss is arrived at after (crediting)/charging:		
Depreciation and amortization	3,691	3,902
Fair value gain on investment property	245	–
Gain on disposal of property, plant and equipment and land use rights	–	(6,911)
Provision for impairment of receivables, prepayments and deposits	1,408	–
Reversal of a general provision	(4,100)	–
Written back of account payables	(1,427)	–
Exchange (gain)/loss	(138)	1,198
Operating leases – land and building	<u>884</u>	<u>1,984</u>

4 TAXATION

No provision for Hong Kong profits tax (FY 2011: Nil) has been made for the period as the Group has no assessable profit for the period. Taxation on PRC profits has been calculated on the estimated assessable profit for the period at the rates of taxation in the PRC.

The provision of Land Appreciation Tax ("LAT") is estimated according to the requirements set forth in the relevant PRC tax laws and regulations. LAT has been provided for a range of progressive rates on the appreciation value, after deduction of certain allowable expenses including land cost, borrowing cost and the relevant property development expenditure.

The amount of taxation charged to the consolidated statement of comprehensive income represents:

	Six months ended 30 September	
	2012	2011
	HK\$'000	HK\$'000
Current tax	2	1
Deferred tax – PRC (LAT)	84	–
	<u>86</u>	<u>1</u>

5 BASIC AND DILUTED LOSS PER ORDINARY SHARE FOR LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

Basic loss per ordinary share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

	Six months ended 30 September	
	2012	2011
Loss attributable to the equity holders of the Company, HK\$'000	(36,959)	(39,035)
Weighted average number of ordinary shares in issue	1,529,600,200	1,529,600,200
Basic loss per share, HK cents	<u>(2.42)</u>	<u>(2.55)</u>

The calculation of diluted loss per ordinary share is based on the loss for the period attributable to equity holders of the Company and the weighted average number of ordinary shares used as the same for calculating basic loss per share above, as the Company did not have any dilutive potential ordinary shares arising from share options for the six months ended 30 September 2012 and 2011.

6 PROPERTY, PLANT AND EQUIPMENT AND LAND USE RIGHTS

	Property, plant and equipment <i>HK\$'000</i>	Land use rights <i>HK\$'000</i>
Six months ended 30 September 2012		
Opening net book value as at 1 April 2012	246,217	66,909
Additions	49,764	–
Depreciation and amortization	(2,760)	(931)
Reclassified as investment property (<i>Note 7</i>)	(9,636)	(7,184)
Exchange difference	(2,158)	(585)
	<u>281,427</u>	<u>58,209</u>
Six months ended 30 September 2011		
Opening net book value as at 1 April 2011	255,302	82,762
Additions	359	2,016
Disposals	(7,168)	(6,727)
Depreciation and amortization	(2,600)	(1,302)
Exchange difference	8,036	2,639
	<u>253,929</u>	<u>79,388</u>

7 INVESTMENT PROPERTY

	30 September 2012 <i>HK\$'000</i>	30 September 2011 <i>HK\$'000</i>
At beginning of period	93,758	–
Reclassified from property, plant and equipment (<i>Note 6</i>)	9,636	–
Reclassified from land use rights (<i>Note 6</i>)	7,184	–
Reclassified from construction in progress	–	–
Increase in value credited to profit and loss	245	–
Increase in value credited to other comprehensive income	13,016	–
Exchange difference	(826)	–
	<u>123,013</u>	<u>–</u>
At end of period	<u>123,013</u>	<u>–</u>

8 RECEIVABLES, PREPAYMENTS AND DEPOSITS

	30 September	31 March
	2012	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current		
Deposits for acquisition of hotel properties	<u>7,153</u>	<u>51,097</u>
Current		
Trade receivables	41	42
Other receivables	2,530	19,522
Other prepayments and deposits	<u>1,810</u>	<u>1,845</u>
	<u>4,381</u>	<u>21,409</u>
	<u>11,534</u>	<u>72,506</u>

Note: The ageing analysis of the trade receivables is as follows:

	30 September	31 March
	2012	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 month	41	37
Between 1 and 3 months	<u>–</u>	<u>5</u>
	<u>41</u>	<u>42</u>

9 PAYABLES AND ACCRUALS

	30 September	31 March
	2012	2012
	HK\$'000	HK\$'000
Trade payables	688	159
Property acquisition cost payable	4,924	1,119
Provision for bonus	–	950
Accrued expenses for transaction of hotel properties	22,548	29,000
Other payables and accruals	20,813	33,136
	48,973	64,364

10 ISSUE OF PREFERRED SHARES BY A SUBSIDIARY

On 28 October 2009, “U” Inns & Hotels Holding Limited (“UIHHL”) has entered into a subscription agreement where UIHHL agreed to issue and the subscriber, an independent third party, agreed to subscribe for 2,590 Series A preferred shares (“Preferred Shares”) at a total subscription price of HK\$145.0 million based on a subscription price of HK\$55,984.55 per preferred share. The subscription price was partially set off against the loans by the subscriber to the Group of HK\$70.0 million, and the remaining HK\$75.0 million was settled in cash. Subscription was completed on 1 November 2009.

The Preferred Shares are convertible into 2,590 common shares (“Common Shares”), representing 25.9% of the issued Common Shares of UIHHL upon conversion of the Preferred Shares. Holders of the Preferred Shares are entitled to a preferred return of 6% per annum prior to the conversion of the Preferred Shares. Holders of the Preferred Shares shall convert the Preferred Shares into Common Shares at the ratio of one Preferred Share to one Common Share at the latest three years from the date of issue of the Preferred Shares.

Details of the issuance of Preferred Shares can be referred to the Company’s announcements dated 27 October 2009 and 29 October 2009. No conversion has been made during the period, however subsequent to the period-end, on 1 November 2012, all the Preferred Shares were converted into Common Shares (*see Subsequent Events on page 18*).

The Preferred Shares are compound financial instrument which is separated into two components: a liability component and an equity component. The liability component was recognized as the discounted value of the preferred return payable during the three years period from the issuance of Preferred Shares until the last date of conversion into Common Shares. Interest expense was calculated using the effective interest method by applying the effective interest rate of 10% to the liability component. The equity component was residual value of the proceeds from the issuance of Preferred Shares less the liability component.

The liability component is presented as “Liability components of compound financial instrument” in the consolidated statement of financial position. The equity component is presented as “Non-controlling interest” in the consolidated statement of changes in equity.

	<i>HK\$'000</i>
Proceeds of issue	145,000
Liability component	<u>(21,636)</u>
Equity component	<u><u>123,364</u></u>
Liability component at 1 April 2011	24,419
Interest expenses for the year ended 31 March 2012	<u>1,216</u>
Liability component at 31 March 2012	<u><u>25,635</u></u>
Interest expenses for the six months ended 30 September 2012	<u>399</u>
Liability component at 30 September 2012	<u><u>26,034</u></u>

The Group’s liability component of compound financial instruments were repayable as follows:

	30 September	31 March
	2012	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 year – current portion	<u><u>26,034</u></u>	<u><u>25,635</u></u>

11 BORROWINGS

	30 September	31 March
	2012	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
Other loans	37,878	35,470
Obligations under finance leases	269	586
Amount due to ultimate holding company	426,414	405,640
	464,561	441,696

The other loans and amount due to ultimate holding company with effective interest rates ranging from 10% to 15% are repayable within one year at reporting date.

Pursuant to a written agreement dated 15 November 2012 with the ultimate holding company, the repayment period of amount due to it of HK\$426.4 million has been extended to 31 December 2013.

12 DEFERRED TAX ASSETS AND LIABILITIES

	30 September	31 March
	2012	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
Deferred tax assets	74	74
Deferred tax liabilities	(12,708)	(8,531)
	(12,634)	(8,457)

DIRECTOR'S COMMENTARIES

FINANCIAL PERFORMANCE REVIEW

Interim Dividend

The Board has resolved not to declare an interim dividend for the six months ended 30 September 2012 (2011: Nil).

Turnover

The Group's turnover for the 6-month period ended 30 September 2012 of HK\$3.1 million (2011: HK\$2.1 million) comprised rental income, hotel rental income, and F&B revenue, contributed by Group's leasing operations located in Yingkou, Liaoning Province and operating hotel located in Xiangfan, Hubei Province. Hotel rental income and F&B revenue decreased by HK\$0.5 million due to keen competition. The Group generated rental income of HK\$1.5 million during the period against no rental income in the previous corresponding period.

Other gain

The Group recorded a net gain of HK\$1.6 million (2011: HK\$6.9 million) comprising mainly of over-provision of account payables by HK\$1.5 million.

Staff costs

Staff costs decreased by HK\$1.0 million during the period due to cost control measures undertaken by the management coupled with a decrease in operating activities in line with the Group's re-positioning of its strategies.

Other operating expenses

A majority of other operating expenses, such as rental and rates, depreciation and utilities, are fixed or semi-fixed. The management will implement measures to control and/or reduce these costs. During the period under review, these costs were maintained at the same level as to the corresponding period. The decrease from HK\$16.3 million to HK\$12.0 million was mainly due to reversal of a general provision of HK\$4.1 million.

Finance costs

Finance costs during the period decreased slightly by HK\$0.8 million due to a partial principal repayment to a lender made in early part of the period.

Net loss after tax

The Group recorded a net loss after tax of HK\$37.0 million (2011: HK\$39.0 million).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group maintained total bank and cash balance of HK\$111.1 million as of 30 September 2012. Cash deposits have been placed with major banks in Hong Kong and the People's Republic of China ("PRC") in the form of United States dollar, Hong Kong dollar and Renminbi deposits.

Subsequent to the reporting date, repayment period of the amount due to the ultimate holding company of HK\$426.4 million was extended to 31 December 2013. The financial instrument of HK\$26.0 million, other loan of HK\$37.9 million and obligations under finance leases of HK\$0.3 million will be matured within 1 year.

The Group's gearing ratio is measured on the basis of the Group's total interest-bearing debts net of cash reserves over the total equity (including non-controlling interest). As of 30 September 2012, the gearing ratio has increased to 903.3% (31 March 2012: 453.0%). On 24 October 2012, the Group has successfully disposed of 100% equity interest of a subsidiary "U" Inns (Wafangdian) Hotel Management Co. Limited (你的客棧(瓦房店)酒店管理有限公司) for RMB24.0 million (equivalent to approximately HK\$29.5 million). Together with the continuous financial support from the principal shareholder, the management is confident that the Group is able to meet its obligations.

As of 30 September 2012, the Group recorded a total shareholders' deficit of HK\$84.2 million. The board of directors is considering various proposals with a view to improving the situation.

SUBSEQUENT EVENTS

On 24 October 2012, "U" Inns and Hotel Investment Limited, a wholly-owned subsidiary of the Company, entered into the Equity Transfer Agreement with Wafangdian Jiatai Shopping Mall Co. Limited (瓦房店嘉泰購物廣場有限責任公司) to sell 100% equity holding of "U" Inns (Wafangdian) Hotel Management Co. Limited (你的客棧(瓦房店)酒店管理有限公司) for the consideration of RMB24.0 million (equivalent to approximately HK\$29.5 million). The estimated gain of the disposal (before expenses) is approximately RMB2.6 million (equivalent to approximately HK\$3.2 million).

Pursuant to a written shareholders agreement with the Preferred Shareholder dated 1 November 2009, UIHHL, a subsidiary of the Company, converted all the Preferred Shares into Common Shares at a ratio of one Preferred Share to one Common Share to the Preferred Shareholder of UIHHL on 1 November 2012. As a result of the full conversion, the shareholding interest of the Company in UIHHL was decreased from 100% to 74.1%.

BUSINESS REVIEW AND CORPORATE DEVELOPMENT

The Group currently owns a total of 11 properties in its portfolio and maintains its strategies of developing them into budget hotels or commercial offices for leasing or sale, or, when appropriate, outright sales. The Group's leasing operations located in Yingkou, Liaoning Province, and operating hotel located in Xiangfan, Hubei Province contributed total revenue of HK\$1.5 million and HK\$1.6 million respectively for the period ended 30 September 2012. In September 2012, the Group has entered into a leasing agreement to lease out the entire property in Wuhan for an annual rental income of RMB2.0 million, commencing in October 2012.

PROSPECTS

The Group will continue to engage in hotel operations and property investment. The implementation of more effective property policies by the PRC government provides a better property investment opportunity in the 2nd and 3rd tier cities. The Group will continue its efforts to add value to its assets by seeking appropriate joint ventures or partnership with companies in the hospitality, tourism and property industries or companies with investment interest in these industries.

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

During the six months ended 30 September 2012, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

Compliance with the Corporate Governance Code

The Group is committed to maintaining high standards of corporate governance and the Board considers that effective corporate governance is an essential factor to the corporate success and to enhance shareholders' value.

The Group has applied the principles and complied with the code provisions of the Corporate Governance Code (the “CG Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the “Listing Rules”) throughout the accounting period covered by the six months ended 30 September 2012, with the following deviations.

Pursuant to Code A.4.1 of the CG Code, non-executive directors shall be appointed for a specific term, subject to re-election. All the Non-executive Directors of the Company, other than Mr. Alan Howard SMITH, *J.P.*, are appointed for specific term. Pursuant to Code A.4.2 of the CG Code, each director shall retire by rotation at least once every three years. In accordance with the Company’s Articles of Association, one-third of the directors are subject to retirement by rotation and subject to re-election at each annual general meeting. The Board therefore considers that each of the Directors retires in every three years, this effectively achieves the same objective as set out in the CG Code.

Pursuant to Code A.2.1 of the CG Code, the roles of chairman and chief executive officer (“CEO”) should be separate and not be performed by the same individual. The roles of both the Chairman and the CEO were performed by Datuk LIM Chee Wah until 3 July 2012 which the Board considered are for a transitional arrangement to cater for a smooth handover. In this transitional period, the Board believes that vesting the roles of both chairman and CEO in the same person provides the Company with strong and consistent leadership, and allows for effective and efficient planning and implementation of business decisions and strategies. On 3 July 2012, Mr. XIAO Huan Wei, an Executive Director, was appointed as the Group Chief Executive Officer in place of Datuk LIM Chee Wah. Since then, the roles of the Chairman and the CEO have been separate.

Following the retirement of Dr. Allen LEE Peng Fei, *J.P.* (“Dr. Allen Lee”) on 28 September 2012, the number of Independent Non-executive Directors and the members of the Audit Committee of the Company fell below the minimum number required under Rule 3.10(1) and Rule 3.21 of the Listing Rules. On 16 November 2012, Mr. Soo Ying Pooi was appointed as an Independent Non-executive Director and a member of the Audit Committee of the Company in place of Dr. Allen Lee. The Company since then has complied with the requirements under Rule 3.10(1) and Rule 3.21 of the Listing Rules.

Model Code For Securities Transactions by Directors

The Board has adopted its own code of conduct regarding securities transactions by Directors (the “Model Code”) on terms no less exacting than the required standard set out in the “Model Code for Securities Transactions by Directors of Listed Issuers” of the Listing Rules. Having made specific enquiries with all Directors, the Directors have complied with the Model Code in their securities transactions during the six months ended 30 September 2012.

Audit Committee

The Audit Committee comprises all the Independent Non-executive Directors of the Company who possess appropriate business, legal, engineering and financial experience and skills to undertake review of financial statements in accordance with good practice of financial reporting. The Audit Committee is chaired by Mr. David YU Hon To and the other members are Mr. Alan Howard SMITH, *J.P.*, Dr. Allen Lee and Mr. SOO Ying Pooi. The unaudited interim results for the six months ended 30 September 2012 have been reviewed by the Audit Committee and the auditor.

Note: Dr. Allen Lee ceased to be a member of Audit Committee on 28 September 2012 and Mr. SOO Ying Pooi was appointed in place of Dr. Allen Lee on 16 November 2012.

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

Hong Kong, 20 November 2012

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